Employee health coverage crisis

States struggle to maintain health insurance coverage for government employees as costs continue to rise

BY LESLIE SCOTT

It's a familiar story: the cost of health insurance has been rising at an alarming rate over the past few years. And state governments are not immune to the escalating costs of providing health insurance for their employees and retirees.

Surveys estimate that health care premium costs rose between 12 and 15 percent for 2003. An informal survey of states by the National Association of State Personnel Executives shows this to be true for state governments as well.

For states facing budget deficits of hundreds of millions or even billions of dollars, these increases spell trouble. "It's getting to crisis level," said Carl Felix, executive director of Kentucky's Office of Public Employee Health Insurance.

Hardening of the market

A hardening of the market means insurance is less available, while the cost of coverage rises. State governments are certainly experiencing this problem.

In reaction to the current hard market conditions, insurers are increasing premiums, reducing their exposure to risk, and limiting policy options by imposing lower spending limits, higher deductibles and new coverage exclusions. In other words, insurance carriers are battling higher claims costs and a downturn in the stock market as they try to cover their costs and make a profit.

According to Felix, some health insurance carriers have decided, based on past experience, that they don't want to offer insurance in certain markets – particularly if there is stiff competition with other insurers in those areas. For example, in 2002, state government employees in 71 of Kentucky's 120 counties could choose from three insurance providers. In 2003, only 24 counties have three carriers as options – most have only one or two carriers.

Health maintenance organizations, in particular, have seen the steepest increases in premiums and declines in availability. HMOs, typically seen as the most cost effective options, have simply not been turning a profit for carriers, as costs for medical services and prescriptions have continued to rise. Rural areas have been most affected by this trend, even causing carriers to pull out of many areas, according to a report by the California Legislative Analyst's Office.

Commitment to state employees

State governments are doing all they can to protect employees from rising costs, but they haven't been able to fully shelter them from additional out-of-pocket expenses. Here is a brief look at how three states are handling the situation.

Indiana

In Indiana, health care benefits costs are increasing between 7 and 33 percent, depending on the plan the employee chooses. The state has traditionally picked up 93.5 percent of the premium cost for employees and their dependents, and it will continue to do so in 2003. While the state is still paying the same percentage of premium costs, actual premium costs paid by the state and employees have risen. In addition, co-payments in many of the plans have risen, and some covered benefits and services have been reduced to keep premium costs down. On top of no pay increases this year, this is hurting employees' wallets.

About 36,000 employees and retirees participate in the state's health care plans. Including dependents, the plans cover about 87,000 people.

"Traditionally, providing good benefits is one of the things state government has been able to do to in lieu of providing market salaries," said Sue Roberson, director of Indiana's Department of Personnel.

"Now, we can no longer do that."

The state will begin to pay each employee a health care adjustment of $1,092 over 24 pay periods beginning in July to help defray some of their out-of-pocket expenses for health care. Indiana also allows for no deductibles for employees who make less than $25,000 per year.

Roberson said the state has had to work with employee unions to explain the state's commitment to providing health care without passing too much of the expense on to employees. She said the unions still see the current agreement as a concession, because out-of-pocket expenses are going up.

Kentucky

Kentucky spends more than $550 million annually to cover health care premiums for its employees and retirees. Its health plans cover 170,000 people, including current employees, retirees and their dependents.

Premium costs for plans the commonwealth provides for its employees and retirees rose between 8 and 9 percent from 2002 to 2003. Kentucky prepared for the rising costs by budgeting for an 11 percent increase for each year of the 2002-2003 biennium, Felix said.

Kentucky pays 100 percent of the premium for the least expensive policy – about $234 per month – for employees and some retirees. The state does not directly subsidize coverage for spouses or dependents.

State employees opting for spouse and dependent coverage will see out-of-pocket costs for additional persons rise between 8 and 9 percent this year. Kentucky employees received 2.7 percent pay raises in 2002.

Montana

As approved by the 2001 Legislature, Montana increased the state's contribution for health care benefits by 12.6 percent for 2003. However, this still wasn't enough to cover all the premium increases. While the employer contribution covers some of the cost of dependent coverage, employee out-of-pocket costs for dependent coverage went up by more than 43 percent.

In preparation for the next biennium, state personnel officials are asking the 2003 Legislature to continue increasing employer contributions to the health plan by 12 percent each year. Employee contributions for dependent coverage will continue to increase, but hopefully not as much as this year.

The bad news is that there is no money for pay raises in the coming biennium. "Whatever available money we have will go toward health care," said John McEwen, director of Montana's Division of Personnel.

McEwen said that while state employee unions aren't happy with the state's general lack of money, they are happy with the state's commitment to providing health care for its employees.

The future of health care for state employees

"There's no sunshine on the horizon," said McEwen. "It's really an issue of demographics and technology."

State governments find themselves in a particularly precarious situation, because their workforces are generally older than those of the private sector. According to an October 2002 report by CSG and NASPE, nationwide, the average state government employee is 45 years old, and 30 percent of them will be eligible to retire by 2006.

When insurance company actuaries look at the age of the employees covered by state plans, they see an older population, said McEwen. In general, the older a person gets, the more medical services and prescriptions they need. And there are more medical services, procedures and prescription drugs available than ever before.

With retirees making up about 20 percent of participants in Indiana's health care plan, Roberson said insurance carriers take notice. In recent research, her staff found that for every $1 paid toward a retiree's health care premium, the insurance company spends $3.60 on health care claims.

Kentucky officials estimate that by 2022, health care premium costs for state employees will eat up all predicted increases in the state's general fund revenue.

Controlling costs

State governments are investigating and implementing a number of programs and cost-cutting measures to control the increase in health care premium costs. These include wellness and health education programs, multistate purchasing alliances for health insurance and prescription drugs, contracting directly with hospitals, and forming partnerships with large private-sector employers.

NASPE and Buck Consultants are currently conducting a survey on states' attempts to control health care costs. NASPE intends to develop model health care plans and identify best practices, based on data collected from the survey. Results should be available by early March. For more information, please call NASPE at (859) 244-8182.

— Leslie Scott is association manager of the National Association of State Personnel Executives, an affiliate of The Council of State Governments.

Resources on the Internet

- **Buck Consultants**
  http://www.buckconsultants.com
- **California Legislative Analyst's Office, *The $2 Billion Question: Providing Health Insurance for State Employees and Retirees***
  http://www.loa.ca.gov/2002/health_insurance/110602_health_insurance.pdf
- **Indiana Department of Personnel Health Benefits**
  http://www.in.gov/jobs/openenrollment
- **Kaiser Family Foundation**
  http://www.kff.org
- **Kentucky Office of Public Employee Health Insurance**
  http://personnel.ky.gov/empben.htm
- **Montana Division of Personnel Health Benefits**
  http://www.state.mt.us/doa/spd/css/benefits/healthbenefits.asp