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State Employee Health Benefits: Policy Implications of Offering a High Deductible Health Plan

LEGISLATIVE ANALYST'S OFFICE

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Assembly Public Employees, Retirement, and
Social Security Committee
Hon. Rob Bonta, Chair

Senate Public Employment and Retirement Committee
Hon. Richard Pan, Chair

Public Employees' Medical and Hospital Care Act (PEMHCA)

- ☑ ***Health Benefits For State and Participating Local Governments.*** The PEMHCA governs the funding and provision of health benefits for employees and retirees (and their families) of the state and participating local governments. Employees and retirees from the state (excluding those affiliated with the University of California) and about 1,100 contracting agencies receive benefits established under PEMHCA. In total, about 1.4 million active and retired employees and their family members are enrolled in health plans established under the law.

- ☑ ***California Public Employees' Retirement System (CalPERS) Administers Health Plans.*** The CalPERS administers health plans established under PEMHCA. Each year, CalPERS negotiates with health care providers to establish the policies and premiums of these health plans. In 2014, the total premium costs for state and contracting agencies was $7.7 billion.

- ☑ ***Local Agency Employer Contributions.*** The PEMHCA requires participating local agencies to pay a portion of the premium costs for their active and retired employees. For active employees, the law requires employers to contribute a minimum dollar amount that is adjusted each year for inflation. For retired employees, employers can choose to either (1) provide the same contribution that it gives to active employees or (2) adopt a vesting schedule that increases the employer's contribution the longer a retired employee had worked for the employer.

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Health Benefits for Active State Employees

☑ ***State Contributions Vary by Employee Group.*** The state's contribution towards state employee health benefits is established in statute and in memoranda of understanding (MOUs). The amount of money the state spends towards these benefits varies by bargaining unit. Below, we discuss the two types of state contributions established under current law.

- ***Formula-Driven Contribution.*** For most employees, the state's contribution is established as a percentage of the weighted average premium of the four health plans with the most enrolled state employees. The state's contribution for most employees is determined using the "80/80" formula. (California State University employees receive a contribution based on the "100/90" formula.)

- ***Flat-Dollar Contribution.*** For other employees, MOUs specify a dollar amount that the state contributes towards employee health benefits each month. The state's contribution for these employees does not necessarily change as health premiums change.

2015 Monthly Health Premium Costs and State Contributions

	Single-Party	Two-Party	Family
Average premium cost	$655	$1,312	$1,711
State contribution formula[a]			
80/80	$524	$1,050	$1,368
100/90	$655	$1,246	$1,605

[a] Some employee groups receive state contributions not reflected in this figure.

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Health Benefits for Retired State Employees

- ☑ ***State Contributions Based on 100/90 Formula.*** The maximum contribution the state pays towards retiree health benefits is calculated using the 100/90 formula. Retired employees must work for the state for ten years to receive half of this contribution and 20 years to receive the full benefit.

- ☑ ***Pre-Medicare Health Plans.*** Retired state employees who are not eligible for Medicare may enroll in the same health plans available to active employees.

- ☑ ***Medicare Supplemental Plans.*** About two-thirds of retired state employees are enrolled in a CalPERS Medicare supplemental plan that provide coverage under Medicare Parts C and D. Health premiums for these plans are significantly less expensive than those for active employees. The state's 100/90 contribution typically is large enough to reimburse retired employees for their costs towards Medicare Part B premiums.

Summary of Medicare Parts

A	Hospital insurance
B	Medical insurance
C	Medicare advantage plans
D	Prescription drug coverage

State Health Costs

- ☑ ***Significant Increases Over Past Two Decades.*** As has been the case for most health insurance purchasers across the nation, the state's health costs have grown significantly over the past couple decades. In the case of active employees—after controlling for general economic inflation—the state's health costs on a per employee basis increased 56 percent between 2001-02 and 2013-14. The Governor's 2015-16 budget assumes that the state will spend more than $4.5 billion to pay the state's contributions towards active and retired employees' health benefits.

- ☑ ***Partly Driven by Employee Health Condition.*** State employees generally are older and have higher incidence of major health conditions than the general working-age population. In general, it is more expensive to insure a population that is older and more likely to need medical care.

- ☑ ***Efforts to Reduce.*** Over the past two decades, the state has adopted a number of policies aimed at reducing the state's health costs, including shifting a larger share of premium costs onto active employees and implementing wellness programs.

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Two Recent Proposals to Establish Plan With High Deductible

☑ ***Aim to Reduce State Costs.*** Health plans with higher deductibles typically have lower premiums because participants are expected to pay a greater share of their health care bills as costs are incurred. Over the past few years, the Legislature has considered two budget proposals to add plans with high deductibles to PEMHCA. Both of these proposals claim to lower the state's health benefit contribution costs by (1) adopting a plan that has significantly lower premium costs and (2) attracting a sufficient number of employees for the new plan to be one of the four most enrolled health plans used in calculating the state's contribution.

- ***"Core Health Care Plan."*** In 2012-13, the Legislature gave CalPERS the option to either establish a Core Health Care Plan or implement other cost saving policies.
- ***Governor's 2015-16 Proposal.*** As part of his 2015-16 budget, the Governor proposes adding a High Deductible Plan (HDP) to the health plans established under PEMHCA. The Governor's proposal includes offering employees who enroll in an HDP a Health Savings Account (HSA) that could include some level of contribution from the state.

LAO Comments

- ☑ ***Reasonable to Offer Options to Employees.*** People have different needs that depend on their specific personal circumstances. Providing state employees a variety of health plans allows them to select a health plan that best fits their lifestyle or needs. Offering a high deductible health plan broadens the options available to state employees.

- ☑ ***Might Not Achieve Intended Savings.*** Based on the three issues discussed below, we have doubts that a high deductible health plan would significantly affect the state's health care costs.

  - ***Would it Attract Employees?*** In order to directly affect the state's contribution, the plan would need to be one of the four most enrolled health plans. A high deductible plan likely would be most attractive to younger people who do not need regular medical care. Given the health condition of the workforce, the plan might not be popular.

  - ***Would it Provide an Offsetting Incentive?*** An HSA or some other incentive could make the plan more popular. However, such incentives erode any savings.

  - ***Would it Increase Other Plans' Costs?*** To the extent that younger and healthier employees enroll in the plans, the existing plans could become more expensive to insure.