LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7657 **DATE PREPARED:** Feb 3, 2001
BILL NUMBER: HB 2029 **BILL AMENDED:**

SUBJECT: Health Insurance for Retired State Employees.

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FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: The bill provides that a state employee who meets certain requirements (including that he or she is at least 55 years of age on the date of retirement) and retires after June 30, 2001, may obtain state employee health insurance coverage equal to the coverage offered to active state employees if the retired state employee pays the employee's share of the premium. The bill also provides that eligibility for coverage does not end when the employee is eligible for Medicare. The bill makes a conforming amendment.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The bill is estimated to result in a net gain to the state of approximately $1.9 M annually. The net fiscal impact of this proposal is based on the difference between the increase in health care costs to the state due to the additional retiree health benefits and the reduction in compensation costs to the state from those individuals hired to replace the retirees. These financial trade-offs are described below for four groups of state retirees. The fiscal impact for each group is summarized in the table below.

Employee Group	Estimated Net Increase (Reduction) in Cost
Group A	($4.2 M)
Group B	minimal
Group C	minimal
Group D	$2.3 M
Total	($1.9 M)

Group A: This group consists of active state employees who are currently on the state health plan and who retire early

and are replaced by newly hired employees. These active state employees are eligible for early retirement and, because of the provisions of the bill, perceive the cost of retirement to have decreased enough to retire while remaining on the health plan. The cost estimate, however, must include the cost related to the new employees hired as replacements as well as the cost related to the retiring employees.

The basis for the cost of this group is the existing group of early retirees from state employment. There are currently about 331 early retirees from state employment who obtain state employee health insurance coverage. About 84% of these retirees are on single coverage and 16% are on family coverage. These retired state employees pay both the employee and employer premium for this coverage. The weighted average premium they pay is estimated to be about $3,540 per year per retired employee.

The additional cost to the state for Group A is represented by the number of new replacement employees times the difference between the cost of providing health coverage and the employee contribution. Based on the current group of early retirees, the weighted average employee premium would be approximately $230 (or 6.5%) per year. Thus, for Group A the state would pick-up a cost of $3,310 per year per retiree. Based on an experience study by the actuaries for the Public Employees' Retirement Fund (PERF), about 10% of those individuals eligible for retirement each year actually retire. With the reduced costs of health insurance offered in this proposal, the actuaries estimated that about 18% of those individuals eligible would retire early. This is estimated to represent about 676 new retirees resulting in about $2.2 M in additional costs to the state for health care. (These costs may be overstated to the extent that replacement employees would likely be younger and have lower claims expenditures than the average employee.) The health costs borne by the state would not change for the retiree.

Lower salary and salary-related expenditures could potentially offset the higher health benefit costs borne by the state because a new replacement employee would likely receive a lower salary, and would incur lower salary-related expenditures, as well. An average reduction in annual salary is estimated to be $8,000 with 19.56% in salary-related fringe benefits (i.e., life insurance, social security, PERF contributions, and disability insurance) and would result in a cost reduction of about $6.4 M. The resulting net reduction in health and salary costs for this group is estimated to be about $4.2 M (i.e., $6.4 M less $2.2 M).

There could also be some impact on pension costs resulting from a lower pension contribution for the new employee and earlier payout of pension benefits for the retiree. However, this has not been estimated at this time.

Group B: This group consists of active state employees who are currently on the state health plan and who retire early but <u>are</u> <u>not</u> replaced by newly hired employees. These active state employees are eligible for early retirement and, because of the provisions of the bill, perceive the cost of retirement to have decreased enough to retire while remaining on the health plan.

Although it is possible that retiring employees are not replaced, for the purposes of this analysis, it is assumed that all employees are replaced. However, to the extent that a retiree is not replaced, there would be no change in health care costs borne by the state. In addition, there would be a reduction in salary and salary-related fringe benefits associated with the retiring employee. Upon an employee's retirement, the state's pension contributions would stop. However, pension benefit payments would begin earlier than they would if the employee did not retire. The impact of this group is assumed to be minimal.

Group C: Group C consists of active state employees who <u>are</u> <u>not</u> currently on the state health plan and who are eligible for early retirement. This group of active employees does not currently purchase coverage under the state employee health plans, even under the provision that the active employee contribute only about 6.5% of the insurance premium. Consequently, it is assumed that reducing the cost of insurance for retirees would not provide sufficient

incentive to result in major shifts of such employees into retirement status. The impact of this group is also assumed to be minimal.

Group D: This group consists of active state employees who retire at age 65 or older. Under current law, insurance coverage is not offered to medicare eligible retirees. The reduction in compensation cost due to their retirement and replacement with lower paid employees, however, is not considered as a cost saving since the retirement of people in this group would presumably occur without the additional health care benefits. The cost of the additional health care benefits for Group D is further impacted because this group has an adverse experience factor equal to $2.37 in claims expenses for every $1 in claims expenses experienced by the state employee group as a whole. On average, 188 state employees who are 65 years old or older retire each year. Potentially, all of these employees could elect to purchase coverage under the state health plan as secondary insurance coverage instead of purchasing Medicare Part B and medicare supplement insurance. This is assumed for purposes of this analysis.

Survey research by the U.S. Census Bureau suggests that approximately 54.7% of state retirees are married with their spouse present. Therefore, the estimated cost of Group D is based on 103 family contracts and 85 single contracts. Given both the potential distribution of single and family coverage and the adverse experience factor, the weighted average claims cost for retirees in Group D is estimated to be $12,516 per year per retiree. The weighted average employee contribution to this premium cost is estimated to be about $343 per year per retiree. Thus, Group D would result in about $2.3 M in additional costs to the state for health care. It is important to note that this is the cost just in the first year of the additional health care benefits package. Consequently, this cost could potentially double in the second year and so on until a maximum level of retirees aged 65 and older obtaining the increased benefits is reached. This maximum level would depend on the number of retirements of employees in this group, the number of early retirees reaching age 65, and the number of deaths of retirees in this group obtaining the increased benefits.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Keith Beesley, State Department of Personnel, 232-3062.
Doug Todd of McCready & Keene, Inc., actuaries for the Public Employees' Retirement Fund, 576-1508.