

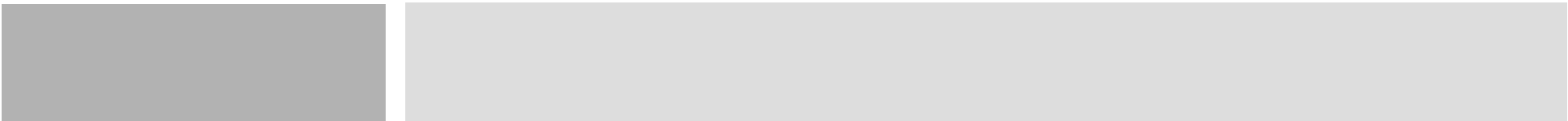
# **OVERVIEW OF THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PROGRAM**

Legislative Budget Board Staff

Presented to House Appropriations Subcommittee on Articles I, IV, and V and

House Pensions Committee

July 10, 2014



# Employees Group Benefits Program

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- The Texas Employees Group Benefits Act, Chapter 1551, Texas Insurance Code, assigns the administration of the Group Benefits Program (GBP) to the Employees Retirement System (ERS) Board of Trustees.
  
- The GBP provides the following coverage to active and retired state employees and their dependents:
  - Health insurance;
  - Life insurance;
  - Dental insurance;
  - Voluntary Accidental Death & Dismemberment (AD&D) insurance;
  - Long-term Care; and
  - Long- and Short-term Disability Insurance.

# Employees Group Benefits Program (Continued)

- As of August 31, 2013, participants of the GBP include the following:
  - 226,181 employees;
  - 100,054 retirees;
  - 206,403 dependents; and
  - 1,674 COBRA.
  
- \$2.5 billion (estimated) in health care claims was paid in fiscal year 2013
  - Plan participants paid approximately \$555 million in out-of-pocket costs, such as copays and coinsurance.
  
- The state funds 100 percent of the monthly premium for full-time employees and 50 percent of dependent coverage, with members paying the other 50 percent of the dependent coverage.

# Group Benefits Program HealthSelect Benefits

<b>MEDICAL</b>	
Deductible	None
General Coinsurance	20%
Office Visit Copay	\$25 Primary Care Physician (PCP)
Specialist Visit Copay	\$40 with PCP referral
Emergency Room Copay	\$150/visit + 20% (applied to copay if admitted)
Hospital Care Copay	\$150/day (\$750 max.) + 20%; \$2,250 annual cap
Annual Out-of-Pocket Maximum	\$2,000/person
Lifetime Maximum Coverage	Unlimited
<b>PRESCRIPTION DRUGS - Non-Maintenance Copay (Tier 1, 2, and 3)</b>	<b>AFTER \$50 DEDUCTIBLE</b>
Retail (<=30 day supply)	\$15/35/60
Mail Order (<=90 day supply)	\$45/105/180
<b>PRESCRIPTION DRUGS - Maintenance Copay (Tier 1, 2, and 3)</b>	<b>AFTER \$50 DEDUCTIBLE</b>
Retail (<=30 day supply)	\$20/45/75
Mail Order(<=90 day supply)	\$45/105/180

Source: Employees Retirement System

# HealthSelect Plan Year 2014 Premium Rates

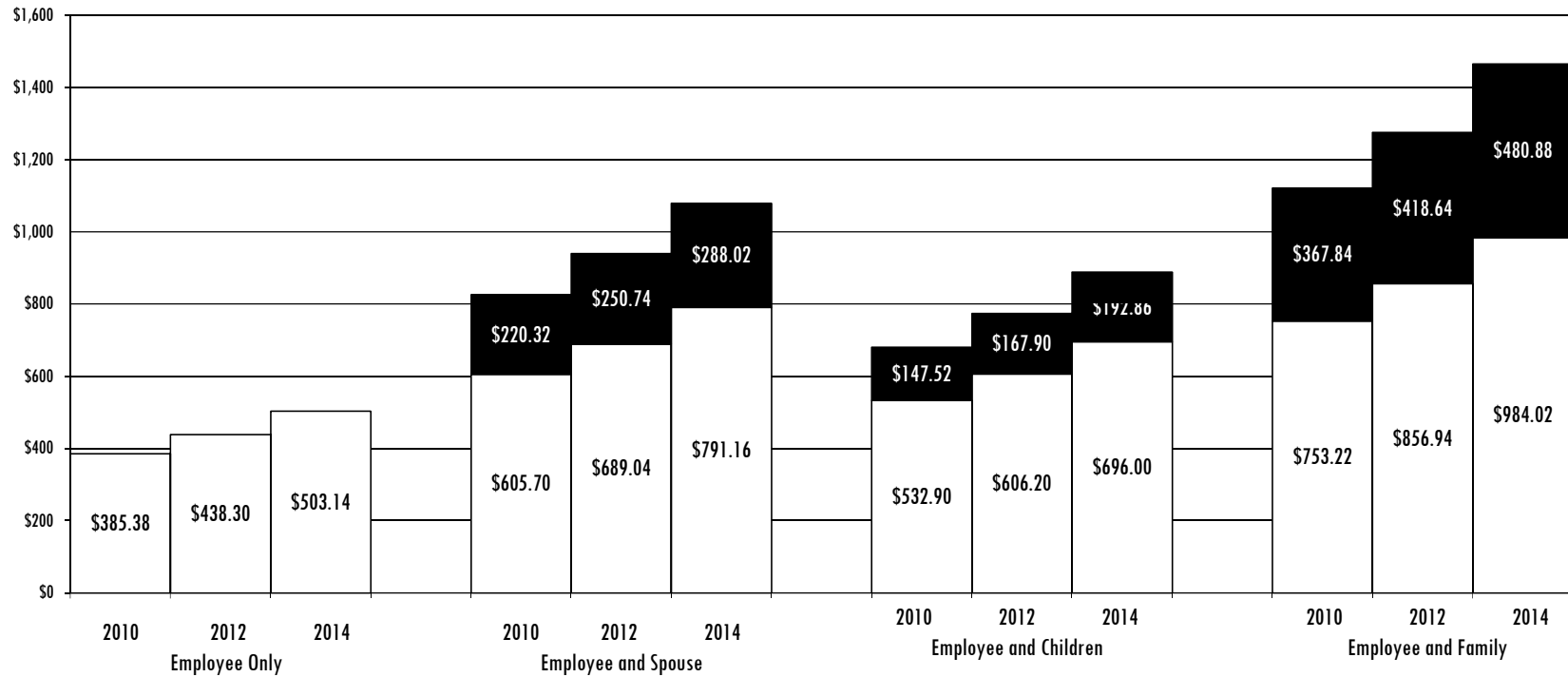
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<b>Full-Time Employee Premium Contributions</b>	Total Premium	State Pays	Member Pays
Employee Only	\$503.14	\$503.14	\$0.00
Employee & Spouse	\$1,079.18	\$791.16	\$288.02
Employee & Child(ren)	\$888.86	\$696.00	\$192.86
Employee & Family	\$1,464.90	\$984.02	\$480.88
<b>Part-Time Employee Premium Contributions</b>			
Employee Only	\$503.14	\$251.57	\$251.57
Employee & Spouse	\$1,079.18	\$395.58	\$683.60
Employee & Child(ren)	\$888.86	\$348.00	\$540.86
Employee & Family	\$1,464.90	\$492.01	\$972.89
<b>Retiree Premium Contributions (Medicare-eligible Full-time Retirees)</b>			
Employee Only	\$503.14	\$503.14	\$0.00
Employee & Spouse	\$927.00	\$791.16	\$135.84
Employee & Child(ren)	\$831.84	\$696.00	\$135.84
Employee & Family	\$1,255.70	\$948.02	\$271.68

Source: Employees Retirement System  
 Legislative Budget Board Staff ID: 1676

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# HealthSelect Monthly Premium Rates, Fiscal Years 2010, 2012 and 2014



Source: Employees Retirement System

□ State Contribution

■ Employee Contribution

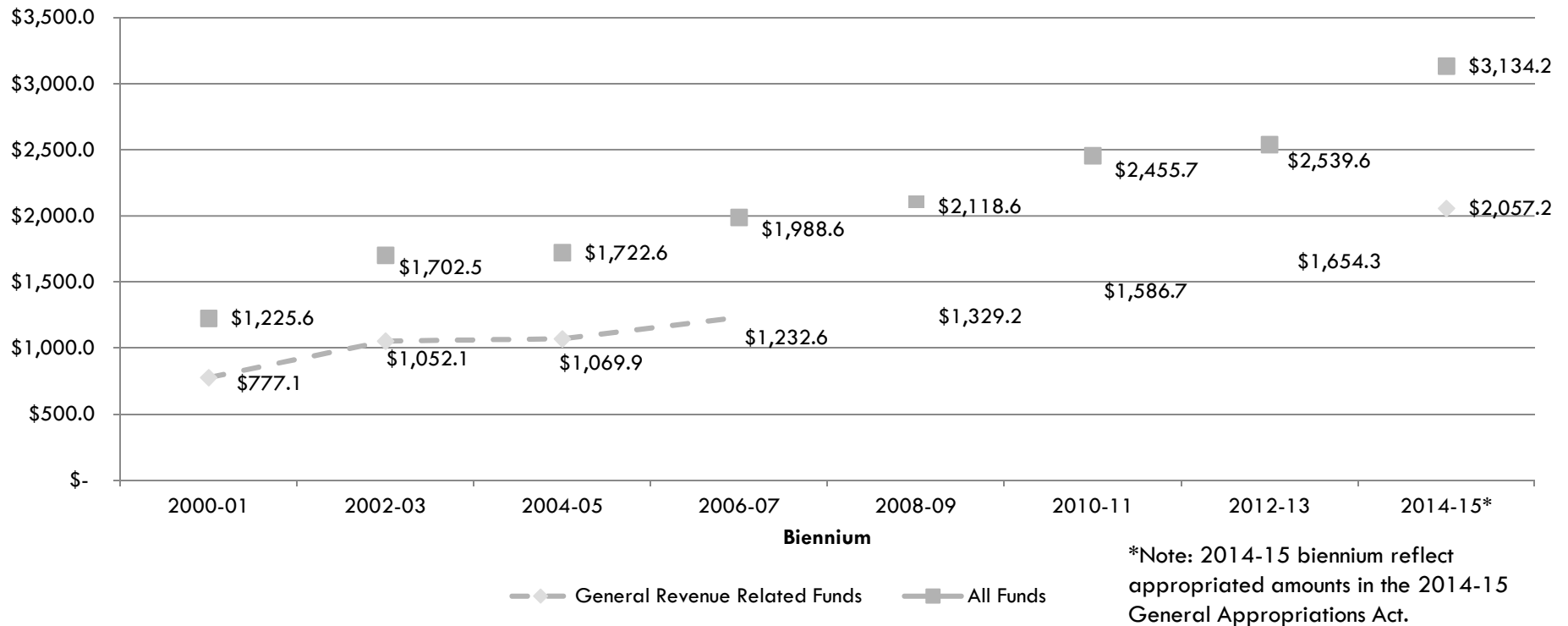
# GBP Expenditures/Appropriations

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- ERS Insurance costs included in the state budget for the 2014-15 biennium are approximately \$3,134.2 million in All Funds. Of this amount, approximately \$2,057.2 million is out of General Revenue related funds. This is an increase of \$594.6 million in All Funds and \$402.9 in General Revenue-Related Funds over the 2012-13 spending levels.
- The increase is primarily due to a 7.0 percent increase in the state contribution in each fiscal year of the 2014-15 biennium to fund an 8.0 percent benefit cost trend (which aligned with the trend identified in ERS's Legislative Appropriations Request). The Contingency Reserve Fund, which is authorized by Insurance Code, Sec. 1551.211 is expected to cover any additional costs.

# Group Benefits Program Expenditures

## Group Benefit Program Expended/Budgeted and Appropriated by Biennium (In Millions)





# Initiatives to Increase Revenues

- One Percent Contribution by Agencies and Institutions of Higher Education
  - Insurance Code, Sec. 1551.3076 and Art. IX, Sec. 17.05 in the 2014-15 GAA requires all agencies and institutions of higher education to contribute 1.0 percent of payroll to the ERS Group Benefits Program to offset benefit costs.
    - For FY 2013 ERS reported revenues of approximately \$54.8 million in All Funds from state agencies (\$31.7 million in General Revenue) and \$33.2 million in All Funds from institutions of higher education (\$17.8 million in General Revenue).
    - ERS estimates revenues of \$111.0 million from state agencies and \$62.5 million from institutions of higher education in All Funds for the 2014-15 biennium. As of June, the agency is on target to collect the full projected contributions from agencies.
  - Tobacco User Fee
    - Insurance Code, Sec. 1551.3075 and Rider 11, Tobacco User Monthly Premium Fee, in the ERS bill pattern provides for a \$30 monthly tobacco user fee (\$90 monthly family maximum) unless the individual certifies that they do not use tobacco.
      - Approximately 28,000 certified tobacco users generated \$9.7 million in fees in FY 2013.
      - Projected revenues of \$15.4 million in fees generated from approximately 48,000 tobacco users in FY2014.

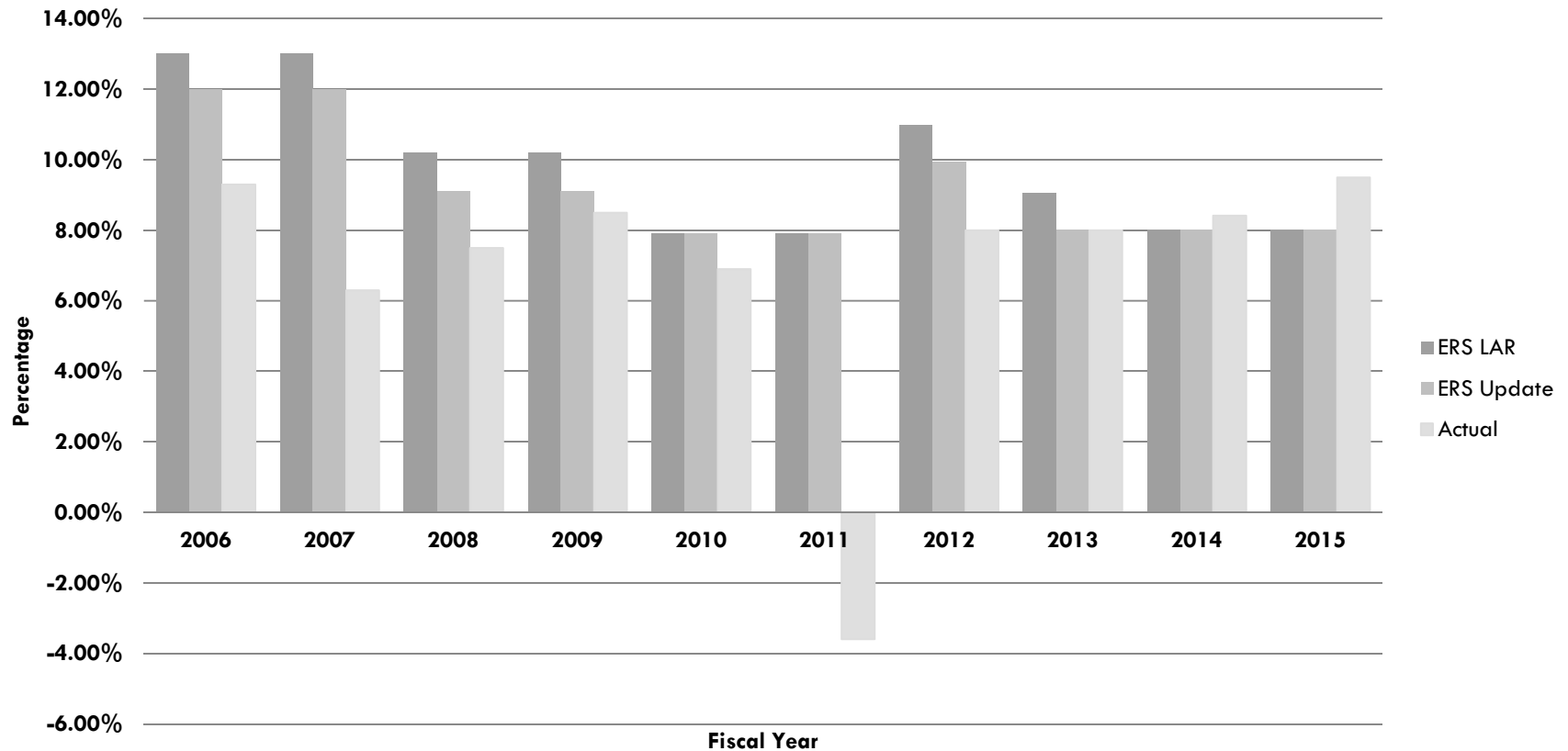
# Initiatives to Reduce Costs

- ERS implemented changes to the plan in FY 2013, which combined with continued cost containment practices, reduced HealthSelect plan charges by \$5.5 billion.
  - Transition to new Third-Party Administrator (2013)
    - Projected \$25 million in savings over four years, plus \$15 million in additional provider discounts in fiscal year 2014.
  - Dependent Eligibility Audit (2011)
    - Removed 5% of dependents, saving \$12.2 million.
    - ERS is conducting another audit for any dependents added since 2011 in FY 2014.
  - Medicare Advantage
    - Medicare-eligible retirees are automatically enrolled in Medicare Advantage, a preferred provider organization plan, which provides the same level of coverage at a lower cost to both the State and retirees.
  - Implemented Employer Group Waiver Program + Wraparound
    - Provides retiree drug coverage and resulted in GBP savings of approximately \$40.0 million for calendar year 2013.

# HealthSelect Benefit Cost Trend

- The major cost driver for the GBP is the benefit cost trend.
  - ▣ The benefit cost trend is the rate at which GBP health benefits costs are increasing annually.
  - ▣ The benefit cost trend is a combination of hospital costs, prescription drug costs, and other medical expenses.
  
- The actual trend has averaged approximately 8.0 percent over the last 10 years.
  - ▣ The benefit cost trend was significantly reduced in fiscal year 2011 as a result of benefit changes made by the ERS Board of Trustees due to budgetary constraints.
  - ▣ The actual (projected) cost trend of 9.5 percent in fiscal year 2015 is primarily related to significantly increased prescription drug costs, specifically for compound drugs.

# Health Select Benefit Cost Trend by Fiscal Year



\*Note that 2014 Actual is based on partial year and 2015 Actual is based on projected.

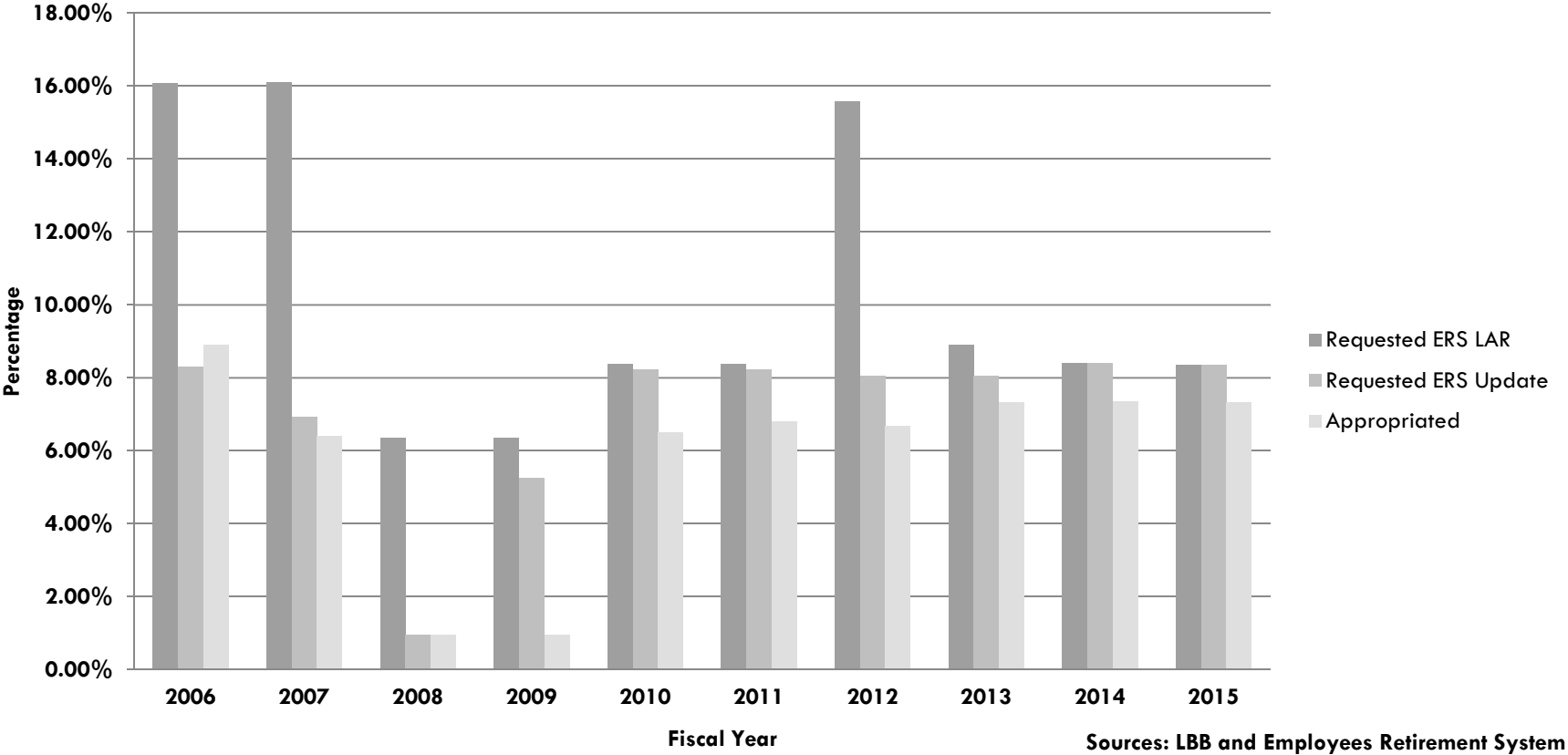
Sources: LBB and Employees Retirement System

# Per Capita State Contribution Rate

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- The per capita state contribution rate for the GBP reflects how much the plan must contribute for each participant monthly to cover health claims costs as a percentage increase over the previous fiscal year.
  
- These amounts are tied to actual appropriations.
  - Previously, the legislature has appropriated at a rate lower than the benefit cost trend and directed ERS to spend down some portion of the contingency reserve fund to meet projected benefit needs.

# Increase in Per Capita State Contribution Rate by Fiscal Year

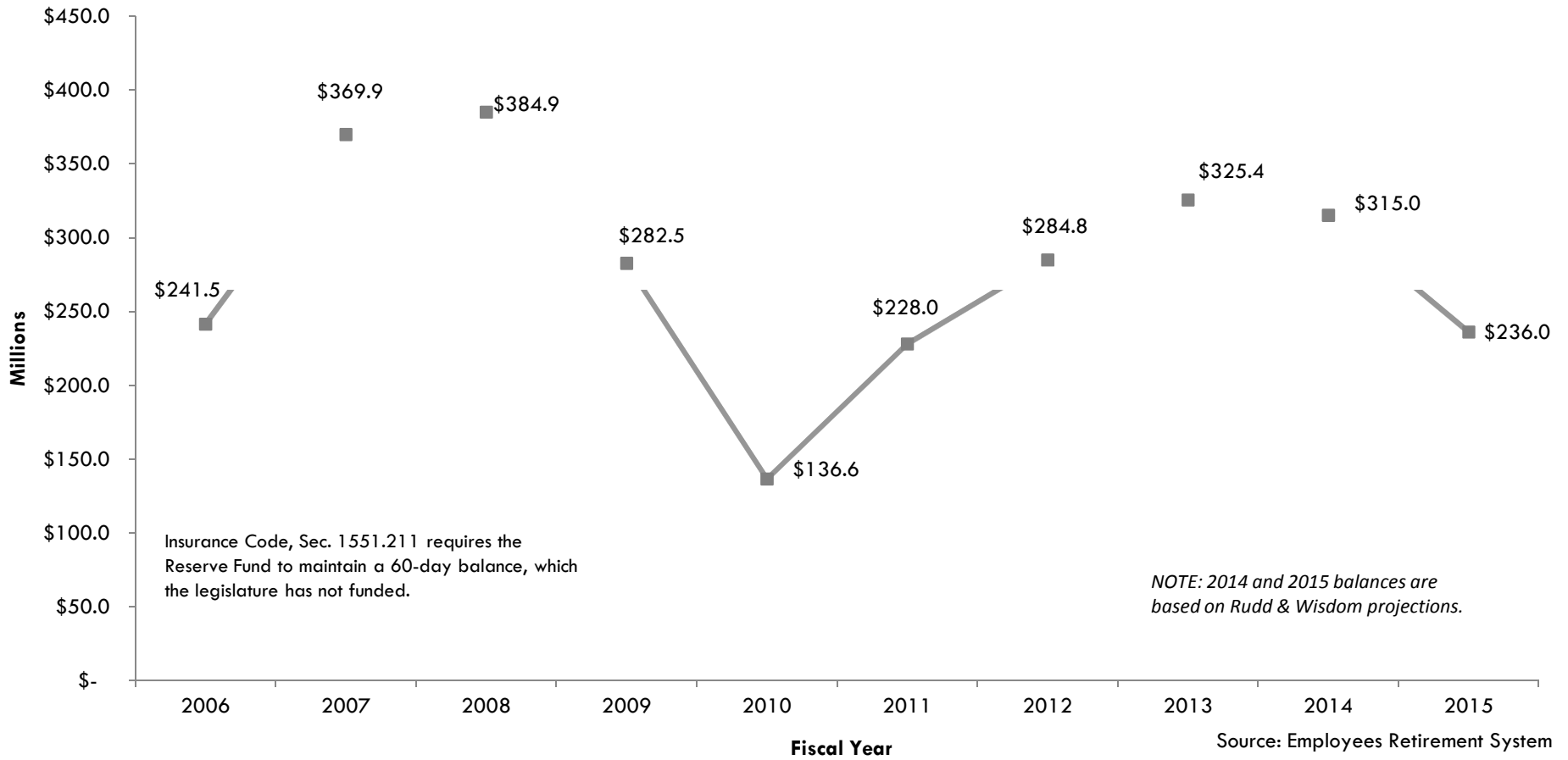


# Contingency Reserve Fund Balance

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- The contingency reserve fund, established by Insurance Code, Section 1551.211, receives all revenues for the GBP, including state and member contributions, the one percent employer contribution, federal subsidies, prescription drug rebates, and investment income, and makes expenditures to cover GBP-related claims costs.
- Statute also requires the fund to maintain a 60-day reserve fund balance, which the legislature has not funded.

# Contingency Reserve Fund Balance





# Legislative Requirements

- Senate Bill 1459, Eighty-third Legislature, Regular Session, 2013, implemented tiered insurance for retirees, which applies to employees with less than five years of service as of September 1, 2014:
  - Retirees with at least 20 years of service receive 100 percent insurance coverage upon retirement;
  - Retirees with 15 to 20 years of service receive 75 percent of insurance coverage upon retirement; and
  - Retirees with 10 to 15 years of service receive 50 percent of insurance coverage upon retirement.
  
- Basic Life and Health Simulation Modeling
  - Required by Rider 14, Basic Life and Health Coverage, in the ERS bill pattern in the 2014-15 GAA.
  - May 2014 Survey of Participants, focusing on members who chose not to cover dependents due to costs.

# Questions?