OFFICE OF GOVERNOR RONNIE MUSGROVE
INTEROFFICE MEMORANDUM

TO: BOYD

FROM: RILEY

SUBJECT: 12/19/00 MEETING OF THE STATE AND SCHOOL EMPLOYEES HEALTH INSURANCE BOARD MEETING: LEGISLATIVE PROPOSALS

DATE: 12/20/00

CC: FILE

The State and School Employees Health Insurance Management Board met yesterday in Room 402 of the Capitol. I wanted to bring your attention to the following matters discussed:

1. Legislative Proposals: The Board expressed interest in past months in requesting legislation that would allow the Board to offer benefit options to active employees and for the employees to share in the cost of their health insurance coverage. The Board reviewed suggested language in November that would amend the current statute to provide such authority, but tabled the discussion until this month's meeting and also requested an example of the type of optional coverage that would be provided under such an arrangement. Lynn Townsend presented two such options to the board yesterday – a physician copay plan and a deductible buy down plan. The Board did not take any action on this matter and Gary Anderson asked that I be sure to convey to you that the Board will not be submitting any legislative proposals.

2. Report on Retiree Health Insurance: Frank Ready briefed the Board on the report of the Retiree Insurance Advisory Committee that has been endorsed by the PERS Board of Trustees. PERS created the Committee in response to 2000 legislation requiring a feasibility study of providing one health insurance program for all public employees. Of the 54,000 current PERS retirees, only 12,000 participate in the State Plan and 5,000 are covered by the PERS plan. It is assumed that the remaining 37,000 retirees are covered through spouse plans or don't have coverage. The State currently subsidizes the cost of coverage for retirees under the State Plan. The State is actually paying for roughly a third of the cost for early retirees (under 65) and a little more than 10% of the Medicare eligible (over 65) retiree costs. For Fiscal Year 2001, the current subsidy is estimated to be $12 million. As retirees become a larger portion of the State Plan's total covered population (20,000 employees are eligible to retire today) and medical costs continue to increase, the subsidy for this group is expected to grow to $31 million by 2005 and $62 million by 2025. The Advisory Committee proposed the following plan structure for a statewide retiree health care plan:

    - Coverage: Plan will be available to all public employees upon retirement. Existing retirees will also be eligible to participate. Only retirees will be eligible to receive the State subsidy, but dependents can be covered if the retiree pays full cost of coverage. Coverage will be mandatory for all employers covered by PERS plans and each employer will be required to make the annual contribution established by law.

- Plan Design: The benefit structure currently offered under the State Plan will be used initially, with the governing body having authority to change plan design features as necessary.

- State Subsidy: The employer subsidy for participating retirees will be equal to a percentage of each year's total per participant plan costs. The percentage will be equal to 2% for each year of service at retirement to a maximum subsidy of 60%. If retirement occurs before age 60, the subsidy will be reduce by 3% for each year of age below 60 at retirement. Once determined, the percentage will not change (except for re-entries), but it will be applied to each year's cost, so the dollar amount of subsidy provided to each retiree will grow as medical costs increase.

- Cost of Subsidy: The estimated total liability for this subsidy is $1,268 million. The Committee recommended that the liability be pre-funded in a manner similar to the approach used to pre-fund the pension liabilities of PERS. An asset pool will be created by pre-funding and the earnings on those assets will help to pay for the costs of the subsidy. Over time, employers will contribute less to finance the subsidy than they would on a pay-as-you-go basis. The Committee pointed out that the Governmental Accounting Standards Board (GASB) is reviewing the issue of expensing and disclosure requirements for post-employment benefits other than pensions. It is expected that GASB will adopt an approach to expensing similar to that required in the private sector, which utilizes a pre-funding approach. The Board discussed that this could result in the State having to account for these funds as a liability which could, in turn, affect our bond rating. The Committee recommended that funding begin at least six months prior to the effective date of coverage under the new body so that funds are available to start the plan. Given the current funding status of PERS and benefit improvements already required by law to be phased in over the next few years, the report stated that PERS contributions should not be anticipated as a source of funds. Actual funding should be determined by the governing body and that body should explore the potential of medical savings accounts to assist employees in accumulating funds to meet their portion of the retiree health care costs.

- Plan Administration: Although PERS could not offer a source of funding, the Committee recommended that the administration of this plan be assigned to PERS staff under the oversight of the Board of Trustees. The Committee also recommended that sufficient staff positions be approved, headed by a Deputy Director reporting to the PERS Executive Director, to handle the increased workload presented by the health plan.

Ready said that approximately 1,900 (1,300 early retirees, 400 over age 65, and 200 on disability retirement) would be negatively impacted by this plan due to higher initial premiums. Ready said that these 1,900 would be better off over time.

The Insurance Board received the report and briefing, but took no action. Ready indicated that PERS was going to have legislation introduced regarding these recommendations and Representative Stevens offered her assistance. Senator Kirby did not offer his assistance and Senator Gordon spoke adamantly against the plan because he said that the state is giving retirees everything when they are the group responsible for a major portion of the State's costs.