

**The Bill Blackwood
Law Enforcement Management Institute of Texas**

**The Inequity of Health Insurance Costs Between Police Departments
in the State of Texas and Solutions for All Departments**

**An Administrative Research Paper
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ABSTRACT

Health care costs are relevant to contemporary law enforcement because the cost of health care insurance for employees is one of the most expensive continuous outlays of monies for employees of governing agencies. The purpose of this research is to lay the groundwork to show inequity in health care costs between large (more than 500 employees), medium (50 to 500 employees), and small (less than 50 employees) law enforcement agencies in the state of Texas. The research will also suggest cost saving measures that agencies and employees can take now to help reduce the costs of health care insurance.

The method of inquiry used by the researcher included: a review of articles, Internet sites, periodicals, journals, transcripts of state and national congressional hearings, a survey distributed to 50 survey participants, and personal interviews. The researcher discovered that there is a disparity in the methods that insurance companies use to set rates of major medical insurance in the state of Texas. Insurance companies base their premiums on the size of a business instead of spreading the cost over all persons covered under the same type of policy throughout the state.

TABLE OF CONTENTS

	Page
Abstract	
Introduction.	1
Review of Literature	2
Methodology	6
Findings	7
Discussions/Conclusions	10
References	13
Appendix	

INTRODUCTION

The problem or issue to be examined considers whether or not there is inequity in the availability of affordable dependant health care benefits between large (500 + sworn officers), medium (50 – 500 sworn officers) and small (under 50 sworn officers) police departments in the state of Texas. The relevance of affordable dependant health care coverage to law enforcement is that small departments in Texas will have a more difficult time recruiting and retaining qualified employees who have families. As the cost of health care insurance continues to rise, the full cost of dependant health care coverage is usually passed on to the employee.

The purpose of this research is to examine the cost differences paid out of pocket by employees of different size agencies and to propose short-term, more affordable options until the U.S. government can fully examine and implement a Universal Health Care Plan. The research will also examine if these short-term options are suited to a long term solution. By implementing the suggested short term option, this could spur the economy and allow free market forces to grow, thereby diminishing the need for a government run health care program.

The research question to be examined focuses on whether or not insurance companies in the state, in order to maintain and increase profits, penalize small municipalities. The research will show that most health insurance companies in Texas provide the same level of insurance coverage to small, medium, and large entities. The research will also show that health insurance companies charge higher prices based on the fewer number of employees.

The intended method of inquiry includes a review of articles, Internet sites, periodicals, journals, books, transcripts of state and national congressional hearings. Also included will be a survey distributed to at least 50 survey participants, and local government records. Personal interviews will also be included as a method of inquiry.

The anticipated findings of the research will show that there is a vast inequity in the cost of dependant health care coverage. The findings will show that the increased price of dependant health care coverage is passed on to the employee simply because he or she works for a small governmental entity. The research will also show that there are currently lower cost solutions available other than the current standard of Health Maintenance Organizations (HMO's), Point of Service (POS), and Preferred Provider Organizations (PPO's).

The field of law enforcement will benefit from the research because governmental entities will be able to provide employees and their families with quality health care coverage for less than they are currently paying for employee coverage alone. The savings employees will see through the elimination of having to pay for dependent health care coverage can be used towards savings, investments, purchases, and a higher standard of living. This, in turn, will help with the recruitment of officers with families to the law enforcement career field.

REVIEW OF LITERATURE

Healthcare costs and insurance is perhaps the hottest topic today based on the recent U.S. House and Senate approval of the Obama National Healthcare Reform Bill, which was signed into law March 23, 2010. Healthcare costs in Texas continue to rise and are passed on to the employing city or entity that pays for major medical insurance

for their employees and to a lesser degree for their employees' dependants. Most employing entities reduce their payment cost by passing on the responsibility of payment for dependant's health care coverage to the employee, thereby cutting sharply into the employee's disposable income available for living expenses and investments.

Roberson (2009) stated that the "Robert Wood Johnson Foundation report concludes that costs for individual insurance policies in Texas have increased 63 percent – from \$2,500 in 1996 to \$4,100 in 2006. Wages, however, increased just 9 percent over the period, from \$31,800 to \$34,400" (para. 8). Herminio Pabon, Chief of Police, City of Windcrest, stated the City of Windcrest pays 100% of the cost of major medical insurance, but 0% of dependant healthcare insurance. It currently costs employees \$270.00 bi weekly, which is equal to \$585.00 a month and \$7020.00 a year to cover a spouse and two children's major medical insurance cost. He went on to state that a new officer with the Windcrest Police Department has an average starting salary of \$38,500.00 net income (H. Pabon, personal communication, April 12, 2010). In order for an employee to cover his wife and children on the current major medical policy being offered, he would have to give 18% of his take home pay after taxes to health insurance. This effectively lowers his true pre-tax income to \$31,480.00 a year. According to the 2009 United States Census Bureau Poverty Threshold, families of four with two children under 18 years of age are considered to be living at or below the poverty line with an income of \$21,756 or less [United States Census Bureau, 2009]. Simple mathematics shows that the new employee is now just \$9,724 above the U.S. poverty line after covering his medical insurance cost.

Peter R. Orszag, Director of the Congressional Budget Office, testified before the Committee on the Budget, United States Senate on January 31, 2008. In his testimony, he explained factors underlying historical growth in health care spending. Mr. Orszag stated the “general consensus among health economists is that growth in real spending on health care was principally the result of the emergence of new medical technologies and services and their adoption and widespread diffusion by the U.S. health care system” (Orszag, 2008, p. 4-5).

Robert Feike, an independent insurance agent in Bexar County, Texas, who specializes in government client insurance policies stated that, in his opinion, a major factor which drives up the cost of medical care is that in today’s society many people wait too long to seek medical attention. They often will seek care at emergency rooms instead of with their primary care provider after their illness has progressed. Another factor cited was the creation of the government-sanctioned Health Maintenance Organization (HMO) program (R. Feike, personal communication, March 22, 2010).

In 1973, following the 1965 creation of Medicare, President Richard M. Nixon proposed the HMO Act. Combined with Medicare, the HMO Act eventually eliminated the market for affordable individual health insurance. Holleran (2009) found that “Employers perceived managed care as less expensive than individual insurance and stopped offering a choice of plans, making insurance more expensive for the individual” (para. 7).

There has been a rapid decline of affordable individual health insurance policies due to the saturation of the insurance market by managed-care policies (HMOs, PPOs, and POSs). Due to this decline, there has entered the need for a new form of

affordable individual health insurance, the Health Savings Account (HSA). Health Savings Accounts (HSAs) were approved by Congress in 2003 and became law in January 2004.

Americans for Free Choice in Medicine (2010) found that with a HSA, the employee and employer may both contribute funds to the account. The employee is not taxed on any contributions made by the employer and the employee may add funds on a pre-tax basis using a cafeteria plan. Funds can be added throughout the year by the employee until the government-imposed limits are reached. Unlike the 401K, the HSA is the property of the employee. This account may be used for any eligible medical expenses. It is not necessary that the employee use all of the monies in the account. The IRS tax code allows the employee to receive tax-free reimbursement for some expenses, including: visits to the doctor, expenses for services received at hospitals, laboratory fees, ex-ray and diagnostic exams, medical prescriptions, dental care, ophthalmological care, and hearing aid devices. Use of the HSA funds for anything defined by the state as non-medical will result in a 10% penalty fee (Americans for Free Choice in Medicine [AFCM], 2010).

As reported by Human Resource Business and Legal Reports Inc. (2009), the Internal Revenue Service has set the HSA individual cap at \$3,050 and at \$6,150 for families as of 2010. It is required that HSAs be used in conjunction with a high-deductible health plan. HDHPs have a deductible of at least \$1,200 per year for self-only coverage or \$2,400 to cover a family. The maximum out of pocket expenses before the HDHP takes over are \$5,950 for self-only coverage and \$11,900 for a family plan (HR.BLR.com, 2009).

METHODOLOGY

The research question to be examined considers whether or not there are lower cost alternatives to the health insurance plans currently being offered by governmental entities for their employees. The researcher hypothesizes that the current method of insurance pricing applied by insurance agencies in the state of Texas are biased against smaller employers, giving larger governmental entities in the state a lower cost of health insurance coverage. The hypothesis will also show that smaller agencies can implement Health Savings Accounts (HSA) with attached high-deductable insurance policies and provide employees as well as dependants with affordable insurance coverage for a cost lower than insuring the employee alone, under the current HMO style policies.

The method of inquiry used by the researcher will include: a review of articles, Internet sites, periodicals, journals, transcripts of state and national congressional hearings, a survey, and personal interviews with insurance agents and municipal human resource directors who oversee employee health benefits. The instrument that will be used to measure the researcher's findings regarding the subject of the inequity of health insurance costs between police departments in the state of Texas includes a survey. The size of the survey will consist of nine questions, distributed by email to 173 survey participants from municipal police agencies across Texas.

The response rate to the survey instrument resulted in only seven surveys being completed and returned. The low rate of return is believed to be due to two factors. First, the surveys were directed to police department sworn personnel. It was determined by speaking with officers from various departments in the area that they

knew very little about their health care coverage their employers provided. The second factor was that the mass mailing may have sent most of the surveys to the department's junk mail file and were not received by the intended recipient.

This researcher followed up by contacting 23 municipalities' human resource departments by phone. The contacts, including the seven previously received surveys, consisted of ten cities that employ one to 50 officers, ten cities that employ 50–500 officers, and the ten largest cities in Texas, according to the latest census data. All municipalities contacted participated in the survey with the exception of one of the ten largest cities. An extra city of 50–500 officers was added to bring the total to 30.

The information obtained from the survey will be analyzed by this researcher. The analysis will look at the costs paid out of pocket by employees for family coverage. For this survey, family coverage is defined as the employee, a spouse, and a least one dependent child. The analysis will also look at which policy types and insurance companies are utilized the most by the responding agencies.

FINDINGS

The gamut of insurance providers used by municipalities in Texas covered private insurance carriers, government providers, and self insured. The 30 cities surveyed showed that eight different companies were used for insurance coverage. The companies were: Blue Cross Blue Shield of Texas (six), United Health Care (six), Aetna (five), Texas Municipal League (five), Humana (two), Scott and White (one), Cigna (one), and Community First (one). Three municipalities reported as self-insured but did not provide the name of the managing insurance company.

Cities reported seven different types of policies used by the eight different companies. Fifty-six percent used Preferred Provider Organizations (PPO). Sixteen percent used Point of Service (POS), Ten percent used Health Maintenance Organizations (HMO). Six percent used a government Risk Pool. Three percent used a High Deductible Health Plan (HDHP) combined with a Health Savings Account (HSA). Three percent used a Consumer Choice Plan. Six percent did not respond to this survey question.

The study showed the average insurance premium paid out of pocket monthly by an employee of a small department, for family coverage, was \$615.00. The highest premium paid was \$958.00. The lowest premium reported by a small municipality was \$451.00. Dollar amounts shown are rounded to the nearest dollar. For medium cities, the average was \$367.00 a month. The highest premium paid was \$702.00. The lowest was reported at \$173.00.

Here are the findings for the nine largest cities in Texas. The average out of pocket paid was \$264.00. The highest paid was \$407.00. The lowest paid was zero dollars. It should be noted that two cities affected the low average outcome. Sworn officers with the San Antonio Police Department currently pay no out of pocket cost for dependant coverage based on their current union contract with the city. The City of Arlington was the only city in the survey which utilizes a High Deductible Health Plan (HDHP) coupled with a Health Savings Account (HSA). Their HDHP premium has an out of pocket cost for families of \$72.00 a month. Based on these results, medium sized departments pay 39% more than the nine largest cities surveyed. Small departments pay 119% higher out of pocket premiums than their largest counterparts.

Speaking with employees of the human resource departments of these cities showed that many know of HDHP/HSA programs. Some stated they had offered a HDHP in the past, but had abandoned the program due to low participation by city employees. Others stated they were seriously considering going to a HDHP/HSA because of the increasing cost of current health insurance policies. Some were deeply concerned that their cities, in the very near future, might not continue to cover 100% of their employee's premiums as part of the benefit package. This change would drive the employees' out of pocket cost higher and make it more difficult for families who are gainfully employed to afford not only health insurance for their dependants, but also for themselves.

The current cost of premiums paid by officers of small police departments rival the prices that these employees pay for vehicle payments or a large percentage of their home mortgage. With the rising cost of health insurance premiums, many families could be impacted to the point of forcing their available take-home pay to place them at or near poverty level. This could place families in a position of needing government help for daily living expenses but not being able to qualify for assistance.

An answer to the rising cost of the typical health insurance program is the HDHP. With a High Deductable Health Plan the employee would have a low cost insurance policy with a minimum deductible of \$2,400 for families. With the low premium costs of these HDHPs, it could be possible for a city to cover not only the premium cost for the employee, but also the premium for family for less than they are currently paying for just the employee under their current plans.

With the employee now freed from a payroll deduction for insurance premiums, he could have the disposable income to fund the attached Health Savings Account to cover the \$2,400 deductible. Funds not used from the HSA earn interest. This earned interest and the deposited funds in the account are tax free, as long as all withdrawals from the account are used for payment of health expenses such as doctor visits, medications, medical supplies etc.

The downside of the HDHP/HSA is that, though costing less for the insurance, it would require personal responsibility on the part of the insured that he fund the HSA. The insured would also have to consumer shop for the best care for his health dollar. Gone would be the co-pays and the employee would have to pay the full cost of doctor visits and procedures up to the insurance policy's deductible, at which time the policy would begin paying toward any additional costs. The main idea of the HDHP/HSA is that the insured will cover routine medical care, doctor visits, prescription drugs, et cetera. The insurance policy is in place to cover costs associated with items such as surgery, major health care issues and long term medical care, up to the maximum benefit provided by the policy.

DISCUSSION/CONCLUSIONS

The problem or issue examined by the researcher considered whether or not there was inequity in the cost of health insurance premiums paid for dependant coverage. The purpose of this research was to prove that small police departments in Texas have to pay higher health insurance premiums than the larger departments in the state. The research question that was examined focused on the cost paid by cities for

major medical insurance for their employees, with an emphasis on coverage for the entire household.

The researcher hypothesized that insurance premiums paid by municipalities is based on size. The researcher proposed that the smaller departments pay higher premiums for health insurance coverage than their larger counterparts in the state. A second hypothesis was that High Deductible Health Plans are a cost-saving advantage over the health insurance policies currently being offered by municipalities.

The researcher concluded from the findings that, based on the survey results, employees of small cities pay a considerably higher out of pocket amount for insurance premiums than the officers of the largest municipalities. The findings of the research did support the hypothesis. The reason why the findings did support the hypothesis is due to the survey results obtained from Human Resource Departments from cities across the state.

Limitations that might have hindered this study resulted because the level of deductible for each policy surveyed may have been higher or lower. Cities with insurance policies with higher deductibles on average would pay less for policy premiums. This was a variable that was not considered at the time the survey was formulated and sent to various departments.

The study of health care costs is relevant to contemporary law enforcement because, next to salaries, the cost of health care insurance for an employer is one of the most expensive budgeted items. When an employer cannot stay competitive on health care benefits with other employers in the area, the ability to attract quality

personnel could be diminished. Departments look to recruit employees with families because many are more mature and grounded than their single counterparts.

Law enforcement agencies throughout Texas stand to benefit by the results of this research. Agencies of all sizes stand to save a large amount of their tax income by paying lower premiums for employee and employee family insurance. Any city, regardless of size, which is able to save money in tough economic times, becomes better stewards of the public's tax dollars.

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APPENDIX

POLICE DEPARTMENT MAJOR MEDICAL INSURANCE SURVEY

I am Lt. William Clark, Patrol Division Commander for the Windcrest (TX) Police Department. I am a student in the Law Enforcement Management Institute of Texas (LEMIT) Leadership Command College (LCC), at Sam Houston State University, Huntsville, TX.

I am conducting this survey for an Administrative Research Paper on the various levels of costs associated with major medical health insurance policies offered by police departments across Texas, with specific interest on dependent coverage.

My research will attempt to prove 3 factors:

1. That insurance companies doing business in Texas unfairly base the cost of like major medical insurance policies on the employee size of each governmental entity insured, instead of spreading the cost over all insured persons in the state;
2. There are other lower cost alternatives to the standard Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) policies being offered by the insurance companies, and;
3. The high cost of dependant health insurance cost being paid by some employees has a negative effect on recruiting and retention of qualified employees.

Each agency which returns this survey will receive a copy of my research findings, which should be completed sometime by the second or third quarter of 2009.

Please forward this survey to an employee in your department who meets the following guidelines:

1. Sworn officer with;
2. a spouse and 1 or more dependent children who are covered by the major medical health insurance policy provided by the employing entity.

Please return the survey page in the provided postage paid envelope. Thank you for your time in this important endeavor.

Respectfully,

Lt. William D. Clark
Windcrest Police Department
8601 Midcrown
Windcrest, TX 78239
210-655-2666 Ext. 2770

Major Medical Insurance Cost Survey

1. Name of Your Agency: _____

2. Agency Mailing Address: _____

3. Number of Sworn Officers: ☐ 1 – 50
☐ 50 – 500
☐ 500 or more

4. Name of Insurance Company Providing Major Medical Coverage:

5. Type of Policy: ☐ Health Maintenance Organization (HMO)
☐ Preferred Provider Organization (PPO)
☐ Point of Service (POS)
☐ Other: _____

6. Cost You Pay Every Pay Period for This Insurance Policy: \$_____

7. Frequency of Pay Periods: ☐ Weekly
☐ Bi-Weekly
☐ Bi-Monthly
☐ Monthly
☐ Other: _____

8. Percentage of Insurance Cost Your Employer Covers for Your Coverage:

_____%

9. Percentage of Insurance Cost Your Employer Covers for Your Dependents:

_____%