



TAHP
The Texas Association of Health Plans

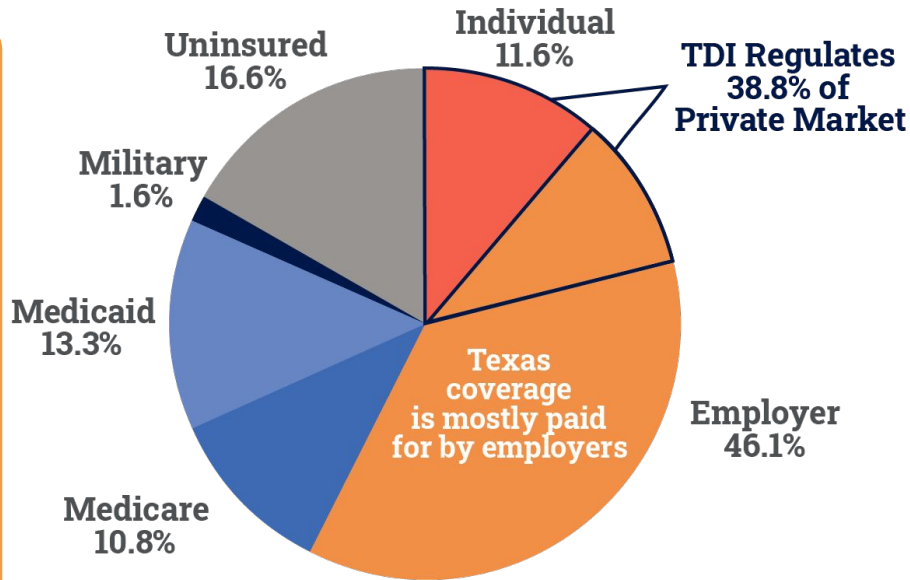
Employer Coverage: Challenges & Opportunities

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Texas Association of Health Plans
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TAHP
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Texas Health Plans Cover More than 25 million Texans

Texas coverage is mostly paid for by employers – government and individual markets fill in the rest



15M EMPLOYER COVERAGE

Largest single source – about 4 of 5 employees are in ERISA self-funded or level-funded plans

4M INDIVIDUAL MARKET

Quadrupled since 2020 (1M → 4M)

7.6M GOVERNMENT COVERAGE

Medicaid (4M) + Medicare (3.6M) = 25% of Texans

5M UNINSURED

Lack of job-based coverage cited as #1 reason

Private market = 58% of Texans. Employers purchase coverage for about 80% Texans covered in the private market. TDI regulates 39% of the private market – the fully insured share. Remainder of market under ERISA.

54% Texas employers offer coverage: 38% of small employers & 96% of large employers

TEXANS ON EMPLOYER COVERAGE

The single largest source of coverage in Texas

15.4M

ERISA • FEDERALLY REGULATED

12.2M

 79%

Self-funded and level-funded plans chosen by employers for flexibility. **State mandates don't apply.** Mostly large employers, with a growing share of small and midsize.

FULLY INSURED EMPLOYER COVERAGE • TDI REGULATED

3.2M

 21%

Every Texas mandate applies to this part of the market.

SMALL GROUP (2-50)
~670K

LARGE GROUP
~2.5M

WHO OFFERS COVERAGE IN TEXAS

54%

of all Texas employers offer health benefits

96%

of large employers offer coverage

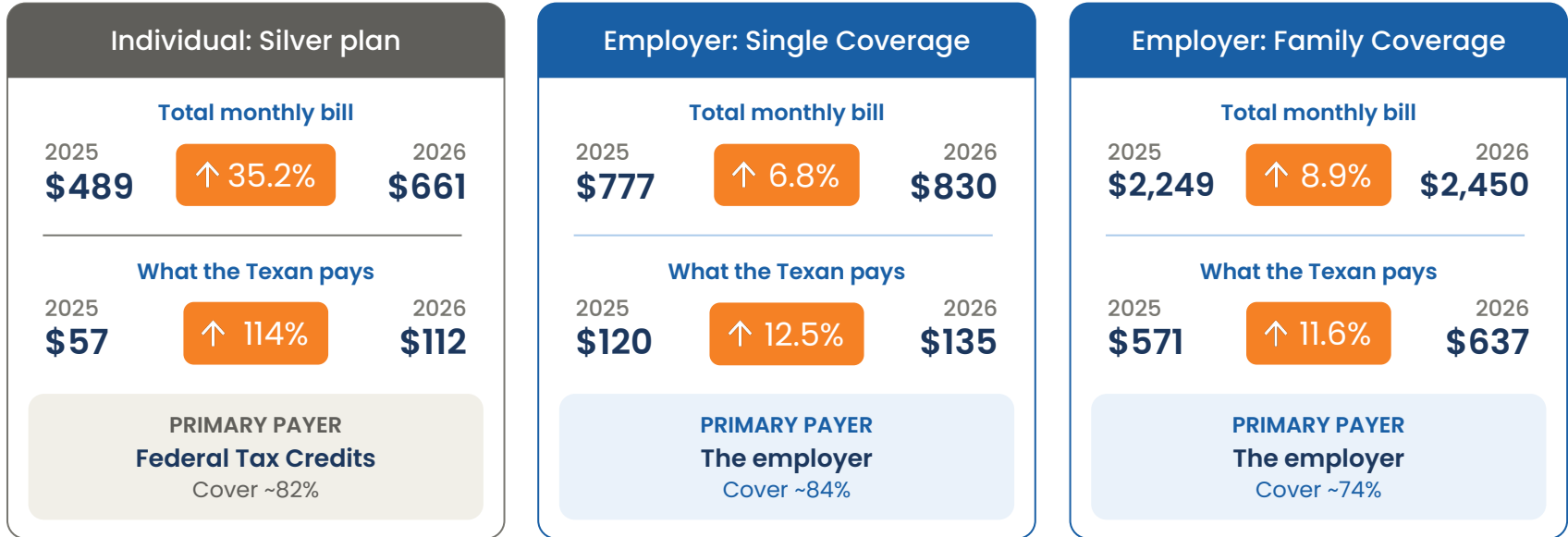
38%

of small employers offer coverage

Source: NAIC; KFF Employer Health Benefits Survey 2025; TDI; TAHP analysis.

Texans Face the Biggest Premium Increase in Years

2026 monthly premium estimates – what Texans pay and who covers the rest



Every Texan is paying more in 2026. Individual market sees “extraordinary” 35% spike — driven largely by tax credits expiring. Employer coverage rises 6–9%, the steepest increase in over a decade.

Sources: TDI 2026 Rate Filings; KFF 2025 Employer Survey; Mercer 2026 Forecast; Texas 2036.

Employer coverage is getting too expensive – especially for small employers

TX SMALL EMPLOYER PREMIUMS

15–20% premium increases

for Texas small employers in 2026

36–82% above the national average

TX EMPLOYER SENTIMENT

87%

of Texas employers say health care costs are rising at an **unsustainable** rate.

WORKERS PAY THE PRICE

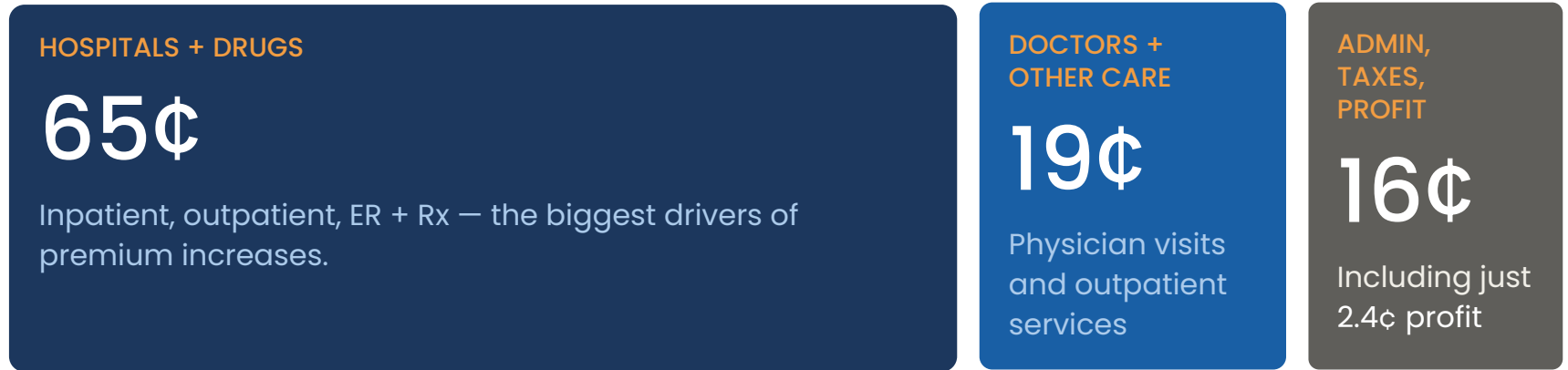
Every **10% rise in premiums** means a **1.6% loss in jobs** and a **2.3% cut in wages**.

The bottom line: The Texas small group market has **unique challenges** – too many mandates, few competitors, less flexibility, and higher family premiums and cost-sharing than the large group market.

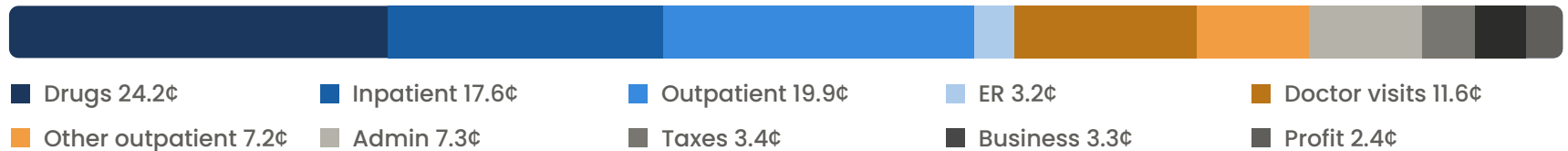
Source: 2026 ACA small group rate filings (ratereview.healthcare.gov); NAIC 2024 Supplemental Health Care Exhibit Report; Peterson-KFF Health System Tracker (Sept 2025); Texas Association of Business employer survey; Brot-Goldberg et al., wage/employment pass-through research; TAHP analysis.

65¢ of Every Premium Dollar Goes to Hospitals and Drugs

Federal law requires plans to spend at least 80–85% of premiums on medical care.



FULL BREAKDOWN



Source: AHIP, "Where Does Your Health Care Dollar Go?"

It's Not More Care – it's More Expensive Care

75% of premium increases are tied to rising prices, not more visits to the doctor

SHARE OF PREMIUM INCREASE

75%

due to prices

Texans aren't going to the doctor more
— every visit just costs more.

PER-PERSON SPENDING GROWTH, 2018–2022

Prices

+13.9%



Utilization (how often Texans get care)

+4.4%



Prices drove 75% of the increase in per-person health spending from 2018–2022. Utilization barely moved.

Sources: Health Care Cost Institute.

The Texas employer shift: away from state mandates, toward level-funded plans

THE REASON EMPLOYERS MOVE

19% average savings

for employers who move from fully insured to level-funded plans.

State mandates don't apply to level-funded plans.

THE TREND

7% → 37%

of small/midsize employers (3–199) offering **level-funded plans** – from 2019 to 2025.

THE ASK

77%

of Texas employers want the Legislature to give them **more flexibility** to contain costs.

WHY THIS MATTERS

When the Legislature debates a new mandate, it raises costs for the shrinking fully insured market – pushing more employers to leave for ERISA or making coverage too expensive to offer at all.

State Mandates Have Consequences: How Texas's 2013 Billed-Charges (List Price) Rule Reshaped the Market

In 2013, TDI required health plans to pay out-of-network hospital-based physicians at the billed charges rate. The rule was intended to protect consumers. Instead, it drove up prices.

2013

New billed-charges mandate

Plans must pay out-of-network hospital-based providers at billed-charge rates

PROVIDERS RESPOND

Higher Payments

Specialty groups drop network contracts. Plans pay much higher rates to bring them in-network.

MARKET RESHAPES

Private Equity

PE buys up specialty groups across Texas. Billed charges and in-network rates rise sharply with each acquisition.

2020

Consolidation and increased prices

TAHP lawsuit invalidates rule — but PE-backed groups now dominate Texas markets and prices.

TEXANS ARE STILL PAYING — TODAY

TRS testified last month that one single anesthesiology group (USAP) drove **\$11 million increase** in TRS claims, alone. That's not surprising given market shares of 70% or more. Texas teachers and taxpayers are paying for this private equity consolidation.

Texas Laws that Force Higher Prices

Texas is the outlier – these laws don't exist, or don't work this way, in most other states

Prompt Pay tied to billed charges

“One of the most provider-friendly statutes in the country”

Texas calculates prompt-pay penalties from hospital list-prices, incentivizing inflation. Penalties run **up to full billed charges plus 18% annual interest**. One consulting firm brags about generating “hundreds of millions” for hospitals.

Surprise billing IDR based on billed charges

TX dispute resolution ties to provider list prices

550% increase in billed charges submitted to IDR in just three years.

Freestanding ER licensing abuse

Designed for rural areas, now driving 5M visits per year

A freestanding ER visit **can cost 13x more than urgent care** for the same condition. Texas cities and school districts are seeing over 20% higher costs as a result of freestanding ER use.

180-day overpayment recoupment Limit

Tightest in the nation – most states allow 18 to 24 months

Texas blocks recovery of wasteful overpayments after just 180 days. The tightest time frame in the nation shared by only two other states

Source: TDI SB 1264 Biennial Report 2024; Texas Prompt Pay Act (SB 418); Rice University, 28 TAC §11.901,

Texas Laws that Block Plan Tools to Lower Cost

Texas is the outlier – these laws don't exist, or don't work this way, in most other states

Shopping price Incentives Banned

TX blocks plans from rewarding patients who shop based on price.

A simple MRI can cost **10x more** at a hospital vs. a standalone imaging center – but TX law bars plans from rewarding price based shopping. **Shopping-based plans lower spending by 5%.**

Site-of-Service Limits Banned

“Freedom of choice” mandates block plan steering

A year of outpatient chemotherapy averages **\$17K at a hospital vs. \$7K in a physician clinic** – but Texas blocks plans from limiting coverage to the more affordable setting.

Excessive Network Adequacy Mandates

TX requires broader networks than federal rules

High-value networks have been shown to **save 5-20% in premiums** – but Texas mandates one-size-fits-all networks that exceed federal standards.

Cost Savings Blocked

Texas law allows providers to opt-out of any contract change then force insurers to re-contract at higher rates.

Texas plans must give **90 days' notice** of any payment policy change, and providers can then **terminate within 30 days without penalty**. In consolidated hospital and physician markets, cost savings proposals and efforts to fight fraud, waste and abuse, get blocked before they are put in place.

Source: Health Care Cost Institute (HCCI); AHIP/Milliman high-value networks report; 28 TAC §11.901 and §3.3703; TIC 1451.

Texas Laws that Block Lower Cost Coverage Options

Texas is the outlier — these laws don't exist, or don't work this way, in most other states

One-year Frozen Formulary Law

Few states freeze formularies this long
Without exceptions.

New biosimilars save 50%+ over brand biologics — but Texas freezes drug formularies for a year, blocking plans from immediately capturing savings. Mirroring the TX law nationwide would cost **\$4.5 billion** over 5 years

Mail-Order Pharmacy Blocks

TX pharmacy mandates limit benefit design

Mail-order pharmacy **saves 4-7%** versus retail — but Texas pharmacy mandates block plans from prioritizing the lower-cost channel

Mandate Expansion to Association Health Plans

HB 290 (88th session) imposed
PPO-style Mandates on MEWAs

Association health plans are meant to be **affordable alternatives for small employers and trade groups**. Texas HB 290 imposed comprehensive state insurance mandates on MEWAs — adding cost back into what should be a more affordable, flexible coverage option.

Employers Forced to Buy Expensive Coverage

"Two-plan" mandate forces PPO
Alongside HMO

Texas employers offering an affordable in-network HMO are **required by state law to also offer a higher-priced out-of-network PPO option** — driving up costs for businesses and families who would otherwise choose the cheaper plan.

Source: Association for Accessible Medicines 2023 savings report; Milliman 2025 frozen formulary analysis; PCMA pharmacy benefit savings analysis; Texas HB 290 (88th Regular Session, 2023); Texas Insurance Code §1271.005 (two-plan requirement).

RECOMMENDATION

Mandate-lite gives small employers the same flexibility large employers already have

ERISA-style coverage is broad, comprehensive, and affordable — and it's what most Texas employees are already in.

Broad coverage

Keeps the federal floor — ACA essential benefits, preventive care, and consumer protections. **Not skimpy coverage.**

19% Lower Costs

Average savings for employers who move from fully insured to level-funded — closing the price gap with large employers.

Employer choice

Employers **opt in** — no forcing. Small employers get the flexibility ERISA already gives large employers.

The ask: Give small and midsize employers **opt-in** access to the same ERISA-like mandate-lite coverage that already works for 80% of Texas workers and their families.

RECOMMENDATION

Right-size the network adequacy rule — restore competition and affordability

Texas has the **strictest network rule in the country** — exceeding federal mandates. The rule can't be met, even by the broadest networks in the state. And the penalty for falling short is **elimination from the market** — which nearly cost 2.5 million Texans their coverage in 2026.

A rule that can't be met

Required network waivers exploded from **2,505 in 2023 to 8,608 in 2025 for one insurer**.

When even the largest commercial health plan in Texas can't pass, **the problem is the rule**.

A rule that raises costs

Narrower-network plans are **16–22% cheaper** — savings Texas families lose under the current rule.

Forcing networks to include 85%+ of providers raises prices **at least 28%**.

What right-sizing looks like

1. Don't exceed federal standards.
2. Create clear, achievable standards.
3. Use a complaint-based hearing system.
4. End the "death penalty" that nearly cost 2.5M Texans their coverage before TAHP sued.

RECOMMENDATION

Stop forcing employers to buy expensive coverage

Repeal the two-plan mandate — Texas Insurance Code §1271.005.

Texas law forces employers offering an **affordable in-network HMO** to also offer a **higher-priced out-of-network PPO** — driving up costs for businesses and families who would otherwise choose the cheaper plan.

What it requires

Texas Insurance Code §1271.005 requires HMO carriers to also offer a PPO option alongside any HMO plan offered to a Texas employer.

What it costs

PPO premiums run **~5% above the average employer plan** nationally — and Texas employers are forced into that higher-cost tier whether they need it or not.

What repeal would do

Give employers the **flexibility** to offer the coverage that fits their budget and their workforce — without a state law forcing the more expensive option.

Source: Texas Insurance Code §1271.005; KFF Employer Health Benefits Survey 2025; TAHP analysis.

RECOMMENDATION

Stop letting fraud, waste, and abuse drive up the cost of employer coverage

Extend Texas's Medicaid fraud protections to the private market.

Texas is **tough on fraud in Medicaid** — but the same protections aren't in place for Texas employers and families with private coverage. The result: insurers absorb the losses, employers pass them through, and Texans pay higher premiums.

What's happening

Texas estimates **10% of health spending** is lost to fraud, waste, and abuse. New abusive billing schemes like **AI-driven upcoding** continue to inflate bills.

Where Texas falls short

Texas proactively investigates and prosecutes fraud in **Medicaid and Medicare**. But TDi lacks the same authority to investigate all fraud, waste, and abuse.

What Texas should do

Extend the same **investigation and prosecution authority** Texas uses to fight Medicaid fraud to the commercial market. **No one should get a free pass** to commit fraud, waste, and abuse in Texas.

No New Mandates & Required Fiscal Analysis

Moratorium on new mandates

No new health insurance mandates this session. **Texas employers can't absorb more cost-driving regulations** while small group premiums are already rising 15–20% in 2026.

Use the HICCAP process

If a mandate is considered, **use the fiscal note process the Legislature already passed.** HB 138 (89th, effective 2025) requires the true cost to employers and families to be shown **before lawmakers vote.**

Source: HB 138, 89th Texas Legislature (2025), effective June 20, 2025; 2026 ACA small group rate filings; TCCR Mandate Impact & Transparency Report (2024); TAHP analysis.