

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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**Assembly Bill 2383**

**Assembly Member Keeley (As amended 8/31/00)**

**Position:**

**Support**

**Proponents:**

**CalPERS (sponsor); CSEA**

**Opponents:**

**None known**

### **SUMMARY**

AB 2383 expands eligibility for benefits under the Public Employees Medical and Hospital Care Act (PEMHCA) for California State Teachers' Retirement System (CalSTRS) members employed by a school or agency on a less than half-time basis, as specified, and to survivors of CalSTRS members who were participating in the PEMHCA in retirement and receiving an unmodified allowance. This bill also requires CalSTRS to report to the Legislature on or before April 1, 2001, on a prescription drug program and a health benefits program for retired members, and would authorize the California Public Employees' Retirement System (CalPERS) to submit a proposal to CalSTRS to administer a health benefits program for retired members of CalSTRS and their dependents.

### **HISTORY**

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—Elder) required school districts that provide health insurance to permit enrollment of CalSTRS retirees in district health plans.

Chapter 1006, Statutes of 1989 (AB 265—Elder) 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—Bentley) 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—Schiff) 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—Johnston) 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.

SB 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.

## **CURRENT PRACTICE**

CalSTRS does not currently provide funding for health care benefits to active or retired members. CalPERS is responsible for administering PEMHCA, which currently provides health benefits for over one million employees, retirees, and dependents, including those employed by about 100 school districts. Existing law requires that employees work at least half time (50 percent) in order to be eligible for health benefits coverage under PEMHCA. In addition, survivors of participating retired members must be receiving a monthly allowance to continue to receive benefits under PEMHCA.

## **DISCUSSION**

AB 2383 allows a contracting employer to designate the following CalSTRS members as “employees” for purposes of PEMHCA participation:

- Regular or substitute employees who have an appointment of six months or longer or for half the school year, but who are employed on less than a half-time basis;
- Part-time faculty employees who are hired on a semester basis;
- Substitutes who are hired for at least 100 days or more in the school year.

In addition, this bill allows a family member of deceased retired CalSTRS members who had been participating in PEMHCA and who had elected an unmodified allowance to elect coverage as an annuitant prior to January 1, 2003; and family members of deceased members who retired under an unmodified allowance prior to the member’s election to contract for health benefit coverage to elect coverage within one calendar year from the date the election is made.

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 also state 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.”

This bill also requires the Teachers’ Retirement Board (Board) to report to the Legislature on a prescription drug program and a program to provide health benefits to retired members. The report will include an analysis of all potential methods of financing and administering these programs. The potential methods of financing and administering the program would include, but not be limited to, the following:

- (1) Providing health benefits under contracts with carriers or other entities that administer health benefits plans;
- (2) Reimbursing employers for the costs of providing health benefits to retired employees;
- (3) Crediting employers and employing agencies, against the employer contribution, a monthly amount, adjusted annually, for each retiree the employer or employing agency certifies is enrolled in one or more health care benefits programs administered or sponsored by the employer or employing agency.

The report would include an estimate of the fiscal impact of each program on the system, including administration and program costs, and recommended statutory language to implement each program. This report is due to the Legislature on or before April 1, 2001. In consideration of the major changes in the healthcare industry on the delivery of services and in the face of escalating healthcare costs, this report will provide the Board an opportunity to consider cost effective alternatives to the delivery of healthcare benefits for retired and active members.

This bill also permits CalPERS, at the request of CalSTRS, to submit a proposal to administer a health benefits program for retired members of CalSTRS and their dependents. This will facilitate efforts by CalSTRS to develop a health benefits program for its retired members.

## **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.