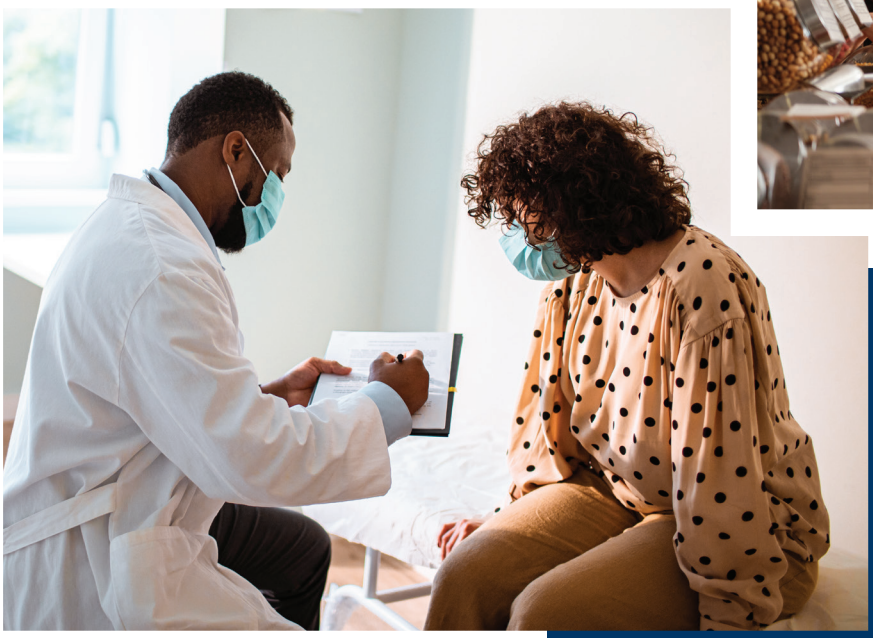
Texas Mutual Insurance Company

Report to the Texas Legislature on House Bill 3752 (87th R.S.)



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September 1, 2022

The Honorable Greg Abbott, Governor of Texas
The Honorable Dan Patrick, Lieutenant Governor of Texas
The Honorable Dade Phelan, Speaker, Texas House of Representatives
Texas State Capitol
Austin, Texas 78701

Dear Governor Abbott, Lieutenant Governor Patrick, and Speaker Phelan:

Pursuant to House Bill 3752, Texas Mutual hereby submits its report to the Texas Legislature on health benefit coverage.

Respectfully submitted,

Richard Gergasko, President and Chief Executive Officer
Texas Mutual Insurance Company

Copy: The Honorable Tom Oliverson, Chair, House Insurance Committee
The Honorable Charles Schwertner, Chair, Senate Business and Commerce Committee
The Honorable James Frank, Texas House of Representatives
The Honorable Kelly Hancock, Texas Senate

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House Bill 3752 and the Guiding Principles

Texas Mutual Insurance Company ("Texas Mutual" or "the company") provides this report pursuant to House Bill 3752, which authorizes the company to create or acquire a subsidiary that offers accident or health insurance or other alternative health benefit coverage to individual Texans or certain Texas businesses. The bill also requires the company to submit a report to the Legislature explaining how any anticipated health benefit coverage would promote the following Guiding Principles:

1. increasing competition in the health insurance market;
2. utilizing innovations that improve the quality of health care while lowering health care costs;
3. ensuring adequacy of benefits and access to care for individuals in this state with pre-existing conditions;
4. issuing coverage in a manner that does not discriminate against individuals with pre-existing conditions;
5. leveraging federal tax credits that may be available for private health plans to the greatest extent possible to increase the affordability of health benefit plans;
6. ensuring transparency and coherence of costs and coverage to inform individuals shopping for health benefits;
7. reducing incidences of medical debt faced by individuals in this state and uncompensated care faced by providers in this state; and
8. ensuring equitable costs regardless of gender or prospects or pregnancy or childbirth.

Since the passage of House Bill 3752 in 2021, Texas Mutual conducted in-depth research of the state of health coverage and care in Texas. This research included meeting with health policy experts, insurance experts, agents and brokers, hospitals, direct primary care providers, start-ups, innovators, and actuaries; conducting case studies in Wichita Falls and Tyler; surveying small businesses; and researching the critical issues limiting access to care in rural communities.

The Guiding Principles

Texas Mutual provides the following assessment of how any anticipated health benefit offering by a subsidiary would promote the Guiding Principles.

Increasing Competition

Lack of competition is a major cause of increasing costs. There is inadequate competition in many markets among both health care providers and insurers. A Texas Mutual subsidiary offering new coverage options would seek to increase competition in any market it enters. Furthermore, novel coverage products that incorporate innovative network design and/or partnerships can promote competition among health care providers and health system participants. Texas Mutual hopes to encourage competition by offering a product that will be attractive to small businesses with unmet coverage needs.

Utilizing Innovations to Improve Quality and Lower Costs

Ultimately, everyone wants better health care at less expense. There are many interesting experiments occurring in Texas and across the country. Many of these novel undertakings focus on improving the quality of health care, a shift to systems that structure economic incentives to deliver more efficient care (e.g., value-based care and direct primary care). Additionally, as more systems comply with federal price transparency requirements, there is hope that big data and artificial intelligence ("AI") can help insurers find and reward those providers that deliver the highest quality care, at a reasonable price. The goal is similar to the one provided by statute for the workers' compensation system – providing quality care in a cost-effective manner.[1] Texas Mutual's goal for any product a subsidiary might offer is to lower health care costs by supporting innovative models of care.

Ensuring Adequacy of Benefits and Access to Care Without Discrimination

Because of federal changes in 2010, there is a market available where the sickest Texans can access coverage at rates that do not penalize them for their conditions. This is the case for individual coverage under the Affordable Care Act ("ACA") and fully-insured group (employer) coverage. This policy makes coverage more available for sicker and older individuals but raises the cost of coverage for younger and healthier individuals. Despite these changes, many employees of small businesses have no health coverage at all. Texas Mutual's goal will be to increase the options available to employees, and the company will seek to do so in a manner that does not exclude or impose waiting periods for individuals with pre-existing conditions.

Leveraging Federal Tax Credits to Increase Affordability

Federal tax credits only apply to fully-insured plans that are sold to individuals through the ACA Marketplace. These federal tax credits are designed to bring additional lower income people into coverage by bridging the gap between the actuarial cost of insurance and what the statute deems a person can reasonably afford. These subsidies are paid by the federal government to private insurers that provide the insurance to qualifying individuals. This Guiding Principle can only be directly satisfied by a plan that offers coverage on the ACA Marketplace, (absent a 1332 waiver which would require both state and federal government action). Unless Texas Mutual chooses to offer individual ACA plans, this Guiding Principle will not apply.

Ensuring Transparency and Coherence of Costs and Coverage

Anyone who has attempted to secure individual coverage or coverage for their business knows that it remains extraordinarily challenging to shop effectively, because of the complexity of coverage and the difficulty in comparing plans. Out-of-pocket maximums, deductibles and co-pays contribute to this, but other key determinants of cost and coverage can be very difficult to ascertain because of the opaqueness involved in network design, pharmacy formularies, and other health system processes. Texas Mutual's goal is for any health benefit offering to be simple and understandable with transparent costs.

Reducing Incidences of Medical Debt and Uncompensated Care

Lack of coverage and inadequate coverage causes many individuals to face medical debt and even bankruptcy, and often results in health care providers giving care for which they are not paid. Providers assert that they must charge their other patients more to make up for lost revenue from uncompensated care. These problems can be mitigated by finding ways to get meaningful coverage to more Texans. Meaningful coverage can protect against medical debt and ensures that providers are being paid fairly for the services they provide. Texas Mutual hopes to provide products that will be attractive to small businesses that do not currently offer coverage which will help expand the number of covered Texans and reduce incidences of medical debt and uncompensated care.

Ensuring Equitable Costs Regardless of Gender

Before 2010, women of childbearing age faced higher premiums, even within a single group plan. Currently, any product offered through the ACA Marketplace or in the fully-insured group market may not vary price based on gender. Texas Mutual's goal will be to increase the options available to employees in a manner that does not exclude or penalize plan members individually because of their gender.

The Product Concepts

With these Guiding Principles in mind, Texas Mutual examined many different product approaches, including:

- individual, ACA Marketplace plans (non-employer);
- alternative health benefit plans (similar to sharing ministries and Farm Bureau plans);
- group health plans, including level-funded plans;
- fully-insured plans for employers; and
- innovations pioneered by health technology start-ups.

Four concepts were selected for more detailed study (see Table 1), which included creating preliminary models, evaluating the benefits and risks for each product, and analyzing how each product would comply with the Guiding Principles (see Table 2).

Table 1: Primary Product Options Considered

	General Description
Subscription-Based Health Care Arrangement for Consumers	Digital care product that includes primary care, select in-person care, and supplemental insurance policies aimed at individuals
Level-Funded Benefit Plan for Small Businesses	Comprehensive health coverage (with embedded stop-loss) focusing on an underserved segment of the market, small and very small businesses
ACA Marketplace Individual Health Plan	ACA Marketplace product for individuals in non-major metropolitan areas
Individual Alternative Health Benefit Plan	Alternative health benefit coverage for individuals, not subject to ACA market rules for individual insurance products (similar to Farm Bureau plans[a])

[a] These coverage options may be appealing to employees who do not participate in employer-sponsored insurance plans (e.g., part-time or contract workers) or include businesses with no employees (e.g., employer-only). These plans are not subject to ACA rules regarding rates and coverage and may not cover individuals with pre-existing conditions or certain types of catastrophic health events. Texas passed H.B. 3924 in 2021, authorizing the Texas Farm Bureau to offer these plans in Texas.

Option 1: Subscription-Based Health Care Arrangement for Consumers

The subscription-based health care arrangement for consumers would allow users to select from a variety of digital care services bundled and accessed through their smart phones or computers. This option would not provide comprehensive coverage or insurance but would instead efficiently facilitate access to primary care (and other care options) at a low monthly fee. This service could include digital health therapy options for primary care, disease and lifestyle management programs, and mental health support. Services would be user-selected and curated for incremental, individual coverage with price points potentially as low as $40 a month for the base package.

Option 2: Level-Funded Benefit Plan for Small Businesses

The level-funded benefit plan — a type of self-funded plan — allows small employers to pay a fixed monthly amount for medical and pharmacy coverage. This plan design combines stop-loss insurance to protect employers from high-cost claims. When claims are lower than expected in a plan year, the plan sponsor (or employer) could receive a refund of any unused medical funds. Level-funded benefit plans can be more affordable than other insurance plans for some small businesses.

Some key features of this product that may improve the experience for small businesses (and employees) in their health insurance experience include access to transparent benefit plan designs, utilizing a high-quality network with limited or no out-of-pocket expense, and receiving plan administrative assistance (e.g., support with plan administration and ERISA filings). This product offering could include a digital (AI-based) primary care experience to optimize patient access remotely, allowing employees of the smallest Texas businesses (or geographically remote businesses) to access care and coverage.

Option 3: ACA Marketplace Individual Health Plan

A subsidiary could offer health insurance coverage on the ACA Marketplace with a focus on non-major metropolitan and rural areas. The goal would be to increase ACA offerings in those areas with limited coverage options. While this product concept is not innovative in plan design, it could include a novel, digital (AI-based) primary care experience that optimizes patient access.

Option 4: Individual Alternative Health Benefit Plan

The individual alternative health benefit plan would seek to be a cost-effective plan for certain individuals, including self-employed business owners. The offering is considered an alternative health coverage option, with similar benefit plans that are offered by the Farm Bureau. This benefit plan can potentially provide more affordable coverage for individuals with healthier backgrounds and would not have to meet all ACA requirements for insurance plans. Such plans are most attractive to individuals who may not qualify for premium subsidies or who would opt for less costly coverage than what is currently available through the ACA Marketplace.

Table 2: Assessing the Guiding Principles with the Primary Product Options

The Guiding Principles	Subscription-based Health Care Arrangement	Level-Funded Benefit Plan for Small Group	ACA Marketplace Individual Health Plan	Individual Alternative Health Plan
1. Increasing competition	●	●	●	●
2. Utilizing innovations that improve the quality of health care while lowering health care costs	◑	●	◑	◑
3. Ensuring adequacy of benefits and access to care for individuals in this state with pre-existing conditions[b]	○	●	●	○
4. Issuing coverage[c] in a manner that does not discriminate against individuals with pre-existing conditions	○	◑	●	○
5. Leveraging federal tax credits that may be available for private health benefit plans to the greatest extent possible to increase the affordability of health benefit plans	○	○	●	○
6. Ensuring transparency and coherence of costs and coverage to inform individuals shopping for health benefits	●	●	●	●
7. Reducing incidences of medical debt faced by individuals in this state and uncompensated care faced by providers in this state	◑	●	●	●
8. Ensuring equitable costs regardless of gender or prospects of pregnancy or childbirth	◑	◑	●	○

● Product satisfies the Guiding Principle
◑ Product partially satisfies the Guiding Principle
○ Product does not satisfy the Guiding Principle

[b] Pre-existing conditions is defined by HealthCare.gov as a health problem, like asthma, diabetes, or cancer, you have had before the date that new health coverage starts.
[c] Coverage is defined by CMS.gov as 'health coverage' or 'health insurance' where a contract that requires a health insurer to pay some or all of your health care costs in exchange for a premium.

Texas Mutual's Product Approach

Texas Mutual has focused on the level-funded product directed at small and very small businesses (Option 2), a product that would satisfy most of the Guiding Principles. Such plans are governed by the Employee Retirement Income Security Act ("ERISA") rules (applicable to group health plans) and would not exclude people with pre-existing conditions or charge different rates within a plan by gender.

A subsidiary could use plan design and network partnerships to facilitate cost-effective, high-quality care, and the product could be designed to provide transparent, simple, and user-friendly plan information to employers and plan participants. Texas Mutual hopes to extend quality coverage to working Texans who are currently without coverage or are underinsured, thereby reducing medical debt and uncompensated care.

This product approach would serve the core of Texas Mutual's current customers, small and very small Texas businesses, and is likely the first product concept a subsidiary would pursue, as it best leverages Texas Mutual's current business strengths and relationships. If the subsidiary is successful, it could expand product offerings into additional markets and types of coverage in the future. For the Texas health care market to deliver better, more affordable health care, it needs greater transparency, more competition, and better incentives for patients, plans and employers to care about the price paid for care. Texas Mutual hopes to help move the system in that direction.

The kind of product a subsidiary might offer is a crucial question, but an equally important question is the kind of company that will offer the product. Texas Mutual has been committed to helping Texas businesses and their employees for 30 years and any subsidiary it creates would have the same spirit of service and mission. Any health benefit products would be offered by a purpose-driven subsidiary with an intent to increase affordable, quality health coverage options for Texas workers. The subsidiary would seek to improve the overall system by:

- not building on or replicating current market problems and entrenchment;
- aligning with reform efforts and market improvements;
- advancing price transparency to promote cost-effective solutions; and
- promoting innovations that prevent disease or improve health.

Texas Mutual's Board of Directors is in the final stages of consideration of whether to launch a health subsidiary.

Research to Support the Product Concept

While researching the potential product solutions, some specific problems were evident. Small businesses and rural Texans endure many health access and coverage issues. The following sections discuss some of the problems that are faced by these Texans. A well-designed product with targeted solutions could be part of a larger set of solutions that help to alleviate these problems.

Challenges For Small Businesses

Like the rest of the U.S., Texas largely follows an employment-based health coverage model. Employer-based insurance is deeply established and a core expectation in the current labor market. Small businesses in Texas, essential to the state's economy, employ 4.8 million Texans which constitute 45% of the state's jobs. But small businesses struggle to provide health coverage to these employees. Over 2.3 million employees work in small businesses with fewer than 50 employees, and estimates suggest that 68% of small businesses in this category do not offer health insurance.[2] As the size of a business shrinks, it is less likely that it will be able to offer coverage.[3] This lack of coverage can reduce productivity and business profitability while threatening household financial stability, as work-related earning potential can be limited due to poor health.[4]

Though most small businesses do not offer health insurance for various reasons, most of their employees want or need health care coverage. One study found that in 2021, when offered benefits, 75% of workers in small businesses participated in their employer's plan, which is similar to the experience of employees of large employers.[5]

Even for those employees with access to an employer-sponsored health plan, affordability of premium contributions and out-of-pocket costs strain households around the state. The average annual employee premium contribution for an individual in Texas has risen from $4,951 in 2010 to $7,017 in 2020.[6] In the same time period, the average annual deductible increased from $1,247 to $2,153, a 72.7% increase. Such rises are driven by increasing costs in the health care system. These increases have outpaced income growth, with health insurance continuing to claim a larger proportion of household budgets, representing 11.6% of the median household income in 2020.

The health plans offered to small employers often impose significant cost-sharing responsibilities when compared to plans offered to large employers. As a result, small business employees are at greater risk of experiencing medical debt. According to the Kaiser Family Foundation, the average deductible for single coverage in the small group market in 2021 was $2,379, whereas the average deductible for single coverage in the large group market was $1,397. It is estimated that 45% of single-person households do not have liquid assets of more than $2,000.

To deepen our understanding of the coverage needs among Texas small businesses, we conducted a survey and qualitative panel among small business decision makers[d] and health insurance brokers. The study findings detail the experiences and coverage barriers faced by small employers, both those that provide health benefits and those that do not. The findings describe the businesses that responded to the survey or participated in one-on-one interviews and may not be generalized to all small businesses.

In this study, small businesses in Texas expressed a need for tailored, cost-effective coverage options. Most small employers would like to provide health benefits to their employees and expressed great interest in coverage products specifically designed for small businesses, yet employers also highlighted that health insurance is complex and confusing.

"You can't get good employees if you don't have good benefits, and health insurance is one of the big three."

Despite the low rate at which small employers offer health coverage to their employees, most businesses prefer to offer health benefits. In our study, only 26% of small employers indicated that they had never evaluated the possibility of offering health coverage. Small businesses are highly sensitive to the cost of health insurance and generally do not offer health benefits until the business has reached a point of financial stability and profitability. Participants responded that small businesses feel a tremendous responsibility to provide health coverage that employees will use and benefit from. The selection of a "bad plan" and having disgruntled or frustrated employees were some of the concerns discussed. Participants in the study discussed how a lack of health coverage can adversely affect employee health and productivity.

"My biggest priority is low cost, meaning premiums of course but also deductibles and co-pays because my people don't have a lot of extra money."

[d] Defined as those with small businesses having 50 employees or fewer. Such businesses were classified as either having fully-insured health plans, self-funded (or level-funded) health plans, or were uninsured.

Challenges for Rural Texans

The problems facing health care consumers are worse in rural and non-metropolitan areas of our state. More than 3 million people live in rural Texas. These areas tend to have less health care coverage and care access, the highest health care costs, and the worst clinical outcomes.[7,8,9,10] Rural employers produce much of the state's food and fuel, with an indirect effect on the health of the entire state. With health coverage tied to employment, small businesses in these areas are crucial to the economic stability and health of all local communities. In rural areas, 1.2 million people work for small employers. Rural markets remain susceptible to anti-competitive market dynamics, higher premiums, and higher health care costs. Rural residents strain to accommodate the financial burden of obtaining coverage. Wages in rural parts of the state tend to be lower than in major metropolitan areas, yet premiums are on average 10% higher.[11,12]

Texans living in rural parts of the state have limited access to care. In 2022, only three Texas counties have enough primary care physicians.[13] Patients with limited access to primary care physicians are vulnerable to hospitalizations that could have been prevented. Preventative care and necessary maintenance for chronic conditions are most needed in rural parts of the state. While access to care is a significant issue, lack of coverage or being underinsured in these rural areas also contributes to poor health outcomes. High out-of-pocket costs discourage patients from obtaining necessary care (specialty and maintenance care) and prescription medications.[14,15]

One reason access to care has worsened over time is due to the consolidation of health care providers and facilities. This has substantially increased premium rates and overall health care costs for those living in rural areas.[16] There are fewer hospitals in rural areas, and consolidation continues, either directly or indirectly causing the closure of regional hospitals. In Texas, 84 counties are currently without hospitals, significantly limiting access to acute care.[17,18] These closures hurt the community and economy. Hospital closures are associated with an increase in unemployment rates and poor health outcomes, especially in communities where the primary employer is the hospital.[19]

Wichita Falls Case Study

To better understand the markets for health care services and coverage outside of Texas' large metropolitan areas, Texas Mutual conducted a case study of the experiences of small businesses in Wichita Falls. Working with Representative James Frank, whose House District 69 includes Wichita Falls, representatives from the company spoke with insurance agents, members of the Wichita Falls Chamber of Commerce, and health care providers (including the United Regional Health Care System, Electra Memorial Hospital, and Community Healthcare Center). Wichita Falls was chosen in part because of anecdotal reports that residents have more limited provider choice than in other parts of the state and that small employers have relatively few options to obtain health benefits for their employees. In addition, the experiences of the people of Wichita Falls likely mirrors that of other smaller cities throughout Texas. During our semi-structured interviews, participants discussed the types of coverage employers found most appealing and the barriers that obstruct affordable coverage. Other topics of discussion included health care access, the effect of high health care costs on patients and employers, systemwide resource limitations, and ideas for reform.

Wichita Falls residents experience lower life expectancy, have higher rates of heart disease, and experience more preventable hospital admissions when compared to national statistics.[20] Every participant in this case study shared that the people of Wichita Falls find the cost of health care and coverage to be expensive. Of the nearly 132,230 individuals living in Wichita County, 18.6% are uninsured and notably, 25% of the county experiences some level of medical debt.[20]

Currently, the primary health care system in the Wichita Falls area is the United Regional Health Care System. United Regional is a Level II Trauma Center, servicing a nine-county area. Additionally, rural hospital closures in surrounding counties like Bowie Memorial Hospital (Montague County) in 2017 and Hardeman County Memorial Hospital (Hardeman County) in 2019, further increased market concentration.[17] The next, closest trauma-designated inpatient facilities are in the Dallas/Fort Worth metroplex and Oklahoma City, each of which is more than a two-hour drive. Limited primary care provider options in neighboring rural areas like Clay, Montague, Archer, Baylor, Foard, and Knox Counties have worsened care access issues.[20] These surrounding counties have limited primary care doctor availability — less than the national average of 0.9 per 1,000 persons.[20] This is a common finding in Texas.

Wichita Falls employs the greatest number of residents in three primary industries: health care and social assistance, retail trade, and accommodation/food services.[21] These industries are mostly composed of small businesses (with fewer than 20 employees), and their workers, with the exception of those in health care, are more likely to be uninsured.[22,23] The uninsured rate for these industries (outside of the health care industry) ranges from 18% to 35% in Texas.[24] During the case study, several themes consistently emerged.

1. Problems of cost and access are worse in areas with limited competition.
2. People do not get coverage because they feel coverage is unaffordable.
3. Employers want to provide coverage but cannot because of cost.

Tyler Case Study

To refine the observations from Wichita Falls, Texas Mutual initiated a further set of observations and discussions in Tyler. Similar to the population size of Wichita Falls, Tyler was selected because residents of the Northeast Texas region have experienced some of the worst health outcomes in Texas.[25] The goal was to compare the Wichita Falls and Tyler health care markets. Representatives from Texas Mutual met with a local benefits consulting firm, Employee Benefits Consulting (EBC), and CEO Rachel Means. During the meetings, company representatives learned about the consequences of limited price transparency, the barriers to quality care in Northeast Texas, and the burden of high health care costs on employers and employees.

The Tyler market is home to two major medical systems (including an academic medical center) and three participating insurers on the ACA Marketplace as of 2021.[26] This is unlike Wichita Falls which has one hospital system and one insurer.[26] Currently, the average monthly Marketplace premium for a 40-year old (who is ineligible for subsidies) is $457 in Smith County, compared to $637 in Wichita County.[27] This difference in premium rates appears to reflect the benefits of a more robust, competitive health care market.

While Tyler is a more competitive health care market, residents still face many of the same economic and health care issues observed in Wichita Falls. In 2019, the Northeast Texas region had higher mortality rates for the following conditions when compared to all other areas of the state: heart disease, cancer, stroke, and Chronic Obstructive Pulmonary Disease (COPD).[25] Across the county, 21.1% are uninsured and 28% of residents have medical debt in collections – much higher than the national rate of 17%.[28,29] Health care and social assistance is the largest industry in Tyler, consisting of 21.3% of the local workforce, followed by retail/trade at 12.4%. Many area residents work in manual labor industries, and the average annual salary is $49,813, well-below the statewide average of $62,939. There are many population similarities between the two counties.

While in Tyler, innovative, customized models of care including direct primary care models, value-based care models, and hands-on care navigation were observed. In 2015, Texas enacted direct primary care legislation[e], which allows patients or employers to contract with physicians for a fixed fee (monthly or annual basis).[30] This fee provides access to a range of primary care services which may include: extended provider visits, home-based medical visits, virtual care, and/or access to employer-based onsite clinic programs. This model emphasizes comprehensive primary care and prevention, enabling timely care with the goal of avoiding unnecessary tertiary care. A study that evaluated employees enrolled in a direct primary care model observed reduced emergency department use and demand for health care services.[31]

[e] Defined within H.B. No. 1945.

During the Tyler visit, other models, including value-based care models, were studied. Current fee-for-service payment models incentivize patient volume and not quality patient outcomes. As health system participants move towards implementing value-based care models, health providers are incentivized to focus on longitudinal health outcomes at cost-effective rates. In addition to the models explored above, EBC provided significant resources in care navigation. Because rural communities face significant adversity in finding optimal care pathways, making these pathways easily accessible is needed and can mitigate excess health care costs. A study on the impact of navigators in the Patient Care Connect Program at the University of Alabama found that the navigation program improved patient experience, and resulted in measurable cost savings and improved health outcomes.[32]

Conclusions

Through the process of preparing the report, Texas Mutual has gained a greater appreciation for the depth and complexity of the challenges facing our health system, particularly those experiences by small businesses and their employees in accessing health coverage and health care. As Texas Mutual considers whether it may be able to serve this market, the company looks forward to working with reformers striving for a better health care system.

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