FY10 House 1 Budget Recommendation:
Policy Brief
Deval L. Patrick, Governor
Timothy P. Murray, Lt. Governor

Health Benefit Contribution Reform - H.1 Revised

Governor's Proposal

Active Employee Contribution

Health care related costs are the largest and fastest growing component of the state budget. Cost containment must be addressed as the Commonwealth seeks to invest not only in health care, but education, environment, and other important areas.

According to the Kaiser Family Foundation and Health Research and Educational Trust 2008 Employer Health Benefits Survey, workers contribute on average 16% for individuals and 27% for families to their health coverage[1]. In Massachusetts, state employees' contributions are tied to date of hire, with employees hired before June 30, 2003 contributing 15% to their health coverage and employees hired after that date contributing 20%.

While the Patrick-Murray Administration recognizes the importance of acknowledging state employees' commitment to public service, this is a generous benefit that cannot be sustained. In the H.1 budget recommendation filed on January 28, 2009, the Administration proposed a change to the schedule by which employees contribute to their own health care costs that was based on annual salary, rather than the date on which the employee was hired. The proposal included employee contributions ranging from 15% to 25%, with employees whose salaries are below $35,000 contributing 15% to their health care costs and employees whose salaries above $50,000 contributing 25%. This reform was designed to improve both the fairness of the system and the Commonwealth's ability to continue to offer health benefits in the future. The H.1 proposal assumed over $60 million in savings related to the employee contribution tiering initiative.

In light of a deteriorated fiscal picture, H.1 revised builds on this proposal, offering the same benefits of fairness to employees while achieving greater savings to the Commonwealth. Under this revised proposal, employees will still contribute based on the same income categories; however, the employee contribution will be increased by 5% above the levels proposed in H.1.

Salary Level	H. 1 Employee Contribution	H.1 Revised Employee Contribution
Less than $35,000	15%	20%
$35,000 to $50,000	20%	25%
$50,000 or More	25%	30%

The revised proposal achieves over $18 million in additional savings for the Commonwealth above what was assumed in H.1. Under this proposal, the premium contributions for 7,000 employees will remain unchanged while 14,300 employees will see their contribution ratios increase by five percentage points. A five percent increase represents an increase of approximately $25 for the most popular individual plans and $60-$65 for family coverage under those same plans. Nearly 60,000 employees will see an increase in contribution ratio of at least 10 percentage points.

To achieve the same level of savings without reforming the system, the Group Insurance Commission would need to increase cost sharing requirements far in excess that might be proposed to address normally rising costs. For example, co-payments would need to double for most plans, increasing to more than $30 or more for primary care office visits and more than $1,000 or more for most inpatient admissions. This level of out-of-pocket spending would make the Commonwealth an outlier among employers who offer insurance. In 2008,

[1] Kaiser Family Foundation and the Health Research and Educational Trust, *2008 Employer Health Benefits Survey*

the average co-payment for primary care among insured workers was $19 and, among individuals who pay a co-payment for inpatient care, the average co-payment was $219[2]. The significant increases in patient cost sharing would impact the sickest enrollees who access care regularly.

Given the options for reducing employee health care costs, changing the employee contribution rates provides the most equitable proposal for reform. Tiering aligns the Commonwealth with levels of employer-sponsored health benefits in other sectors of our economy, and better positions the state to be able to continue to provide comprehensive health insurance to its workers.

Healthcare Contribution Incentive Program

Currently, retirees contribute between 10-15% to their health care costs, based on the date of retirement. In an Outside Section, H.1 Revised includes language to offer incentive to employees who are eligible for retirement to accept it by increasing this contribution to 20% prospectively, for employees who file for retirement date on or after October 1, 2009.

The Patrick-Murray Administration appreciates the important work and dedication from each of its employees. Given reductions in line items across the budget, it will be necessary to reduce the number of state employees in fiscal year 2010. Understanding that this will have an impact on every employee, the Administration would like to give the opportunity for employees to consider their own personal circumstances and determine if it is appropriate to accept retirement now. Offering an incentive to employees who may be able to accept retirement will help to reduce the number of involuntary layoffs that will be necessary in fiscal year 2010.

[2] Kaiser Family Foundation and the Health Research and Educational Trust, *2008 Employer Health Benefits Survey*