
OFFICE OF GOVERNOR RONNIE MUSGROVE
INTEROFFICE MEMORANDUM

TO: GOVERNOR MUSGROVE

FROM: FELICIA GAVIN

RE: HB 1389 COMMENTS

DATE: APRIL 23, 2002

Based on information that I received from Teresa Hanna, in my opinion, this bill should be signed. DFA is in full support of this bill.

House Bill 1386 was introduced pursuant to a study conducted by the Public Employees Retirement System (PERS) on retiree health insurance. DFA participated on the advisory committee that was created to assist with this study, as well as provided data from the State Health Insurance Plan.

HB 1386 authorizes PERS to establish a prefunded health insurance plan that will be available to all PERS retirees. This plan will be pre-funded through the Retirement System, funded by a contribution of 2.5% of payroll from employer units. The implementation of this plan is delayed, however, until PERS can reduce employers' contributions to the Retirement System by 1% without causing the unfunded liability period for the Retirement System to exceed 20 years. (This delay is expected to be approximately 3 to 5 years.) This provision therefore reduces the increase in contribution to the Retirement System for implementation of this plan to 1.5% of payroll.

Once implemented, retirees who enroll in this plan will have their premiums subsidized based on years of service, specifically 2% for each year of creditable service, up to a maximum of a 60% subsidy. Dependent premiums will not be subsidized.

Implementation of this retiree health insurance plan will bring stability to retiree health insurance. Instead of funding retirees' health insurance coverage on a "pay-as-you-go" basis through the State Health Insurance Plan, it will be pre-funded through the Retirement System. This plan will be available to all public retirees, many of whom now have no group health insurance plan available upon retirement.

Because retiree health insurance will no longer be subsidized through the State and School Employees' Health Insurance Plan, the premiums under the State Health Insurance Plan can be reduced by the amount that had been required to subsidize retiree health insurance coverage (approximately \$20 million in 2001). Benefits under the State Plan can be tailored more specifically to meet the needs of employees and their dependents without consideration for retired members.

At some point in the near future, the State will be required to reflect the liability for retiree health insurance on its financial statements. By pre-funding retiree health insurance through the Retirement System, the State will avoid having to show a significant unfunded liability on its books.