

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

March 29, 2011

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

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

IN RE: HB1166 by Zerwas (Relating to tobacco cessation programs for certain public employees and their dependents and to the assessment of a fee on certain public employees who use tobacco.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1166, As Introduced: an impact of \$0 through the biennium ending August 31, 2013.

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
2012	\$0
2013	\$0
2014	\$0
2015	\$0
2016	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from <i>Employees Health Insurance and Benefits Trust (0973)</i>	Probable (Cost) from <i>Employees Health Insurance and Benefits Trust (0973)</i>
2012	\$24,024,457	(\$2,050,000)
2013	\$24,024,457	(\$2,220,000)
2014	\$24,024,457	(\$2,380,000)
2015	\$24,024,457	(\$2,460,000)
2016	\$24,024,457	(\$2,630,000)

Fiscal Analysis

The bill would implement recommendations from the report "Implement a Tobacco User Surcharge on Employees Retirement System Health Premiums" from the Legislative Budget Board's *Government Effectiveness and Efficiency Report*, submitted to the Eighty-second Texas Legislature, 2011.

The bill would amend the Insurance Code by adding Section 1551.226 to require the Employees Retirement System (ERS) to include coverage in the state employee health plan for tobacco cessation prescription drugs. The bill also would amend the Insurance Code by adding Section 1551.3075 to require ERS to apply a monthly tobacco user fee to each participant covered under the state health plan that uses tobacco. The amount of the monthly tobacco user fee can be set in the General Appropriations Act. If it is not set in the General Appropriations Act then the bill would give the ERS

Board would be the authority to set the monthly user fee. The bill would require that these changes be implemented no later than January 1, 2012.

The bill would amend the Insurance Code by adding Sections 1575.2055, 1579.256, and 1601.2025, which would permit the Teacher Retirement System, the University of Texas System, and the Texas A&M System to charge a monthly tobacco user fee within their system health plans.

The bill would be effective September 1, 2011.

Methodology

For the Employees Retirement System (ERS), two fiscal impacts were calculated. These include the cost associated with expanded tobacco cessation coverage and the revenue from the monthly tobacco user fee.

For the tobacco user fee, ERS reported a total of 411,942 adults enrolled in the state health plan as of February 2011. According to the Centers for Disease Control and Prevention (CDC), an estimated 18.0 percent of adult Texans smoke as of 2009. Applying this statistic to recent ERS health plan enrollment results in an estimated 74,150 tobacco users in the plan. Of those estimated smokers, it is anticipated that 90 percent of them (66,735 plan members) would pay the tobacco user fee. This would result in a gross tobacco user fee revenue of \$24.0 million in All Funds per fiscal year, which would be deposited to the Employees Life, Accident, Health Insurance and Benefits Trust Account (0973). The revenue gain to the Employees Life, Accident, Health Insurance and Benefits Trust Account would cover the cost associated with the tobacco cessation program coverage. It would also help defray the increased costs to the plan associated with tobacco users, reduce the need for appropriations to the health plan, and minimize the need for cost shifting to employees to fund the state health plan.

For the tobacco cessation coverage, ERS reported a total plan enrollment of 538,465 participants as of February 2011. ERS estimates that physician office visits and counseling for tobacco cessation, which are currently offered within the state health plan, would increase utilization at an initial cost of \$0.08 per member per month. For tobacco cessation prescription drug coverage, ERS estimates a cost of \$0.30 per member per month. The prescription drug cost estimate is based on coverage for generic versions of Wellbutrin and Zyban, which would have a co-pay of \$15 per month and the brand drug Chantix, which would have a co-pay of \$35 per month. ERS estimates that the total cost of tobacco cessation will increase each fiscal year based on the annual benefit cost trends.

For the Teacher Retirement System (TRS), the University of Texas (UT) System, and the Texas A&M University System, the bill permits a tobacco user fee but does not require one. There would be a potential revenue gain to these systems' health plans if any of them chose to assess a tobacco user fee.

For example, the University of Texas System anticipates, should it implement a tobacco user fee, that there would be a small cost due to increased utilization of its cessation program and products, although those costs would be limited and should be offset by the fee revenue, depending upon the amount of the monthly fee. Over the long term, the UT System anticipates that the implementation of the fee would reduce overall plan costs. Assuming a \$30 tobacco user fee per month, the system estimates a \$4.8 million revenue gain to its local health fund UT Select in fiscal year 2012 and a \$7.3 million revenue gain per year in fiscal years 2013 to 2017.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 327 Employees Retirement System, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

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