

# STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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**Senate Bill 159**

**Senator Johnston (As Amended 9/3/99)**

**Position:**

**Sponsor**

**Proponents:**

**CalSTRS (sponsor), ACSA, ART, CFT, CRTA, CTA, FACCC**

**Opponents:**

**None known**

### **SUMMARY**

SB 159, an urgency measure, requires the California State Teachers' Retirement System (CalSTRS) to develop a program to provide health care benefits for members, beneficiaries, children, and dependent parents, and appropriates \$625,000 from the Teachers' Retirement Fund (TRF) to develop the program. Implementation of the program would require enactment of a subsequent statute.

### **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.

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

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

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

Chapter 968, Statutes of 1998 (SB 1528) appropriated \$200,000 and 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.

## **SUMMARY OF LATEST AMENDMENTS**

The September 3rd amendments to the bill (1) make technical changes to existing provisions in the bill to conform with existing federal law; (2) add an urgency clause; and (3) add a principal co-author.

## **CURRENT PRACTICE**

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

## **DISCUSSION**

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 among the membership 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 retired CalSTRS members are not necessarily eligible for federal Medicare benefits by virtue of their own prior employment.

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 (less \$309 per month for members not covered by Medicare). 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 to provide health benefits for its retired members. Specifically, Internal Revenue Code (IRC) section 401(h) provides that a governmental plan such as the State Teachers' Retirement Plan, may provide retiree health benefits, subject to certain conditions. Essentially, Section 401(h) requires that health benefits 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. Some state retirement plans currently offer health benefit programs in this manner.

### Feasibility Study Report

SB 1528 appropriated \$200,000 and required CalSTRS to conduct a study on the feasibility of providing health care coverage, including vision and dental, for CalSTRS members, beneficiaries, children and dependent parents. CalSTRS has obtained a health benefits consultant and is undertaking a needs assessment of its membership and employers. The study will assess the availability and cost of health insurance benefits for active and retired teachers and will evaluate (1) the demand for health insurance benefits; (2) the integration of health insurance benefits and Medicare coverage; and (3) the manner in which health insurance benefits would be administered and provided.

The current feasibility study will provide specific recommendations on statewide health care services that should be provided to CalSTRS members. The health care benefits study will also provide a broad-based health care benefits program design that is intended to address the unmet health care needs identified by the study. The program design will consider other available health care programs such as Medicare, health maintenance organizations (HMO), and other managed care systems.

In addition, the health care benefits study will:

- Identify alternative funding for health care premiums for CalSTRS members and their beneficiaries, children and dependent parents
- Recommend a funding mechanism that adequately finances the recommended health care benefits
- Identify alternative means for CalSTRS to deliver the recommended program, including administering the program in-house, contracting with another publicly-administered health care benefits program, or utilizing a third-party administrator.

The health care feasibility report will provide CalSTRS with alternatives and options for health care coverage, market conditions for various levels of coverage, a range of estimated financial projections for the identified alternatives, and specificity as to the health care coverage needs among various constituent member groups.

#### Development of a Health Care Benefits Program

If the results of the feasibility study indicate a statewide health care program is needed, then further development of a program, as authorized by this bill, would be undertaken. The program development effort would include a detailed examination and completion of an implementation plan to address specific elements of health care coverage including:

- Identifying a specific administrative structure: direct administration by CalSTRS; administration by third party; operating in concert with CalPERS or other public agency's health care program; or other option
- Selecting the types of health care plans to be offered including specific plan services such as emergency hospital care, physician selection and availability
- Options for meeting pharmaceutical needs, laboratory, home health care, durable medical equipment and other services
- Defining the level of vision and dental care benefits
- Developing health care benefits policies and procedures, including mandatory participation
- Evaluating and making recommendations on a range of options for health care coverage, such as eligibility for the benefits (i.e., part-time employees, retired members, active members, etc.), including vesting requirements
- Identification of funding source(s) required to support CalSTRS health care benefits and contributions that would be assessed to members and employers
- Analysis and recommendations of the fiscal resources necessary to provide health care benefits to CalSTRS members

In addition, the development of a health care benefits program, as envisioned by this bill, would include development of proposed contractual agreements with health care providers and the proposed integration of these health care services with other services available to members.

This bill would authorize CalSTRS to develop the health care program recommended by the consultant and approved by the Board. Specific authority to offer health care benefits to retired and active members would be addressed in subsequent legislation.

#### **FISCAL IMPACT**

The development of a program to provide health care benefits for CalSTRS members, beneficiaries, children and dependent parents, will require an additional \$625,000 for CalSTRS staff and consultant activity to fully develop a health care program. The bill appropriates funds from the TRF to pay those costs.

**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 retirees' economic security, it is in their best interests that CalSTRS develop a comprehensive health care benefits program.

The lack of access to affordable health benefit coverage for many retired teachers in California is alarming. CalSTRS 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.