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FISCAL IMPACT STATEMENT

LS 6395

BILL NUMBER: HB 1481

NOTE PREPARED: Feb 7, 2005

BILL AMENDED:

SUBJECT: Health Insurance for Retired State Employees.

FIRST AUTHOR: Rep. Adams T

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that a state employee who retires after June 30, 2005: (1) 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; and (2) remains eligible for coverage when the employee is eligible for Medicare.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Summary:* This bill permits state employees who retire after June 30, 2005, and regardless of eligibility for Medicare, to participate in the health insurance program offered to active state employees, but with a reduced premium contribution from what retirees now must pay. The retired employee will be required to contribute an amount equal to the employee share of the total premium (same amount as paid by active state employees). Currently, a retired state employee must pay a premium amount that is equal to both the employee share and the employer share. A preliminary estimate of the net additional state expenditures is \$0.35 M in FY 2006, \$1.6 M in FY 2007, \$3.9 M in FY 2008, and \$7.4 M in FY 2009. [Net expenditures are anticipated to continue growing past FY 2009, however, later years have at this time not been estimated.]

Background Information: Currently, state employees may retire with normal retirement benefits if the employee's (1) age is at least 65 and has accumulated at least 10 years of creditable service; (2) age is at least 60 and has accumulated at least 15 years of creditable service; or (3) age is at least 55 and whose age plus years of creditable service sum to at least 85 ("Rule of 85"). In addition, an employee may retire with reduced retirement benefits if the employee's (4) age is at least 50 with at least 15 years of creditable service.

Under current statute, retired state employees who have at least 55 years of age, have completed 20 years of creditable service (10 of which were completed immediately preceding retirement), and have completed at least 15 years of participation in the retirement plan are able to participate in the state employee group health benefit plans. Also under

current statute, the entire cost of the insurance premium, both the employee and the state share, must be paid by a retired employee.

This bill provides that retired employees must pay the same employee share of the total premium as paid by active state employees, and the state will pay the balance. The current employer share of premiums for single coverage for active employees varies between 71% and 96%, depending on the health benefit plan. The employer share for family coverage varies between 71% and 94%. The bill also allows retired employees who become eligible for Medicare to remain in the state employee health plan.

The number of employees meeting the age and service requirements of the bill and who can be expected to retire are estimated to total about 1,040 in FY 2006, 1,060 in FY 2007, 1,135 in FY 2008, and 1,250 in FY 2009. These numbers include both the estimated number of employees who would have retired anyway, as well as the estimated number who would not have retired, but would choose to because of the additional incentive provided by the reduced cost of health insurance. These numbers are anticipated to continue growing past FY 2009, however, the number of expected retirements for later years have not at this time been estimated. The annual number of retirees for which the state will be contributing toward retiree health insurance will likely accumulate for several years before a relatively steady state is reached.

A salary savings is factored into the estimate because of the anticipated hiring of a less expensive replacement for those employees who would not have retired, but will now because of the incentive. An adverse experience factor is also applied to those individuals who would have retired anyway, but would not have chosen to participate in the state health plan were it not for the extra incentive provided by the reduced premium cost.

This analysis is based on a data set containing the age and service data for 33,500 active state employees as of December 31, 2004.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Public Employees Retirement Fund data.

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