LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 22, 2003

TO: Honorable Dianne White Delisi, Chair, House Committee on State Health Care Expenditures, Select

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB3287** by Delisi (Relating to the establishment of a defined contribution health care benefits program for state employees and retired state employees.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3287, As Introduced: a positive impact of $189,331,530 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	$0
2005	$189,331,530
2006	$189,331,530
2007	$189,331,530
2008	$189,331,530

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Probable Savings/(Cost) from *GR DEDICATED ACCOUNTS* 994	Probable Revenue Gain/(Loss) from *FEDERAL FUNDS* 555	Probable Savings/(Cost) from *STATE HIGHWAY FUND* 6
2004	$0	$0	$0	$0
2005	$189,331,530	$33,951,227	$41,494,180	$37,516,203
2006	$189,331,530	$33,951,227	$41,494,180	$37,516,203
2007	$189,331,530	$33,951,227	$41,494,180	$37,516,203
2008	$189,331,530	$33,951,227	$41,494,180	$37,516,203

Fiscal Year	Probable Savings/(Cost) from *OTHER SPECIAL STATE FUNDS* 998
2004	$0
2005	$436,461
2006	$436,461
2007	$436,461
2008	$436,461

Fiscal Analysis

This bill requires the Employees Retirement System (ERS) to offer basic health care coverage through a state-funded "Health Reimbursement Arrangement" in a defined contribution health care benefits program for active and retired employees and their dependents. All state agencies would be required to participate.

The Health Reimbursement Arrangement program is required to include primary care and catastrophic care coverage plans. A $4,000 annual deductible is required for the catastrophic care coverage plan. Furthermore, the catastrophic care plan is required to cost less than the primary care coverage plan.

The state would contribute $3,000, or an amount specified in the General Appropriations Act, for each active employee or retiree who elected to participate in the Health Reimbursement Arrangement. The additional costs required for dependent coverage would be paid by the employee or retiree.

This bill takes effect September 1, 2003. The ERS Board is required to develop enrollment guidelines for the program during fiscal year 2004, with coverage beginning September 1, 2004.

Methodology

For purposes of this analysis, it is assumed that the state contribution rate for the Health Reimbursement Arrangement is $3,000 per year, as opposed to a rate established in the General Appropriations Act. The average state contribution for the group insurance program (after May 1, 2003) will be approximately $350 per employee per month. At $3,000 per year or $250 per month, the Health Reimbursement Arrangement would generate savings in state contribution costs of $100 per employee per month, or $325.6 million per fiscal year in All Funds and $204.2 million per fiscal year in General Revenue.

Additional costs to the state and employees that would result from this bill include $22.9 million in additional retirement and FICA costs, and $65.9 million in income taxes related to payroll deducations for health care and dependent care, respectively. The estimated savings, once adjusted for the additional costs to the state, are reduced to $302.7 million per fiscal year in All Funds, and $189.3 million per fiscal year in General Revenue. (See the Fiscal Impact Table.)

The estimated cost savings is the result of a reduced state contribution rate. The bill does not specify the benefits offered through the primary care coverage plan, only that this plan be more expensive than the catastrophic care coverage plan. If the benefits under the primary care coverage plan were similar to the current HealthSelect plan, than the state contribution of $3,000 per year would not be sufficient to cover the cost of employee-only coverage.

Because the catastrophic care plan must be less expensive than the primary care plan, ERS expects healthier employees and retirees to enroll in the catastrophic care coverage plan, and less healthy employees and retirees to enroll in the primary care coverage plan. Over time, this adverse selection could result in the primary care coverage plan becoming cost-prohibitive, and benefit reductions to the plan.

Technology

None.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 327 Employees Retirement System, 454 Department of Insurance

LBB Staff: JK, JO, EB, MS, ZS