

Unless you've been marooned on a deserted island, you've undoubtedly seen or heard media coverage of the ongoing national debate over legislation to reform the nation's health care system. While much of the media attention has focused on a handful of public confrontations between members of Congress and angry protestors, there is a surprising level of agreement among members of both political parties about the necessity for, and the broader goals of, health care reform. In particular, virtually everyone agrees on the importance of controlling spiraling health care costs, which are consuming an ever greater share of our incomes and have caused many employers to drop health coverage. Left unchecked, the escalating cost of health care threatens all of us with the possibility of losing our health coverage.

As a state-level advocacy organization TPEA doesn't lobby or advocate on federal legislation. TPEA has not, and will not, take a position for or against any of the legislation under consideration in Washington. TPEA has been working hard in Austin for many years to gain support and funding for a quality health care package for state employees and retirees.

As shown in this article, our state health care benefits are extremely valuable, both in financial terms and in the security they provide for our families. TPEA encourages all state employees and retirees to pay close attention to the ongoing federal health care debate and to seek out informed, non-partisan sources of information to understand the potential implications of particular provisions. After providing some basic information about our health benefits, this article will attempt to provide a basic discussion of the ongoing federal health care debate.

**The State Health Plan Under ERS**

The federal health care debate has raised a number of important questions about health insurance coverage, particularly with regard to affordability. TPEA has examined these issues with regard to the health coverage state employees and retirees receive through the state's Group Benefit Plan (GBP) which is administered by the Employees Retirement System (ERS). The first thing to remember is that the main ERS health coverage program, HealthSelect, which covers 90 percent of eligible participants, is a self-funded risk pool. Blue Cross Blue Shield of Texas (BCBS) acts as a third party administrator of HealthSelect on behalf of ERS, but it is not serving as an insurer. The remaining 10 percent of participants get their coverage through participating HMOs, which provide private insurance.

Recent research has shown that most employees do not know how much their health coverage costs, since it is paid for in large part by their employers. Health benefits for state employees and retirees are a major part of state compensation and retirement packages, and these expenses have grown substantially in recent years. For fiscal year 2010, which began on September 1, Fig. 1 demonstrates the HealthSelect "insurance premium" costs for various types of coverage.

The annual health insurance premium for an individual employee or retiree is now in excess of \$4,600 (and over \$5,000 for some HMOs) which the state fully pays, and family coverage is over \$13,450 annually, and the state pays \$9,000 (two thirds) of that amount. Given that average state employee salaries are around \$38,000 and the average annuity for retirees is roughly \$18,600, state contributions to our health benefits are a significant and growing portion of our benefit package. In addition, plan participants contribute further to the total cost of our health benefits through co-payments, deductibles, coinsurance and other out of pocket expenses. In FY 2009 these out of pocket payments amounted to 19 percent of the

HealthSelect of Texas			
Coverage	Monthly Premium	State Pays	Member Pays
Member Only	\$385.38	\$385.38	\$0.00
Member and Spouse	\$826.02	\$605.70	\$220.32
Member and Children	\$680.42	\$532.90	\$147.52
Family	\$1,121.06	\$753.22	\$367.84

Fig. 1

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# REDEFINING HEALTH CARE DEBATE

total cost of health care. See the chart on the following page (Fig. 2) for a break down in who pays what share of total ERS health care costs.

Just as has occurred nationally, state employees and retirees have seen a dramatic increase in health care costs in recent years. According to ERS data, average expenditures per participant from all funding sources under the state health plan have more than doubled since the beginning of the decade, from \$2372 in FY 2000 to \$4888 in FY 2009, a 106 percent increase in nine years.

In TPEA's experience, when sufficient funds are available, the legislature has been willing to appropriate enough new funding to maintain our health benefits. But when money is tight, our benefits aren't exempt from the chopping block. The events of the 2003 legislative session illustrate the threat that excessive increases in health care costs pose for our health benefits. Going into the 2003 session, ERS estimated it needed \$700 million in new funds to maintain health benefits. At the same time, the state faced a \$10 billion budget shortfall. While TPEA was ultimately able to preserve the state's premium contribution levels for employees and retirees, virtually every co-pay, deductible and other out of pocket cost was increased. ERS estimated that the average employee paid \$900 more out of pocket annually because of these changes.

Andy Homer, MBA,  
Director of Government  
Relations

# The State of Texas Pays Most of the Cost

## 60 cents of every dollar

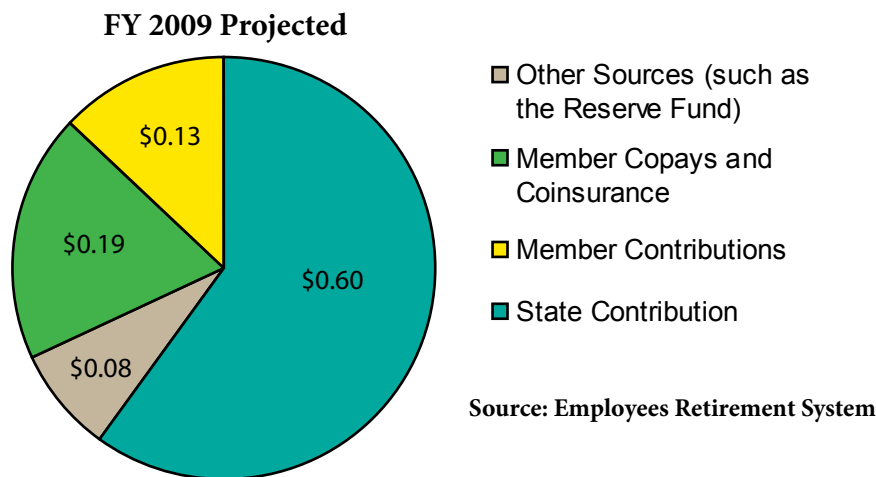


Fig. 2

Since 2003 ERS has worked hard to control health care costs by aggressively re-bidding major contracts. Thanks to their efforts, health care cost increases have moderated and state health benefits have been stable for seven years. ERS has recently indicated that it may be experiencing an increase in the health care cost trend that could lead to a sizeable deficit this biennium or require increases in copays or other out of pocket costs.

### Federal Legislation- A Work In Progress

It's no surprise that the current debate on health care reform is generating lots of controversy and media attention. The various components of the health care industry- hospitals, doctors, drug manufacturers, etc., together account for one sixth of the U.S. economy. As you would expect, many affected industries, associations and groups are attempting to influence Congressional decisions for their benefit. In addition, there are sharp partisan differences between Democrats and Republicans over some issues, as well as major differences within the Democratic caucus. As of the writing of this article there are still four different versions of federal legislation under consideration. As a result, the discussion of federal legislation here is in general terms. Interested readers can find many additional sources of information from AARP, the Congressional Budget Office and numerous other sources.

The two primary goals of health care reform are, first, to expand coverage to include the estimated 46 million

Americans without health insurance, and, second, to control rapidly escalating health care costs, which have grown three times faster than wages in the U.S. over the past decade.

**Universal Coverage:** The rationale for expanding health coverage to all citizens, often known as "universal coverage," is based on a belief by proponents that access to health care is a basic human right, as well as the fact the United States is the only Western industrialized country that doesn't provide a mechanism to assure health coverage

for all its citizens. Lack of insurance coverage for so many Americans has also resulted in significant distortions in health care costs as many providers inflate or otherwise shift costs to paying customers to make up for losses incurred from treating the uninsured. The uninsured are also less likely to take preventative steps to avoid health problems, which can lead to expensive chronic conditions.

The federal legislation has a series of mechanisms to help expand coverage for the uninsured. To begin with, there would be a legal mandate for individuals to obtain coverage, with certain exceptions, or face financial penalties. Most employers would also have to offer coverage to their employees or they would be subject to a tax, a concept known as "pay or play."

The legislation establishes a number of methods intended to make acquiring health coverage more affordable, including an expansion of Medicaid for the poor, providing subsidies to low-to-middle income people to purchase health insurance, and the creation of health exchanges to allow the uninsured to shop and compare health insurance plans. By far the most controversial element of the legislation is the creation of a so-called "public option," a government run health plan that would be in competition with private insurance plans to provide coverage for the uninsured. Finally, to prevent underwriting practices that are seen as abusive, the legislation would bar insurance companies from refusing coverage for pre-existing conditions, from imposing lifetime caps on coverage, and from dropping people when they get sick.

There is considerable disagreement and controversy over

how to pay for all these changes. Congressional leaders have a general agreement that the legislation should cost no more than \$900 billion over ten years, and that it should be deficit neutral. Proponents of universal coverage do not believe this level of spending will support deep enough subsidies to make health coverage affordable for middle income families. Conversely, fiscal conservatives oppose any new taxes to fund these changes, or they fear it will add to the country's already sizeable budget deficits.

**Affordability and Cost Containment:** There are a number of statistics that illustrate the fact that we spend considerably more for health care in the US than in other countries and yet we lag behind many countries in general measures of health attainment. The US spends over 16 percent of its Gross Domestic Product (GDP) on health care, compared with an average of less than 9 percent for other industrialized countries. On a per capita basis, US health care expenditures, of roughly \$7300 in 2007, were almost two-and-a-half times greater than the nearly \$3000 per person average of all other industrialized countries. Despite its high health care spending, the US performs more poorly than many other countries based on common health indicators such as infant mortality rates and life expectancy.

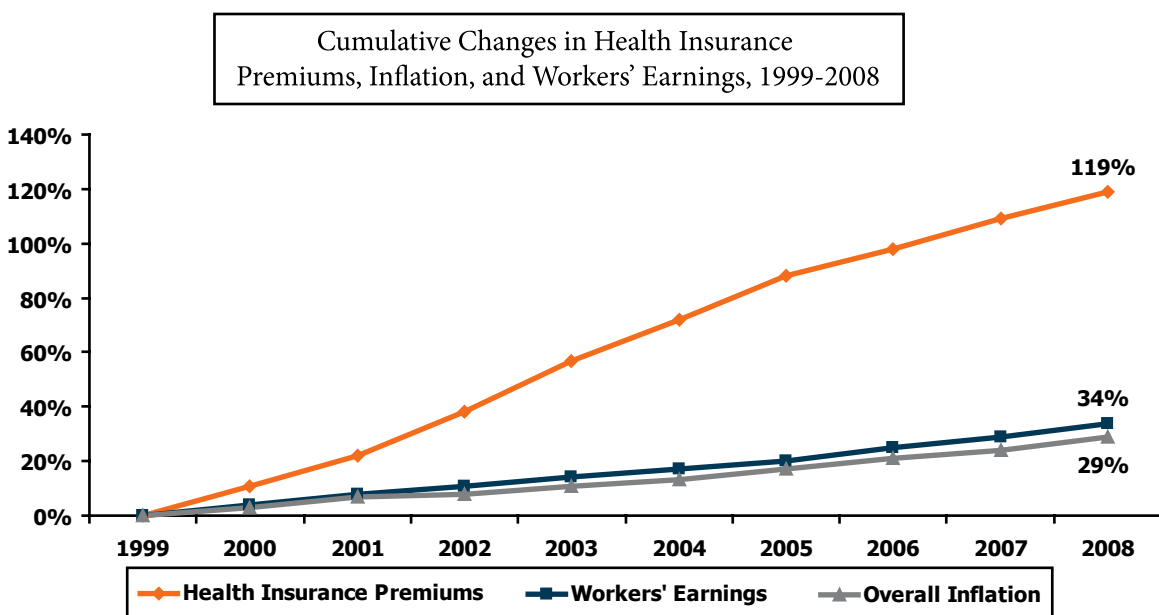
In addition to the fact that the US already spends more on health care than citizens of every other major country, health care cost trends in recent years clearly show the situation is getting worse. As seen in figure 3, between 1999 and 2008 average health insurance premiums in the US increased by 119 percent, while workers' earnings increased only 34 percent and general inflation was 29 percent. If current health care cost trends continue, the US will spend over 20 percent of its total national income (GDP) on health care by 2018 and per capita expenditures for health care in the US will rise to close to \$12,000. This will further worsen the impact of excessive health care costs—more consumer bankruptcies, more employers dropping coverage or shifting more costs to employees, and an even greater increase in the number of the uninsured. Current health care cost inflation trends are ultimately unsustainable and pose a real threat to America's economic health and our social fabric.

While experts agree that current health care cost trends are unsustainable in the long term, there is less agreement about the causes of this situation and even less certainty about how to deal with it legislatively. Federal legislation has a number of provisions intended to begin reducing health care inflation. These include: better processes to reduce administrative costs through electronic record keeping and billing; reduced drug purchasing costs for Medicaid, Medicare and other programs; numerous efforts to restructure payment methods, including fee for service payments, to better incentivize efficient and quality care delivery; and a variety of efforts to promote wellness and preventive care.

Efforts to begin systematically lowering health care costs will require both behavioral changes by the American people and fundamental improvements in the way health care is managed and delivered.

**Wellness and Prevention:** It has been estimated that as much as half of all health expenditures in the US are related to conditions and diseases that are preventable or treatable. While people will always get sick and die, in many cases it is possible to prevent diabetes, hypertension, heart disease and other diseases and conditions through changes in diet or lifestyle or through appropriate drug treatment. America also has a crisis with obesity. Nearly two thirds of American adults are overweight, and 30 percent are considered obese.

Smoking is the largest cause of preventable death in the United States. State employees and retirees should have access to a comprehensive smoking cessation benefit under ERS once federal stimulus funds become available later this year. As you can see from the related sidebar article by Tom



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2008.

Fig. 3

Banning, there are compelling reasons for every smoker to consider quitting and there a number of new tools that greatly increase the likelihood of succeeding. Wellness promotion and preventive health practices are important components of the federal legislation designed to begin reducing longer term health care costs.

**Health Care Delivery and Management:** Many experts believe that as much as 30 percent of health care expenditures in the US are for services that are unnecessary, inefficient, inappropriate, or don't contribute to improved health outcomes. This is a highly contentious issue and it is far beyond the scope of this article. Nevertheless, some of the causes of the inefficient expenditure of health care resources include: overuse of medical specialists rather than an emphasis on primary care; an over reliance on fee for service reimbursement which rewards providers for delivering more services and products rather than creating incentives for desired health outcomes; and, the failure to provide useful and clear information on the relative quality and costs of providers. The government can play a leading role in changing our health care reimbursement mechanisms, although this will take many years. Similarly, there are many efforts to determine how providers such as the Mayo Clinic consistently provide better health outcomes at lower costs. For the most part, such changes cannot be legislated but may be key to returning health care cost inflation to more acceptable levels. Because the US spends close to \$2.5 trillion on health care annually, even relatively small changes in cost growth can yield huge long term savings.

**Even if Enacted, Reforms  
will Take Time**

At this time it is impossible to predict the eventual outcome of the debate over health care reform or the disposition of particular provisions. TPEA encourages all interested state employees and retirees to find accurate, unbiased sources of information about the federal legislation and its likely impact as it moves through the legislative process. Our health care coverage is an extremely valuable benefit, both in financial terms and in providing peace of mind and security for our families.

TPEA believes an appropriate stance toward health reform efforts is conveyed by the old medical maxim "First, do no harm." There are clear and growing problems with our health care system, particularly with regard to spiraling health care costs. Efforts to lower health care inflation, while preserving and improving the quality of care, can greatly benefit all Americans and help ease Texas' budgetary pressures. But even if beneficial legislation is ultimately enacted, it will take a number of years.

## Clear a Path to a Healthier You

### Smoking Cessation, Wellness Are Big Benefits for Employees, Employers

by Tom Banning

If there was one action you could take to improve your health and productivity, would you do it? If you could reduce the 440,000 American lives lost each year as the result of one activity, would you try?

A costly addiction is taking its toll on your pocketbook and your health, and that same addiction is driving up health care costs for the state of Texas and other employers.

The addiction is tobacco use and smoking, and its impact in terms of health, lives and dollars is staggering.

Smoking accounts for one in five of all U.S. deaths annually. The CDC estimates that companies spend \$3,856 per smoker per year in direct medical costs and lost productivity. And, smoking hits your pocketbook especially hard with higher taxes levied on cigarettes at both the state and federal level over the past two years.

There's a win-win solution to this health care crisis—and, it's a simple action employees and employers can take together to improve health, increase productivity and reduce health care expenditures. What is the solution? Quit smoking.

Smoking cessation is considered the low-hanging fruit among preventive health care benefits.

While most smoking cessation health care benefits or programs cost an average of \$0.45 per employee, per month, most employers recoup the cost of smoking cessation programs in 3 to 8.5 days of gained productivity from an employee who quits smoking. Unfortunately, many employers overlook the business benefits to be gained by investing in smoking cessation programs. Today,