

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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**Assembly Bill 2383**

**Assembly Member Keeley (As amended 8/14/00)**

**Position:**

**Support, recommend amendments**

**Proponents:**

**CalPERS (sponsor); CSEA**

**Opponents:**

**None known**

### **SUMMARY**

AB 2383 expands eligibility under the Public Employees Medical and Hospital Care Act (PEMHCA) by authorizing the California State Teachers' Retirement System (CalSTRS) to act as a contracting agency for retired members to receive a Medicare supplemental program under PEMHCA and for part-time employees to be eligible for health care under PEMHCA. It also requires CalSTRS to design three specified health benefit plans and report to the Legislature by March 1, 2001.

### **HISTORY**

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

Chapter 991, Statutes of 1985 (AB 528) required school districts that 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 A 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.

Senate Bill 1435 (Johnson), requires CalSTRS to pay the monthly premium for Medicare Part A for members who are 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**

On August 14, 2000 amendments delete the provisions that reduce contributions to CalSTRS by up to \$120 per month per retired member for whom the employer provides specified health benefits. The amendments instead require the Teachers Retirement Board (Board) to develop three plans to provide specified health benefits to retired members, as specified, and to report to specified legislative committees on or before March 1, 2001, regarding the costs and legislation necessary to implement those plans.

## **CURRENT PRACTICE**

Existing law requires that employees work at least half time (50 percent) in order to be eligible for health benefits coverage under PEMHCA. CalPERS is responsible for administering PEMHCA, 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**

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

This bill also allows CalSTRS to become a contracting agency by resolution subject to the following:

- Retired members of the CalSTRS enrolled in both Parts A and B of Medicare whose former education employer does not offer health care coverage for them, their eligible family members, and surviving spouses.
- Retired classified employees enrolled in both Parts A and B of Medicare whose former education employer does not offer health care coverage for them, their eligible family members, and surviving spouses.

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 PEMHCA. Currently, just over 100 of more than 1,100 school districts are enrolled in PEMHCA. One reason for the low school district participation is that PEMHCA does not cover less than half-time employees, limiting the ability of school districts to provide coverage for all employees."

The bill also requires the Board to develop three plans to provide certain health benefits to retired members including:

- (1) a prescription drug insurance plan for all retired members;
- (2) a supplemental health insurance plan for all retired members who have not yet attained the age of Medicare eligibility;
- (3) a flexible plan to encourage employers and employing agencies to provide health care benefits to their retirees by crediting those employers and employing agencies against their monthly CalSTRS contributions.

The third required plan design appears to prescribe a solution, without considering alternative means of providing health benefits for retired members, such as authorizing CalSTRS to enter into contracts with health care plans, rather than reducing the costs paid by employers for their health care. A more comprehensive analysis of the problem of retired member health care, with an evaluation of different alternative solutions, would facilitate development of the most cost-effective approach. Such a comprehensive analysis could be completed by April 1, 2001.

## **FISCAL IMPACT**

Benefit Program Costs – The bill would have no impact on CalSTRS benefit costs.

Administrative Costs – CalSTRS would incur absorbable costs of probably under \$50,000 to undertake the analysis of different health benefit plan designs, as required by the bill. It would incur additional costs, probably less than \$50,000 to facilitate

enrollment of retired members into the PEMHCA Medicare Supplement program, if the Board entered into such a relationship with PEMHCA.

**POSITION**

Support, but recommend amendments to permit a more comprehensive analysis retired member health care, with an evaluation of alternative solutions, with a report submitted by April 1, 2001.