LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 14, 2005

TO: Honorable John T. Smithee, Chair, House Committee on Insurance

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB1313** by Chisum (Relating to establishment of a defined contribution health care benefits program for certain active state employees that is operated through the establishment of health reimbursement arrangements.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1313, As Introduced: a negative impact of ($5,019,666) through the biennium ending August 31, 2007.

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
2006	($1,668,300)
2007	($3,351,366)
2008	($3,753,530)
2009	($4,203,954)
2010	($4,708,428)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *GENERAL REVENUE FUND* 1	Probable (Cost) from *GR DEDICATED ACCOUNTS* 994	Probable (Cost) from *FEDERAL FUNDS* 555	Probable Revenue Gain/(Loss) from *OTHER FUNDS* 997
2006	($1,668,300)	($154,653)	($537,580)	($507,767)
2007	($3,351,366)	($311,574)	($1,048,303)	($1,025,357)
2008	($3,753,530)	($348,963)	($1,174,099)	($1,148,400)
2009	($4,203,954)	($390,839)	($1,314,991)	($1,286,208)
2010	($4,708,428)	($437,739)	($1,472,790)	($1,440,553)

Fiscal Analysis

The bill would set up a new Health Reimbursement Account (HRA) plan for state and higher education employees enrolled in the Group Benefits Plan (GBP) under the Employees Retirement System (ERS). The new plan would put state contributions for health insurance into an HRA account, and allow participants to use some or all funds to purchase health coverage, but allow any remaining funds to stay in the HRA account. Employees hired after September 1, 2006 would be enrolled in the new plan and current employees would have the option of choosing it. However, the bill would not require participants in the HRA to choose a health plan.

The Comptroller's Office would be required to set up HRA accounts for all employees in the new plan.

Methodology

The plan would not require participants in the HRA to choose a health plan, creating a strong incentive for employees who were healthy and did not plan to stay with the state for long to both choose the new plan and to not choose any health coverage, but retain the full state contribution in their account. For many employees, a large percentage of this would go with the participant when they leave state employment, which would require the state to pay Social Security taxes. The turnover rate for the 24,000 state employees under the age of 30 is approximately 30 percent, so many of these will choose the HRA without health coverage. Many other employees in good health would choose this in any given year. However, employees in the HRA plan may generally not choose to put much funding in a flexible spending account since HRA funds must be spent first, and "flexible funds" not used are forfeited.

This analysis estimates 8,000 employees under the age of 30 would be in the HRA plan, not choose a health plan, and plan that when they leave state employment they would take most of the state contribution with them. Another 8,000 of the other 115,000 state employees would make a similar choice. It is assumed a similar percentage of higher education employees would make similar choices, making a total of 20,000. The average annual state contribution per employee is over $5,000 for both 2006 and 2007, including dependent coverages; it is assumed $4,000 for those in the new plan not choosing health coverage. Of these funds set aside for the population considered, it is assumed 75 percent would be taken with the participants. So the state would owe Social Security contributions on $60.0 million per year. This amount is reduced by half for 2006, since the state would not owe the money until they took the funds with them. There would be a reduction in funds set aside for flexible spending accounts; it is estimated approximately a quarter of the current $35 million in 2007 and future years, and half this amount in 2006. On these funds the state would owe Social Security and retirement contributions. An appropriate method of finance is applied to the additional state costs for Social Security and retirement contributions identified above.

Allowing current employees the choice of the HRA plan, combined with increasing age for those employees remaining in the current plan, would significantly increase costs for GBP participants. The current annual health care cost trend is 12 percent; this change would cause an added annual trend of more than 3 percent just from an increasing average age, and additional amounts from adverse selection. This is not being shown as a fiscal impact, but unless additional funds are appropriated it will cause benefit cuts for employees remaining in the GBP.

Employees in the HRA would have a choice of plans, but none of these could be self-funded. Since self-funded plans are inherently more efficient for a given plan design, employees wishing to choose comparable coverage to the current Health Select plan would pay additional costs, estimated by ERS to be approximately 13 to 17 percent. This would, however, be a cost to employees, not the state.

The Comptroller’s Office would be required to set up HRA accounts for all employees in the new plan. Even if this were sub-contracted this would result in significant costs, though these might be borne by employees.

Local Government Impact

No fiscal implication to units of local government is anticipated.

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

LBB Staff: JOB, JRO, WP, JW, WM