



TRENDS IN PHARMACY AND HEALTHCARE COSTS FOR TEXAS STATE EMPLOYEES

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

LEGISLATIVE BUDGET BOARD ID: 8537

NOVEMBER 2024

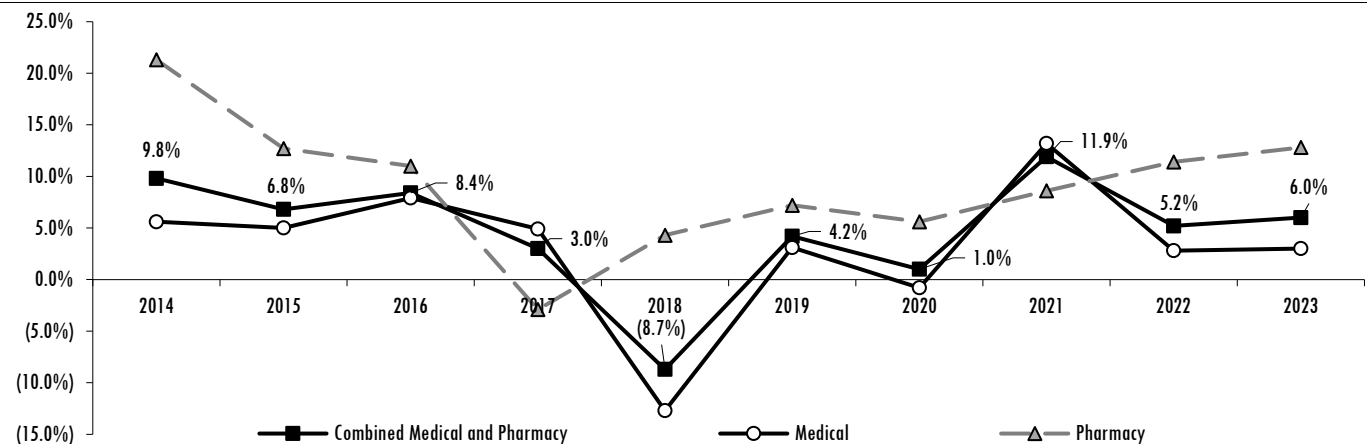
The Legislature established the **Employees Retirement System of Texas** (ERS) in fiscal year 1947. In fiscal year 1975, the Legislature established the Texas Employees Uniform Group Insurance Program to provide health insurance and other optional coverage for employees, retirees, and their eligible dependents beginning September 1, 1976. The program is governed by the Texas Insurance Code, Chapter 1551. The **Group Benefits Program** (GBP) administered by ERS now offers health insurance coverage to state employees and most employees of institutions of higher education, except the University of Texas and Texas A&M University systems, which administer their own programs. The GBP offers a health insurance plan called HealthSelect of Texas, which is a self-funded, managed-care plan introduced in fiscal year 1992. For fiscal year 2024, Blue Cross and Blue Shield of Texas administered HealthSelect, and Express Scripts managed pharmacy benefits. At the end of fiscal year 2023, the GBP served 538,487 members, including 208,216 employees, 129,173 retirees, 194,054 dependents, and 7,044 surviving spouses and dependents. A survivor is the spouse or dependent of a state employee participating in the GBP who passed away. The spouse or dependent may continue the coverage established before the employee's death, but the survivor is responsible for payment of premiums.

Figure 1 shows medical, pharmacy, and combined medical and pharmacy cost trends from fiscal years 2014 to 2023. Since fiscal year 2014, medical and pharmacy costs have fluctuated, ending with a combined 6.0 percent increase in fiscal year 2023. Medical costs fluctuated from fiscal years 2014 to 2017, then decreased substantially during fiscal year 2018. According to ERS, that decrease was attributed in part to the system's change to a new third-party administrator of the medical plan. Since fiscal year 2019, medical costs have fluctuated, reaching a low of negative 0.8 percent in fiscal year 2020 during the onset of the COVID-19 pandemic, and a high of 13.2 percent in fiscal year 2021 when, according to ERS, claims related to COVID-19 increased substantially, and members began to utilize services again in the manner they used them before the onset of the pandemic. From fiscal years 2014 to 2017, the pharmacy cost trend decreased substantially, but it has increased each year since except during fiscal year 2020.

PHARMACY COSTS

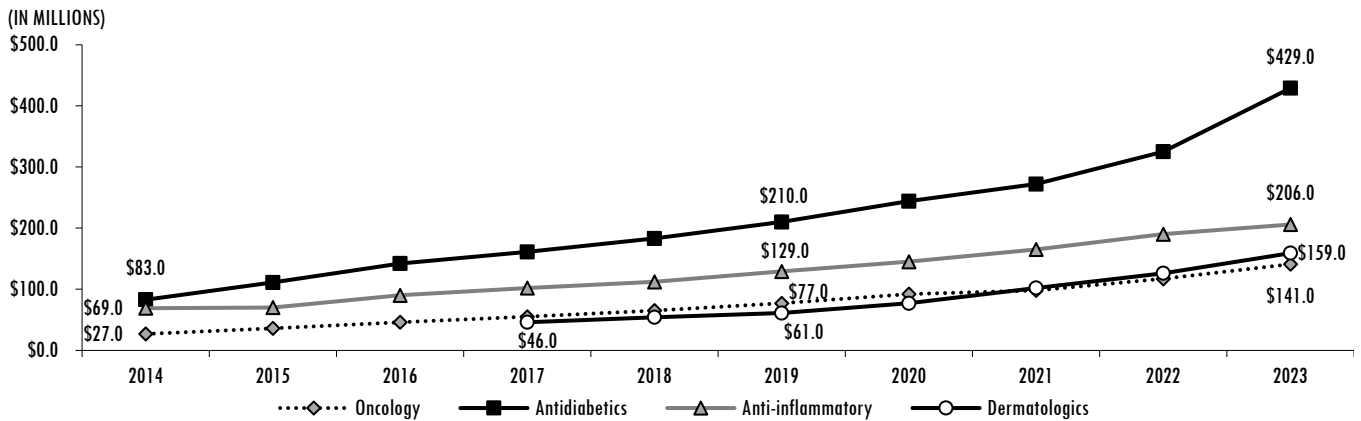
Figure 2 shows the highest-cost drug therapeutic classes from fiscal years 2014 to 2023. During the 10-year period, the cost of antidiabetic medications increased by more than 400.0 percent.

FIGURE 1
HEALTHSELECT COST TRENDS FOR MEDICAL, PHARMACY, AND COMBINED, FISCAL YEARS 2014 TO 2023



SOURCE: Employees Retirement System of Texas.

FIGURE 2
HIGHEST-COST DRUG THERAPEUTIC CLASSES, FISCAL YEARS 2014 TO 2023



SOURCE: Employees Retirement System of Texas.

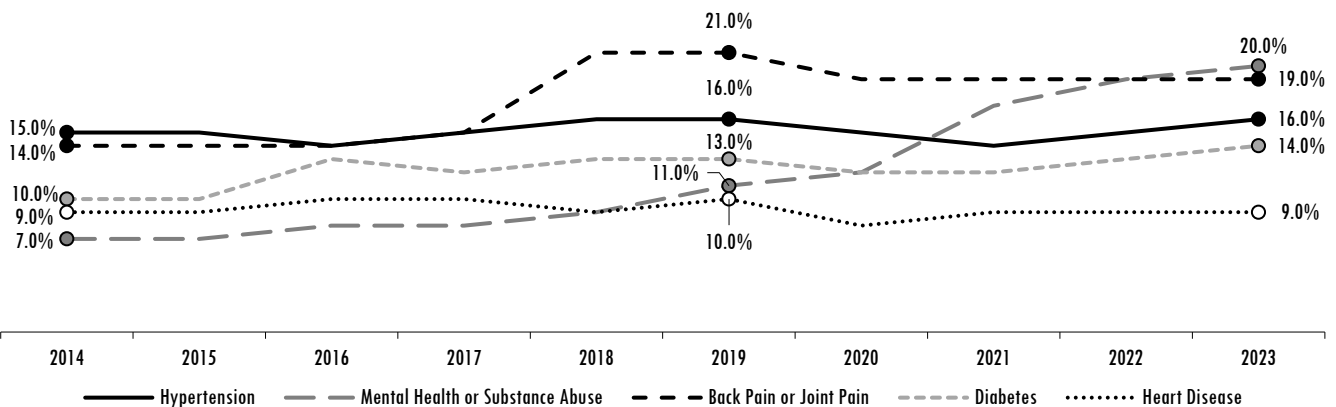
Before the pandemic, costs more than doubled from fiscal years 2014 to 2019, from \$83.0 million to \$210.0 million. After the pandemic’s onset, costs again more than doubled from fiscal years 2019 to 2023, increasing to \$429.0 million. Similarly, the cost for oncology drugs increased 422.2 percent from fiscal years 2014 to 2023. Since fiscal year 2019, the costs for anti-inflammatory drugs increased 59.7 percent, and the costs for dermatologic drugs increased 160.7 percent.

According to ERS, the main contributors to increased pharmaceutical costs are two medications that are prescribed to treat diabetes and that also result in significant weight loss. These drugs are GLP-1 agonist medications, known by the brand names Ozempic and Mounjaro. According to ERS, those two medications are extremely popular, highly effective, and extremely costly, at

approximately \$700 per month net of rebates. The medications also must be used continuously, like maintenance medication, which adds to their cost. According to ERS’s *Group Benefits Program Annual Report* for fiscal year 2023, these medications accounted for 42.0 percent of the \$218.3 million increase during plan year 2023 spent on all prescription drugs.

Figure 3 shows the percentages of participants diagnosed with the most prevalent chronic conditions from fiscal years 2014 to 2023, excluding the Medicare population. During this period, the percentage of participants diagnosed with mental health illnesses or substance abuse has almost tripled, from 7.0 percent in fiscal year 2014 to 20.0 percent in fiscal year 2023. The increase was especially acute during the onset of the COVID-19 pandemic, increasing from 12.0 percent in fiscal year 2020 to 17.0 percent in fiscal year 2021.

FIGURE 3
PERCENTAGES OF PLAN PARTICIPANTS DIAGNOSED WITH THE MOST PREVALENT CHRONIC CONDITIONS
FISCAL YEARS 2014 TO 2023



NOTE: Participants are counted in each category for which they had a medical claim; therefore, some participants may be counted in more than one category.
SOURCE: Employees Retirement System of Texas.

FIGURE 4
AVERAGE ANNUAL PLAN COST PER PARTICIPANT WITH A CHRONIC CONDITION, FISCAL YEARS 2020 TO 2023

CONDITION	2020	2021	2022	2023	PERCENTAGE CHANGE 2020 TO 2023
Hypertension	\$11,788	\$12,715	\$12,922	\$14,151	20.0%
Mental health or substance abuse	\$9,244	\$9,750	\$9,999	\$10,593	14.6%
Back pain or joint pain	\$11,058	\$11,879	\$12,819	\$13,825	25.0%
Diabetes	\$13,495	\$13,497	\$13,513	\$14,302	6.0%
Heart disease	\$20,992	\$22,470	\$22,663	\$23,636	12.6%

NOTE: Cost per participant excludes participants enrolled in Medicare.
SOURCE: Employees Retirement System of Texas.

Figure 3 also shows that, during the past 10 years, the percentages of participants diagnosed with diabetes or back or joint pain have increased slightly, and the percentages diagnosed with hypertension or heart disease have remained constant overall.

Figure 4 shows the average annual plan cost per participant diagnosed with a chronic condition, including both medical and pharmacy (net of rebates) costs, from fiscal years 2020 to 2023, excluding the Medicare population. Costs increased across all conditions during this period, and the largest percentage increases were reported among participants diagnosed with hypertension and back or joint pain. The largest cost per participant for all years was reported among those diagnosed with heart disease.

Figure 5 shows the average annual healthcare claims costs for all participants, regardless of whether they had a chronic

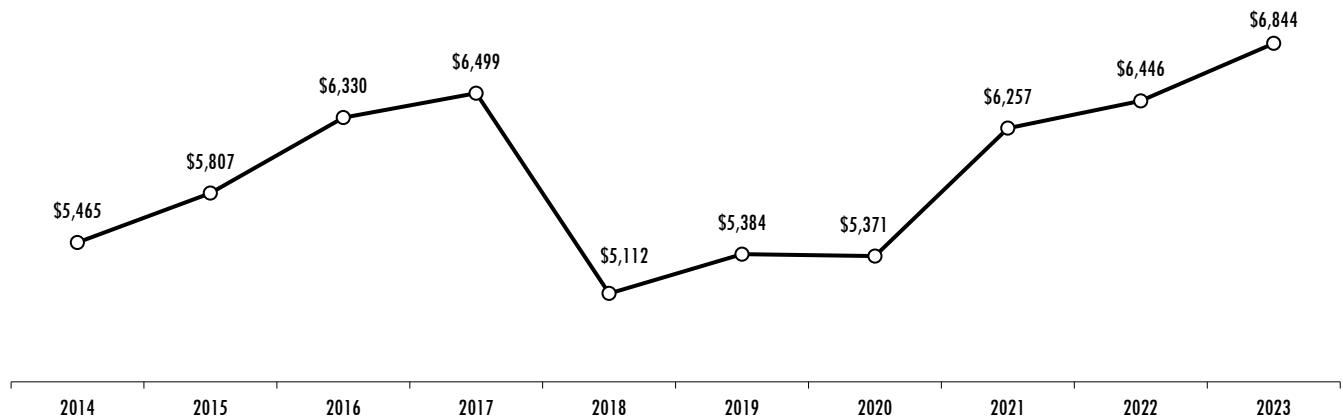
condition, from fiscal years 2014 to 2023. The costs decreased substantially from fiscal years 2017 to 2018, attributable to the system’s change to a new third-party administrator of the HealthSelect program.

The costs increased substantially from fiscal years 2020 to 2021. According to ERS, this increase occurred because claims related to the COVID-19 pandemic increased substantially, and members began to utilize services again in the manner they used them before the pandemic. From fiscal years 2021 to 2023, the average annual cost increased 9.4 percent. The overall increase from fiscal years 2014 to 2023 was 25.2 percent.

CONTACT

John Posey Email: IssueBrief@lbb.texas.gov

FIGURE 5
AVERAGE ANNUAL PLAN COST PER PARTICIPANT, FISCAL YEARS 2014 TO 2023



NOTE: Costs include all plan participants, not just those diagnosed with chronic conditions.
SOURCE: Employees Retirement System of Texas.