CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 2383	**Keeley (As amended 6/22/00)**
Position:	**Support, if amended**
Proponents:	**CalPERS (sponsor); CSEA**
Opponents:	**None known**

SUMMARY

AB 2383 provides that CalSTRS credit the account of employers for $120 per month for each retired member of the DB who is enrolled in a specified health benefits program for the next ten years. The amount credited would not exceed a present value of $2 billion. In addition, this bill expands eligibility under the Public Employees Medical and Hospital Care Act (PEMCHA) by authorizing CalSTRS to act as a contracting agency for retired members to receive a Medicare supplemental program under PEMCHA and for part-time employees to be eligible for health care under PEMCHA.

HISTORY

The California Public Employees Retirement System (CalPERS) is responsible for administering PEMCHA, which currently provides health care benefits for over one million employees, retirees, and dependents. The Legislature established PEMCHA in 1961. Related health care legislation includes:

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 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 10 years during their career.

Senate Bill 1435 (Johnson), which increases the monthly allowances paid to retired members of the California State Teachers' Retirement System's (CalSTRS) Defined Benefit (DB) Program to cover the monthly premium for Medicare Part A. To qualify, the member must be at least 65 years of age, enrolled in Medicare Part B, and not eligible for Medicare Part A without payment of a premium.

SUMMARY OF AMENDMENTS

This bill was amended on June 22 to provide that CalSTRS credit the account of employers who provide specified health benefits for retired members of the DB Program the sum of $120, adjusted annually, for each retired member enrolled in one or more specified health benefits program.

CURRENT PRACTICE

Existing law requires that employees work at least half time (50 percent) in order to be eligible for health benefits coverage under PEMCHA. CalPERS is responsible for administering PEMCHA, which currently provides health benefits for over one million employees, retirees, and dependents. CalSTRS does not currently provide funding for health care benefits to active or retired members.

DISCUSSION

The original version of the bill authorizes CalSTRS as a contracting agency for certain retirees and part-time employees to receive health care benefits under PEMCHA. The Joint CalPERS/CalSTRS Advisory Task Force has been working to resolve various policy and technical concerns so this provision of AB 2383 may move through the legislative process with little or no controversy.

This bill allows a contracting employer to extend PEMCHA coverage to employees who work less than half time by filing a resolution with the CalPERS Board. This bill also allows CalSTRS to designate the following members of its system as "employees" for purposes of PEMCHA participation:

- Regular employees who have an appointment of six months or longer, but who are employed on less than a half-time basis;
- Part-time faculty employees who are hired on a semester basis;
- Long-term substitutes who are hired for at least one-half of the school year.

According to the author, "AB 2383 seeks to provide greater flexibility in PEMHCA enrollment eligibility for employers, employees, retirees and dependents." CalPERS acknowledges that current PEMHCA eligibility requirements pose a barrier for some otherwise qualified employees to obtain affordable health care.

Supporters of AB 2383 argue that "[w]hile school district employees comprise the largest percentage of the CalPERS eligible groups, they make up the smallest percentage enrolling in PEMCHA. Currently, just over 100 of more than 1,100 school district are enrolled in PEMCHA. One reason for the low school district participation is that PEMCHA does not cover less than half-time employees, limiting the ability of school districts to provide coverage for all employees." Supporters also state that additional amendments will be added to the bill that will hopefully increase participation in the program.

As noted above, this bill was amended on June 22 to provide that CalSTRS credit the account of employers who provide specified health benefits for retired members of the DB Program the sum of $120, adjusted annually, for each retired member enrolled in one or more specified health benefits programs. These programs include a catastrophic health care program for retired members who are less than 65 years of age, a Medicare supplemental health care program and/or a prescription drug program. Beginning on July 1, 2001, the Board would credit each employer the sum of $120, adjusted annually, for each retired member the employer has certified is enrolled in one or more of specified programs administered by the employer. The total amount could not exceed $2 billion dollars for a period of ten years. This provision is intended as an incentive by relieving schools districts from fully funding health care benefits for retired members.

Under this provision, the Teachers' Retirement Board (Board) would establish by regulation the services to be provided in a health care program for retirees for which the Board provides money to the employer. The services would have to be comparable to health benefits made generally available to participants of other public employers in California and that the amount credited for each retired member shall not exceed the employer's average costs of providing these services to retired members and their families.

At its May 2000 meeting, the Board voted to support in concept a package of benefits proposed by the Retirement Coalition (organizations representing CalSTRS members). The Board emphasized that if they were going to formally support the benefit package, it could not exceed the amount of surplus resources. The Retirement Coalition agreed and is working to ensure that their package of benefits not exceed available resources. This benefit package included a health care component, and AB 2383 was amended to provide the funding mechanism. The Board emphasized that if they were going to support the package of benefits proposed by the Retirement Coalition, it could not exceed the amount of available resources. Although AB 2383 was originally part of the package, it may not be included in the final proposal due to the cost and the potential controversy of the funding mechanism.

The June 22 amendments to AB 2383 are controversial due to equity issues concerning Los Angeles County, which currently provides health care benefits for retired members, and other counties that do not provide health care benefits for retired members. In addition, concerns have been raised the fairness of reimbursing districts who pay for health care benefits for retirees as opposed to reimbursing individual members who are paying for their own health care benefits.

At its June 2000 meeting, the Board adopted a Support, if amended position to reflect their concern that the June 22 amendments could jeopardize the original version of AB 2383, and that the funding mechanism should be deleted if it becomes controversial and is not included in the Retirement Coalition's proposal. The Board also clarified that it supports and wants to preserve the original version of the bill that authorizes CalSTRS as a contracting agency for PEMCHA.

FISCAL IMPACT

Program Costs – The bill provides for up to $2 billion for the costs of health care benefits to retired members of the Defined Benefit Program for up to ten years. The actual costs of this program are be determined by the System actuary after the actual parameters of the health care program are determined.

Administrative Costs – The minimum level of ongoing resources necessary to implement this bill is approximately 1.5 Personnel Years for a total cost of approximately $109,000. The process of providing credit and associated reconciliation to employers will increase the workload in the Accounting Division. The additional resources will depend on the frequency of employer reconciliation and associated tasks. If this function is performed on a monthly basis, staff estimates that an additional Personnel Year would be required. If employer accounts were credited annually, an additional .5 PY Associate level staff and .5 PY Accounting Officer would be required.

This bill also requires the Board to promulgate regulations related to health care services. Depending on the level and complexity of health care services provided, at a minimum, .5 PY staff would be required to draft, review, conduct public hearings, administer and implement the regulations.

RECOMMENDATION

Support, if amended. The Board supports the PEMCHA contracting provisions, but opposes the funding mechanism to credit employers who provide health care benefits to retirees if this provision is not funded in the Retirement Coalition’s 2000 package of benefit enhancements.