

State-employee health insurance: Opportunities for reform



Naomi Lopez Bauman, Director of Health Policy

Executive summary

Illinois has a budget crisis. State workers' generous health-insurance benefits make up \$3 billion of the state's budget. Illinois government can continue to provide excellent health insurance to state workers while bringing the costs more in line with what is common in the private sector, and also what is compatible with the Affordable Care Act. By retooling the health-insurance offerings available to state workers, taxpayers stand to save \$1 billion while still offering a competitive, generous benefit.

State-government employees are provided generous health-insurance plans – often with no deductibles – and contribute only a small share toward that coverage.

State-government employees pay between \$68 and \$211 per month for individual coverage that is far more generous than almost every option currently being sold to the public. Coverage that includes two or more dependents is as low as \$132 per month and does not exceed \$287, depending on the type of plan selected and the employee's salary.

Overall, active state-government employees are paying approximately 17 percent of the total cost of health-insurance coverage for themselves and their dependents. That is a smaller share of the total than what a private-sector worker in Illinois might pay. For example, a worker participating in an employer-sponsored insurance plan, or ESI, contributed an average of 22 percent of premiums for individual coverage and almost 26 percent of premiums for family coverage in 2013.¹

Three changes must be made:

First, state-government employees should shoulder a larger share of their health-insurance coverage costs. Those costs should be tied to the actual health-care coverage costs, not salary.

Second, health-insurance plans for state-government workers should be brought closer in line with the coverage that average Illinoisans have access to, and the amount they pay for that coverage.

Third, workers should have an expanded range of plan choices, portability of coverage and an ability to establish employee-owned health savings accounts.

Introduction

The State Employees Group Insurance Program, or SEGIP, has a budget of almost \$3 billion for fiscal year 2015, which includes \$1.7 billion from the General Revenue Fund with the remaining \$1.3 billion coming from a variety of other sources, including member contributions and contributions from state colleges and universities.^{2,3} While active and retiree members, as well as dependents for both groups, participate in the program, this report only examines active members and their dependents.

Given the state's current spending crisis, as well as the program's \$1.5 billion in unpaid bills to health providers,⁴ state employees' generous health-insurance benefits are facing increasing scrutiny.

Despite some modest accommodations by state workers in their most recent contract negotiations, state-employee health premiums continue to be out of line with other states and with the vast majority of private-sector employers. Not only are the state-employee contributions lower than what the average Illinoisan pays for their own private or health-insurance exchange plans, but dependent coverage is just as generous as the employee's.

Furthermore, growing public dissatisfaction with the Affordable Care Act, or ACA, which the state-government employees' union enthusiastically supported both nationally and in Illinois,⁵ has only highlighted the variance between the health-insurance coverage options available to state-government workers and the Illinois taxpayers who fund them.

The current union contracts with the state expire in July, and contract negotiations are quickly approaching. The goal of negotiations related to health-insurance benefits must center on bringing these benefits in line with what the average Illinoisan pays for his or her own coverage, understanding that health benefits are an important component of an employee's total compensation.

SEGIP

Illinois' state-government employees are eligible to participate in the State Employees Group Insurance Program, or SEGIP. The program offers medical, dental, vision and life-insurance coverage for state employees, retirees and their dependents. This report focuses on the non-retiree medical coverage only. Retiree health-insurance coverage is not addressed in this report.

There are approximately 103,000 active employee plan members and 132,000 dependents participating in the SEGIP. Of that total, about 36,000 employees are sub-

ject to the state's collective-bargaining agreement with the American Federation of State, Federal, County and Municipal Employees, or AFSCME, which is the state's largest public-sector union.⁶ The remaining plan members include other state employees, state university employees, college insurance program enrollees, teachers and other local employees.⁷

For fiscal year 2015, state-government employees pay anywhere between \$68 and \$211 in insurance premiums per month, depending on which of the seven plan options they choose and their annual salary.⁸

Employee health-plan contributions for individual coverage

Employee annual salary	QCHP monthly employee contribution	Managed care/ monthly employee contribution
<\$30,200	\$93	\$68
\$30,201 - \$45,600	\$111	\$86
\$45,601 - \$60,700	\$127	\$103
\$60,701 - \$75,900	\$144	\$119
\$75,901 - \$100,000	162	\$137
\$100,001 +	\$211	\$186

Source: Illinois Department of Central Management Services

State health benefits vs. private-sector, employer-sponsored insurance in Illinois

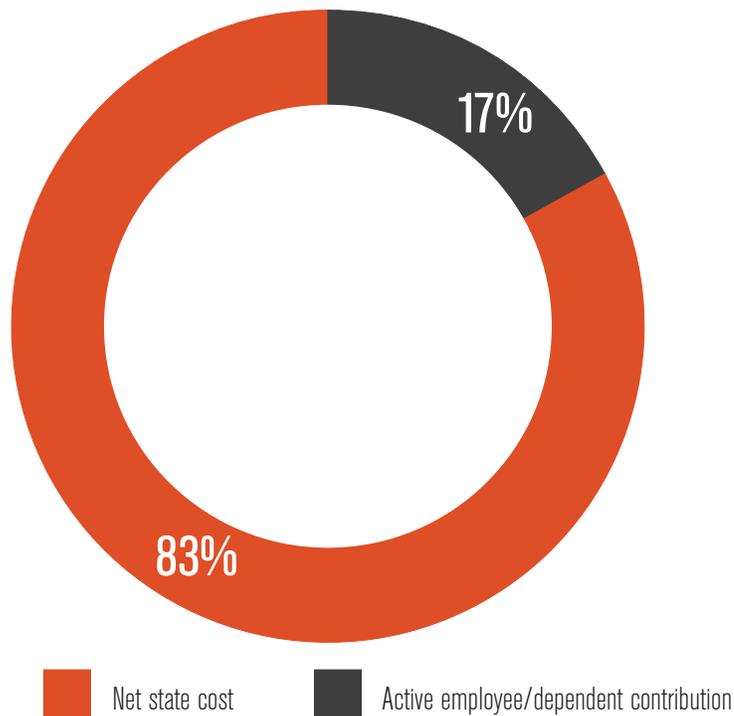
Individuals in the private sector are contributing a share that is 29 percent more for individual coverage and 53 percent more for family coverage than state-government workers contribute.⁹

Illinoisans who participated in private-sector, employer-sponsored insurance plans contributed an average of 22 percent of premiums for individual coverage and almost 26 percent of premiums for family coverage in 2013.¹⁰

For state-government employees, monthly premiums for both members and their dependents are the equivalent of about 17 percent, or one-sixth, of the total health-insurance premium. State tax funds cover the remaining 83 percent.¹¹

IL taxpayers foot the bill for health-insurance premiums

State employee/dependent costs and contributions for fiscal year 2014

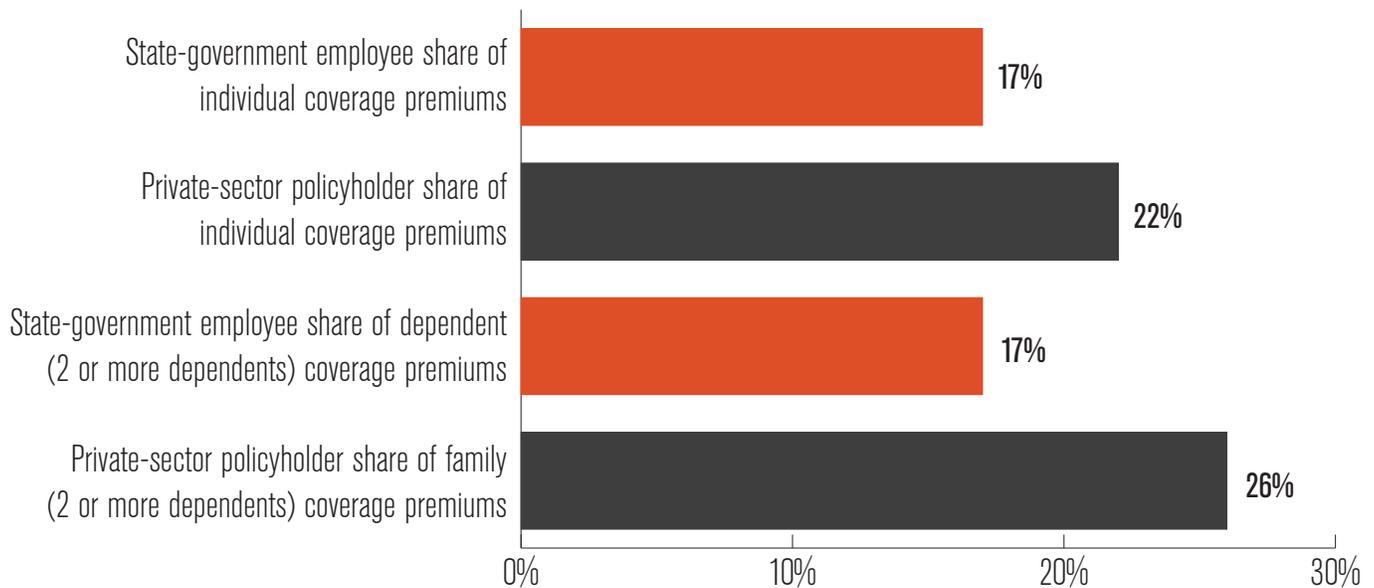


Source: Author's calculations, Commission on Government Forecasting and Accountability

Even before accounting for the fact that the state health-insurance plans are some of the most generous available, these state-government workers pay a far smaller share for superior coverage than their private-sector neighbors.

State-government workers get a better deal on premiums

Average share of health-insurance premiums, state employee vs. average private-sector worker in IL



Sources: Author's calculations, Commission on Government Forecasting and Accountability, Agency for Healthcare Research and Quality

Per the AFSCME contract with the state of Illinois, employees who are laid off are eligible to receive full health, dental and vision coverage with full premiums for the employee and dependents paid by the state. Employees receive one month of paid premiums for every year of service from a minimum of six months to a maximum of 24 months.¹² Should the state of Illinois be forced into imposing future layoffs, this is another fringe benefit that should be explored and brought in line with the private sector.

As part of the AFSCME collective-bargaining agreement with the state, contribution amounts for employee and dependent contributions are adjusted annually and are tied to salary thresholds. Those thresholds are adjusted based on the Consumer Price Index, not the actual cost of providing health insurance to workers.¹³ As a result, state-government employees' contributions have been kept artificially low compared to the rising health-plan costs. Taxpayers have been forced to absorb the higher costs.

In addition, the premium contributions are regressive and in direct opposition to the union's claim of wanting the rich to "pay their fair share."¹⁴ For example, state-government employees earning more than \$100,00 per year are only paying 2.3 to 2.7 times the premium contribution required by those state-government employees earning less than \$30,200 per year. Lower-wage state employees might pay about 3.7 percent of their annual salary for individual health-insurance coverage while the highest-paid state-government employees could pay about 2 percent.¹⁵

Plan quality

Not only do taxpayers pay the lion's share of both employee and dependent coverage premiums, the plan coverage options are lavish. Plans are rated by "actuarial value," which refers to how much of the total medical expenses the plan pays across all of its plan membership.

The average actuarial value of Illinois' plans is 93 percent. This is exceptionally generous. In 2013, 80 percent of Illinois state employees participating in a SEGIP plan were enrolled in a plan with a \$0 deductible. And no state plan had an individual plan deductible of \$1,500 or more.¹⁶

Compare that to the private sector, where in 2013, 85 percent of employees were enrolled in plans with a deductible.¹⁷ The average private-sector deductible was \$1,301 for individual coverage and \$2,584 for family coverage.¹⁸

The average Illinois state-employee option in 2013 had a higher actuarial value – in other words, a plan that would pay a greater share of medical claims – than any option now available on the health-insurance exchange that was established by the ACA, commonly known as ObamaCare.¹⁹

The ACA exchange plans have actuarial values of 60, 70, 80 or 90 percent and are categorized under "metal tiers." The average actuarial value across the SEGIP plans is higher than the most generous ACA exchange plan. Put another way, the average state-employee plan is so generous that it is not available as an ACA-compliant plan.

Actuarial value of ACA health-insurance plans vs. average Illinois SEGIP plan

Plan	Actuarial value*
ACA bronze	60 percent
ACA silver	70 percent
ACA gold	80 percent
ACA platinum	90 percent
Average of Illinois state-employee plans	93 percent**

*A variation of +/- 2 percent is allowed for each ACA metal tier.

**The average actuarial value of the Illinois SEGIP plans was calculated using Milliman's actuarial valuation calculation tool, which may vary slightly from the U.S. Department of Health and Human Services actuarial valuation tool.

Source: U.S. Department of Health and Human Services, The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation

The stunningly high value of the state's high-end health-insurance plans are set to trigger an excise tax on the value of these plans. Commonly known as the "ObamaCare Cadillac tax," the ACA imposes a 40 percent excise tax on employer plans with a value above \$10,200 for an individual plan and \$27,500 for a family plan. For health coverage provided through collective-bargaining agreements, the \$27,500 threshold applies to both individual and family plans.²⁰ Since the Cadillac tax takes effect in 2018, which is just one fiscal year after the upcoming budget, some state-employee health plans will be subject to this tax if values are not reduced.²¹

According to the state's own actuarial report, health-care costs are already expected to increase by 5 percent in future years. However, the Cadillac tax is predicted to cause health-insurance costs to increase at a higher rate of 5.6 percent.²²

Instead of passing these cost increases on to their employees, private-sector employers are offering less generous plan options to avoid the Cadillac tax.²³ The state of Illinois should follow suit in order to avoid this harsh penalty. The 40 percent excise tax on insurance plans will be passed on to Illinois taxpayers and offers no additional health benefits to state-government employees. The purpose of this excise tax is to upend the most lavish of health plans. There is no reason that state taxpayers should bear any of these additional costs.

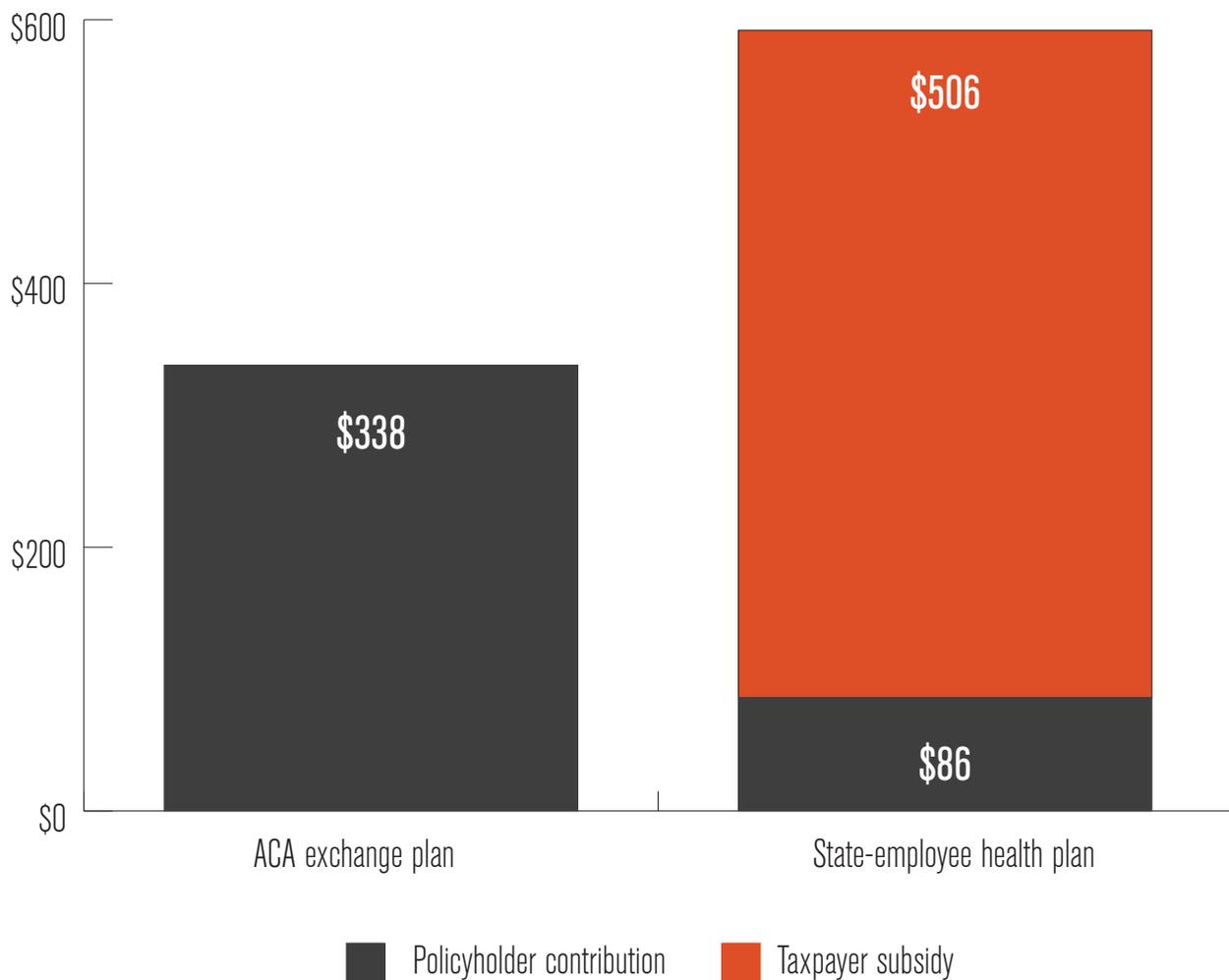
How SEGIP compares

To roughly illustrate what someone purchasing health insurance on their own would spend for a state-employee plan of roughly comparable quality, this report examined monthly health-insurance premiums for families in three scenarios, all with a \$40,000 per year income, and compared them to a state-employee managed care plan.

In the first scenario, the individual purchasing similar coverage privately receives no federal subsidy for their coverage. The state employee pays about one-fourth of what the Illinois individual pays for similar coverage.

Scenario 1

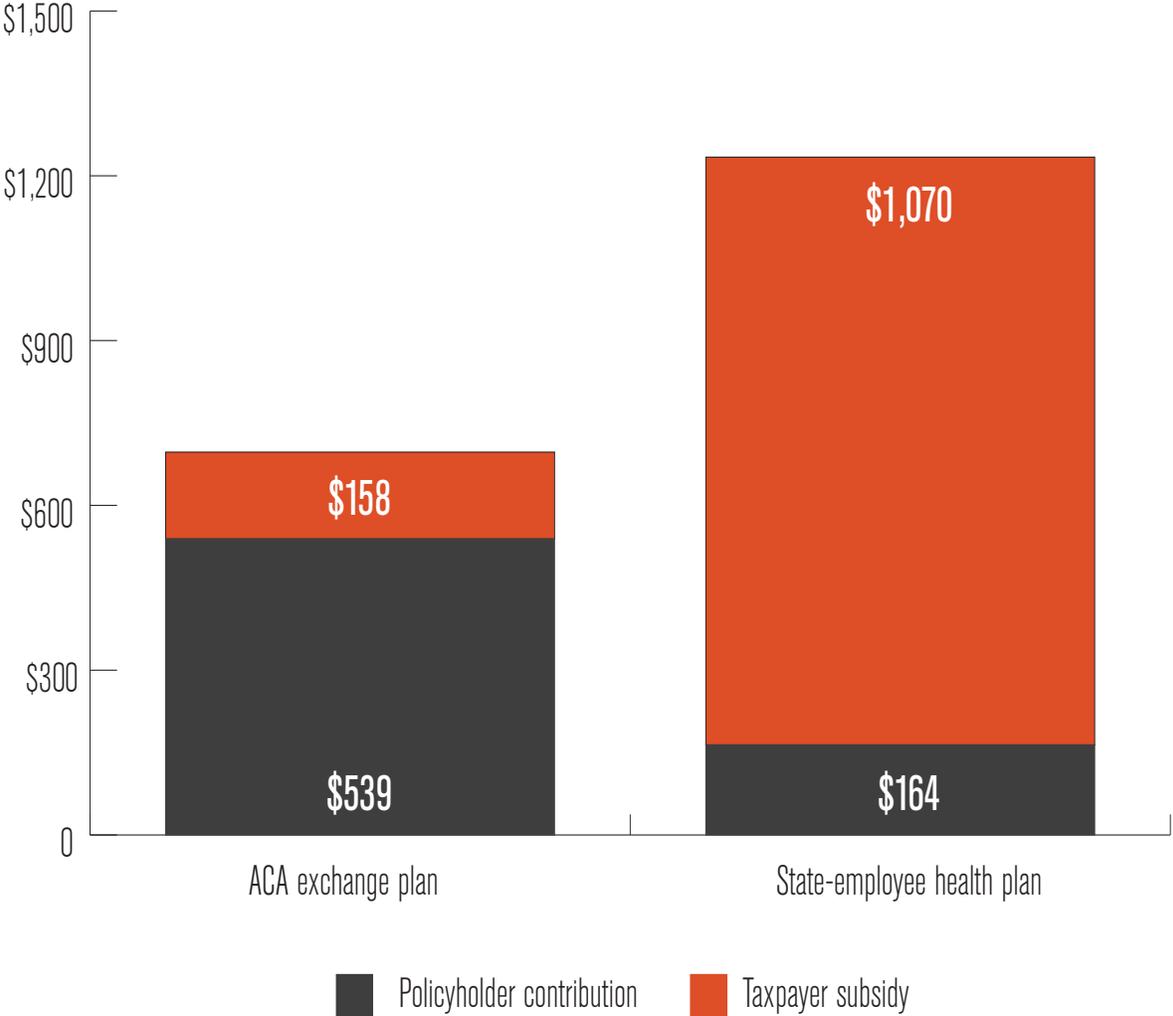
Monthly premiums for a single, 40-year-old nonsmoker with \$40,000 annual income enrolled in mid-priced ACA-compliant platinum plan vs. SEGIP managed care plan



Source: Author's calculations based on mid-level platinum plan for scenario policyholder

Scenario 2

Monthly premiums for married, 40-year-old, nonsmoking couple with \$40,000 annual income enrolled in mid-priced ACA-compliant platinum plan vs. SEGIP managed care plan

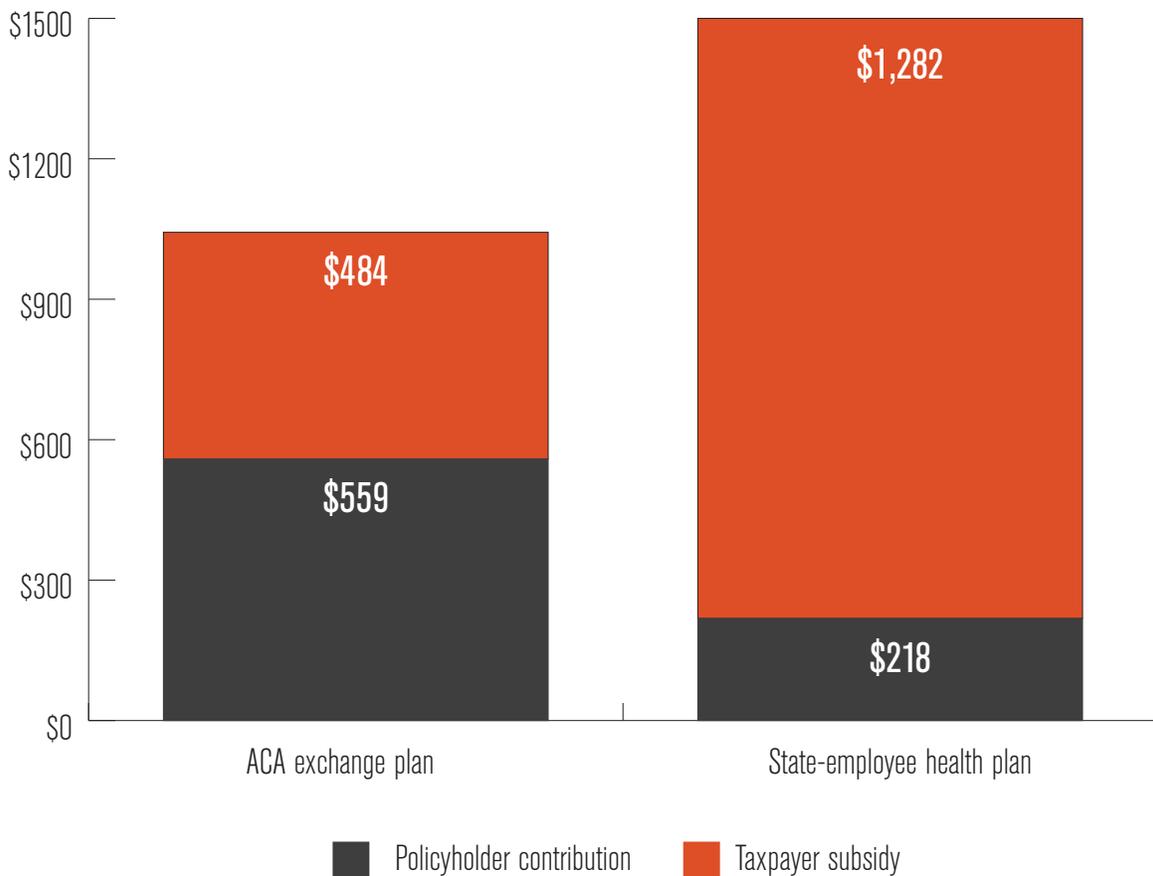


Source: Author's calculations based on mid-level platinum plan for scenario policyholder

In the second scenario, the married couple receives a subsidy that covers about 23 percent of the total premium. Under a similar state-government employee health plan, the state-government worker pays less than one-third of what the Illinois couple pays for a similar plan.

Scenario 3

Monthly premiums for married, 40-year-old, nonsmoking couple with two children with \$40,000 annual income enrolled in mid-priced ACA-compliant platinum plan vs. SEGIP managed care plan



Source: Author's calculations based on mid-level platinum plan for scenario policyholder

In the third scenario, the family receives a subsidy that covers about 43 percent of the total premium. Under a similar state-government employee health plan, the state-government worker pays less than half of what the Illinois family pays for a similar plan.

In each of these scenarios, the state-government worker is getting a far better deal than many of the Illinoisans who are purchasing coverage on their own. Not only do the state's health-benefits packages offer much richer benefits than the average Illinoisan receives, state-government employees are paying a much smaller share for these benefits.

Recommendations

Despite a severe spending crisis and an anemic economy, Illinois' active state employees and their dependents enjoy some of the most generous health-insurance benefits in the country. The state is spending almost \$3 billion in fiscal year 2015 for health-insurance benefits for active and retiree members and their dependents, with about \$1.7 billion

coming from general revenues and the remaining \$1.3 billion coming from a variety of other sources, including member contributions.²⁴

Not only are the state-employee contributions lower than what the average Illinoisan pays for their own private or health-insurance exchange plans, but dependent coverage is every bit as generous as the employee's.

That is why Illinois should:

1. Realign premium sharing

- Provide a health-insurance benefit based on a specified dollar amount, rather than a percentage of the total plan cost. This would also make these costs more manageable from year to year, as well as provide more transparency as far as the total value of state-government employees' compensation packages.
 - Providing a flat-rate contribution for active employees of \$4,000, indexed for inflation, could save more than \$1 billion per year in general revenue funds.
 - A flat-rate contribution of \$3,500 for active employees plus \$1,000 for dependents could save more than \$900 million per year in general revenue funds.
- Increase employee and dependent cost sharing to more closely align with the private sector.
 - Increasing active employee and dependent cost sharing to 25 percent for individual and dependent plans, for example, could save the state \$135 million per year in general revenue funds.

It should be noted that, under current ACA law, the state of Illinois would be subject to an "employer shared responsibility payment" of about \$2,000 per employee (full-time at 30 or more hours per week) who enrolled in the federal health-insurance exchange if they were not offered qualified and affordable coverage by the state.²⁵ The cost of the shared responsibility payment would be just over \$200 million per year, but the cost of providing health insurance to current employees would disappear.

2. Realign plan coverage

- The state can no longer afford to provide overly generous health-insurance plans, especially when those plans are better than what is being offered to the average Illinoisan.

- More savings will be realized if individual and dependent coverage take-up rates decline. For example, some state employees and their dependents might choose other options, such as a spouse's employee-sponsored insurance or coverage in the federal health-insurance exchange.
- If any ObamaCare "Cadillac taxes" are triggered because plan values are not re-aligned, those costs should become the responsibility of state-government employees, not Illinois taxpayers.

3. Advance consumer-driven options

- Rather than simply limiting plan choices to lower-cost options in an effort to better control the state's costs, allowing for more consumer-driven health plans could provide a superior alternative by giving employees more options for selecting the plan that best fits their needs and preferences.
 - The state should offer innovative health-coverage approaches, such as health savings accounts and health reimbursement arrangements, that would allow state employees more control and true ownership over their health-care benefits while reducing costs.
 - The state of Indiana has already charted a course on this approach. The state currently offers two consumer-driven health plan options, as well as one PPO plan.²⁶

These approaches would not only assist the state in controlling and predicting health-insurance costs, it should also provide for more innovative and numerous options for employees.

Conclusion

Illinois state employees should pay a larger share of their health-insurance costs, but they should also have more choice and control over their plans. Providing flat-rate contributions for active employees and their dependents could save the state \$1 billion per year.

Consumer-driven health-insurance options, such as health savings accounts, health reimbursement arrangements and other defined-contribution plans should be additional options. This step would require nothing more than making these options available under the state health-insurance plan.

The path Illinois takes will have far-reaching effects on the state's fiscal health, as well as on the burden that taxpayers have been asked to bear.

Endnotes

¹ Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2013 Medical Expenditure Panel Survey-Insurance Component, Tables X.C, X.C.1, X.D, and X.D.2 at meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_10/2013/ic13_xc_e.pdf

² CMS estimates the program liability at \$2.6 billion for fiscal year 2015 and COGFA estimates it to be \$2.7 billion. Commission on Government Forecasting and Accountability, "FY 2015: Liabilities of the State Employees' Group Health Insurance Program," March 2014, p. 2 at cgfa.ilga.gov/Upload/FY2015GroupInsuranceReport.pdf

³ Commission on Government Forecasting and Accountability, "FY 2015 Liabilities of the State Employees' Group Health Insurance Program," March 2014, p. 5 at cgfa.ilga.gov/Upload/FY2015GroupInsuranceReport.pdf

⁴ There is approximately \$1.5 billion in additional unpaid bills to providers, which are often paid many months late due to the program's ongoing budget shortfalls. This liability is often rolled over to the next fiscal year. According to the state's own estimate, it takes the state approximately seven months to pay managed care providers. Payments for non-preferred medical providers can exceed one year. Commission on Government Forecasting & Accountability, "FY 2015 Liabilities of the State Employees' Group Health Insurance Program," March 2014, p. 1 at cgfa.ilga.gov/Upload/FY2015GroupInsuranceReport.pdf

⁵ See, for example, Council 31 AFSCME at afscme31.org/news/what-health-care-reform-means-for-illinois and AFSCME at afscme.org/issues/health-care/resources/document/What-Does-the-ACA-Mean-for-You.pdf

⁶ Hegy, Justin, "Looming AFSCME Negotiations Means Big Battle for Illinois' Next Governor," Illinois Policy Institute, May 14, 2014, at illinoispolicy.org/looming-afscme-negotiations-means-big-battle-for-illinois-next-governor

⁷ Commission on Government Forecasting and Accountability, "FY 2015 Liabilities of the State Employees' Group Health Insurance Program," March 2014, p. 24 at cgfa.ilga.gov/Upload/FY2015GroupInsuranceReport.pdf

⁸ Illinois Department of Central Management Services, "FY2014 and FY2015, Employee Health Contributions" at <https://www2.illinois.gov/cms/Employees/benefits/StateEmployee/Pages/FY2014Rates.aspx>

⁹ Author's calculations, Commission on Government Forecasting & Accountability, "FY 2015 Liabilities of the State Employees' Group Health Insurance Program," March 2014, p. 15 at cgfa.ilga.gov/Upload/FY2015GroupInsuranceReport.pdf and Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2013 Medical Expenditure Panel Survey-Insurance Component, Tables X.C, X.C.1, X.D, and X.D.2 at meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_10/2013/ic13_xc_e.pdf

¹⁰ Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2013 Medical Expenditure Panel Survey-Insurance Component, Tables X.C, X.C.1, X.D, and X.D.2 at meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_10/2013/ic13_xc_e.pdf

¹¹ Author's calculations, Commission on Government Forecasting & Accountability, "FY 2015 Liabilities of the State Employees' Group Health Insurance Program," March 2014, p. 15 at cgfa.ilga.gov/Upload/FY2015GroupInsuranceReport.pdf

¹² AFSCME Labor Contract with the State of Illinois, Appendix A, Section 11, p. 14 at www2.illinois.gov/cms/Employees/Personnel/Documents/emp_afscme_chg_appendixA.pdf

¹³ AFSCME Labor Contract with the State of Illinois, Appendix A, Section 11, p. 1 at www2.illinois.gov/cms/Employees/Personnel/Documents/emp_afscme_chg_appendixA.pdf

¹⁴ See afscme31.org/pdfs/We-can-build-A-Better-Illinois.pdf

¹⁵ Author's calculations based on Illinois Department of Central Management Services, "FY 2014 and FY 2015 Rates, Employee Health Contributions" at www2.illinois.gov/cms/Employees/benefits/State-Employee/Pages/FY2014Rates.aspx

¹⁶ Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, "State Employee Health Plan Spending: An examination of premiums, cost drivers, and policy approaches," August 2014, p. 35 at pewtrusts.org/~media/Assets/2014/08/StateEmployeeHealthCareReportSeptemberUpdate.pdf?la=en

¹⁷ Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2013 Medical Expenditure Panel Survey-Insurance Component, Table II.F.1. at meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2013/ic13_jia_f.pdf

¹⁸ Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2013 Medical Expenditure Panel Survey-Insurance Component, Tables II.F.2. and II.F.3. at meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2013/ic13_jia_f.pdf

¹⁹ U.S. Department of Health and Human Services, "Actuarial Value Calculator Methodology," at <https://cms.gov/CCIIO/Resources/Files/Downloads/av-calculator-methodology.pdf> and The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, "State Employee Health Plan Spending: An examination of premiums, cost drivers, and policy approaches," August 2014, p. 35 at pewtrusts.org/~media/Assets/2014/08/StateEmployeeHealthCareReportSeptemberUpdate.pdf?la=en. The average actuarial value of the Illinois SEGIP plans was calculated using Milliman's actuarial valuation calculation tool, which may vary slightly from the U.S. Department of Health and Human Services actuarial valuation tool. A variation of +/- 2 percent is allowed for each ACA metal tier, which means that a plan with an actuarial value of more than 92 percent is non-compliant.

²⁰ Troy, Tevi D. and Wilson, D. Mark, "The Impact of the Health Care Excise Tax on U.S. Employees and Employers," American Health Policy Institute, 2014 at americanhealthpolicy.org/Content/documents/resources/Excise_Tax_11102014.pdf

²¹ Gabriel, Roeder, Smith & Company, "Illinois State Employees Group Insurance Program, GASB no. 45 Actuarial Valuation Report," as of June 30, 2013, p. 1 at cgfa.ilga.gov/Upload/SEGIP_GASB45_2013_Final.pdf

²² Gabriel Roeder Smith & Company, "Illinois State Employees Group Insurance Program, GASB no. 45

Actuarial Valuation Report," as of June 30, 2013, p. 4 at cgfa.ilga.gov/Upload/SEGIP_GASB45_2013_Final.pdf

²³ Troy, Tevi D. and Wilson, D. Mark, "The Impact of the Health Care Excise Tax on U.S. Employees and Employers," American Health Policy Institute, 2014 at americanhealthpolicy.org/Content/documents/resources/Excise_Tax_11102014.pdf

²⁴ CMS estimates the program liability at \$2.6 billion for fiscal year 2015 and COGFA estimates it to be \$2.7 billion. Commission on Government Forecasting and Accountability, "FY 2015: Liabilities of the State Employees' Group Health Insurance Program," March 2014, p. 2 at cgfa.ilga.gov/Upload/FY2015GroupInsuranceReport.pdf

²⁵ Federal Register, Feb. 12, 2014, vol. 79. no. 29, at gpo.gov/fdsys/pkg/FR-2014-02-12/pdf/2014-03082.pdf

²⁶ Invest in Your Health Indiana, "Health Plan Options" at investinyourhealthindiana.com/openenrollment/consumer-driven-health-plans

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