



## RISING HEALTH INSURANCE PREMIUMS IN TEXAS REINFORCE NEED FOR NATIONAL HEALTH REFORM

Texans with health insurance today through their jobs stand to benefit greatly from national health reform that makes coverage more affordable, stable, and secure for employers, employees, and employees' families. Compared to other states, Texas has a low percentage of employers who offer health insurance coverage and the share of Texas businesses providing job-based coverage has been in decline since 2005, well before the current recession. Texas premiums doubled over the last decade, and projections show they will double again by 2020 absent meaningful reform. Premium increases hit small employers especially hard, with some in Texas paying exorbitant premiums many times the average rates. With premium growth far outpacing income growth, employer-sponsored health insurance becomes less affordable and secure every year. This Policy Page examines trends related to employer-sponsored health insurance and ways national health reform can shore up employer-sponsored health insurance to establish stable and secure coverage Texans can count on.

- **Texas' smallest businesses—those with fewer than 10 employees—pay \$1,400 a year more on average for health insurance than the same-sized businesses across the U.S.**
- **Premiums in Texas doubled over the last decade and are projected to double again by 2020.**
- **If reform slows premium growth by 1 percentage point, Texans could save \$2,500 a year on family premiums by 2020.**

### Texas Stands to Gain Most from National Health Reform

Just under half of Texans have employer-sponsored health insurance—health benefits connected to their job or spouse's job, or for children, coverage through their parent's job (Figure 1). Access to health insurance through jobs provides an important link to coverage for millions of Texans, but that coverage is increasingly expensive and uncertain. Employees can lose access to coverage if they lose their job, change jobs, or choose to start their own business.

Rapidly rising health insurance costs make it difficult for employers and employees to maintain coverage. As premiums skyrocket, the percentage of employers offering coverage declines, and employers who can maintain coverage have scaled back benefits and shifted more costs to employees through higher deductibles and co-payments. The health insurance status quo results in rapidly escalating, unsustainable costs, especially for low- and middle-income Texans and small businesses.

With the highest uninsured rate in the nation, one of the lowest proportions of employers offering coverage, and relatively high premiums paid by our smallest businesses, Texas stands to gain more than other states through national health reform.

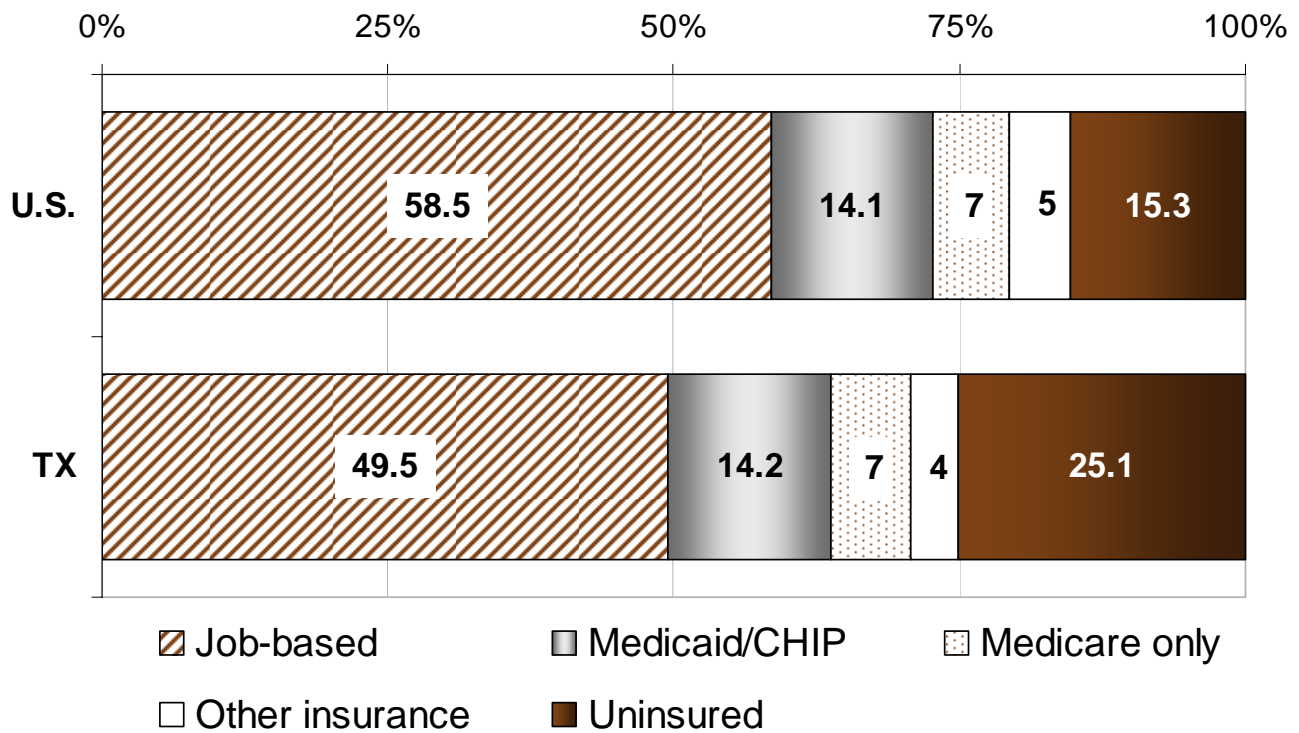
## The Cost of Health Insurance

The most recent data on premiums for employer-sponsored health insurance show that in 2008, the average annual premium in Texas cost about \$12,000 for family coverage and \$4,200 for employee-only coverage (this total cost includes both the employee and employer shares of the premium). On the whole, Texas employers and employees paid premiums that were just below the national averages of about \$12,300 for family coverage and \$4,400 for employee-only coverage. But Texas' smallest businesses—those with fewer than 10 employees—pay

\$13,032 per year for family premiums, much more than the U.S. average of \$11,650 per year for same-sized businesses.<sup>1</sup>

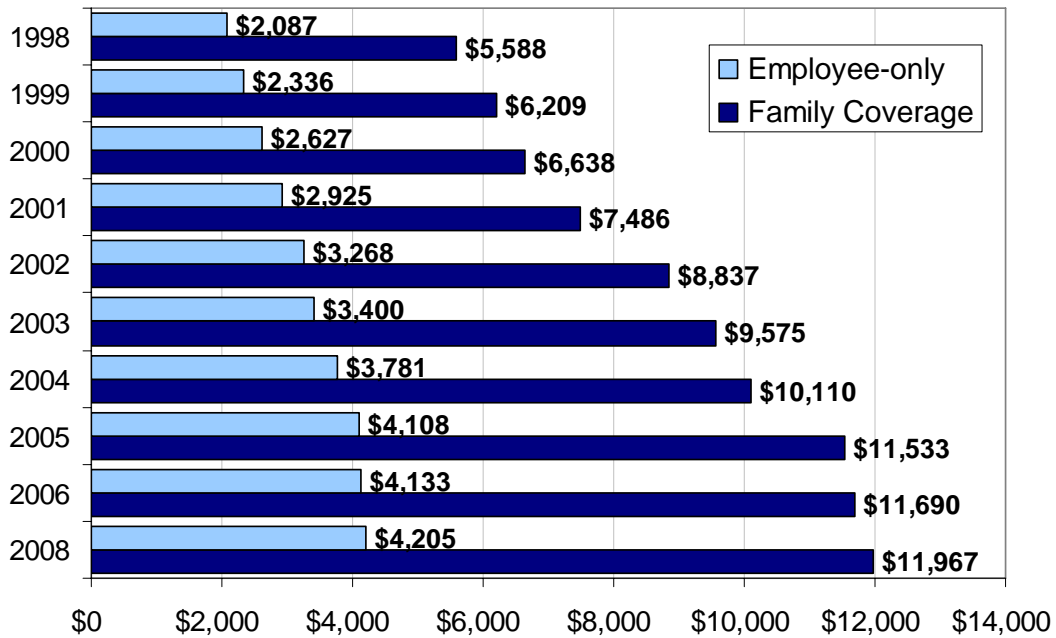
Employers and workers in the three largest metropolitan areas in the state, Dallas/Fort Worth, Houston, and San Antonio, pay higher premiums than those in other areas of the state. In 2008, San Antonio had the highest average premiums, with \$12,602 a year for family coverage compared to \$12,332 in Dallas/Fort Worth; \$11,828 in Houston; and \$11,815 in the rest of the state.<sup>2</sup>

Figure 1: Texans Less Likely Than Other Americans to Have Employer-Sponsored Insurance  
Insurance Status in 2008, U.S. and Texas (All Ages)



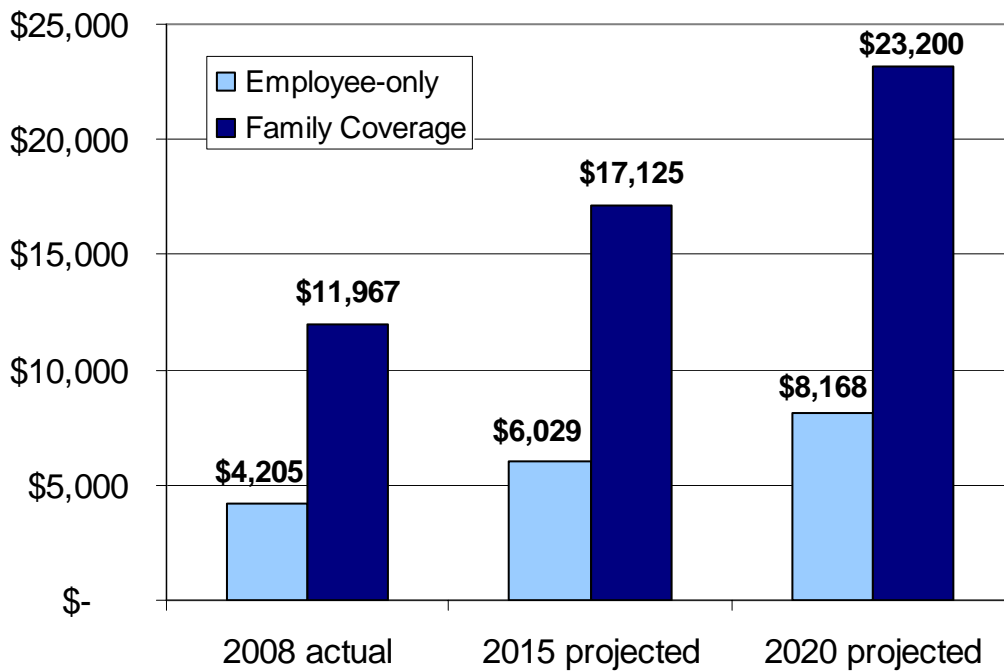
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2009

Figure 2: Texas Premiums Have More Than Doubled In the Last Decade  
 Average Annual Private Sector Employer-sponsored Health Insurance Premiums, Texas, 1998-2008



Source: Agency for Healthcare Quality and Research, Medical Expenditure Panel Survey-Insurance Component. Note: MEPS data were not collected in 2007.

Figure 3: Texas Premiums Projected to Nearly Double by 2020  
 Average Annual Private Sector Employer-sponsored Health Insurance Premiums, Texas



Source: The Commonwealth Fund, "Paying the Price: How Health Insurance Premiums Are Eating Up Middle-Class Incomes," August 2009.

## Growing Premiums Increase Burden on Employers and Families

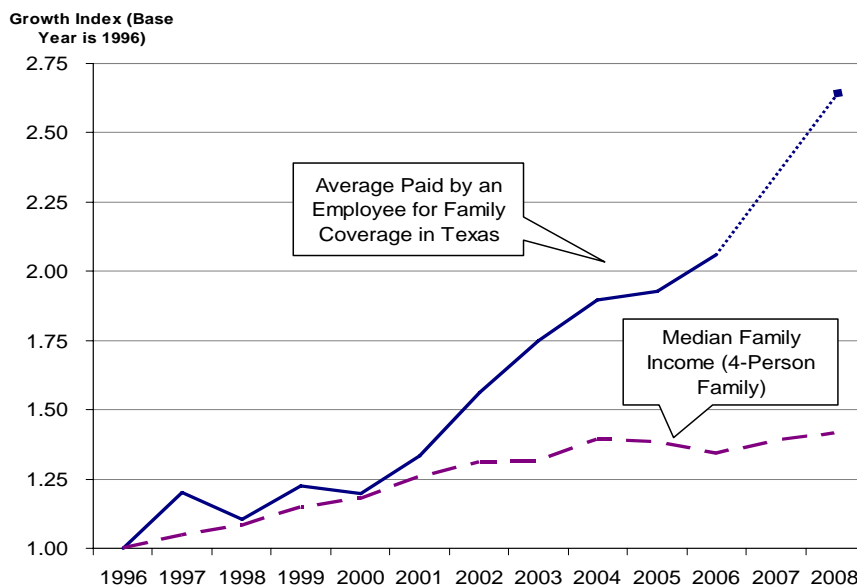
Texas premiums more than doubled over the last decade (Figure 2). If no meaningful reforms are passed to slow the growth in health care costs, projections show premiums nearly doubling again by 2020 (Figure 3).<sup>3</sup> This rate of increase is unsustainable for both families and employers. For employers, constant premium growth slows or prevents other investments in their business, while employees see more and more of their paychecks eaten up by health insurance premiums.<sup>4</sup>

Increasing premiums also contribute to the stagnating wages many middle-class families in Texas and across the nation faced this decade. Wages and health benefits are both part of an employee's total compensation. To pay for the rapid rise in premiums, employers redirect money that otherwise could go to raises or retirement contributions. In general, employers directly pay for a sizeable share of job-based premiums, but in effect, employees indirectly bear much of the burden of premiums through lower wages and salaries. Employees have maintained health benefits as premiums skyrocketed through sacrifices in wage growth.<sup>5</sup>

Premiums are increasing much faster than incomes, making health insurance less affordable every year (Figure 4). From 2000-2009, health care premiums grew 4.6 times faster than median incomes in Texas, leaving middle-income families further behind each year.<sup>6</sup> Looking at premiums as a percentage of income is another way of measuring the burden of premiums on middle-class working families. As noted above, households do not directly pay the full cost of employer-sponsored health insurance premiums but indirectly shoulder much of the cost of coverage through foregone wages and other benefits. In Texas in 2008, the cost of employer-sponsored health insurance premiums accounted for 19.3 percent of the median household income for the under-65 population, up from 18.4 percent in 2003.<sup>7</sup> This figure only includes account premiums; families also must pay for out-of-pocket medical costs like deductibles, co-payments, and costs of medical care not covered by insurance. Compared to other states, Texas has the 6<sup>th</sup> highest premiums as a percentage of income.

If these trends continue, rising health insurance premiums will force more families and small employers to drop coverage.

Figure 4: Health Insurance Premiums Less Affordable Every Year  
Growth Rate of Premiums Compared to Incomes in Texas, 1996 to 2008



Source: Georgetown University Center for Children and Families; Medical Expenditure Panel Survey-Insurance Component; and U.S. Census Bureau.  
Note: MEPS data were not collected in 2007. Change in employee contribution for coverage from 2006 to 2008 shown by the dotted section of the premium line.

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## Small Employers Face Significant Premium Variation

Looking at *average* premiums helps one consider trends and make comparisons, but average premiums mean nothing to employers and families if they do not qualify for the average rate. Premiums for small businesses—those with two to 50 employees—vary enormously due to lax state insurance laws in Texas. Like most states, Texas uses “rate bands” to help spread risk for small businesses by limiting overall premium variability between the lowest and highest risk groups based on six rating factors: the health status, age, and gender of employees and the business’ location, number of employees, and type of industry.<sup>8</sup> The rate bands established by the Legislature in Texas, however, are “looser” than in most states and allow premiums to vary by a factor of 25:1 or greater.<sup>9</sup> In other words, a “high-risk” small business may pay \$25,000 or more a year for the same policy a “low-risk” small businesses buys for \$1,000 a year.

The Texas Department of Insurance (TDI) collects data from health insurance companies on average and maximum per-person premiums being paid by small and large employers. The data show that in 2006 (the most recent year of data available) some small businesses in Texas paid exceedingly high premiums, some well over \$20,000 per person, per year (Figure 5, note that these data provide annual *per-person* premiums, not premiums for family coverage). Small businesses that are charged maximum rates pay on average nearly six times more than average premiums, and well above the maximum rates paid by large employers. These factors often price “high-risk” groups—including the smallest businesses with fewer than 10 employees, firms that have workers with pre-existing health conditions, and firms with older workers—out of the health insurance market completely.

## Texans Paying More, Getting Less

As premiums skyrocketed, employers struggling to afford coverage cut benefits and shifted more of the costs to workers. Texas premiums for family coverage increased slightly—2.4 percent—from 2006 to 2008 (data was not collected in 2007), from \$11,690 to \$11,967. During this time, however, Texas employees saw a large increase in their costs for coverage because they contributed a larger share toward premiums and paid higher out-of-pocket costs through higher deductibles, co-payments, and coinsurance.

In 2006, Texas private-sector employees on average contributed \$3,024 per year towards premiums for family coverage, or 25.9 percent of total premium costs. By 2008, Texas employees contributed \$3,874 a year on average towards premiums for family coverage, or 32.4 percent of total premium costs (Figure 6). Compared to the U.S., Texas private sector employees pay a larger share of employer-sponsored health insurance premiums (32.4 percent in Texas compared to 27.6 percent in the U.S.) and saw a larger increase in their contribution to premiums from 2006-2008 (a 28-percent increase in Texas compared to a 17-percent increase in the U.S.)

To help slow the growth in premiums, employers elect plans with higher deductibles. For workers in Texas, that means in addition to paying a larger share of ever-increasing premiums, they must also pay higher out-of-pocket costs for medical care. In just 2 years, the average annual deductible for family coverage in Texas grew from \$1,555 in 2006 to \$1,964 in 2008, a 26 percent increase. Over the same time period, the percentage of Texas private sector employees enrolled in a health plan with a deductible, increased from 74.3 percent to 85.4 percent.<sup>10</sup>

Figure 5: Small Employers Charged Maximum Rates Must Pay Outrageous Sums for Coverage  
Actual Average and Maximum Per-person Premiums Paid for Group Health Insurance in Texas, 2006

<b>Small Employer Market (2-50 employees)</b>			
Company	Average Premium	Maximum Premium	Magnitude of Difference
Aetna Life Insurance Company	\$2,677	\$62,209*	23.2
Humana Insurance Company	\$2,955	\$26,895	9.1
Union Security Insurance Company (Fortis Benefits)	\$3,908	\$28,837	7.4
John Alden Life Insurance Company	\$3,521	\$25,498	7.2
Unicare Life & Health Insurance Company	\$3,073	\$19,055	6.2
Blue Cross and Blue Shield of Texas	\$3,834	\$20,610	5.4
Principal Life Insurance Company	\$3,992	\$20,164	5.1
Time Insurance Company (Fortis)	\$4,035	\$19,753	4.9
Golden Rule Insurance Company	\$2,843	\$13,428	4.7
Pacific Life & Annuity Company	\$2,461	\$9,049	3.7
Genworth Life and Health (GE Group Life Assurance)	\$12,341	\$22,526	1.8
Metropolitan Life Insurance Company	\$576	\$935	1.6
<b>MARKET AVERAGE</b>	<b>\$3,851</b>	<b>\$22,413</b>	<b>5.8</b>

<b>Large Group Market (51+ employees)</b>			
Company	Average Premium	Maximum Premium	Magnitude of Difference
Principal Life Insurance Company	\$3,299	\$17,597	5.3
Unicare Life & Health Insurance Company	\$3,147	\$13,098	4.2
Humana Insurance Company	\$3,077	\$10,241	3.3
Blue Cross and Blue Shield of Texas	\$3,246	\$7,866	2.4
Union Security Insurance Company (Fortis Benefits)	\$2,017	\$2,108	1.0
Genworth Life and Health (GE Group Life Assurance)	\$5,076	\$5,076	1.0
John Alden Life Insurance Company	\$2,137	\$2,137	1.0
<b>MARKET AVERAGE</b>	<b>\$3,143</b>	<b>\$8,303</b>	<b>2.6</b>

Source: Texas Department of Insurance, Annual Group Accident and Health Survey, 2006

Notes: Data included for all companies that reported both annual average and maximum per-person premiums in 2006. Data shown is as reported by insurers to the Texas Department of Insurance (TDI). TDI does not audit these data. \*Data as reported by Aetna Life Insurance Company. Aetna confirmed to TDI that this could be a potential maximum rate quote to a Texas small business (i.e. if a small group had very high risks associated with all six allowable rating factors, the per-person premium in Texas could actually come out to \$62,000 a year); however, this rate is not necessarily an actual rate being charged in the market, which is what the survey asks for.

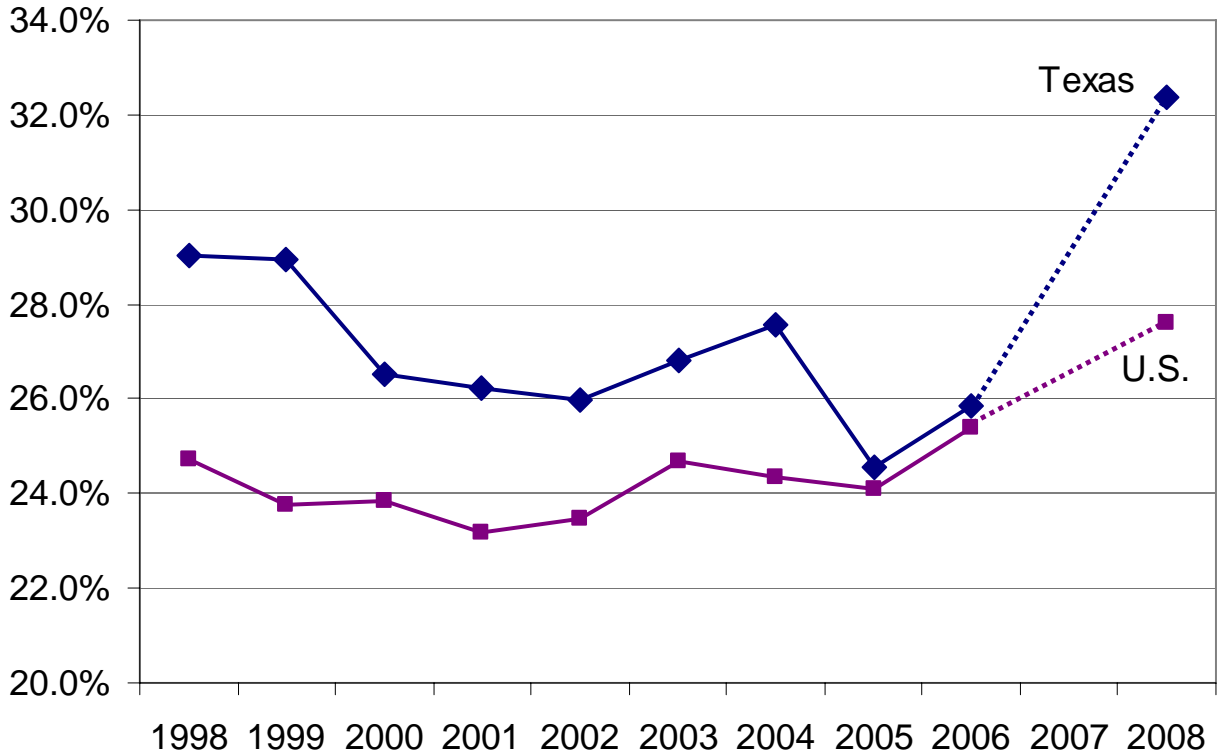
### Texas Employers Less Likely to Provide Health Insurance

As premiums increase, fewer employers can offer health benefits. Coverage through employer-sponsored health insurance is declining both nationally and in Texas, but Texas ranks near the bottom when looking at the percentage employers offering coverage. Only 32.5 percent

of small businesses in Texas offer health coverage, compared to 43.2 percent in the U.S., and 91.6 percent of Texas large businesses offer coverage compared to 96.5 percent in the U.S. (Figure 7).

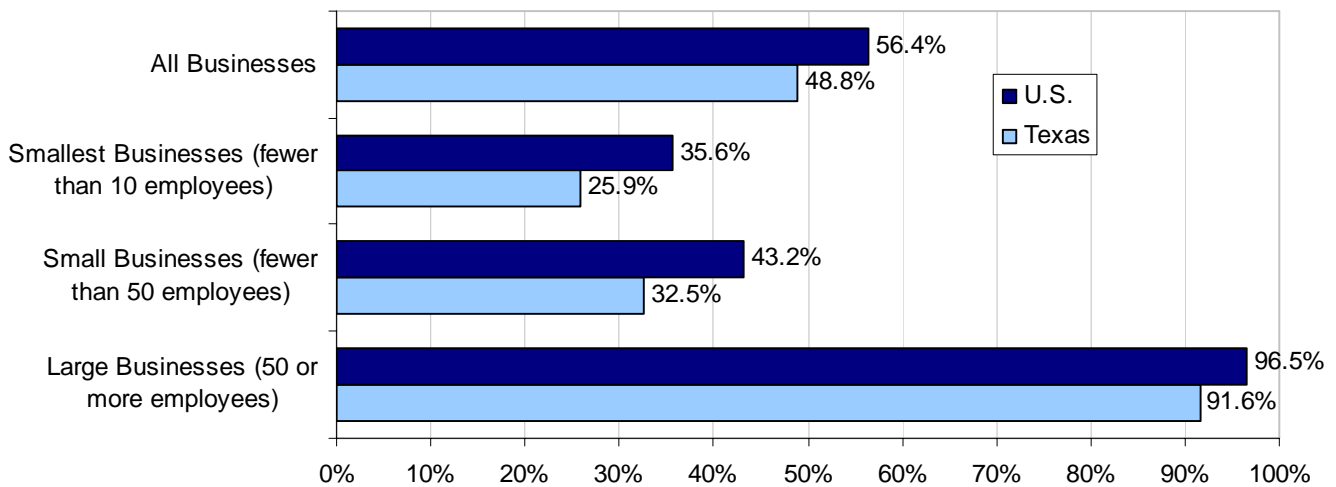
This lack of access to coverage through Texas employers is one reason that one of four Texans is uninsured, the highest uninsured rate in the nation.

Figure 6: Texas Employees Bear a Growing Share of Premium Costs  
 Percent of Total Family Premiums Paid by Employees, Texas and the U.S., 1998-2008



Source: Agency for Healthcare Quality and Research, Medical Expenditure Panel Survey-Insurance Component. Note: MEPS data were not collected in 2007. Change in employee contribution for coverage from 2006 to 2008 shown by the dotted section of the premium line.

Figure 7: Businesses of All Sizes in Texas Are Less Likely to Offer Health Insurance Coverage  
 Percentage of Private Businesses that Offer Health Insurance by Business Size, Texas and U.S., 2008



Source: Agency for Healthcare Quality and Research, Medical Expenditure Panel Survey-Insurance Component.



## Help for Texas Employers and Workers through Health Reform

If the status quo persists, coverage through job-based health insurance will continue to become less secure and less stable with every passing year. Premiums are projected to nearly double in the next decade, as they did over the last decade. Without decisive action to reverse current trends, many employers struggling to afford coverage, especially small businesses, will drop health benefits completely. To maintain coverage, other employers will continue to shift costs to employees through greater premium contribution requirements, reduced benefits, or higher out-of-pocket costs.

Health reform proposals in Congress seek to reverse many of these trends by slowing the growth of health care costs and expanding coverage to almost all Americans. The many benefits of comprehensive health reform include:

**Lower Health Insurance Premiums.** Comprehensive health reforms that "bend the curve" by slowing health care cost growth by just 1 percent point a year could produce notable savings to employers and workers. If premium growth slows in Texas by 1 percentage point less than the projected national growth rate, Texas employers and families would save an estimated \$2,500 annually on family premiums by 2020. If health reform slows the growth in health costs by 1.5 percentage points a year, Texas employers and families would save \$3,650 annually on family premiums by 2020.<sup>11</sup>

**Small Businesses and Individuals Can Buy Health Insurance at Prices Similar to Large Businesses.** Health reform will stop common insurance industry pricing practices that severely restrict access to affordable coverage for individuals who buy their own coverage and for small businesses with few employees or employees with pre-existing conditions. National health reform proposals will dramatically limit the practice of pricing some small employers out of the market by basing premiums on the type and size of business, or employees' health conditions, age, or gender. Instead, premiums will be set based on

actual differences in the cost of health care across regions and age of employees, with a maximum variation of 2:1 based on age in the bill passed by the House and 3:1 in the merged Senate bill.<sup>12</sup> In other words, insurance companies cannot charge one person more than two or three times the premiums charged to another based on age. The same pricing protections would extend to individuals who buy coverage on their own. For small businesses and individuals in Texas, this will mean having access to similar coverage and pricing as large businesses.

**Tax Credit for Small Businesses to Help Them Afford Coverage.** Both the House and Senate versions of the health reform bill include tax credits to help small employers afford to offer health insurance coverage. The credit amounts differ, but under both bills as currently written, businesses with up to 25 employees (67 percent of all private businesses in Texas) and average annual wages less than \$40,000 could qualify for tax credits.

**Guaranteed Access to Good Coverage.** Health reform will prohibit insurance companies from denying coverage or delaying coverage based on pre-existing conditions. Health reform will establish standards for coverage. Americans will have benefits they can count on that include hospital care, emergency care, outpatient services, physician services, prescription drugs, mental health care, preventive health services with no copays, and maternity coverage. Coverage will lack the loopholes and small print in many policies that today limit care, like annual or lifetime limits on benefits. Finally, coverage will include an annual out-of-pocket maximum, so that a person's responsibility for deductibles, coinsurance, and other out-of-pocket costs will be capped and bankruptcies due to medical bills can be severely curtailed or eliminated.

Comprehensive health reform that provides real health security and peace of mind will greatly benefit all Texans—both those who are uninsured and those with health insurance, who today must pay more each year for fewer benefits and less financial security.



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The Center for Public Policy Priorities is a nonpartisan, nonprofit policy institute committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans.

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<sup>1</sup> Agency for Healthcare Quality and Research, Medical Expenditure Panel Survey-Insurance Component.

<sup>2</sup> Ibid.

<sup>3</sup> Cathy Schoen, Jennifer L. Nicholson, and Sheila D. Rustgi, "Paying the Price: How Health Insurance Premiums Are Eating Up Middle-Class Incomes," The Commonwealth Fund, August 2009, [www.commonwealthfund.org/Content/Publications/Data-Briefs/2009/Aug/Paying-the-Price-How-Health-Insurance-Premiums-Are-Eating-Up-Middle-Class-Incomes.aspx](http://www.commonwealthfund.org/Content/Publications/Data-Briefs/2009/Aug/Paying-the-Price-How-Health-Insurance-Premiums-Are-Eating-Up-Middle-Class-Incomes.aspx).

<sup>4</sup> Ibid.

<sup>5</sup> Ibid; and Mishel, Lawrence, Jared Bernstein, Heidi Shierholz, and Elise Gould, *The State of Working America 2008/2009*, Economic Policy Institute, Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2009.

<sup>6</sup> Families USA, "Costly Coverage: Premiums Outpace Paychecks in Texas," September 2009, <http://www.familiesusa.org/assets/pdfs/costly-coverage/texas.pdf>.

<sup>7</sup> Schoen, Nicholson, and Rustgi, "Paying the Price." Analysis uses average premiums for employer-based health insurance plans (weighted by single and family household distribution) from the 2008 Medical Expenditure Panel Survey-Insurance Component and median household income from the 2008 Current Population Survey.

<sup>8</sup> For more information on small employer rate bands in Texas, see *Texas Needs Tools to Increase Private Health Coverage*, [www.cppp.org/research.php?aid=769&cid=3&scid=4](http://www.cppp.org/research.php?aid=769&cid=3&scid=4).

<sup>9</sup> National Association of Insurance Commissioners, *State Innovations in Modernizing Health Insurance and Extending Coverage to the Uninsured*, Preliminary Draft Report, June 2008.

<sup>10</sup> Agency for Healthcare Quality and Research, Medical Expenditure Panel Survey-Insurance Component.

<sup>11</sup> Schoen, Nicholson, and Rustgi, "Paying the Price."

<sup>12</sup> Limiting variation in premiums is essential to meaningful reform. The merged Senate bill includes a 3:1 ratio for age, up from 2:1 in the Senate HELP Committee bill and down from 4:1 in the Senate Finance Committee bill. Unlike the House bill, the merged Senate bill also allows premium variation for tobacco use, limited to 1.5:1.