

Consumer Directed HealthSelectSM and High-Deductible Health Plan Analysis



Employees Retirement System of Texas, Riders 14 and 16, 85th Texas Legislature

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

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INTRODUCTION

Rider 14. Consumer Directed HealthSelect Data Analysis.

Out of funds appropriated above and elsewhere in this Act for the Group Benefits Program, the Employees Retirement System shall collect, track, and analyze Consumer Directed HealthSelect health plan participants' healthcare costs and utilization data. ERS shall compare the data and results from this analysis to similar data available from other health plans, including traditional HealthSelect, Medicare Advantage, and HMO plans, in order to determine participants' healthcare costs and utilization differences across health plans. Where applicable ERS shall develop recommendations for the Legislature and implement best practices based upon the results of this analysis.

Rider 16. High Deductible Health Plan.

Out of funds appropriated above and elsewhere in this Act, the Employees Retirement System shall research and develop options for a health plan that is similar to, but with a higher deductible and higher Health Savings Account contributions than, the existing Consumer Directed HealthSelect plan implemented through Insurance Code § 1551.451, Subchapter J, State Consumer-Directed Health Plan. The Employees Retirement System may consider reducing or waiving members' monthly premiums, increasing the state's Health Savings Account contributions, or raising the plan's deductible. Plan options shall remain cost-neutral and comply with existing state and federal law. The Employees Retirement System shall report to the Legislature on the additional options for high deductible health plans by August 31, 2018.

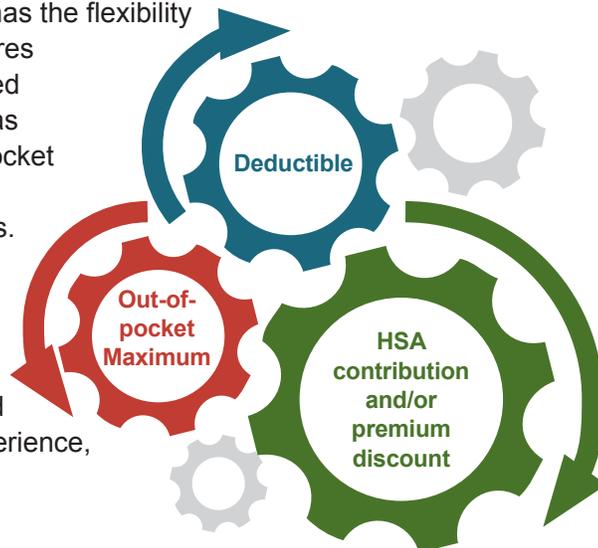
On September 1, 2016, the Employees Retirement System of Texas (ERS) implemented a high-deductible health plan (HDHP), paired with a health savings account (HSA) for eligible employees and retirees in the Texas Employees Group Benefits Program (GBP). Two riders in Senate Bill 1, 85th Legislature, required ERS to analyze the experience of this relatively young plan, called Consumer Directed HealthSelectSM, and to research and develop alternative cost-neutral plan design options for high-deductible health plans available to state and certain higher education employees and retirees. This report fulfills the requirements of both riders.

Members enrolled in a qualified HDHP (like Consumer Directed HealthSelect) are eligible for the benefits of a health savings account (HSA). The HSA can be used to pay for eligible out-of-pocket costs today or in the future, making an HSA a potentially valuable retirement savings strategy.¹ For many, the most valuable feature of an HSA is its triple tax protection:

- Contributions to the HSA are not taxed.
- Earnings on savings grow tax-free.
- Funds withdrawn for eligible medical expenses are income tax-free.

Only those enrolled in an eligible HDHP, such as Consumer Directed HealthSelect, may contribute (and receive contributions) to an HSA. The enrollee must not be covered under any other medical plan (unless it is also an HDHP), must not be enrolled in Medicare or claimed as a dependent on someone else's tax return.

The Internal Revenue Service (IRS) sets limits for the HDHP deductible and out-of-pocket maximums in order for the plan to be HSA-qualified.² Subject to IRS limits for the HDHP and the HSA contributions, ERS has the flexibility to alter certain features of Consumer Directed HealthSelect, such as deductible, out-of-pocket maximum and HSA contribution amounts. Other plan design elements, such as coinsurance and coverage levels can also be adjusted to address plan experience, if needed.



¹ After age 65, HSA balances can be used for any purpose, but income tax could apply, similar to other retirement savings accounts.

² Rev. Proc. 2018-18, [Internal Revenue Bulletin No. 2018-10](#) and [Rev. Proc. 2018-27](#).

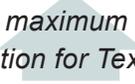
The table below illustrates the 2018 IRS limits compared to Consumer Directed HealthSelect

| 2018 | IRS requirements for HDHPs | | Consumer Directed HealthSelect | |
|---|----------------------------|----------|--------------------------------|----------|
| | Member-only | Family | Member-only | Family |
| Minimum in-network deductible | \$1,350 | \$2,700 | \$2,100 | \$4,200 |
| HSA contribution limit from all contributors ³ | \$3,450 | \$6,900 | \$3,450 | \$6,900 |
| Out-of-pocket maximum | \$6,650 | \$13,300 | \$6,650 | \$13,300 |

Both statute and Rider 16 require cost neutrality⁴ (equivalent in value to the basic plan, HealthSelectSM of Texas). As a result, changing the value of any feature requires an offset elsewhere to maintain cost neutrality between Consumer Directed HealthSelect and HealthSelect of Texas (HealthSelect).

For example, the state could increase the employer's HSA contribution to a member's account, but that could make Consumer Directed HealthSelect more valuable than HealthSelect. In order to achieve cost neutrality, an offsetting change in plan benefits would be required. Balancing such changes cannot be done dollar for dollar.

Levers when designing a high-deductible health plan

| To maintain a cost-neutral plan, an action from the left column must be balanced with an offsetting action from the right column within IRS limits. | | |
|---|---|--|
| | Increases value of the plan | Decreases value of the plan |
| Deductible |  |  |
| HSA deposit and/or discount on dependent premium |  |  |
| Maximum out-of-pocket expense |  | <i>Increasing maximum is currently not an option for Texas CDHS</i>  |

³ Those age 55 and older are eligible to make an additional \$1,000 catch-up contribution.

⁴ § 4, House Bill 966, 84th Texas Legislature, Regular Session. "The Employees Retirement System of Texas shall develop and implement the health savings account program under Chapter 1551, Insurance Code, as amended by this Act, in a manner that is as revenue neutral as possible."

§1551.456, Subchapter J of the Texas Insurance Code requires the State to contribute annually an "amount that is necessary to pay the cost of coverage under the high deductible health plan and does not exceed the amount the state annually contributes for a full-time or part-time employee, as applicable, who is covered by the basic coverage." HealthSelect of Texas is the basic coverage.

Consumer Directed HealthSelectSM current plan design features

CONSUMER DIRECTED

HealthSelectSM

- There is no requirement to designate a primary care physician (PCP) or obtain referrals for specialist care.
- The employer makes monthly contributions to a member's HSA (\$45 for member-only and \$90 for family).
- A member's monthly premium contribution for dependent coverage is 10% lower than HealthSelect.
- For those enrolled in family coverage, the deductible is aggregated, meaning the entire family deductible must be met before the plan begins to pay for any family member's non-preventive care or prescription drug costs. Deductibles reset January 1 each year.
- After meeting the applicable deductible, participants pay 20% coinsurance for eligible in-network services and prescriptions (up to the maximum annual out-of-pocket limit) and 40% coinsurance for eligible out-of-network services and prescriptions.

| 2018 and 2019 Deductible (includes prescriptions) | Individual Coverage | Family Coverage |
|---|---------------------|-----------------|
| In-network | \$2,100 | \$4,200 |
| Out-of-network | \$4,200 | \$8,400 |

How does the HSA work for 2018?

| Description | Individual account | Family account |
|--|--------------------|----------------------|
| Annual state contribution to HSA | \$540 (\$45/month) | \$1,080 (\$90/month) |
| Annual participant maximum contribution to HSA | \$2,910 | \$5,820 |
| Annual maximum contribution to HSA from all contributors | \$3,450 | \$6,900 |

An HSA allows the account holder to set money aside, tax-free, and use the funds to pay for qualified out-of-pocket expenses, as defined by the IRS.⁵ To help offset a member's out-of-pocket costs, the state contributes \$45 per month to an HSA for an actively employed Consumer Directed HealthSelect member with member-only coverage, and \$90 per month for a member with dependent coverage. Members are encouraged to make additional tax-free contributions to their HSA through payroll deductions.⁶ HSA balances carry over from one year to the next, and the funds can be kept by the member even if the employee changes jobs or leaves state employment. An HSA is also a valuable retirement savings strategy. After age 65, HSA balances can be

used for any purpose, but income tax could apply, similar to other retirement savings accounts.

For those enrolled in Consumer Directed HealthSelect, federal guidelines prohibit enrollment in a general-purpose health care flexible spending account (FSA). However, Consumer Directed HealthSelect members can enroll in the limited flexible spending account (LFSA) under the TexFlex program. This LFSA has the same pre-tax contribution maximum⁷ as the general-purpose health care FSA, but eligible expenses are limited to vision and dental expenses not covered by insurance or any other source. This option allows members to stretch their tax-free options even further.

⁵ www.hsacenter.com/what-is-an-hsa/qualified-medical-expenses/

⁶ Retirees' contributions cannot be made through payroll deductions. However, enrollees can make post-tax contributions directly to their HSAs and then claim them when they file their taxes for the year.

⁷ The Internal Revenue Service has increased the flexible spending account contribution limits for TexFlex health care and limited flexible spending accounts from \$2,600 in 2017 to \$2,650 in 2018.

Consumer Directed HealthSelect FY19 monthly member impact (effective September 1, 2018)

| | State HSA contribution | Monthly premium savings vs. HealthSelect SM | Monthly total impact HSA contribution + premium savings |
|------------------------------|------------------------|--|---|
| Member Only | \$45.00 | N/A | \$45.00 |
| Member & Spouse | \$90.00 | \$35.80 | \$125.80 |
| Member & Children | \$90.00 | \$23.98 | \$113.98 |
| Member & Family | \$90.00 | \$59.78 | \$149.78 |

During Fiscal Year 2019, a Consumer Directed HealthSelect member electing family coverage could save as much as \$717.36 in annual premium contributions when compared to HealthSelect coverage and also receive up to \$1,080 in an annual state

contribution to an HSA, totaling \$1,797.36. The member with family coverage is then responsible for a \$4,200 in-network family deductible before the plan pays for eligible in-network medical and pharmacy expenses.

Benchmarking Research

This analysis compares how the State of Texas and other states balance the key features of their HDHPs. ERS recently conducted a benchmarking analysis of HDHPs in the 29 states that offered the HSA-qualified plans in 2017. When statistics are available, the report provides

comparisons to the median private-sector plan. It is important to note that in some cases, the combination of reduced premium and employer contribution to an HSA (combined) represent member savings.

Comparing Consumer Directed HealthSelect to public- and private-sector HDHPs (FY18)

| | Consumer Directed HealthSelect SM (member / family) | State health plans median ⁸ (member / family) | Private sector median ⁹ (member / family) |
|--|---|---|---|
| Network deductible | \$2,100 / \$4,200 | \$1,750 / \$3,400 | \$1,750 / \$3,600 |
| Employee's monthly contribution rate or premium | \$0 / \$535 | \$42 / \$212 | \$83 / \$318 |
| Employer contribution to HSA or HRA | \$540 / \$1,080 | \$599 / \$1,000 | \$500 / \$1,000 |
| Maximum out-of-pocket for in-network services | \$6,550 / \$13,100 | \$4,000 / \$8,000 | \$3,500 / \$7,000 |

⁸ ERS Benchmarking Research, data compiled from the most recent plan year for state employee health plans, March 2018. Because 10 states offer more than one HDHP, the analysis includes all 46 HSA-qualified plan options across 29 states, and for some comparisons, includes an additional 13 HDHP plans across nine states that offer state contributions to a health reimbursement account (HRA).

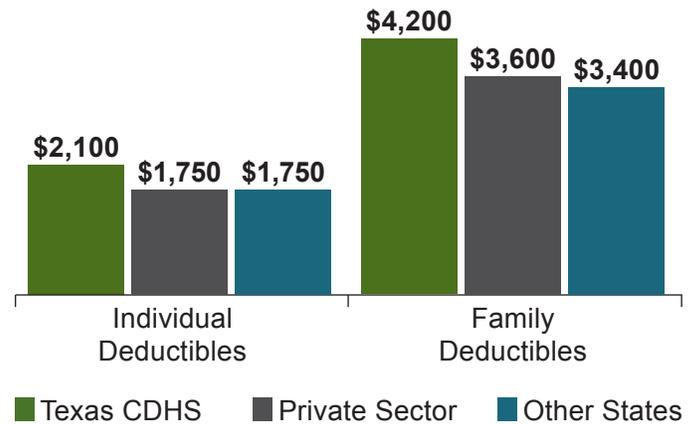
⁹ Mercer National Survey of Employer-Sponsored Health Plans, published May 2018

Deductibles

Based on the benchmarking information, the Consumer Directed HealthSelect individual deductible (\$2,100) is 20% higher than the median deductible for both state and private-sector HDHPs. The family deductible (\$4,200) is 24% higher than the state median and 17% higher than the private-sector median. In order to provide a larger discount for the dependent premium contribution and provide a competitive employer deposit to the HSA, ERS chose to set the Consumer Directed HealthSelect deductible relatively high. Anticipating that the IRS would raise the minimum deductible required for a plan to qualify for an HSA, ERS set the deductible higher than the minimum to avoid having to increase it as often as every year. Regular increases to the deductible could increase the complexity of member communications and hinder participant understanding of the plan structure.

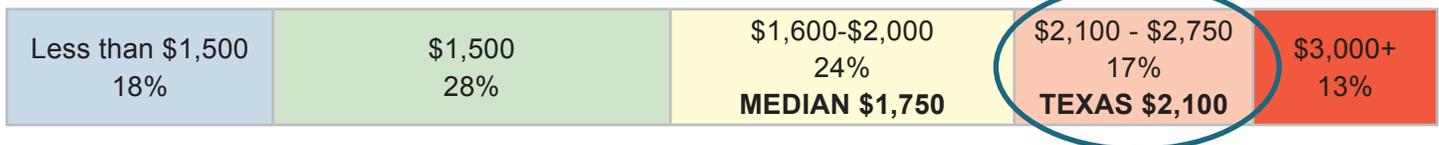
Additionally, deductible amounts were informed by feedback from state employees, as well as state employee groups. In a 2014 ERS survey of state employees,¹⁰ 23% of respondents with eligible dependents indicated that they would consider a lower-premium, high-deductible plan over their current plan:

Texas deductibles are higher than other employer-sponsored plans

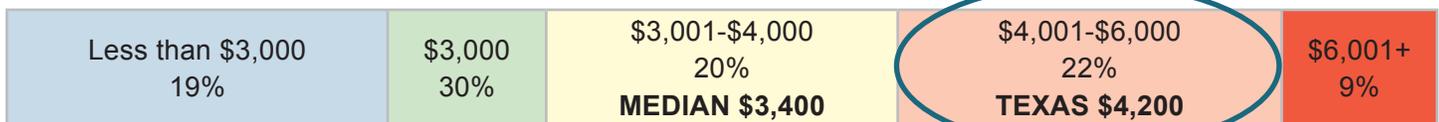


- 13% said they would consider a plan with a lower dependent premium contribution and a \$4,200 deductible and
- 10% said they would consider a plan with no dependent premium contribution and a \$6,700 deductible.

Texas' member-only deductible is \$350 higher than state median



Texas' family deductible is \$800 higher than state median



¹⁰ "Interim Report to the 83rd Texas Legislature, SB 1, Rider 14: The Impact of Offering Alternative Health Insurance Options to State Employees Enrolled in the Texas Employees Group Benefits Program," Employees Retirement System of Texas (9/1/2014). The survey was designed with a primary target group in mind – lower-income state employees with dependent coverage – as this group was identified by state agency leaders as a population of concern, and it is the group most likely to benefit from lower premium choices.

Monthly premium contribution rates

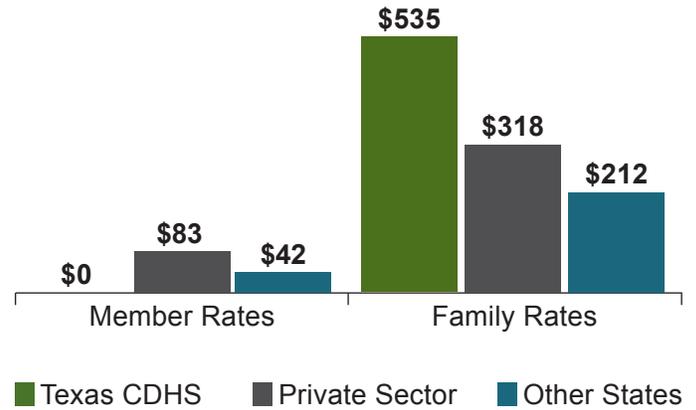
One essential difference between the Consumer Directed HealthSelect plan and the HDHPs of other states is the member premium contribution strategy.

Other states charge employees a median premium of \$42 per month for member-only coverage through the lowest-cost HDHP, compared to \$101 per month through a preferred provider organization (PPO) or point-of-service (POS) plan.¹¹

Reduced or \$0 employee premium contribution rates are a primary incentive used by other states to encourage employees to choose an HDHP instead of a more traditional plan. However, under the current Texas contribution strategy set in the biennial appropriations act,¹² Texas pays the full premium contribution for member-only coverage, regardless of plan selection. This means that there is not a premium differential between Consumer Directed HealthSelect and the traditional HealthSelect of Texas plan for member-only coverage.

Of the 28 states offering employees a choice between an HDHP and a PPO or POS, four states, including Texas, have no difference in premiums between the plan choices for member-only coverage. When comparing the lowest-cost HDHP to the PPO or POS offered in 28 states, the average monthly premium difference is \$118 higher for member-only coverage in the POS or PPO, and \$341 higher for family coverage.

Texas member-only premium contributions are lower than the median; family contributions are much higher (FY18)

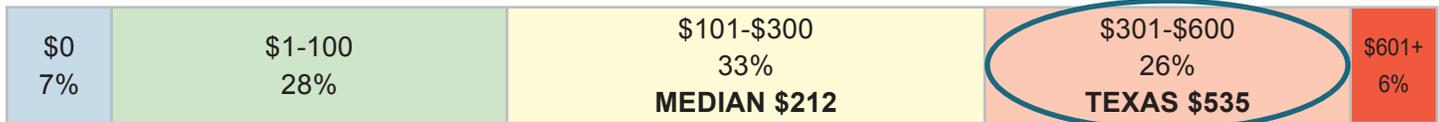


As an incentive to enroll in Consumer Directed HealthSelect, participants covering dependents pay 10% less than they would for dependent coverage under HealthSelect. However, compared to other states' HDHPs, the monthly premium amount a member pays for Consumer Directed HealthSelect family coverage (\$535 in FY18) is more than twice the median charge for HDHP family coverage among state employers (\$212), and 68% more than the median charge for family coverage among private employers (\$318).

Texas employees' monthly member-only HDHP contribution rate is \$42 lower than the state median



Texas employees' monthly family HDHP contribution rate is \$323 higher than the state median



Median member-only HDHP premium contribution rate is \$42 per month. Texas' and six other states' plans charge \$0 per month for member-only HDHP coverage.

Median family HDHP premium contribution rate is \$212 per month. Texas charges \$535 per month for family coverage under Consumer Directed HealthSelect, while six other states charge a higher family premium than Texas does for the HDHP option.

¹¹ Data collected by ERS of Texas in an independent benchmarking study of other state employers in March 2018.

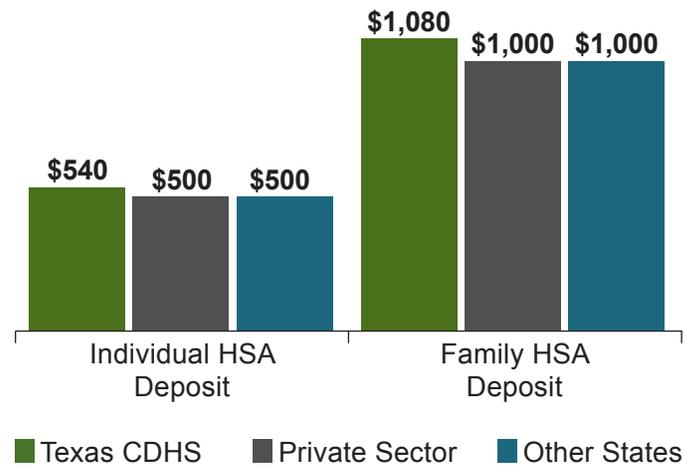
¹² 85th Legislature, Senate Bill 1, Article I, Employees Retirement System of Texas, Rider 7, Page I-34.

Health savings account employer deposits

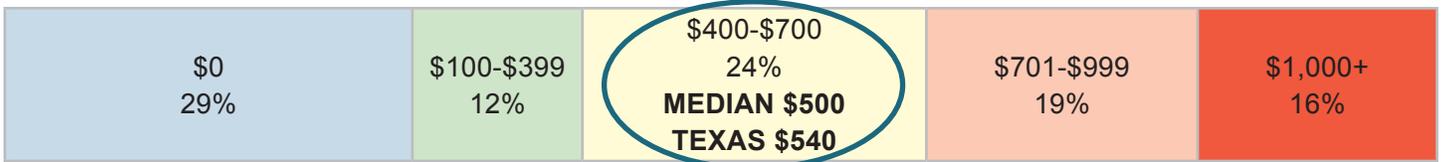
For members enrolled in Consumer Directed HealthSelect, the State of Texas deposits \$540 per year to a health savings account (HSA) for those enrolled in member-only coverage and \$1,080 to an HSA for those enrolled in family coverage, which are both within the median range among the 42 HSA-qualified plans in 29 states.

Most HSA-contributing state employers, including Texas, divide the annual HSA deposit into 12 monthly installments. However, two states, Rhode Island and Utah, make the employer contribution in two larger semi-annual deposits, with the first deposit upfront. This is done to allow a participant to have available funds if non-preventive care is needed early in the year. Eleven states make an HSA-qualified plan available to their employees but do not contribute to a savings account on their behalf.

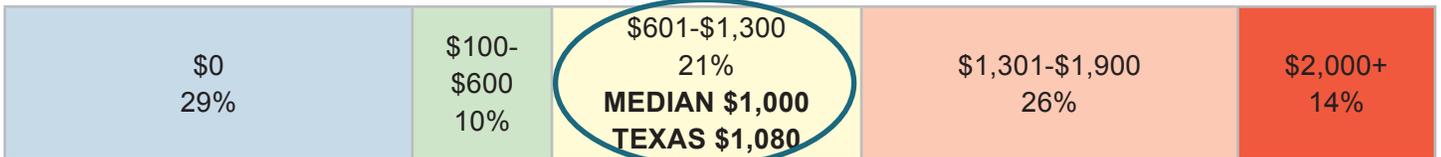
Texas contributions to the HSA account are within the median range



The State of Texas' annual individual HSA deposit is in the median range



The State of Texas' annual family HSA deposit is in the median range



Nine states offered a health reimbursement account (HRA) option to employees with a high-deductible health plan in FY17. HRAs differ significantly from HSAs in that:

- An HRA is owned by the employer – any funds remain with the employer after an employee leaves service.
- Only employers may contribute to an HRA. There are no tax advantages to the member.
- Retirees enrolled in Medicare are eligible for an HRA account, but are not eligible to make contributions to an HSA account.
- HRA funds may be spent on premiums for medical, dental, vision and other insurance, in addition to eligible health care expenses.

Of the states that offer an HRA to employees:

- Two states offer the same plan with either an HSA or HRA option.
- Three states offer only an HRA option, and no HSA option.
- Four states offer completely different plans – one with an HRA and one with an HSA.

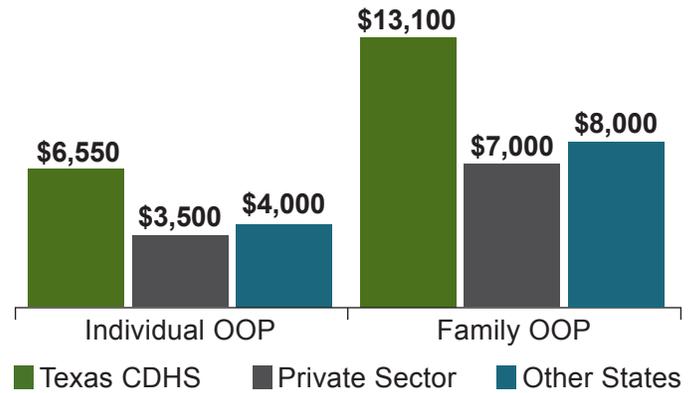
Out-of-pocket maximums

Consumer Directed HealthSelect differs from other state plans in the maximum out-of-pocket expense levels. The out-of-pocket maximum (OOP) is the amount that a member must pay before the plan will begin to pay 100% of eligible expenses.

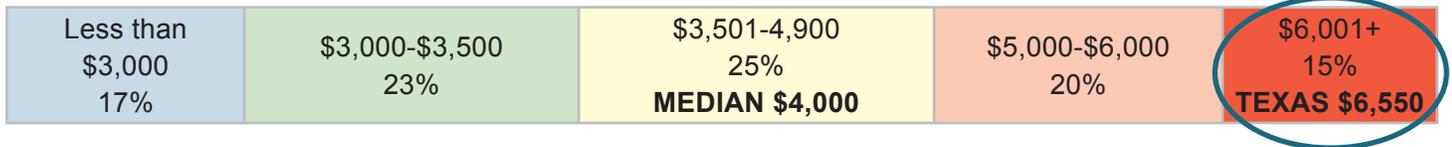
A common strategy used by other state and private sector plans is to limit the employee's out-of-pocket maximum in order to attract a broader range of people with different health concerns to the plan.

Currently, in-network out-of-pocket maximums for Consumer Directed HealthSelect, HealthSelect and the three health maintenance organization (HMO) plans¹³ are all the same: \$6,550 for individuals and \$13,100 for families for Calendar Year 2018, and \$6,650 for individuals and \$13,300 for families in Calendar Year 2019. These levels significantly exceed the median HDHP out-of-pocket maximums in other state plans (64%) and in the private sector (87%). The benefit of mirroring the annual maximum out-of-pocket expense level of the other GBP plans is that the plan does not drive adverse selection for those who may be inclined to select coverage based on how quickly they can get to 100% plan reimbursement.

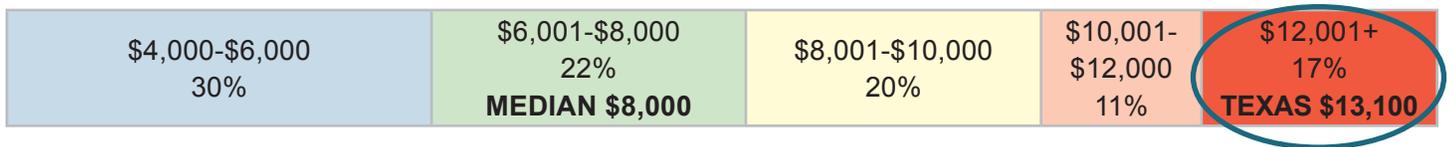
Texas out-of-pocket maximum (OOP) costs are significantly higher than most public- or private-sector plans (CY18)



Texas' member-only out-of-pocket maximum: \$2,550 higher than the state median



Texas' family out-of-pocket maximum: \$5,100 higher than the state median



¹³ The three regional HMOs enroll a combined 5% of Group Benefits Program health plan participants. They are Community First Health Plans (San Antonio region), Scott & White Health Plan (central Texas), and KelseyCare powered by Community Health Choice (Houston region).

RIDER 14: Consumer Directed HealthSelect experience

Rider 14 requires the Employees Retirement System to collect, track and analyze Consumer Directed HealthSelect participants' health care costs and utilization data, and compare this data to similar data available from other GBP health plans, including HealthSelect, the Medicare Advantage plans and the HMO plans. Because HealthSelect, Consumer Directed HealthSelect and the three HMOs cover primarily the non-Medicare population and each is generally the primary claims payor, these plan populations provide appropriate opportunities for comparisons.

The two Medicare Advantage plans¹⁴ are limited to participants for whom Medicare is their primary coverage and who typically are age 65 and older. While Medicare-primary participants are eligible to enroll in an HDHP, they are not eligible for contributions to an HSA, which reduces the motivation to enroll in the plan. For these reasons, the health care costs and utilization data for the Medicare Advantage plans do not provide appropriate opportunity for instructional comparison to the experiences of other state plans.

Demographics of the Consumer Directed HealthSelect participants

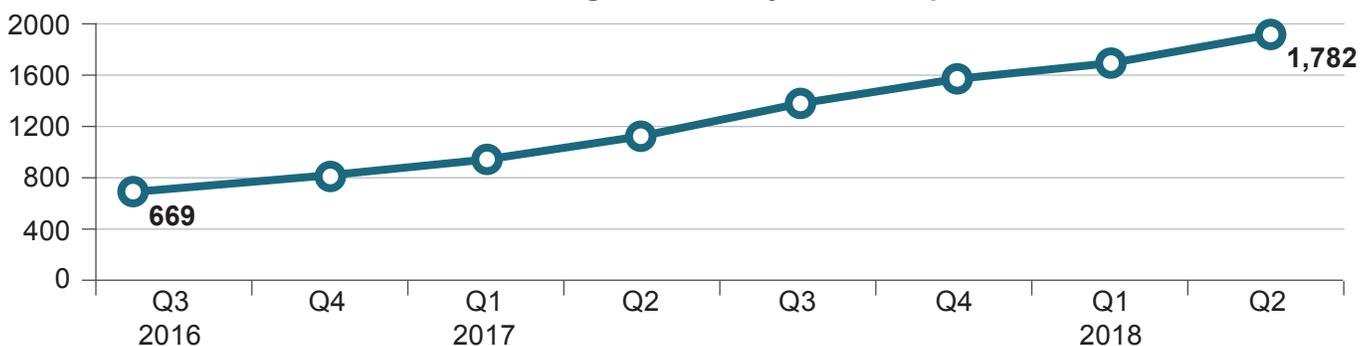
For the purposes of this analysis, "member" refers to the employee or retiree¹⁵ enrolled, and "participant" refers to any enrolled person (whether member or dependent).

Members who enroll in Consumer Directed HealthSelect have distinctly different demographic characteristics than those who choose other health plans. Consumer Directed HealthSelect has extremely low participation among retirees, primarily because retirees for whom Medicare is their primary coverage are not eligible for contributions to an HSA. Enrolled retirees are typically those not yet eligible for Medicare who want to build their HSAs for use once they enroll in Medicare. At the end of Calendar Year 2017, only 12 retirees were enrolled in Consumer Directed HealthSelect.

At plan inception (September 1, 2016), 669 participants enrolled in Consumer Directed HealthSelect. While enrollment is lower than expected, it is steadily increasing. As of June 30, 2018, 1,782 participants were enrolled in the plan. Of the members who enrolled in the plan between September 1, 2016 and December 31, 2017, approximately half were newly hired employees, and half changed to the plan during an open enrollment period in Fiscal Years 2017 or 2018.

About 65% of members choose member-only coverage across all enrollment options (Consumer Directed HealthSelect, HealthSelect and HMOs). The split of those members enrolling in dependent coverage among Consumer Directed HealthSelect members is consistent with the dependent coverage selected in the other plans.

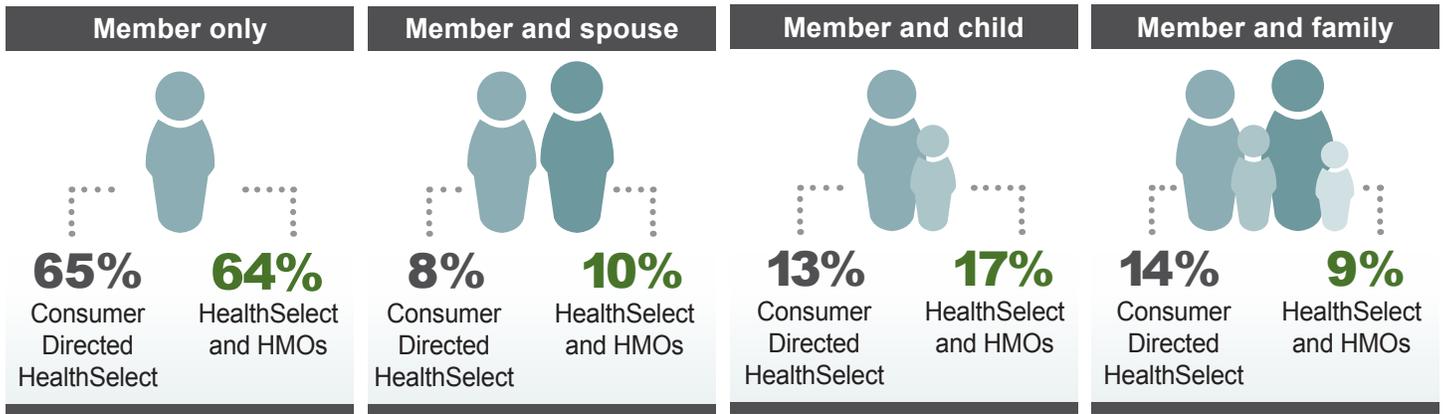
Enrollment has grown steadily since inception



¹⁴ The two Medicare Advantage plans cover 14.6% of all GBP participants. They are the statewide HealthSelect Medicare Advantage and KelseyCare Advantage HMO (Houston area).

¹⁵ The analysis does not count retirees enrolled in Medicare under the population for HealthSelect In Area.

Most employees in all plans choose member-only coverage



For Medicare Advantage plans, 75% choose member-only coverage, with most of the remaining enrollment made up of member and spouse coverage. Only 0.2%

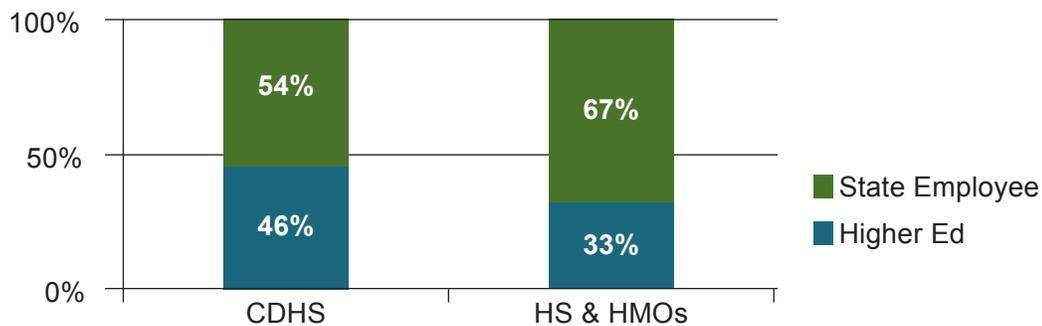
enrolled in Medicare Advantage plans chose child or family coverage.

Higher education employees account for 46% of Consumer Directed HealthSelect enrollment and represent a greater proportion of enrollment in that plan than the other plans combined.

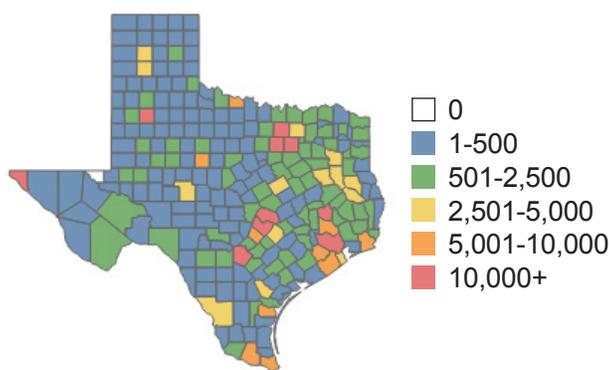
HealthSelect have similar geographic distributions across Texas, with the highest concentrations of participants in the Austin, Houston, Dallas-Fort Worth and San Antonio metropolitan areas. HealthSelect additionally maintains significant participant enrollment in El Paso and Lubbock.

While HMO enrollees are limited to certain geographic regions, those in HealthSelect and Consumer Directed

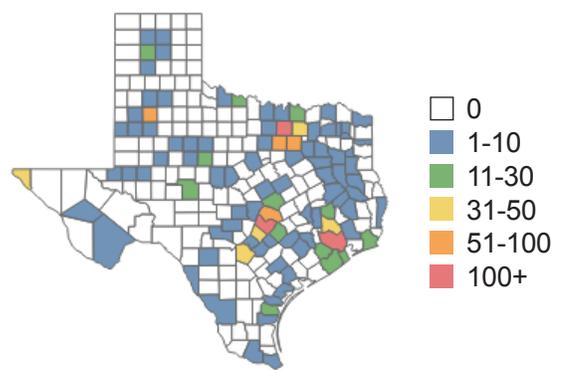
Consumer Directed HealthSelect attracts a greater proportion of higher education employees than other health plans



HealthSelect enrollment (CY 2017)



CDHS enrollment (CY 2017)

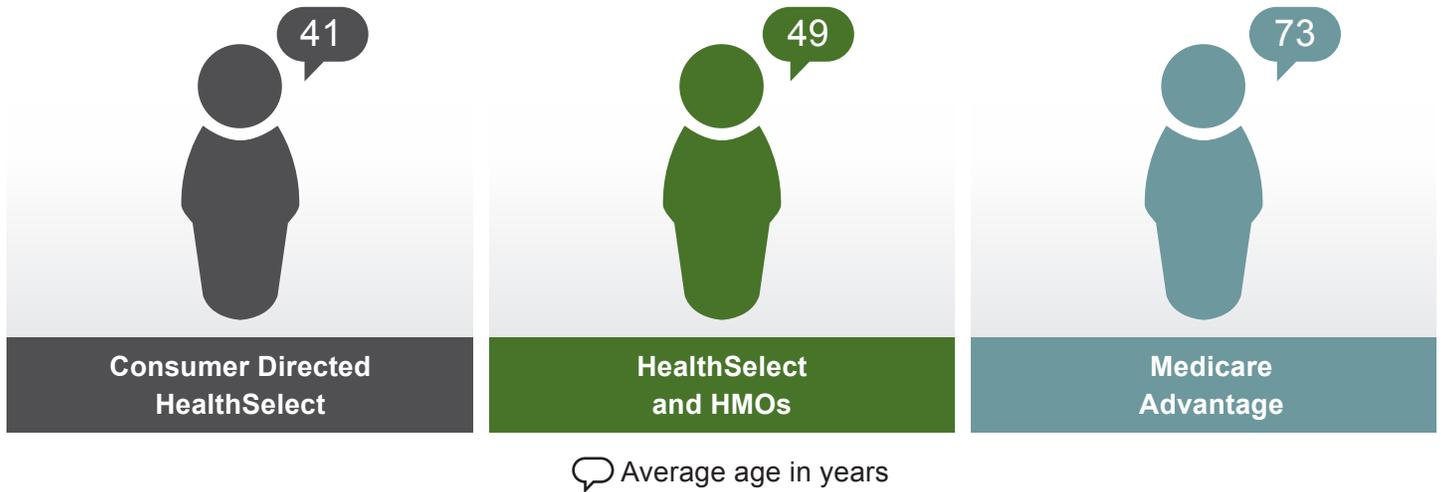


Active state employees enrolled in Consumer Directed HealthSelect have 3.8 years average tenure with the state, compared to 9.1 years average tenure for active state employees enrolled in other health plans.

On average, Consumer Directed HealthSelect members are 41 years old -- eight years younger than members in HealthSelect and the HMOs, who average

49 years old. Not surprisingly, the average dependent age for the Consumer Directed HealthSelect plan is also younger (21 years old) than for HealthSelect and the HMOs (25 years old). Because a Medicare Advantage participant must be eligible for Medicare, the average member age is 73, and average dependent age is 72.

Consumer Directed HealthSelect members are younger than those in other GBP plans



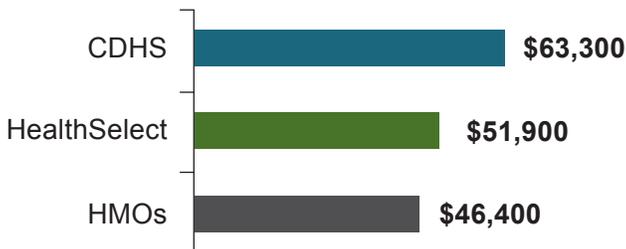
Consumer Directed HealthSelect members earn \$11,400 a year more on average than enrollees in HealthSelect, and \$16,900 a year more than enrollees in the HMOs.

Nearly 25% of enrollees in the Consumer Directed HealthSelect plan earn more than \$80,000 per year, compared to 12% of enrollees who earn \$80,000 or more in the HealthSelect and HMO plans. A

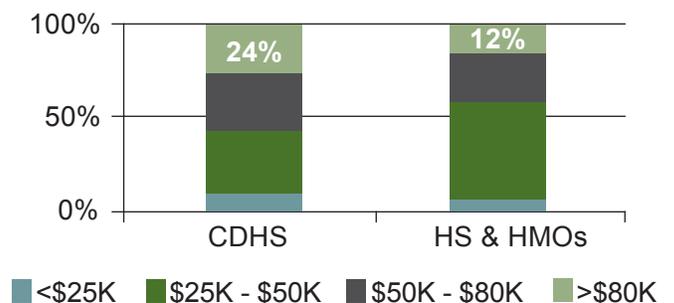
greater proportion of employees in HealthSelect and the HMOs are in the \$25,000-to-\$50,000 salary range (52%) than those in the Consumer Directed HealthSelect plan (35%).

Consumer Directed HealthSelect has similar enrollment by gender compared to the other health plans, with males making up 45% of enrollees in all plans, and 46% in Consumer Directed HealthSelect.

On average, Consumer Directed HealthSelect members earn more



A quarter of Consumer Directed HealthSelect members earn at least \$80K/year



Health savings account activity

When members enroll in the Consumer Directed HealthSelect plan, they are eligible to open a health savings account (HSA) with Optum Bank, the current third-party administrator for the HSA program. Once the account is open, a member is eligible to receive the employer contribution. At initial enrollment in Consumer Directed HealthSelect, new members can either enroll through an ERS OnLine link or complete and submit an enrollment application. As of June 30, 2018, 16% (or 172) of the 1,104 Consumer Directed HealthSelect members had not started the process of opening an account to receive their employer contribution to the account. Additional outreach continues to encourage the opening of an account. Members must open their own HSAs; ERS or their human resources departments cannot do it for them.

In addition to receiving the employer contribution, 78% of Consumer Directed HealthSelect members made individual personal contributions to their HSAs during the first plan year. This is a slightly higher proportion than those shown in Optum Bank’s “book of business,” which represents the bank’s entire HSA account holder population. Compared to this larger population, Consumer Directed HealthSelect members contributed a smaller median dollar amount, but also spent less from their accounts.

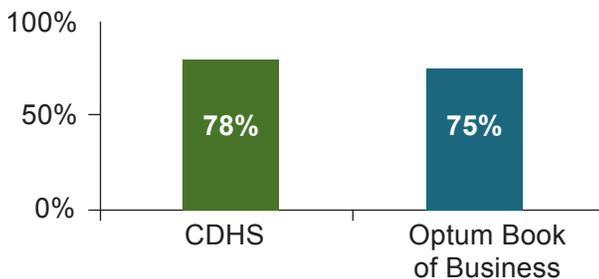
Compared to Optum Bank’s book of business for HSA participants, the savings rate among Consumer Directed HealthSelect members is high. After expenditures, the savings rate across all Consumer Directed HealthSelect member accounts is 55% of total contributions from all sources, compared to a 25% savings rate across Optum Bank’s book of business.

FY17 HSA Savings across Consumer Directed HealthSelect membership

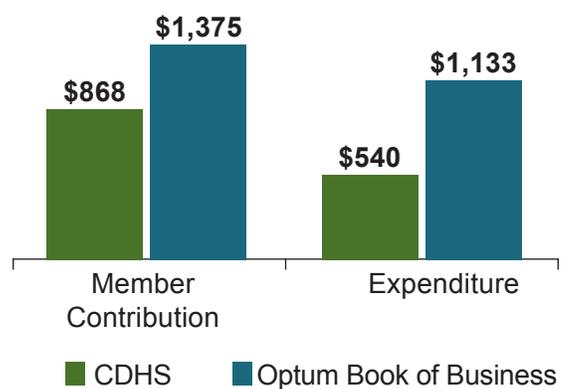
| | |
|----------------------|---------------|
| Contributions (FY17) | \$776,373 |
| Expenditures | (-) \$346,696 |
| Savings | \$429,677 |

Once HSA account holders have a balance of at least \$2,000, they become eligible to invest a portion of that balance in one or more mutual funds available through Optum Bank. Account holders keep any investment returns, which are not subject to taxes upon the sale of the mutual fund. In the first plan year, 10% of Consumer Directed HealthSelect members were eligible to invest. Of those eligible, 50% did invest, compared to 20% across Optum Bank’s book of business.

Employees contributing to HSA (FY17)



Median HSA member contribution and expenditure (FY17)



Health care utilization and spending analysis

When comparing the Consumer Directed HealthSelect experience with the per capita cost-neutral assumptions first made in designing the plan, ERS found that the experience has closely matched the assumptions in terms of enrolled member demographics, health plan spending and utilization. Enrollment was lower than expected.

With the exception of bariatric surgery, which is not covered under Consumer Directed HealthSelect, covered services are the same for Consumer Directed HealthSelect, the HMOs and HealthSelect. Member cost-sharing is greater, however, in Consumer Directed HealthSelect. Consumer Directed HealthSelect has a high deductible for eligible out-of-pocket non-preventive medical care and prescription costs that must be met before the plan pays for services. In-network preventive screenings are covered the same in all plans, with no cost to the member. The following analysis measures use of health care and member spending across plans.

Medicare-primary members differ significantly from the commercial population in how their benefits are provided. Medicare is the primary payer for these individuals and reimburses medical providers based on a fee schedule set by the federal government. The way the Texas Employees Group Benefits Program (GBP) coordinates with Medicare means that Medicare-

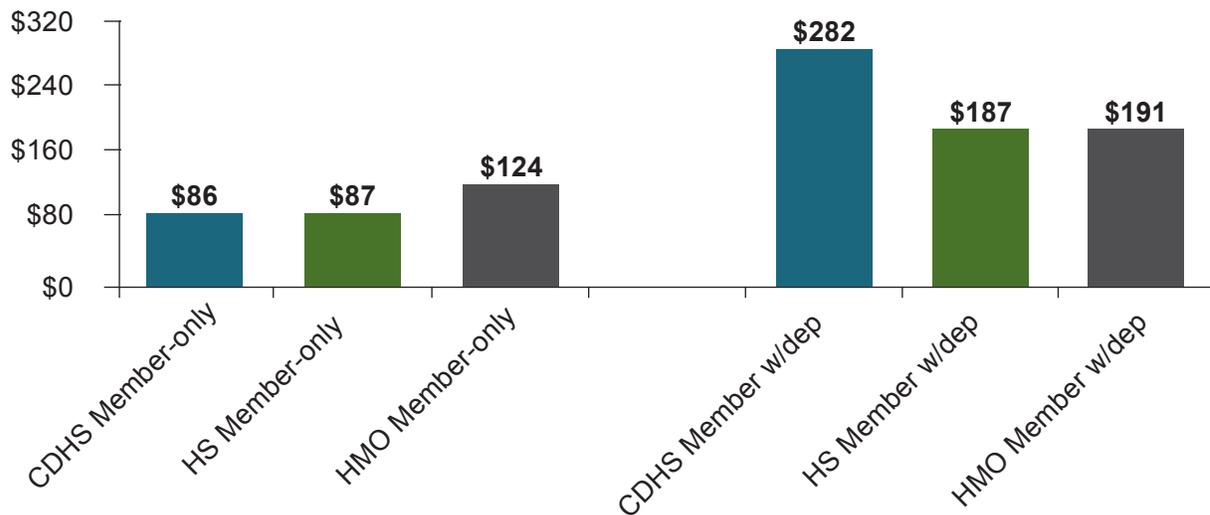
primary members generally have no out of pocket cost for medical services, and pharmacy costs are heavily subsidized. Because of these structural differences, the Medicare population is not comparable to the rest of the GBP health plan population. Therefore, as mentioned above, Medicare-primary members have been excluded for purposes of this analysis.

Member out-of-pocket cost

For Consumer Directed HealthSelect members with dependent coverage, the Calendar Year 2017 average per-member-per-month (PMPM) member cost was higher than the PMPM cost for their counterparts in other plans. For both prescription and medical claims, the \$282 average monthly cost for Consumer Directed HealthSelect members with dependent coverage was \$95 (or 51%) more than for those in HealthSelect, and \$91 (or 48%) more than for those in the HMOs.

For Consumer Directed HealthSelect members with member-only coverage, the Calendar Year 2017 average PMPM cost was similar to those in HealthSelect, but less than the average cost for an HMO member with member-only coverage. The \$86 average cost for a Consumer Directed HealthSelect member with member-only coverage was similar to that of a HealthSelect member (\$87), and \$38 less than the average monthly cost for an HMO member (\$124).

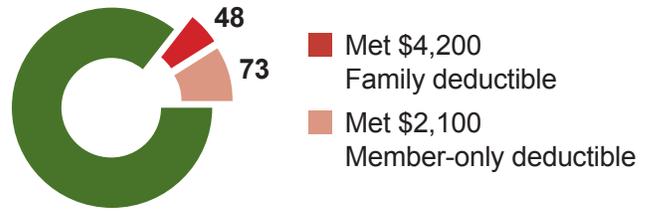
Average monthly out-of-pocket costs by coverage type and plan (CY17)



Of the 854 members enrolled in Consumer Directed HealthSelect by the end of Calendar Year 2017, 14% (121 members) had reached the in-network deductible and less than 1% (fewer than 10) had reached the out-of-network deductible.

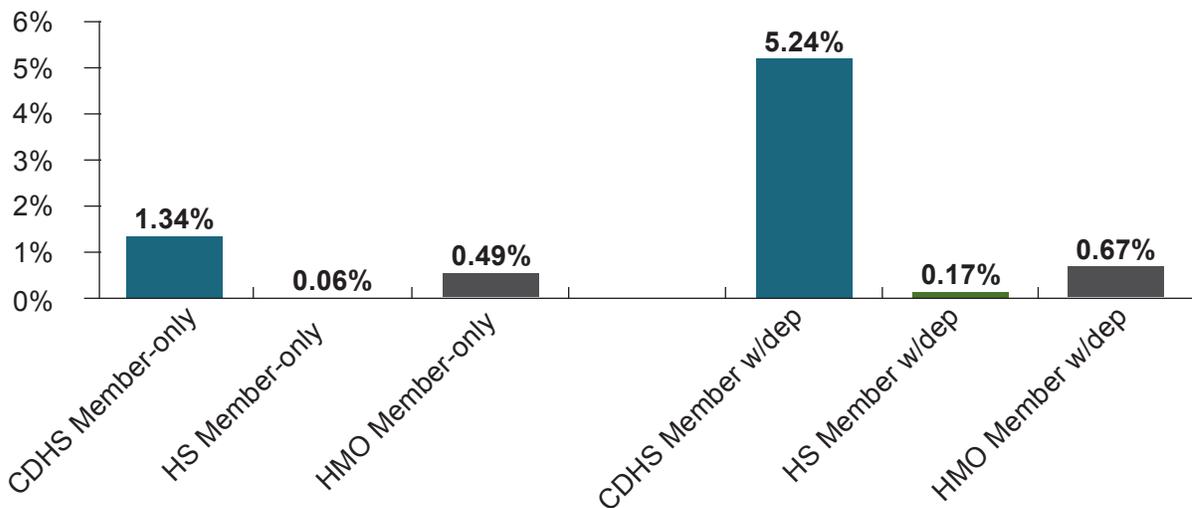
Across plans, the Calendar Year 2017 annual total out-of-pocket (OOP) maximum for in-network services was \$6,550 per individual and \$13,100 per family. After an individual paid a total of \$6,550, including deductibles, coinsurance and copays for eligible medical services¹⁶ and prescription drugs, the plan began to pay 100% of allowable charges for that individual. The out-of-pocket maximum for an individual is embedded for all the HealthSelect plans, meaning that if a participant elects family coverage, no one person within the family will owe more than \$6,550 maximum for covered health services. Once two participants within the family meet the \$6,550 per individual (that is, \$13,100 total), the plan begins to pay 100% of the costs for all covered members of the family.

14% of Consumer Directed HealthSelect members met the in-network deductible (CY17)



In 2017, a higher percentage of enrollees in Consumer Directed HealthSelect either reached the OOP maximum or had at least one family member reach the OOP maximum than in other plans. Among those with member-only coverage in Consumer Directed HealthSelect, 1.34% met the \$6,550 OOP maximum, compared to 0.06% in HealthSelect and 0.49% in the HMOs. This percentage jumps to 5.24% of those with dependent coverage in Consumer Directed HealthSelect, compared to 0.17% in HealthSelect and 0.67% in the HMOs.

Percentage of members who met the out-of-pocket maximum (CY17)



For Calendar Year 2017, ERS analyzed the percentage of members with no out-of-pocket expenses. This means that, while they may have received covered preventive care (for example, an annual wellness visit), they did not visit a provider or (if they were in Consumer Directed HealthSelect) pay for a prescription drug.¹⁷

Across all plan types, approximately 65% of members selected member-only coverage in 2017. Of members enrolled in Consumer Directed HealthSelect member-only

coverage, 44% had no out-of-pocket costs, more than twice the percentage of members in other plans (16% and 17% for HealthSelect and the HMOs, respectively) with member-only coverage and with no out-of-pocket costs. Thirteen percent of Consumer Directed HealthSelect members with dependent coverage had no out-of-pocket costs for either themselves or any covered dependents, a much higher portion than those with dependent coverage in HealthSelect (3%) and the HMOs (4%).

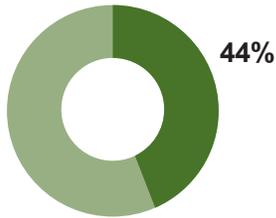
¹⁶ Out-of-pocket maximums exclude out-of-network services and bariatric services.

¹⁷ An exception to this rule is for HealthSelect participants who took advantage of the \$0 co-pay Virtual Visits program after 9/1/2017.

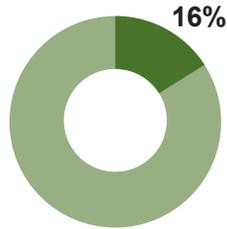
Members with no out-of-pocket health care claim costs (CY17)

Member-only coverage

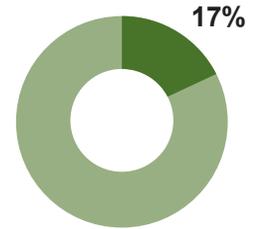
Consumer Directed
HealthSelect



HealthSelect

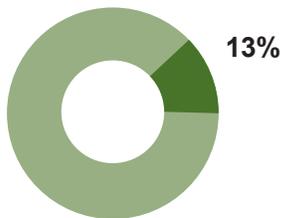


HMOS

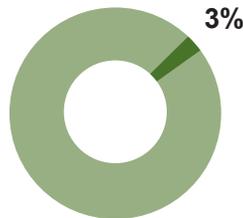


Dependent coverage

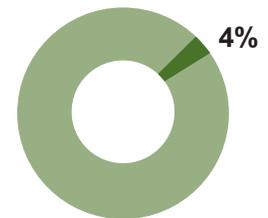
Consumer Directed
HealthSelect



HealthSelect



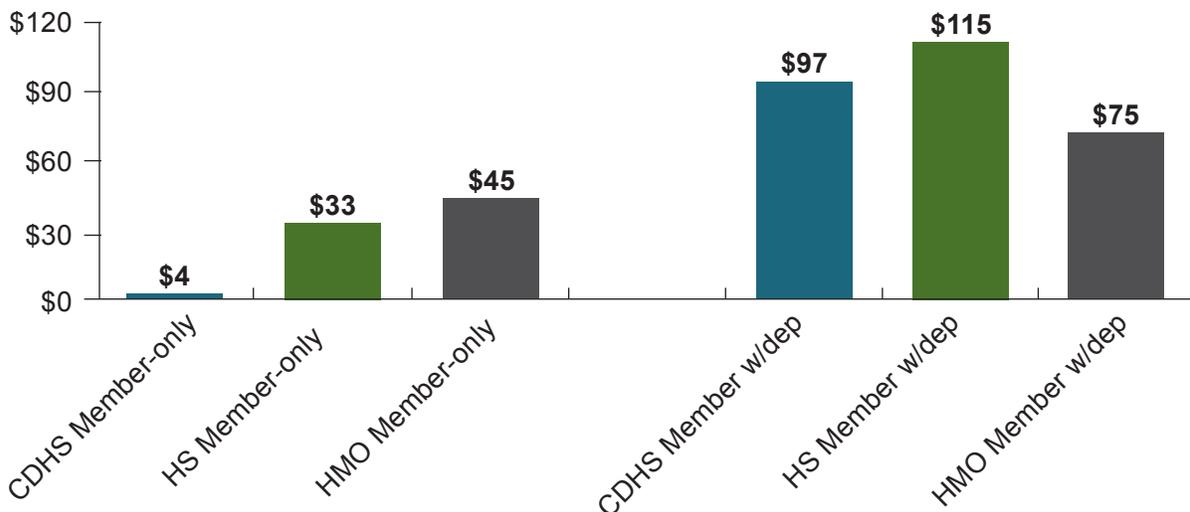
HMOS



Given the large portion of Consumer Directed HealthSelect members with no out-of-pocket costs in 2017, the median PMPM out-of-pocket cost for a Consumer Directed HealthSelect member with member-only coverage was low (\$4), compared to the \$33 median PMPM out-of-pocket cost for member-only HealthSelect participants and \$45 for member-only

HMO participants. The median PMPM out-of-pocket cost for Consumer Directed HealthSelect members with dependent coverage was 16% less (at \$97) than the median out-of-pocket cost for their counterparts in HealthSelect (\$115), but 29% higher than their HMO counterparts (\$75).

Median monthly out-of-pocket member costs by coverage type and plan (CY17)



Utilization

In 2017, Consumer Directed HealthSelect participants used preventive services and chose generic drugs at similar rates to those in other plans. However, Consumer Directed HealthSelect participants visited the emergency room and all medical providers¹⁸ considerably less often than participants in other plans. Lower utilization of these services can be expected given the lower average age of the Consumer Directed HealthSelect participants (41 vs. 49 for HealthSelect participants).

Preventive services

Just more than half of Consumer Directed HealthSelect participants visited a primary care physician (PCP) in 2017 for an annual physical, which was about the same rate as HealthSelect and HMO participants. Consumer Directed HealthSelect participants had an annual physical at the rate of 516 visits per 1,000 participants, compared to 545 visits per 1,000 participants in HealthSelect and 479 visits per 1,000 in the HMOs.

Prescription drugs

Unlike HealthSelect and HMO participants, who have no in-network deductible for medical care and a \$50 individual deductible for prescription drugs, Consumer Directed HealthSelect participants must meet an overall high deductible before the plan begins to help pay for medical care and prescriptions. This means that the member pays the entire cost for medical services and prescription drugs¹⁹ until the deductible

is met. Once the deductible is met, the member pays 20% coinsurance for medical and/or pharmacy costs until the maximum out-of-pocket cost is met.

ERS' analysis found that the generic dispensing rate for CDHS participants (87%) is similar to that of HealthSelect (86%) and HMO participants (88%). In other words, the vast majority of prescriptions filled are generic, regardless of plan.

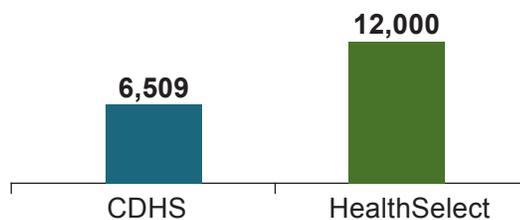
Total provider visits

Health care utilization overall was lower in Consumer Directed HealthSelect than in HealthSelect.²⁰ In 2017, Consumer Directed HealthSelect participants visited health care providers only about 54% as much as HealthSelect participants. In Consumer Directed HealthSelect, there were 6,509 total visits per 1,000 members in 2017, compared to 12,000 visits per 1,000 participants in HealthSelect. Because the criteria for total visits vary by HMO, we cannot accurately compare the HMOs' total visits to those in HealthSelect and Consumer Directed HealthSelect plans.

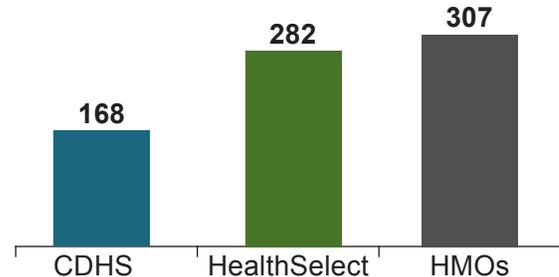
ER utilization

Emergency room visits were lower among Consumer Directed HealthSelect participants than other plan participants in 2017. In Consumer Directed HealthSelect, there were 168 visits per 1,000 participants, compared to 282 visits per 1,000 participants in HealthSelect and 307 visits per 1,000 participants in the HMO plans.

Total provider visits per 1,000 (CY17)



ER visits per 1,000 (CY17)



¹⁸Total visits include all provider visits, including primary care physician, specialist, emergency room, and hospital stays.

¹⁹ Certain preventive medications are covered at 100%.

²⁰ ERS does not control data collection for the fully insured HMO plans, which cover 5% of GBP participants. Therefore, ERS is unable to make a fair comparison of total visits between the HMOs and Consumer Directed HealthSelect.

RIDER 16:

Analysis of cost-neutral HDHP options

Rider 16 of the General Appropriations Act, 85th Legislature, requires ERS to research and develop options for a health plan that are similar to the existing Consumer Directed HealthSelect plan, but with a higher deductible and higher HSA contributions. ERS may consider reducing or waiving members' dependent monthly premium contributions, increasing the state's HSA contributions or changing the plan's deductible. Plan options must remain cost-neutral and comply with existing state and federal law.

State cost-neutrality requirement

As required by law²¹, ERS designed the Consumer Directed HealthSelect health plan and HSA program so that the combined value would not exceed the value of the HealthSelect of Texas plan. This restriction limits the changes in state HSA contributions and member dependent premium contributions that ERS can make when increasing the deductible. Rider 16 further requires that plan options considered for this report remain cost-neutral and comply with existing state and federal law.

Federal requirements

In order for Consumer Directed HealthSelect members to be eligible for a tax-beneficial HSA, the plan was designed to meet IRS requirements.²²

1. The 2017 IRS requirement for combined medical/ pharmacy deductible was at least \$1,300 for individual coverage and \$2,600 for family coverage. For 2018, the minimum deductible is \$1,350 for individual coverage and \$2,700 for family coverage.
2. The 2017 out-of-pocket maximum (including the deductible) was limited to \$6,550 for an individual, with a \$13,100 maximum per family (consistent with the OOP maximum for other plans). For 2018, these amounts are \$6,650 for an individual, with a \$13,300 maximum per family.
3. All expenses (including prescriptions) are subject to the deductible, except health care expenses for in-network preventive services, which include, but are not limited to, the following:
 - periodic health evaluations, including tests and screening procedures ordered in connection with routine examinations, such as annual physicals;
 - routine prenatal and well-child care;
 - certain child and adult immunizations;
 - tobacco cessation counseling;
 - obesity weight-loss counseling; and
 - certain drugs or medications that are part of preventive care.

²¹ § 1551.456, Subchapter J of the Texas Insurance Code requires the State to contribute annually an "amount that is necessary to pay the cost of coverage under the high deductible health plan and does not exceed the amount the state annually contributes for a full-time or part-time employee, as applicable, who is covered by the basic coverage." HealthSelect of Texas is the basic coverage. § 4, House Bill 966, Acts of the 85th Legislature, Regular Session (2015).

²² Section 223 of the Internal Revenue Code.

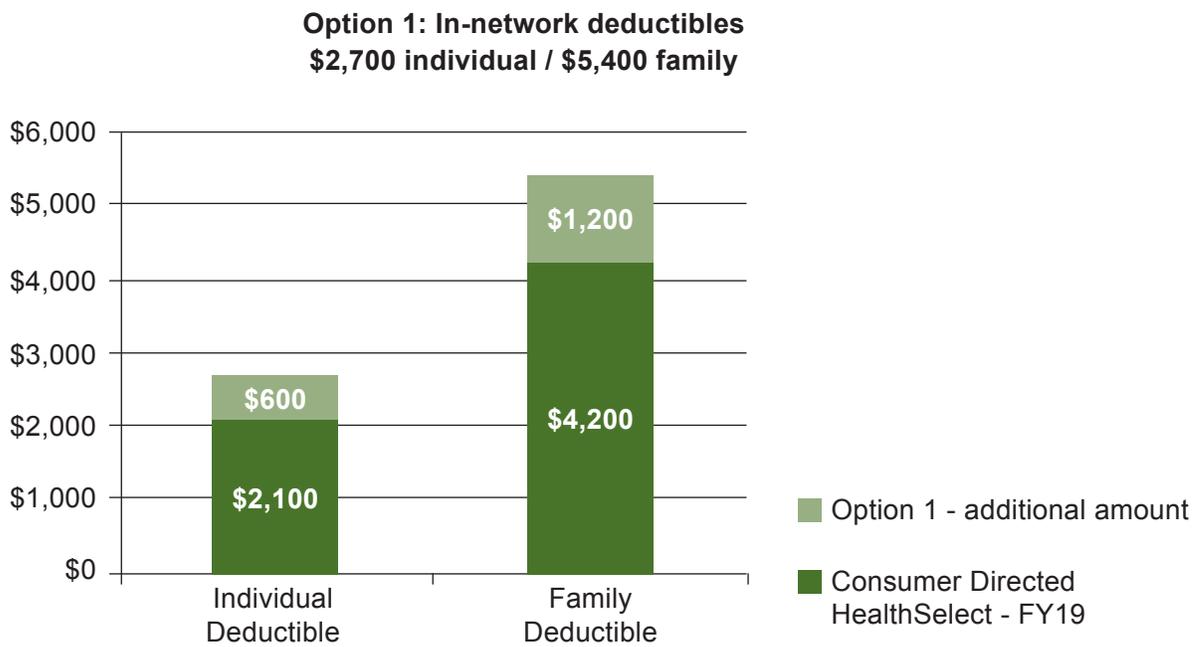
High-deductible health plan (HDHP) models

Given the parameters of Rider 16, as well as cost-neutrality and federal requirements, ERS explored three potential models, all with increased deductibles and an option to either increase the health savings account contribution made by the state *or* reduce the applicable dependent premium contribution. To take advantage of an improved deductible structure available to an HDHP with dependent coverage, the individual deductibles under the three models are at least \$2,700, which is equal to the current minimum family deductible required under the Internal Revenue Code. Setting deductibles at or above this level would allow ERS to modify the plan to include an embedded deductible, along within the aggregated family deductible. This modification would provide additional value to those participants enrolling in family coverage.

Currently, the Consumer Directed HealthSelect deductible under family coverage is aggregated, meaning that the entire \$4,200 family deductible must be met before the plan begins to pay eligible claims for any one participant. However, with an embedded individual deductible of at least \$2,700 within a higher family deductible of any amount, the HDHP could begin to pay eligible claims for any one individual who has met the embedded individual deductible before the full family deductible has been satisfied. The plan could begin to pay claims for other family members after one or more of them meets the remaining deductible amount for the family. To adopt this model, however, would also require an increase to the deductible for those enrolled in member-only coverage from \$2,100 to \$2,700.

Option 1 – 29% increase in deductibles

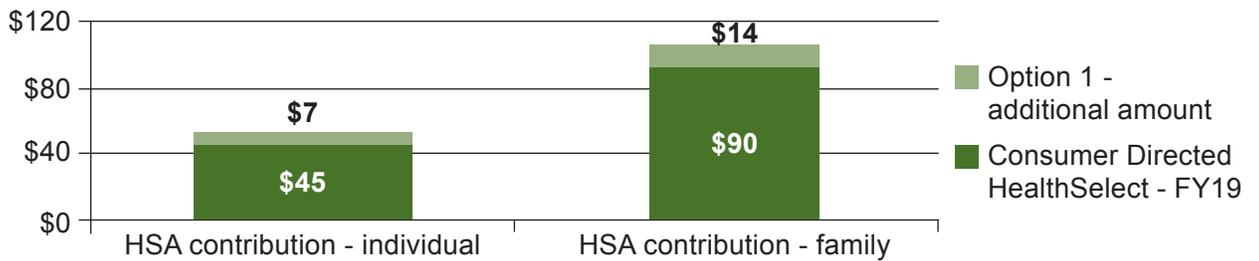
This option shows the minimum increase in in-network deductibles required to transition the plan to an embedded deductible structure: \$2,700 for an individual and \$5,400 for a family.



To offset this increased deductible, while maintaining the plan's required cost-neutrality, the monthly state contribution to an HSA could be increased by \$7 to \$52 for an individual account, and by \$14 to \$104 for a

family account. On an annual basis, this amounts to an additional \$84 for an individual account and \$168 for a family account.

**Option 1: State's monthly HSA contribution
\$52 individual / \$104 family**

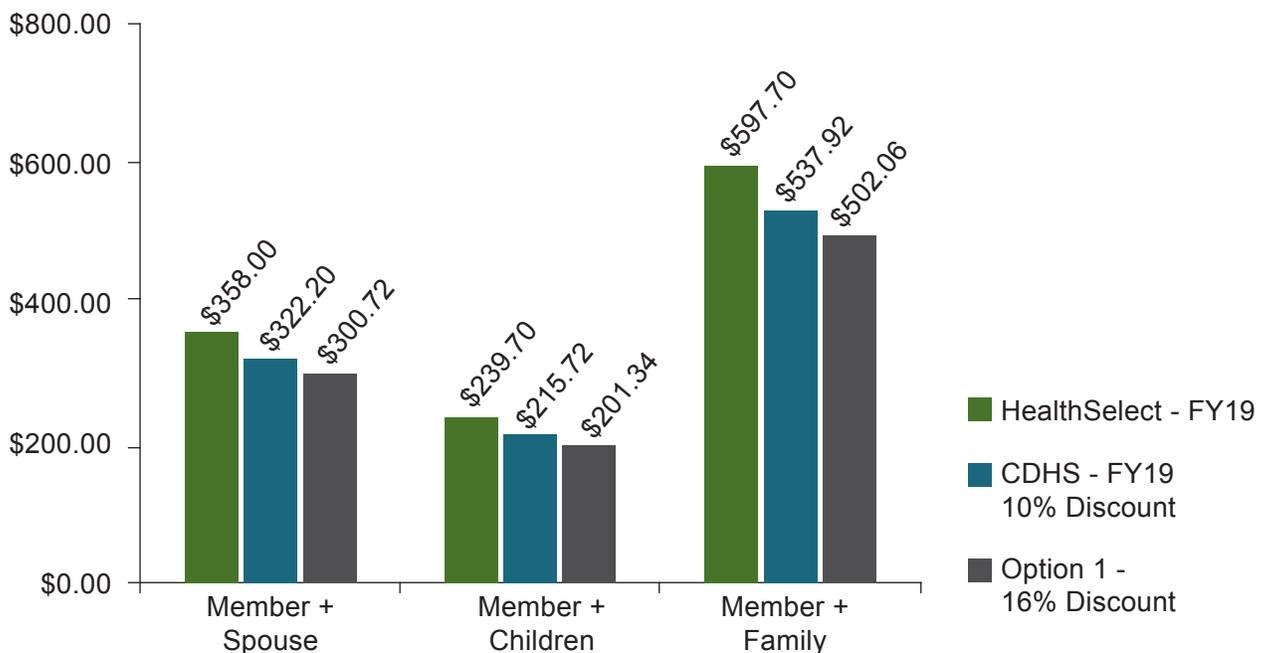


In lieu of increasing the state contribution to a member's HSA, the ERS Board of Trustees could discount the member contribution toward the dependent premium contribution rates 16% less than HealthSelect rates, instead of the current 10% discount. For example, applying Option 1 for Fiscal Year 2019 would

result in the following additional savings over the existing Consumer Directed HealthSelect model for members covering dependents:

| | |
|--------------------|--------------------------------|
| Member + Spouse: | \$21.48/month or \$257.76/year |
| Member + Children: | \$14.38/month or \$172.56/year |
| Member + Family: | \$35.86/month or \$430.32/year |

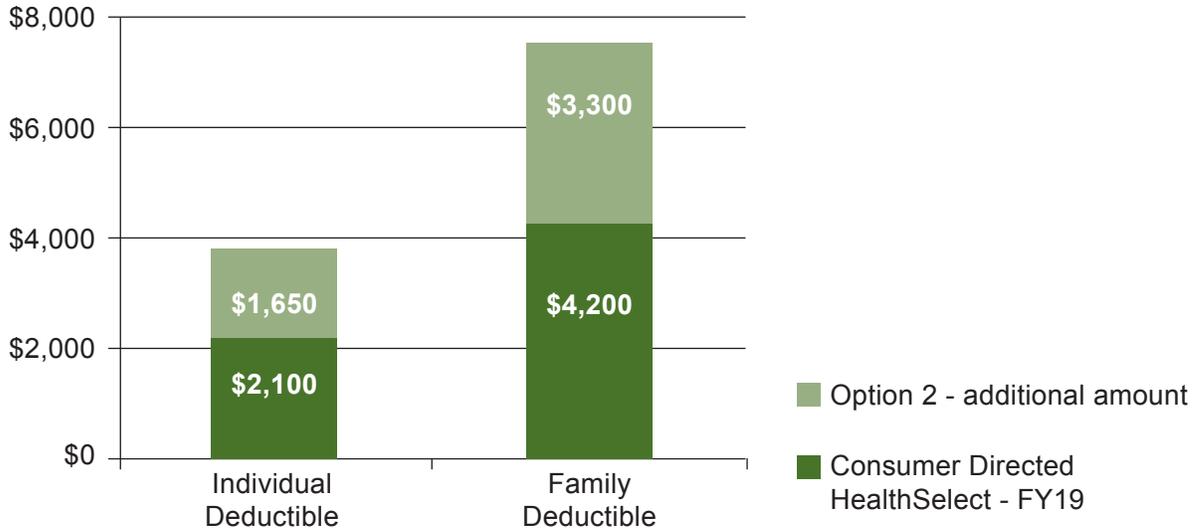
Option 1: Member's monthly dependent contribution rates (16% off HealthSelect)



Option 2 – 79% increase in deductibles

This option increases network deductibles to \$3,750 for an individual and \$7,500 for a family. As with Option 1, Option 2 allows for the introduction of an embedded deductible structure.

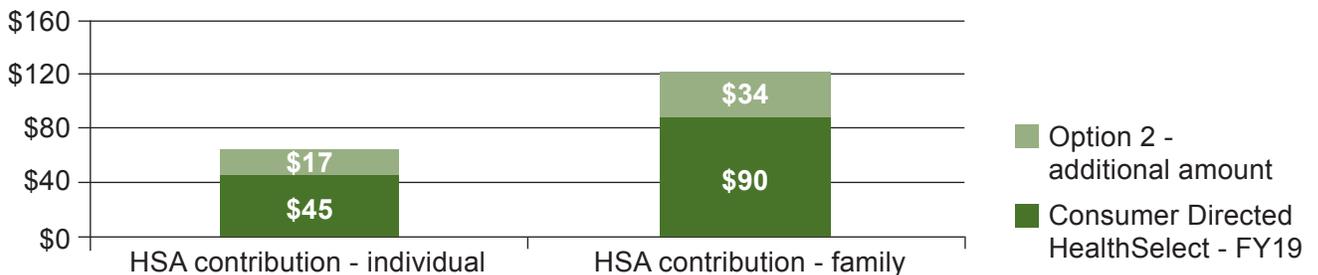
Option 2: In-network deductibles
\$3,750 individual / \$7,500 family



To offset this increased deductible, while maintaining the plan's required cost neutrality, the monthly state contribution to an HSA could be increased by \$17 to \$62 for an individual account, and by \$34 to \$124 for a

family account. On an annual basis, this amounts to an additional \$204 for an individual account and \$408 for a family account.

Option 2: State's monthly HSA contribution
\$61 individual / \$122 family

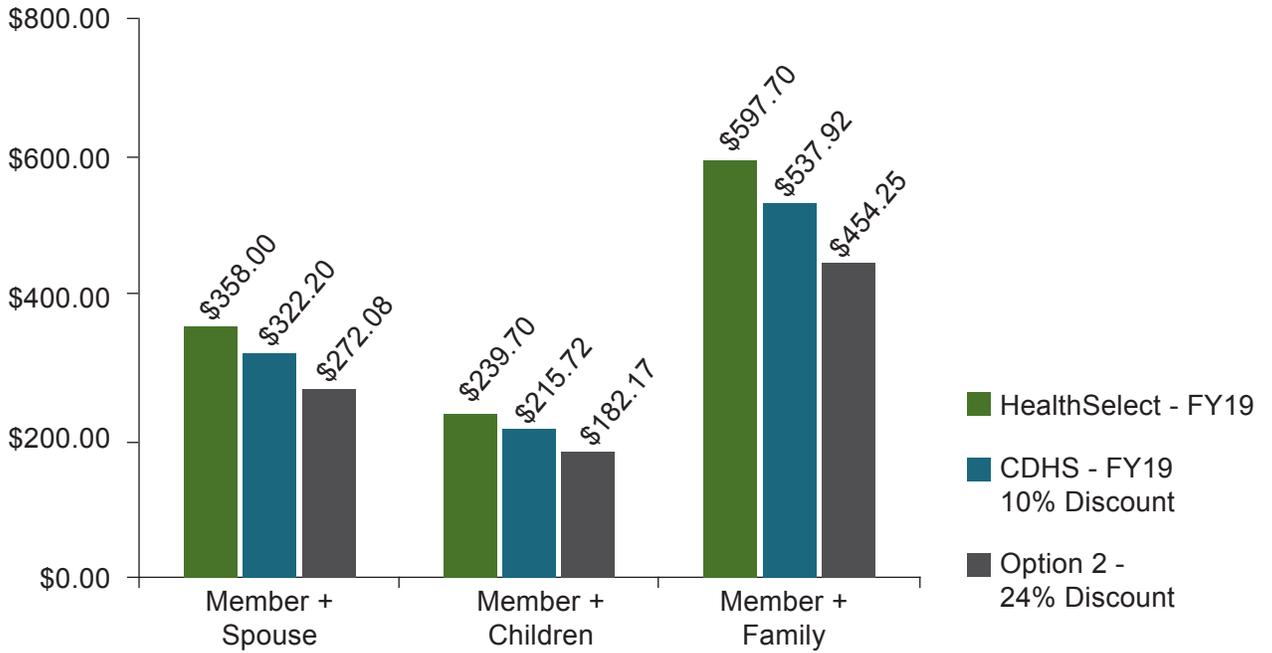


In lieu of increasing the state contribution to a member's HSA, the ERS Board of Trustees could discount the member contribution toward the dependent premium contribution rates 24% less than HealthSelect rates, instead of the current 10% discount. For example, applying Option 2 for Fiscal Year 2019 would result in the following additional savings over the existing

Consumer Directed HealthSelect model for members covering dependents:

| | |
|--------------------|----------------------------------|
| Member + Spouse: | \$50.12/month or \$601.44/year |
| Member + Children: | \$33.56/month or \$402.72/year |
| Member + Family: | \$83.68/month or \$1,004.16/year |

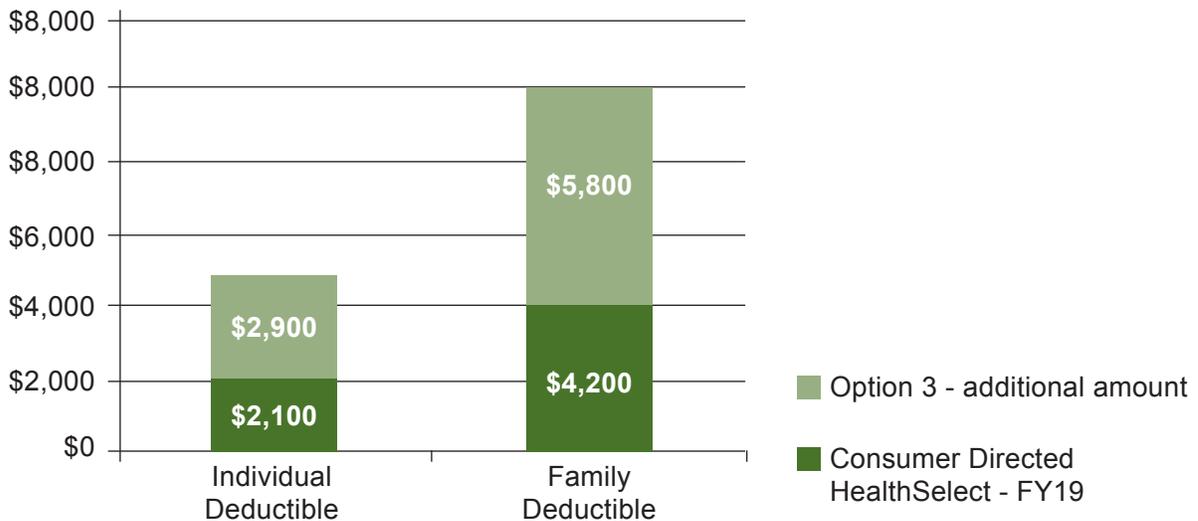
Option 2: Member's monthly dependent contribution rates (24% off HealthSelect)



Option 3 – 138% increase in deductibles

This option increases network deductibles to \$5,000 for an individual and \$10,000 for a family. As with Options 1 and 2, Option 3 allows for the introduction of an embedded deductible structure.

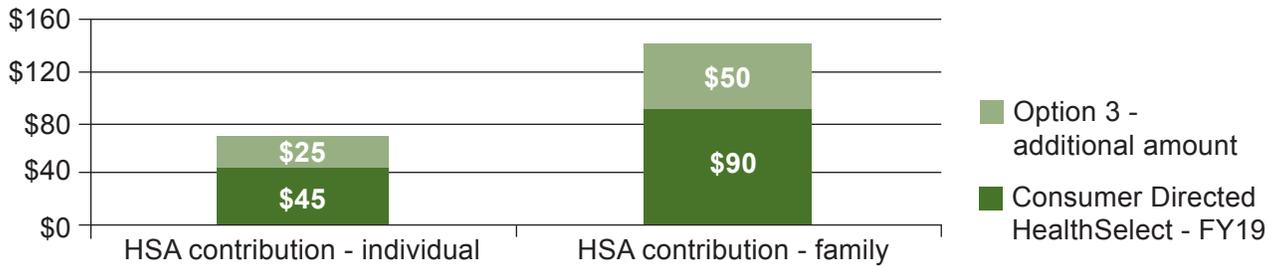
**Option 3: In-network deductibles
\$5,000 individual / \$10,000 family**



To offset this increased deductible, while maintaining the plan's required cost neutrality, the monthly state contribution to an HSA could be increased by \$25 to \$70 for an individual account, and by \$50 to \$140 for a

family account. On an annual basis, this amounts to an additional \$300 for an individual account and \$600 for a family account.

**Option 3: State's monthly HSA contribution
\$70 individual / \$140 family**

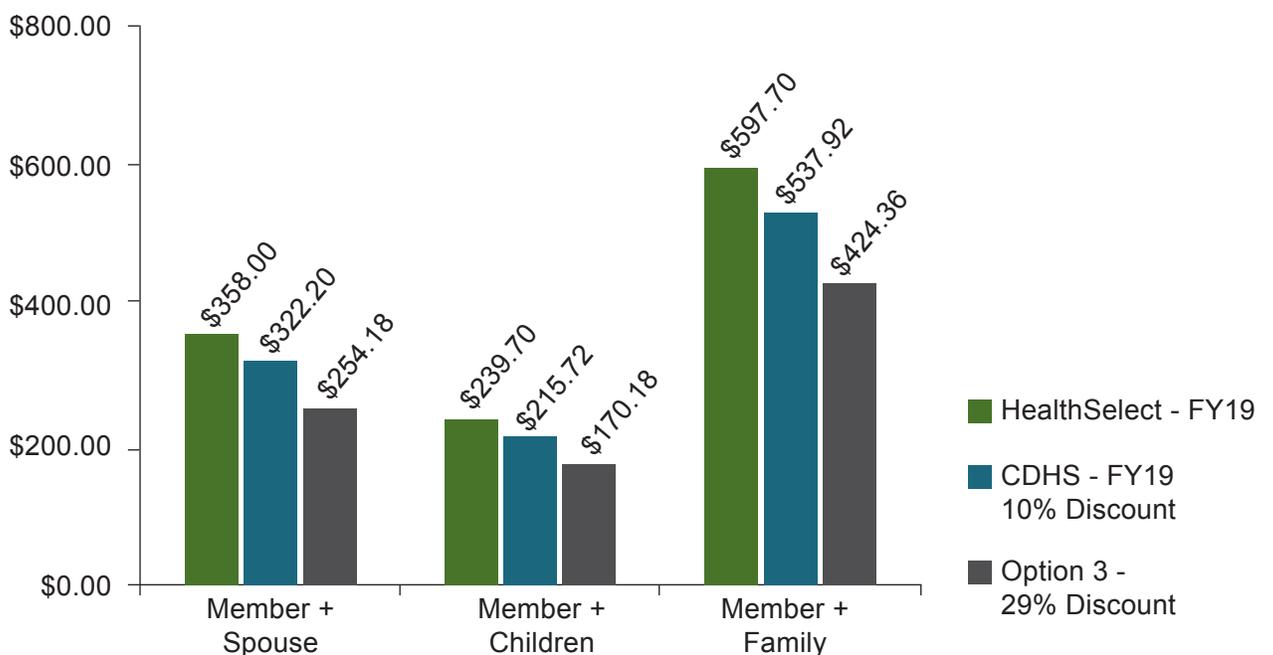


In lieu of increasing the state contribution to a member's HSA, the ERS Board of Trustees could discount the member contribution toward the dependent premium contribution rates 29% less than HealthSelect rates, instead of the current 10% discount. For example, applying Option 3 for Fiscal Year 2019 would result in the following additional member savings over the

existing Consumer Directed HealthSelect model for members covering dependents:

| | |
|--------------------|-----------------------------------|
| Member + Spouse: | \$68.02/month or \$812.24/year |
| Member + Children: | \$45.54/month or \$546.48/year |
| Member + Family: | \$113.56/month or \$1,362.72/year |

Option 3: Member's monthly dependent contribution rates (29% off HealthSelect)



Summary & Conclusion

The Consumer Directed HealthSelect plan, which was implemented on September 1, 2016, is a young plan with a steadily growing membership as new employees enroll and current employees become more aware of the plan.

Analysis of demographics revealed that the average member enrolled in the Consumer Directed HealthSelect plan is younger and earns a higher salary than the average member in either HealthSelect or the HMOs. Higher education employees make up a larger proportion of Consumer Directed HealthSelect enrollment (46%), compared to other plans (33%).

Among state employee enrollees, average employment tenure is shorter (3.8 years) than that of state employees in other plans (9.1 years). In other respects, the Consumer Directed HealthSelect plan membership looks similar to that in HealthSelect, including geographic concentration of members and coverage type, with more than half of all members across plans selecting member-only coverage.

Although the cost-sharing structure of Consumer Directed HealthSelect is, by design, unique among the plans, the covered services and coinsurance percentages are the same for most medical services. All plans cover in-network preventive services at 100%, regardless of a network deductible, and carry the same out-of-pocket maximums.

An analysis of 2017 Consumer Directed HealthSelect participants' health care costs and utilization data, compared to that of participants in HealthSelect and the HMOs, revealed that 44% of Consumer Directed HealthSelect enrollees with member-only coverage had no health care out-of-pocket costs, compared to roughly 16% of their counterparts in other plans. This reduced level of spending among the Consumer Directed HealthSelect population helps to account for the low median out-of-pocket cost per member per month (PMPM) of \$4 for those with member-only coverage, compared to those with member-only coverage in HealthSelect (\$33) and the HMOs (\$45).

During 2017, a higher percentage of participants in Consumer Directed HealthSelect met the out-of-pocket maximum than in other plans. This contributed to an

average out-of-pocket PMPM cost for a Consumer Directed HealthSelect member that was higher than the median amounts. For those with member-only coverage in 2017, the PMPM average cost was \$86, similar to the average PMPM cost in HealthSelect (\$87) but less than the HMOs (\$124). With out-of-pocket maximums at the same level across plans, a participant who anticipates meeting this maximum due to ongoing medical conditions or service needs might view the Consumer Directed HealthSelect plan as a favorable option, particularly with the benefit of savings with an HSA.

Among members enrolling in dependent coverage, less than 1% of those in HealthSelect and the HMOs met their out-of-pocket maximum. However, 5.24% of Consumer Directed HealthSelect members with dependent coverage met their out-of-pocket maximum, and their average out-of-pocket PMPM cost was higher (\$282) than that in other plans (\$187 in HealthSelect and \$191 in the HMOs).

During 2017, Consumer Directed HealthSelect participants took advantage of preventive services and chose generic drugs at similar rates to those in other plans. However, Consumer Directed HealthSelect participants visited emergency rooms considerably less often than participants in other plans. They also visited all medical providers²³ less often than participants in HealthSelect.

In comparing Consumer Directed HealthSelect to employer-sponsored HDHPs in other states and industries, the \$2,100 member-only deductible was found to be 20% higher than the median deductible for both state and private-sector HDHPs. The \$4,200 deductible for family coverage is 24% higher than the state median and 17% higher than the private-sector median. However, the employer contribution to the member's HSA was found to be in the median range with other plans.

²³ Total visits include all provider visits, including primary care physician, specialist, emergency room, and hospital stays.

Ultimately, the most effective structure for Consumer Directed HealthSelect depends on the state's goals for the plan. For example, if the goal is to increase enrollment by offering more incentives to member, the impact of a benefit design change on enrollment would require further research on the likely behaviors of those already enrolled in Consumer Directed HealthSelect and those who have elected not to enroll in the HDHP during the past two open enrollment periods. ERS plans to conduct more research into member views on the Consumer Directed HealthSelect plan in the coming year. Findings will be included in a statutorily required report due to the Legislature by January 1, 2020. The assessment will include actuarial impact, premium cost fluctuations, health care utilization rates and updated demographics of the enrolled population. The benefit of an additional year of plan experience will help to inform more robust conclusions.

Benefits account for more than a third of total compensation for the average state agency employee. Available evidence suggests that the Texas Employees Group Benefits Program health offerings effectively meet both the aggregate needs of employees and the intent of the Legislature. ERS is committed to working with members of the Texas Legislature to continuously evaluate employee benefits to ensure that plans remain cost-effective and affordable – balancing the needs of state employees and taxpayers to attract and retain a high-quality workforce for Texas.



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