CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 1435 — **Senator Johnston (As amended 8/7/00)**

Position: — **Sponsor**

Proponents: — **CalSTRS (Sponsor), ACSA, AFT College Faculty Guild, CFT, CMA, CRTA, CTA, LACCD**

Opponents: — **None known**

SUMMARY

SB 1435 requires the California State Teachers Retirement System (CalSTRS) to pay the premium of Medicare Part A for retired members of Defined Benefit (DB) Program effective July 1, 2001, including any penalties applicable to enrollment in Medicare Part A or Part B by members who enroll after the age of 65. To qualify, the member must be at least 65 years of age, enrolled in Medicare Parts A and B at the age of 65 or on July 1, 2001, whichever is later, and not eligible for Medicare Part A without payment of a premium.

HISTORY

Chapter 991, Statutes of 1985 (AB 528) required school districts which provide health insurance to permit enrollment of CalSTRS retirees in district health plans.

Chapter 1006, Statutes of 1989 (AB 265) authorized school districts to apply to the California Public Employees' Retirement System (CalPERS) for Medicare elections for employees who are CalSTRS members to elect to join Medicare.

Resolution Chapter 100, 1990 (AJR 71) memorialized Congress to establish a process whereby CalSTRS retirees could purchase the quarters needed to meet Medicare Part eligibility.

Chapter 968, Statutes of 1998 (SB 1528) required CalSTRS to conduct a study on the feasibility of a health care program, including vision and dental, for CalSTRS members, beneficiaries, children and dependent parents.

Chapter 740, Statutes of 1999 (SB 159) required CalSTRS to develop a program to provide health care benefits for members, beneficiaries, children and dependent parents.

Federal Balanced Budget Act (BBA) of 1997, Public Law 105-33 permits retired CalSTRS members and their beneficiaries to participate in Medicare Part A without payment of a premium under the following conditions: 1) they have paid for Medicare Part A premiums on their own for seven years in a row; and 2) they have worked at least ten years during their career.

SUMMARY OF AMENDMENTS

The August 7, 2000 amendments permit CalSTRS to deduct the amount of Part B premium from the allowance of those whose penalty for Part B premium would be paid.

CURRENT PRACTICE

Medicare has two different programs: Medicare Part A covers hospitalization costs; and Medicare Part B covers physician visits. Most employees pay a Medicare payroll tax equal to 1.45 percent of salary and become eligible for Part A coverage at age 65 if that payroll tax is paid for ten years. CalSTRS members pay such a payroll tax only if they were hired into their current job on or after April 1, 1986 or agreed in an election held by the employer to be covered by the payroll tax. Other members receive Medicare coverage due to other employment they may have had or because their spouse is covered. An estimated 11,000 retired CalSTRS members over age 65 are not eligible for Medicare Part A either from their employment or through their spouse. An additional 18,000 members would not be eligible for Medicare coverage either from their employment or through their spouse once they reach age 65. For members who did not qualify for Medicare Part A coverage due to prior employment or through their spouse, the cost of the Medicare Part A premium for the year 2000 is $301 per month. The Medicare Part B premium for the year 2000 is $45.50 per month.

Effective January 1998, the Federal BBA permits retired CalSTRS members and their beneficiaries to participate in Medicare Part A without payment of a premium if (1) they have paid for Medicare Part A premiums on their own for seven years in a row and (2) they have worked at least ten years during their career. Individuals who are 65 or older who have earned 30 or more quarters (but less than 40 quarters) are entitled to a 45 percent reduction in their Medicare Part A premium. If the person pays the reduced premium for seven years and meets all other qualifying conditions, they also become eligible for 100 percent free Medicare Part A coverage.

CalSTRS does not currently provide health insurance, nor play any role in securing health care coverage for members of the DB Program or participants in the Cash Balance (CB) Benefit Program. However, the system does deduct monthly health care premiums from retirement allowances, at the request of the retired member, and forwards the money to the appropriate provider. In addition, CalSTRS increases the allowances of some members for the payment of Medicare Part B premiums if instructed to do so by CalPERS. In turn, the General Fund then reimburses CalSTRS for the payment of these premiums on behalf of CalPERS.

DISCUSSION

SB 1435 establishes a special trust fund known as the Teachers' Health Benefits Fund (THBF), into which an amount from the employer contributions will be transferred to pay the premium of Medicare Part A for retired members of CalSTRS' DB Program. To qualify, the member must be at least 65 years of age, enrolled in Medicare Parts A and B at the age of 65 or on July 1, 2001, whichever is later, and not eligible for Medicare Part A without payment of a premium. The

Teachers' Retirement Board (Board) shall have exclusive control of the administration of the THBF.

Beginning July 1, 2001, CalSTRS would pay to the federal Health Care Financing Administration the premiums associated with Medicare Part A, for retired members who qualify, including any penalties applicable to enrollment in Medicare Part A or Part B by members who enroll after the age of 65 and who have retired prior to January 1, 2001. Currently, the federal government requires the penalties for the Part B premium to be paid with the premium itself. As a result, CalSTRS may require the member to authorize the deduction of the Part B premium from the member's allowance. The Board could extend eligibility for the payments to members of the DB Program who meet the requirements and retire after January 1, 2001, within a calendar year specified by the Board. Eligibility for payment for those retiring after January 1, 2001, will be limited to members of the DB Program who retire from a school district that has held an election prior to January 1, 2001. In addition, a member who is retiring from a district that holds an election after 2001 and is less than 58 years of age at the time of election must elect to be covered by Medicare at the time of the election.

This benefit is financed by reducing the contribution rate to the DB Program by an actuarially determined amount and establishing a contribution rate to THBF by the same amount. Contributions that otherwise would be credited to the DB Program would be intercepted before they are credited to the DB Program, and deposited into the THBF. The impact of the diverted contributions on the DB Program would be offset by the availability either of the normal cost surplus or the actuarial surplus. As a result, the DB Program would be, in effect, financing the cost of the health care benefit. Every CalSTRS member who was first hired by a district on or after April 1, 1986, is required to pay Medicare taxes and, therefore, is earning quarters toward free-premium Medicare Part A coverage. Thus, SB 1435 would provide assistance for a limited group of retirees, which will decline in size as more CalSTRS members are subject to the mandatory Medicare payroll tax through their employment.

FISCAL IMPACT

Benefit Program Costs – Requiring CalSTRS to pay the Medicare premium for eligible retired members would result in the following impact:

Normal cost increase of future service: 0.000%
Actuarial obligation for prior service:

- Present value cost: Up to $1.257 billion
- Percent of pay to fund: Up to 0.775%

Total costs:

- Present value cost: Up to $1.257 billion
- Percent of pay to fund: Up to 0.775%

Annual Increase in contributions (funding) needed to fund benefit:

- In 2001-02: Up to $90 million

- In 2002-03: Up to $93 million
- In 2003-04: Up to $97 million

Administrative Costs – This bill appropriates $500,000 from the THBF to pay initial administrative costs. Ongoing costs have been estimated at $269,000 per year.