HOUSE SELECT COMMITTEE ON TEACHER HEALTH INSURANCE
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2000

A REPORT TO THE
HOUSE OF REPRESENTATIVES
77TH TEXAS LEGISLATURE

SHERRI GREENBERG
CHAIR

COMMITTEE CLERK
STEPHANIE MUTH

House Select Committee On
Teacher Health Insurance

November 28, 2000

Sherri Greenberg
Chair

P.O. Box 2910
Austin, Texas 78768-2910

The Honorable James E. "Pete" Laney
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The House Select Committee on Teacher Health Insurance of the Seventy-Sixth Legislature hereby submits its interim report, including recommendations, for consideration by the Seventy-Seventh Legislature.

Respectfully submitted,

Sherri Greenberg, Chair

Dennis Bonnen

Ron Clark

Kino Flores

Jim Pitts

Paul Sadler

Todd Smith

Barry Telford

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INTRODUCTION

The Honorable James E. "Pete" Laney, Speaker of the Texas House of Representatives, appointed a select committee to study and develop options for teacher health insurance plans. The interim committee was to be comprised of four members of the House Committee on Pensions and Investments, two members of the House Committee on Appropriations, and two members of the House Public Education Committee. Committee membership included the following: Rep. Sherri Greenberg, Chair, Rep. Dennis Bonnen, Rep. Ron Clark, Rep. Kino Flores, Rep. Jim Pitts, Rep. Paul Sadler, Rep. Todd Smith, and Rep. Barry Telford.

The interim committee has completed its hearings and investigations and has issued its report.

Finally, the Committee wishes to express appreciation for the time and efforts dedicated to helping address these charges by the Employees Retirement System, Teacher Retirement System, Legislative Budget Board, Texas Association of School Boards, Texas Association of School Administrators, Texas Classroom Teachers Association, Texas State Teachers Association, Texas Federation of Teachers, Association of Texas Professional Educators, Texas Retired Teachers Association, Texas Department of Insurance, Texas Office of Public Insurance Council, Kathleen Gardiner from the House Committee on Appropriations, Monty Wynn from the House Public Education Committee, Jimmy Perez from the House Committee on Pensions and Investments, the staff of committee members, and the many citizens who testified and provided information on matters before the committee.

HOUSE SELECT COMMITTEE ON TEACHER HEALTH INSURANCE

INTERIM STUDY CHARGE

CHARGE The Select Committee on Teacher Health Insurance shall develop options for teacher health insurance plans. Options should be scalable to take account of available resources, and any proposals should address the actuarial problems of TRS-Care.

Pensions & Investments Members
Sherri Greenberg, Chairman
Dennis Bonnen
Ron Clark
Barry Telford

Appropriations Members
Jim Pitts
Kino Flores

Public Education Members
Paul Sadler
Todd Smith

SELECT COMMITTEE ON TEACHER HEALTH INSURANCE

BACKGROUND

In 1999, following the 76th Legislature, Regular Session, the Select Committee on Teacher Health Insurance was created and charged with developing options for teacher health insurance plans. The Committee was instructed that options should be scalable to take account of available resources, and that any proposals should address the actuarial problems of TRS-Care.

In order to address the charge before them, the Committee members held four meetings. Two meetings were held in Austin, one in South Texas, and another in North Texas. Some hearings were scheduled during the summer months in order to allow teachers and other school personnel better access to the Committee. In all, over seventy-five individuals presented testimony to the Committee, and many more submitted written comments. These comments were instrumental to the Committee members as they developed the options for school employee health insurance detailed below.

In addition to presenting options, this report outlines some of the factors which affect the charge. These factors include: a history of state health insurance plans; the coverage currently provided to active and retired school personnel; and health care cost trends. Finally, in this report, the Committee makes recommendations on key components of plan design.

Legislative History of State Health Insurance Plans

Legislative interest in providing adequate health insurance to active and retired members of TRS has existed for many years. In fact, this Select Committee is one of many legislative committees to examine the issue over the past three decades.

In 1975, the 64th Legislature enacted the Texas Employees Uniform Group Insurance Benefits Act, which provided health insurance benefits to be made available to all state employees, with a contribution to be paid by the State for each employee. College and university employees were specifically excluded from the Act's coverage.

In 1977, the 65th Legislature extended benefits to include higher education employees with the passage of the Texas State College and University Employees Uniform Insurance Benefits Act. During that same session, legislation was introduced to authorize a statewide group health insurance plan for employees of public schools. The bill was not reported out of subcommittee, and legislators determined that the subject needed further study.[1]

In 1981, the 67th Legislature passed a bill which would have created a statewide health insurance program for active TRS members. The bill lacked funding, and as a result, was vetoed by Governor Bill Clements. The 69th Legislature, in 1985, approved legislation to create the Texas Public School Retired Employees Group Insurance Program (TRS-Care) which began insuring Texas retired public school personnel on September 1, 1986.

In 1991, the Legislature once again tackled the issue of teacher health insurance. Legislation was passed which directed school districts to provide health insurance coverage for their employees that is comparable to the basic health coverage provided to state employees under the Texas Employees Uniform Group Insurance Program administered by the Employees Retirement System (ERS). Each district was required to certify the comparability of its plan annually to ERS. A school district had the option of providing group health insurance for its employees, either on its own or by participating in a statewide insurance program administered by ERS. If the district participated in the program administered by ERS, it would be required to pay the cost of employee-only coverage plus an administrative fee. According to ERS, allowing districts the option of participating in the plan would likely drive up the costs of administering the program. This factor, combined with the lack of a contingency reserve fund, prevented the establishment of a health insurance program for public school employees.

In 1997, the Legislature directed TRS to adopt rules to determine comparability with the state employees' health plan, including rules relating to deductibility, co-insurance, and co-payment comparisons. The Legislature also directed TRS to certify districts' compliance and provide a report of the certifications to lawmakers, effective with the 1998-99 school year.

Since 1977, numerous legislative studies have been conducted on the subject, and nearly every session, legislation has been introduced addressing the issue of health insurance for school personnel. The complexity of the issue, the size of the population, the instability of the health care market, and the disparities in the cost and quality of local school district plans make this a difficult, yet critical, problem for the State to address.

Current Health Insurance Coverage Provided

Public School Employees

There are nearly 1,200 school districts, education service centers and charter schools in Texas. Employees of these entities receive their insurance through their local employer. Since 1991, local districts have been required to provide health insurance which is comparable to the UGIP provided to state employees. In order for a district's plan to be deemed comparable by TRS, its full cost does not have to be paid for by the district, nor does it have to be affordable to the employee. The district is merely required to offer a comparable plan. In addition, there are no penalties for school districts that do not offer comparable insurance, and in fact, many do not. As a result, plans vary a great deal from district to district in terms of cost and coverage.

The Teacher Retirement System is mandated to complete a comparability study of the insurance provided by local school districts. Data collected by TRS for the 1999-2000 plan year indicates that:

- Over 2,600 coverage options were offered for employee consideration and approximately 1/3 of the plans met comparability requirements under the law.

- Approximately 38 percent of employees participated in comparable plans – the rest were either enrolled in non-comparable plans or waived coverage altogether.

- The cost of employee-only coverage was approximately $174 per month, up over 10 percent from the 1998-1999 study of district plans. Of this amount, the average district paid approximately $148.

- The total cost of employee-only coverage was $977 million. Generally, districts paid 85 percent of the employee-only cost and employees paid the remaining 15 percent, plus most of their dependent cost.

- Fifty-four percent of school districts offered at least one plan that was comparable to the health coverage offered by the State to its employees. There is some correlation with district size, with the largest districts having greater incidence of comparable plans.

- Seventeen school districts offered no health insurance to their employees.

- Of the reported 534,592 employees, 38 percent were in a comparable plan, 50 percent were in a non-comparable plan, and 12 percent waived coverage.

- Costs for dependent coverage totaled $321 million, almost entirely paid by the employees -- district contributions for dependent coverage were rare.

Interestingly, a Legislative Budget Board analysis of the data published by TRS for the 1998-1999 Comparability Report found no clear pattern in the relationship between district wealth and access to health coverage or employee cost of health insurance. Low-wealth districts, such as Ysleta and Killeen, are more likely to offer low cost, good quality health insurance than high wealth districts such as Alamo Heights and Coppell. What the LBB analysis did find was a relationship between district size and urban/rural characteristics and the access to a comparable health plan, as well as the cost to district employees.[2]

The disparity in coverage at the district level could be exacerbating the State's teacher shortage. Several teachers' organizations have noted that health benefits are a key issue in the recruitment and retention of teachers. The Texas State Teachers Association, in conjunction with Stephen F. Austin State University, recently completed a survey of active teachers which found that 43 percent of the profession is considering leaving the classroom because of low pay, poor benefits, and stress. Texas classrooms are already feeling the squeeze from the competition for qualified workers. Presently, Texas is facing a severe shortage in the number of available certified teachers. It is estimated that there are currently over 40,000 public school teaching vacancies and that for FY 2000, only approximately 13,000 new teachers will receive state certification.[3] There is also the problem of a high turnover rate among teachers as many public school teachers are being lured into the private sector by higher paying jobs with increased benefits. In the 1997-98 school year alone, over 57,000 teachers, approximately 20 percent, left the teaching profession.[4]

As the Legislature considers various proposals for health insurance to cover school employees, the importance of this endeavor cannot be overstated. A quality health insurance plan can improve the overall compensation package for teachers, and thereby help with recruitment and retention. On the other hand, a poorly designed plan could further exacerbate the teacher shortage.

Retired School Personnel

TRS-Care

Created by the Legislature in 1985, TRS-Care is the health insurance coverage provided to retired public school employees. TRS-Care is administered by the Teacher Retirement System. The program began operation on September 1, 1986, with 60,000 participants. Since then, participation in the program has more than doubled. TRS-Care currently serves approximately 108,000 retirees and approximately 19,000 dependents. In order to be eligible for coverage, a retired public school employee must have at least ten years of service. Coverage is available to the retiree and his or her dependents.

TRS-Care Program Design

TRS-Care covers expenses that are medically necessary, prescribed by a physician, and within reasonable and customary fee limits or the TRS Coordinated Care Network fee allowances. Services include:

- Office visits (other than routine);
- Hospital semi-private room and board;
- Doctor fees;
- Lab work;
- Prescription drugs;
- Certain preventative services; and
- Mental/nervous condition.

TRS-Care participants can select from three different levels of coverage:

TRS-Care 1 provides catastrophic health coverage with a $4,500 deductible. TRS-Care 1 is only available to retirees not covered by Medicare Part A. There is no premium cost for the retiree, but the retiree does pay a premium for eligible dependents.

TRS-Care 2 provides catastrophic coverage with a lower deductible of $1,800. Under this plan, retirees who have Medicare Part A receive coverage at no cost. If an individual is not covered by Medicare Part A, the retiree pays a premium of $48. The retiree is responsible for paying the entire premium for eligible dependents.

TRS-Care 3 is a comprehensive medical package which includes a $240 deductible. Retirees covered

by Medicare Part A pay a premium of $67. Those without Medicare Part A Pay $162. The retiree also pays for eligible dependents to participate under the coverage.

Most retirees elect the optional coverage provided under TRS-Care 3. A few waive participation in the program, and the remainder of retirees are automatically enrolled in TRS-Care 1 or TRS-Care 2.

TRS-Care Participation Levels

Fiscal Year Ended August 31, 1999

	Retirees	Dependents	Total	% of Participants	% of Eligible
TRS-Care 1	**17,167**	**428**	**17,595**	**13.82%**	
TRS-Care 2	**20,469**	**1,318**	**21,787**	**17.11%**	
TRS-Care 3	**70,727**	**17,210**	**87,936**	**69.07%**	
Total Participation	**108,363**	**18,956**	**127,318**	**100.00%**	**89.82%**
Waived Participation	**14,427**		**14,427**		**10.18%**
Total Eligible	**122,790**		**141,745**		

TRS-Care Benefit Levels

	TRS-Care 1	TRS-Care 2	TRS-Care 3
Deductible			
Per Person	$4,500	$1,800	$240
Per Family	$9,000	$3,600	$480
Payment Limit			
Per Person	$5,000	$5,000	$5,000
Per Family	$10,000	$10,000	$10,000
Annual Out of Pocket Limit (Deductible + Payment Limit)			
Per Person	$9,500	$6,800	$5,240
Family Maximum	$19,000	$13,600	$10,480

Medicare Eligibility

The vast majority of school districts in Texas do not participate in Social Security. Of the 1,043 districts in Texas, 21 provide Social Security for all of their employees and 26 provide Social Security for some of their employees. Because of the limited participation in the Social Security program by school districts, many employees are not eligible for Medicare benefits. The issue of Medicare eligibility affects the costs of the TRS-Care program. Medicare becomes the primary insurance for those who are eligible. As a result, Medicare-eligible retirees are less expensive to insure.

In 1986, federal legislation mandated that any new public school employee hired or any employee transferred after the effective date was required to pay a "Medicare tax" so that he or she would be qualified for Medicare upon retirement. To be eligible, the retiree must pay into Medicare for forty quarters. Currently, approximately 60 percent of TRS-Care participants are eligible for Medicare. Of those who are not eligible, 67 percent are less than 65 years of age.

Funding of TRS-Care

TRS-Care funding comes from four sources: a state contribution, active TRS members contributions, retiree premiums, and investment earnings on the health care trust fund balance. The State contributes .50 percent of public education covered payroll to the program. Active TRS members contribute .25 percent of their salary to fund the program. Retirees pay premiums depending on which level of TRS-Care they enroll in. Retirees on average pay approximately 33 percent of the total cost for retirees and dependents.

TOTAL DOLLARS SPENT ON TRS-Care FY 2000		
Source of Funds	**Structure**	**Dollar Amount**
State	.50% of payroll	$85,505,637
Active Employees	.25% of salary	$42,738,069
Retirees	premiums for optional coverage	$120,227,960
Investment Income		$6,923,485
Funding Shortfall		$75,375,194
TOTAL		$330,770,345

TRS-Care was initially funded by the Legislature to last for ten years. Through prudent fiscal management and strong investment returns, the program has outlived its original funding period. Nevertheless, program costs began to exceed the revenues in FY 1996. Claims are increasing at a rate

of 12 - 18 percent annually, but the revenue is only increasing at about 5 percent per year. As a result, as of September 15, 2000, projections indicated that the program is only expected to maintain solvency for claims incurred through August 31, 2001 with an estimated balance of $7,800,000. This balance represents approximately one week of incurred claims and expenses.[5]

In order for the program to remain solvent for the FY 2000 - 2001 biennium, the State appropriated an additional $76 million to TRS-Care and increased retiree premiums. If TRS-Care were to continue unchanged, the State would have to appropriate an additional $390 million in the FY 2002 - 2003 biennium for the program to remain solvent.

In an effort to prolong the fund for TRS-Care, TRS did extensive research to determine if changes in the design of the plan would extend the life of the fund. During the 75th Session interim, TRS reported to legislative committees that changes in plan design would do little to prolong the life of the fund. Even the most drastic changes to the plan design would only extend the life of the fund one or two years.[6]

Key TRS-Care Information

- **There are approximately 108,000 retirees and 19,000 dependents participating in TRS-Care.**
- **Retirees on average pay approximately 36% of the total cost for retirees and dependents.**
- **TRS-Care funding comes from four sources: a state contribution, active TRS members contributions, retiree contributions, and investment earnings on the health care trust fund balance.**
- **TRS-Care claims are increasing at a rate of 12 - 18 percent annually, but the revenue is only increasing at about 5 percent per year.**

Health Care Cost Trends

Health care rates are driven by several major factors, including: the number of medical services used; the cost of those services; and the expenses of administration of a health care plan. Currently, a key driver of medical cost increases is prescription drugs. Nationwide, drug costs are increasing by over 25 percent a year.[7] Many school district administrators and personnel have testified that these factors have resulted in increased premiums and reduced benefits at the school district level.

Existing statewide insurance plans have also experienced these steep increases in health care costs. In

fact, the UGIP plan for state employees had to implement benefit reductions in the middle of the FY 2000 - 2001 biennium. Despite these benefit reductions, the State still faces a $2.4 million shortfall for FY 2001 and will need an additional $891 million for the FY 2002 -2003 biennium to maintain the program with a sixty day reserve.[8]

Unlike public employers, private employers have, in many cases, avoided implementing benefit reductions. In fact, due to the strong economy and low unemployment rates, many private companies are enhancing their benefits in order to attract and retain workers. A recent survey revealed that despite a 10.5 percent increase in medical costs from 1999, companies were improving their benefit plans and providing medical coverage to part-time employees who work at least 20 hours a week.[9] According to the survey results, in large part, companies have absorbed the rising medical costs without passing on higher premiums to employees. Co-payments for prescription drugs, however, have increased to offset the rising drug prices.

Health care trends are not likely to stabilize or decline in the near future. National demographic trends are affecting the cost of health care delivery. Americans are aging, and medical advances are increasing life expectancy. The number of Americans over 65 is expected to double in the next thirty years, and seniors over 85 is the fastest growing segment of our population.[10]

PLAN DESIGNS REVIEWED BY THE COMMITTEE

Status Quo: The Committee examined the current TRS-Care program for public school retirees and dependents and local school district coverage for active members and dependents.

Plan Design

If the status quo were maintained, local school districts would continue to be responsible for providing health insurance benefits to their employees, and the statewide TRS-Care program would continue unchanged.

As previously stated, the cost and quality of the health insurance coverage varies greatly from district to district. The table below summarizes the projected costs for continuing the existing insurance programs at the school district level. The projections assume that the total costs will increase by 13 percent per year. Membership is projected to increase by 3 percent per year and total expenses per capita are assumed to increase by 10 percent. (Costs per capita increased by about 10 percent in fiscal year 2000).

Continue Local District Providing Health Insurance				
Fiscal Year	**2002**	**2003**	**2004**	**2005**
Number of Active Members and Dependents*	635,871	654,947	675,595	694,833
Funding Sources for Local School District Insurance				
School Districts - Active Share	**$1,061,564,861**	**$1,199,568,293**	**$1,355,512,171**	**$1,531,728,753**
School Districts - Dependent Share	**$17,480,761**	**$19,753,260**	**$22,321,184**	**$25,222,938**
Active Employee Premiums	**$185,367,573**	**$209,465,357**	**$236,695,854**	**$267,466,315**
Employee Premiums - Dependent Share	**$392,245,803**	**$443,237,758**	**$500,858,666**	**$565,970,293**
Total Cost	**$1,656,658,998**	**$1,872,024,668**	**$2,115,387,875**	**$2,390,388,299**

Source: Teacher Retirement System

*Assumes 3 percent/year growth

TRS-Care

Regardless of which direction the Legislature chooses to take in the creation of a statewide plan for active school district employees, the retiree health care program will need to be addressed during the next legislative session. The table below summarizes projected costs for TRS-Care through fiscal year 2005. The total costs for the 2002-2003 biennium are projected to be almost $1 billion. Since its inception, the TRS-Care program has been funded through a framework that is not linked to the plan participation. During the next biennium, revenue is expected to increase by approximately 4 percent per year, while program expenditures are estimated to rise by about 18 percent per year. As a result, supplemental funding of $390 million will be needed to keep the program solvent.

If TRS-Care were to continue unchanged in program design and funding, the table below outlines the projected costs for the program over the next five years:

Projected Costs for Continuing TRS-Care				
Fiscal Year	**2002**	**2003**	**2004**	**2005**
Number of Retirees and Dependents	141,099	147,308	153,789	160,555
Funding Sources				
Retiree Premiums*	$130,980,395	$136,743,532	$142,760,248	$149,041,699
State Contribution @ 0.5%	$95,717,460	$102,130,530	$108,973,276	$116,274,485
Active Member Contribution @ 0.25%	$47,858,730	$51,065,265	$54,486,638	$58,137,242
TRS-Care Fund Balance	$13,819,234			
Supplemental State Funding Needed	$157,860,358	$231,930,658	$300,111,560	$376,002,214
TOTAL COST	**$446,236,177**	**$521,869,985**	**$606,331,722**	**$699,455,640**

Source: Teacher Retirement System

*Assumes premium amounts remain constant; includes retiree contribution for dependent coverage

The table below summarizes the costs to the state for continuing the TRS-Care program over the next 5 years:

TOTAL STATE DOLLARS NEEDED TO MAINTAIN TRS-CARE				
Fiscal Year	**2002**	**2003**	**2004**	**2005**
State Contribution @ 0.5%	$95,717,460	$102,130,530	$108,973,276	$116,274,485
Supplemental State Funding Needed	$157,860,358	$231,930,658	$300,111,560	$376,002,214
TOTAL STATE FUNDING	**$253,577,818**	**$334,061,188**	**$409,084,836**	**$492,276,699**

Source: Teacher Retirement System

TOTAL COMBINED COST FOR MAINTAINING LOCAL DISTRICT INSURANCE AND TRS-CARE				
Fiscal Year	**2002**	**2003**	**2004**	**2005**
Total Cost for Retiree Insurance through TRS-Care	**$446,236,177**	**$521,869,985**	**$606,331,722**	**$699,455,640**
Total Cost for School District Insurance	**$1,656,658,998**	**$1,872,024,668**	**$2,115,387,875**	**$2,390,388,299**
Combined Total	**$2,102,895,175**	**$2,393,894,653**	**$2,721,719,597**	**$3,089,843,939**

Source: Teacher Retirement System

Considerations

This scenario would mean that the State would continue to operate under the status quo. The Committee received testimony from school administrators that the present system is not working, particularly for some of the small and rural school districts. Many school administrators testified to being unable to obtain bids for coverage. For those who received bids, many districts testified to the skyrocketing cost increases from year to year which the local tax rolls are unable to absorb. Facing tight budgets, school boards and school administrators often have to make cuts in other areas to

continue to provide health insurance benefits.

For school district employees, benefits provided by the local school districts vary greatly from district to district and even from plan year to plan year. The Committee heard testimony from several individuals who work for school districts which are paying substantial sums of money to insure their employees, but still faced the possibility of thousands of dollars in medical bills that were not covered under their insurance plans.

For retirees, the vast majority of plan participants are satisfied with the current plan and services according to an independent evaluation of the program. However, the TRS-Care 3 benefits are not comparable to the UGIP program. It is worth noting that the State requires local school districts to offer comparable benefits to the active employees, but the program offered by the State to retirees is not comparable.

Furthermore, the Legislature has previously questioned the merits of the funding mechanism for TRS-Care. Only one other large state uses contributions from active members to fund its health coverage. With the aging of the workforce, the contributions do not keep up with the demand on the system. A 1996 audit of the TRS-Care system recommended that long-term funding of TRS-Care be a state priority.[11] Continuing the pay-as-you-go funding for TRS-Care is only a temporary solution which will get increasingly expensive. By FY2011, the TRS-Care program would require a state contribution of $1.1 billion to remain solvent for that fiscal year.

1. The Committee examined creating a UGIP look-alike plan for TRS retirees and dependents. Active school personnel would continue to be covered under their local school district plans.

Plan Design

This scenario would leave active employees at their current benefit levels. Retirees would receive coverage under a plan design based on the UGIP program which currently provides health benefits to state employees. The UGIP is a good model for a statewide plan for retirees because it currently has a statewide network of providers. Under the UGIP, the State operates a self-funded plan, which includes HealthSelect and HealthSelect Plus. In addition, HMOs bid to provide coverage to state employees in various regions of the state. HMOs must offer similar coverage to the HealthSelect programs at a competitive rate in order to be selected. Employees can then choose between the self-funded plan and HMOs in their region. The employee pays no premium for their own coverage and pays 50 percent of the cost of dependent coverage.

Considerations

The current local expenditures for health insurance were itemized above. The limitations from the district and active employee perspectives were also discussed above.

Under this scenario, the retiree would receive comparable benefits to those enjoyed by higher education and state employee retirees. The benefits provided to the retirees would be more substantial with lower premiums and lower out-of-pocket expenditures. In addition, 50 percent of their dependent coverage would be paid for by the State.

The table below (Table 2a) outlines the cost of such a plan. It is important to note that the State could not simply place the TRS retirees into the existing ERS plan because that would have a dramatic impact on the cost and rates in the UGIP program. In the state health insurance plan, there are currently 521,630 participants. Adding the nearly 130,000 TRS-Care participants into the UGIP pool would dramatically change the demographics of the group and result in higher rates. As a result, state employees would have to pay significantly higher rates for dependent coverage. Therefore, the Committee believes that eligible retired school personnel would have to be in a separate plan, as they are now.

Create a Program for TRS Retirees Identical to UGIP				
Fiscal Year	**2002***	**2003**	**2004**	**2005**
Cost to State - (Retiree + 1/2 Dependent Premium)	**$583,000,000**	**$654,500,000**	**$737,000,000**	**$832,000,000**
Cost to the Retiree (Dependent Premiums)	**$60,000,000**	**$67,500,000**	**$76,000,000**	**$86,000,000**
TOTAL Cost	**$643,000,000**	**$722,000,000**	**$813,000,000**	**$918,000,000**

Source: Teacher Retirement System

*Does not include costs associated with start-up.

The table below demonstrates the combined cost for continuing to administer two separate programs.

Combined Cost Local School District Plan and UGIP - Look-A-Like Plan for TRS Retirees				
Fiscal Year	**2002**	**2003**	**2004**	**2005**
Total Cost - UGIP for Retirees*	**$643,000,000**	**$722,000,000**	**$813,000,000**	**$918,000,000**
Total Cost School District Insurance*	**$1,656,658,998**	**$1,872,024,668**	**$2,115,387,875**	**$2,390,388,299**
COMBINED TOTAL Cost	**$2,299,658,998**	**$2,594,024,668**	**$2,928,387,875**	**$3,308,388,299**

Source: Teacher Retirement System

*** Includes cost of dependent coverage**

2. Create a plan that mirrors the UGIP for active and retired school personnel and their dependents. As with the UGIP plan, the total employee and retiree premium and 50 percent of dependent coverage would be paid for by the State.

Plan Design

This plan design is based on the UGIP program which currently provides health benefits to state employees. Because this program currently provides statewide coverage, it is a good model for a new statewide plan. The State operates a self-funded plan that includes HealthSelect and HealthSelect Plus. In addition, HMOs bid to provide coverage to state employees in various regions of the state. HMOs must offer similar coverage to the HealthSelect programs at a competitive rate in order to be selected. Employees can then choose between the self-funded plan and HMOs in their region. The employee pays no premium for their own coverage and pays 50 percent of the cost of dependent coverage.

The estimated cost for this option is outlined in Table 3 below:[12]

Total Cost to State of UGIP Look-Alike Plan for Active and Retired School Personnel	
Fiscal Year	Total Cost to the State
2002	($12,000,000)*
2003	($3,282,000,000)
2004	($3,758,000,000)
2005	($4,314,000,000)
2006	($4,969,000,000)

Source: Legislative Budget Board

*administrative expenses for establishing the program

Considerations

This plan would relieve school districts of the responsibility of providing health insurance. It would equalize benefits for school district personnel throughout the state. In addition, by centralizing the administrative functions, local school districts would be relieved of the responsibility and expense of bidding out health insurance plans every year.

Funds currently spent by the school district on health insurance could be redirected to increase teacher salaries, to hire additional teachers in order to reduce class size, to provide local property tax relief, or to fund any other local priority. Furthermore, this benefit plan design may help with the recruitment and retention of teachers.

One possible consequence of implementing this option is that it could potentially make all children of school district employees ineligible for the children's health insurance program, CHIP. Other states have reported that a significant amount of their enrollment for CHIP has been the children of school district employees. As a result, this is an issue that needs to be examined thoroughly.

CHIP Eligibility

The Balanced Budget Act of 1997 created a new children's health insurance program to expand health insurance for uninsured children whose families cannot afford private health insurance and do not qualify for Medicaid coverage. In Texas, families at or below 200 percent of the federal poverty level qualify for CHIP. For a family of four, an annual income of approximately $33,000 or below qualifies the family for CHIP. The proposed federal regulations for the CHIP program, as published in the November 8, 1999 Federal Register, note that children who are eligible for certain state health benefit

coverages are ineligible for CHIP. It would appear that this would include children of school personnel if a state plan were created and dependent coverage was subsidized at more than a nominal rate (defined in regulations as $10). A definitive opinion from the federal government may be necessary if this option is pursued further.

Because of this provision in CHIP regulations, during the 76th Legislature, legislators authorized a CHIP look-alike program for the children of eligible state employees. This program, State Kids Insurance Program (SKIP), is one hundred percent state-funded, as opposed to the CHIP program which receives federal government contributions of nearly 75 percent of program costs. Obviously, removing the children of school district personnel from CHIP eligibility and creating a state-funded look-alike program would increase the costs of the program substantially. It is difficult to determine the exact cost, but the Legislative Budget Board estimates that to cover a child in FY 2003, would cost $1,335 annually. Under the design of the SKIP program, the State would be responsible for 80 percent of the total cost. The average UGIP enrollee with children has two children, and as a result, the LBB estimates that for the average eligible family, the annual cost between FY2003 - FY2007 would be: FY2003 - $2,670; FY2004 - $2,937; FY2005 - $3,230; FY2006 - $3,553; and FY2007 - $3,909. As stated previously, under the design of the SKIP program, the State would be responsible for 80 percent of the total cost.

Income data from TEA shows that 217,000 full-time school district employees make $34,100 or less annually - the upper limit for CHIP eligibility for a family of four. While this gives us an indication of how many school employees may qualify for CHIP, we do not know if those households have other income sources - such as spousal income, and therefore, the exact number of eligible employees cannot be determined.[13]

3. The Committee examined creating a statewide health insurance plan for active and retired school employees that mirrors the UGIP for state employees. The cost of the employee premium would be shared by the school district and the State. The cost of the retiree premium would be shared by the retiree and the State.

Plan Design

This plan design divides the responsibility of funding a health insurance plan for active school employees between the State and local school districts. The school district would pay approximately 40 percent of the employee premium and the State would pay approximately 60 percent. School employees would not be charged for their individual premium, but they would be responsible for the full cost of dependent coverage.

Responsibility for funding retirees' insurance is split between the State and the retiree, depending upon their years of service. Retirees with 30 years of service or more would pay no premium; retirees with 20 - 30 years of service would pay 25 percent of the premium; retirees with 10 - 20 years of service would pay 50 percent of the premium. Retirees would be responsible for the full cost of dependent coverage.

District participation is not mandated, and therefore districts could choose to continue to offer their current health plans. If they chose not to participate in the State plan, there would be no state contribution. The issue of adverse selection is avoided because the State pays the majority of the premium. As a result, most districts would likely choose to participate. This would not be the case if the State contribution falls below approximately 60 percent. Adverse selection would also be averted by including a freeze-out provision to discourage districts from opting in and out of the plan each year.

The cost for this type of program, assuming participation of all school districts, is outlined in the table below:

Fiscal Year	2003	2004	2005	2006	2007
State Contribution	$1,624,000,000	$1,853,000,000	$2,115,000,000	$2,415,000,000	$2,759,000,000
School District Contribution	$768,000,000	$866,000,000	$976,000,000	$1,100,000,000	$1,240,000,000
Retiree Contribution	$143,100,000	$170,400,000	$202,800,000	$241,300,000	$287,200,000
TOTAL COST*	$2,535,100,000	$2,889,400,000	$3,293,800,000	$3,756,300,000	$4,286,200,000

Source: Legislative Budget Board

* *These estimates use per-member cost estimates developed by the Employees Retirement System, and do not include the cost of dependent coverage. Additionally, there is no reserve level included in these estimates.*

Considerations

Analysis of the TRS comparability study indicates that district wealth is not a significant factor in the quality or cost of health insurance offered. The size of the district and whether it is urban or rural appears to have a greater influence in determining the quality and cost of health insurance. This indicates that for many districts, the issue is access to affordable coverage. This plan design would allow all districts to have access to affordable coverage.

A key component of this plan is the level of state funding that must be provided. A significant portion of the premium, approximately 60 percent, must be funded by the State. If less than this amount is contributed by the State, districts that have access to health care and have low-claims could obtain less expensive insurance independently of the State plan; leaving only those that are more expensive to insure in the pool. This is referred to as adverse selection. If the State does not fund the plan at a level of approximately 60 percent, the only way to avoid adverse selection would be to mandate local district

participation. Mandating participation is viewed by some districts as an unfunded mandate which is in violation of the spirit of local control.

Another factor to consider is that dependent coverage is not funded in this option, and as a result, CHIP eligibility would not be placed in jeopardy. It is also worth noting that the UGIP program for state employees evolved over the years to provide the coverage it does today. While the program was created in 1975, the state contribution of 50 percent towards the cost of dependent coverage was not provided until 1993. In 1990, the State paid $20 towards dependent coverage In 1992, the State paid 40 percent of dependent coverage.

4. The Committee examined creating a uniform group health insurance plan for school district employees which provides basic coverage. Local school districts would have the option of providing supplemental plans through the state pool with the district paying the cost of additional premiums.

Plan Design

In an additional option presented to the Committee by the Texas Association of School Boards (TASB) and the Texas Association of School Administrators (TASA), the State could establish and fund a basic statewide health insurance program for active public school employees. TASB and TASA presented a few options for the State to consider in designing a basic plan.

The most basic plan design would feature a $1,500 in-network deductible and a $3,000 out of network deductible. The deductible would apply to all expenses, including those for office visits and prescription drugs. The deductibles would have to be satisfied each year before benefits were payable. After the deductible was met, the plan would pay 80 percent of expenditures in-network and 60 percent of expenditures out-of-network. The plan does not include a prescription drug co-pay benefit.

Under this basic plan, employees would have no premium for individual coverage, but would be responsible for the full cost of dependent coverage. Local school districts would have the option to enhance these benefits by purchasing supplemental plans through the state pool.

This plan was estimated by TASB and TASA to cost an average of $200 per enrollee, for a total cost of approximately $1.3 billion to cover active school employees in FY03. It is important to note that this average cost does not include retirees, who are more expensive to insure and would likely drive up the average cost. TASA and TASB estimate that retirees could be included in the plan at an additional cost of 30 - 35 percent per year. In addition, it is significant to note that the cost estimates used to develop this plan cannot accurately be compared to the other plans in this report because the source is not the same.

In order for this plan to be successful, the following features would be necessary components:

- A district opting to purchase coverage outside the program would not receive the state

contribution for health coverage.

- In order to avoid problems related to self-selection, each district must select the same plan of supplemental coverage for all of its employees. In addition, a district which selects a plan that is more expensive than the base plan must pay the full cost of employee coverage in excess of the state contribution.

- A district which declines participation in the program is not allowed to re-enter the program for two years.

- The program would be largely self-funded, although fully-insured commercial HMO contracts may also be used in certain areas. Due to the size of the program, self-funding would be the most cost effective financing arrangement due to the size and nature of the program.

- The program would be administered as a statewide pool with centralized administration.

Retiree insurance is not addressed specifically under this option. The State could continue to fund the TRS-Care program in addition to this plan or retirees could be rolled into the basic coverage. Cost estimates provided to Committee estimate that retirees could be included in the basic health insurance plan at an additional cost of 30-35 percent per year.[14]

Considerations

This option does not resolve the actuarial problems of TRS-Care. If retirees are rolled into the basic plan, the coverage offered would be significantly below the coverage the majority of retirees currently receive under TRS-Care 3. Notably absent would be the prescription drug benefits. Furthermore, if individual retirees are allowed to purchase enhanced health benefits, it is likely that adverse selection will occur.

SUMMARY OF PLANS EXAMINED

The State has numerous options with regard to health care coverage for active and retired school personnel. The Committee cautions that the numbers alone do not tell the whole story. For example, some of these options include contributions to dependent coverage and others do not. In addition, the levels of coverage in the scenarios vary greatly. It is apparent that regardless of which option is selected, the total cost of providing insurance to active and retired school personnel is substantial. What varies greatly between the plans is who bears the responsibility for those costs.

RECOMMENDATIONS

Regardless of how the plan considered by the Legislature is structured, the Committee believes that any plan should meet some general criteria.

The Committee recommends that retirees and employees of Texas public school districts who are eligible for TRS membership options should be pooled into one statewide health insurance program. All public school employees should be eligible for coverage under the plan.

Plans reviewed that meet this recommendation: plans 2 and 3. Could be incorporated in the design of plan 4.

Rationale: A statewide health insurance plan should be developed to provide coverage to all school personnel and retirees. Teachers should not be singled out to receive health coverage under a state plan because doing so would make the situation worse for support staff, such as bus drivers, cafeteria workers, and janitors. These positions are vital to the day-to-day operations of a school, but they are typically low-wage jobs. As a result, these are the individuals who may need health insurance the most. If the State created a plan that excluded them from coverage, many districts might be forced to stop offering insurance to these individuals.

A single insurance pool for active and retired public school districts would provide taxpayers with the greatest return on their dollar. The benefits of a large insurance pool include potentially lower health care costs. It is also feasible that large group plans can obtain more comprehensive benefits at relatively lower rates than smaller groups. A study conducted by the Lewin Group on behalf of the National Education Association and the American Federation of Teachers concluded that savings could be realized in a large plan based on the following factors:

- In recent years, large groups had lower premium growth compared to small and mid-size groups.
- Self-insured plans had lower premium increases relative to fully-funded plans between 1998 and 1999, regardless of plan design. (Most large groups self-insure their health plans).
- Use of Pharmaceutical Benefits Management (PBM) can provide substantial savings on pharmaceutical costs. Typically, large groups can secure more favorable contracts with PBMs.

Additional benefits to combining individual districts and retirees into one statewide plan include:

- Combining districts and retirees into one statewide plan promotes uniformity of benefits and equity of coverage among public school employees.
- Administrative efficiencies would be achieved by allowing one agency to handle health benefits purchasing and administration for all districts. This would relieve districts of the responsibility for health benefits administration.

- Sophisticated and cost effective techniques for managing health benefits could be more easily utilized with a statewide plan.[15]

The Committee recommends that benefits should be comparable to those provided to state employees through the Uniform Group Insurance Program.

Plans reviewed that meet this recommendation: plans 1, 2 and 3**.** (Note: plan 1 includes retirees only).

Rationale: The State currently requires that school districts offer employees access to a plan with benefit levels comparable to those offered to state employees in the UGIP. In order to provide comprehensive health insurance coverage to all school district employees, that level of coverage should remain the standard.

This does not mean that the State must bear the entire cost of the program; nor does it mean that the funding levels have to be the same. The current UGIP program has evolved over time. A statewide plan for public school employees should have the goal of providing a contribution to dependent coverage, but it may not be realistic to expect this at the program's inception. The first goal of the State should be to provide public school employees with quality, affordable health insurance coverage.

There has been some discussion of expanding the TRS-Care 3 program to active public school employees. While this plan may be somewhat less expensive for the State and/or school districts to implement, the benefit levels are not comparable. In addition, under the TRS-Care 3 program, an individual faces out-of-pocket expenses of up to $5,240 per year. For a family, that amount increases to $10,480. With the HealthSelect plan, out-of-pocket expenses are limited to office visit co-pays and prescription drug co-pays plus a deductible of $500 per person for in-network services or $1,500 per person for out-of-network services. The higher out-of-pocket expenses under the TRS-Care 3 plan could be a substantial financial burden.

The Committee recommends that the plan should be administered separately from the Uniform Group Insurance Program for state employees.

Plans reviewed that meet this recommendation: plans 1, 2, 3, and 4.

Rationale: The pool of active and retired school personnel is estimated to cost 10.5 percent more to insure than the pool of active and retired state employees. The higher cost of insurance for the public school employees (PSEs) is due to a variety of factors, including: a greater proportion of PSEs are female, with health care costs that average about 25 percent more than males; active PSEs are slightly more than one year older on average; and a greater proportion of PSEs are not eligible for Medicare.[16] As a result, adding public school employees into the current UGIP program would increase the

costs of dependent coverage for state employees, but would not bring any efficiencies or cost savings into the current system.[17] In other words, the total cost to the State is the same whether the systems are operated together or independently of each other.

Furthermore, a combination of the two pools should only be considered if all aspects of both programs are uniform, including: benefits, contribution strategy, state and employee cost sharing, and mandatory participation of districts.[18] If all aspects of the program are not identical, different utilization patterns could emerge which would have additional implications on cost.

The Committee recommends that the plan be structured in such a way to avoid adverse selection by the school districts. In this case, adverse selection is defined as the tendency of a school district to recognize their ability to negotiate rates on their own and then to select the most cost effective option. This tends to leave only the school districts with high utilization and bad experience in the pool, which drives up rates.

Plans reviewed that meet this recommendation: plans 1, 2, 3, and 4**.**

Rationale: The Committee received testimony from health insurance experts who noted that any voluntary plan which pools risk eventually is subject to the influence of adverse selection. One way to overcome that problem is to mandate participation of all school districts. Another way is to provide a significant financial incentive for school districts to participate in the plan.

The Committee recommends that the plan should have a designated trustee with the authority and responsibility to design, implement, supervise and manage the plan. Because school districts currently submit payments to the Teacher Retirement System (TRS), the Committee believes they are the appropriate agency to administer the plan.

Plans reviewed that meet this recommendation: Could be incorporated in design of plans 1, 2, 3 and 4.

Rationale: TRS currently administers the retirement system for public school employees. In addition, it currently administers the health insurance plan for retirees. A relationship has been established. The Committee recognizes that a health plan of this size would be a new undertaking for the agency. Furthermore, the Committee recognizes that in operating the UGIP program, ERS has developed expertise in this area. As a result, it is important that the two agencies work together.

The Committee recommends that if a new statewide plan is created, the plan should have a one year start-up time prior to paying claims, including appropriated funds to cover first-year, start-up costs.

Plans reviewed that meet this recommendation: Could be incorporated in design of plans 1, 2, 3 and 4.

Rationale: Although many school districts are currently facing sharp reductions in benefits or are having difficulty in obtaining coverage at all, it would be unwise to rush to implement a program and then have it fail. Therefore, it is important to allow the agency administering the program adequate time to design and implement the details of the plan.

The Committee recommends that because health insurance is a benefit, and part of the overall compensation package for school personnel, any state plan should offer all school districts the same health insurance coverage.

Plans reviewed that meet this recommendation: Could be incorporated in design of plans 1, 2, 3 and 4.

Rationale: A school employee should not receive reduced benefits because of the wealth of the district in which he or she is employed. As with the salary increase that was given to teachers during the last session, health insurance is part of the overall compensation package, and therefore all school districts, regardless of their property wealth per student, should be offered the same health insurance benefits from the state.

ENDNOTES

1. Texas House of Representatives, Committee on Insurance, Interim Report: Sixty Sixth Legislative Session, p. 20.

2. Norris, Robert and John McGeady, Memorandum to Stephanie Muth, Chief Clerk of House Pensions and Investments Committee, April 6, 2000.

3. Telephone conversation with Dan Junell, State Board of Educator Certification.

4. Better Texas Coalition

5. Teacher Retirement System, Letter to House and Senate Leadership, *Status of TRS-Care Fund*, September 15, 2000.

6. Senate Interim Committee on State Affairs, Report to the 76th Legislature, Charge One: Policies and Procedures of the Employees Retirement System and the Teacher Retirement System, p. 18.

7. Thompson, Bill, *"Managed Care - Where Are We and Where Are We Going?"*

8. Employees Retirement System, *"ERS Health Plan Financial History,"* August 21,2000.

9. Business Wire, "*Employee Health Benefits Increase In Scope and Cost, Survey Finds,*" September 8, 2000.

10. Shalala, Donna, U. S. Department of Health and Human Services, speech entitled, *"Which Way is Up? Health Care in the Twenty-First Century,"* April 27, 2000.

11. House Joint Committee on TRS-Care, Interim Report to the 76th Legislature, p. 9.

12. LBB Cost Estimate, May 10, 2000.

13. E-Mail from Stephanie Coates, Legislative Budget Board, October 1, 2000.

14. Letter from Texas Association of School Administrators and Texas Association of School Boards, September 15, 2000.

15. Employees Retirement System, *"Projected Cost of State-Funded Health Benefits for Active and Retired Public School Employees,"* May 9, 2000.

16. Employees Retirement System, *"Explanation of the Differential in FY02 Projected Cost For Employee Only Coverage for Public School Employees versus UGIP Employees,"* June 14, 2000.

17. Testimony received from ERS, May 2000.

18. Employees Retirement System, *"Projected Cost of State-Funded Health Benefits for Active and Retired Public School Employees,"* May 9, 2000.