

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 159

Senator Johnston (As Introduced 1/7/99)

Position:

Sponsor

Proponents:

**California State Teachers' Retirement System
(CalSTRS)**

Opponents:

None known

SUMMARY

SB 159 requires the Teachers' Retirement Board to administer a program to provide health care benefits for members, beneficiaries, children, and dependent parents. The health care benefits program may be administered directly by the system, through a contract with a private, third-party administrator, or through a contract with an existing, publicly administered health care benefits program, as determined by the board following its feasibility study of a statewide health care benefits program. The bill grants the board all powers reasonably necessary to carry out its powers and responsibilities in administering the program. Under the bill, the board is required to approve health care benefit plans and may contract with carriers offering health benefits plans. The bill requires the Board to adopt all rules and regulations necessary to implement and administer a health care program, as specified. The bill states that the board shall be guided by the needs and welfare of individual members, particular classes of members, and of their employers, as well as prevailing practices in the field of prepaid medical and hospital care.

HISTORY

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

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

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

SB 196 (Green, 1991), vetoed by the Governor, required CalSTRS to establish procedures to provide data from scientific surveys.

SB 1902 (Johnston, 1992), vetoed by the Governor, required CalSTRS to conduct a statewide health benefits study of certificated employees and retirees of school districts, county superintendents of schools, and community colleges.

SB 192 (Dills, 1994), vetoed by the Governor, authorized CalSTRS to offer health insurance to active and retired members of the system.

SB 471 (Dills, 1995), which failed passage in policy committee, authorized CalSTRS to contract for health insurance for members, disabilitants, retirants, beneficiaries, children, and dependent parents.

SB 1528 (Chapter 968, Statutes of 1998) appropriated \$200,000 and required CalSTRS to conduct a study assessing how to develop a process to contract for health insurance, including vision and dental, for members, beneficiaries, children and dependent parents.

CURRENT PRACTICE

CalSTRS does not currently provide health insurance, nor play any role in securing health coverage for members of the Defined Benefit (DB) Program or participants in the Cash Balance (CB) Benefit Program. The System does, however, deduct monthly health care premiums from retirement allowances, at the request of the retired member.

DISCUSSION

SB 1528 appropriated \$200,000 and required CalSTRS to conduct a study on providing health insurance benefits, including vision and dental, for members, beneficiaries, children and dependent parents. CalSTRS has obtained a health benefits consultant and is developing a needs survey of its membership.

Currently, there is no statewide health care program for active and/or retired CalSTRS members. In addition, the availability of health care benefits coverage varies greatly and, when available, is provided by school district employers on a district-by-district basis. For example, some school districts offer vested health insurance benefits to retired CalSTRS members. Other districts make these benefits available to their retired employees only until the members reach the age of 65. Still other districts do not provide any health benefit coverage to retired employees. The availability of health care benefits for these members is further limited because the majority of retired CalSTRS members are not eligible for federal Medicare benefits by virtue of their own prior employment.

Staff notes that the Los Angeles Unified School District (LAUSD) offers full health care benefits- medical, dental and vision- to its active employees, retired teachers, and dependents. 100% of the premiums are paid by the district. Approximately 150,000 individuals are receiving benefits under the program. Approximately 68,000 active employees, 60% of whom are teachers and 29,000 retired employees, including retired classified employees are enrolled in the program.

Federal Law

Members who are hired to a position on or after April 1, 1986 are required to participate in Medicare and will receive benefits under that program beginning at age 65 if the member has at least 40 quarters of participation. In addition, the Federal Balanced Budget Act of 1997, effective January 1, 1998, allowed certain retired members of a local or statewide governmental plan to qualify, under specified conditions, for relief from paying premiums for Medicare Part A coverage. To qualify, a member must have been hired before April 1986 and not have participated in Medicare as an active employee. Finally, federal law permits public retirement systems authority to provide health benefits for its retired members. Internal Revenue Code (IRC) section 401(h) provides that a governmental plan may provide retiree health benefits, subject to certain conditions. Essentially, Section 401(h) requires that health benefits must be subordinate to the retirement benefits administered. Furthermore, the section allows plans to fund all or a portion of the retiree's health benefits with "excess" system assets. Many state retirement plans currently offer health benefit programs in this manner.

FISCAL IMPACT

The administration of health benefits by CalSTRS will have a significant administrative impact on the system, although the specific impact depends on whether CalSTRS administers the health care program directly, contracts with a private third party administrator, or contracts with a publicly administered health care program, such as CalPERS.

CalPERS currently administers a health benefits program for state employees and employees of participating local agencies. CalPERS employs approximately 100 employees in its Health Benefits Division to administer its \$1.5 billion program. It costs CalPERS one half of one percent to administer the program, or approximately \$7 million annually.

The estimated increase in costs for CalSTRS will be addressed in the health benefits study. We therefore defer any estimates until the study is complete.

POSITION - Sponsor

The system's commitment to "lifetime security and service" for the membership reflects the view that it must serve all members from the beginning of their careers through retirement. Because health care costs threaten members' economic security, it is in their best interests that the System pursue and identify more feasible health benefit options.

The lack of access to affordable health benefit coverage for many retired teachers in California is alarming. The System views health benefits coverage as an integral part of a secure retirement. The Teachers' Retirement Board has consistently supported efforts to secure affordable health care coverage for its members and is the sponsor of this measure.