CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

BILL NUMBER: Assembly Bill 256 (De La Torre) – As Amended 4/11/05

SUMMARY:

Assembly Bill 256 requires the Board of Administration of the California Public Employees' Retirement System (CalPERS) to conduct a study and report to the Legislature by December 31, 2006, regarding the feasibility and cost-effectiveness of creating a statewide health care pool for all active and retired K-14 school employees, or extending to school employees health care coverage under the Public Employee's Medical and Hospital Care Act (PEMHCA).

PURPOSE OF THE BILL:

According to the sponsor, AB 256 will provide information about the options available for providing health care coverage to public school employees.

BOARD POSITION:

Support. The Teachers' Retirement Board (Board) has consistently supported efforts to secure affordable health care coverage for CalSTRS members because the rising cost of health care is one of the biggest threats to the financial security of active and retired members.

LEGISLATIVE HISTORY:

<u>SB 147 (Torlakson, 2003)</u>, would have required the Board to establish and administer a Health Security Account Program for all school employees (not limited to CalSTRS members) who are retired or have reached normal retirement age. School districts would be allowed, but not required, to participate in the Program. The bill was held in the Senate Public Employment and Retirement Committee.

<u>Chapter 1032, Statutes of 2000 (SB 1435—Johnston)</u>, establishes the CalSTRS Medicare Premium Payment Program effective January 1, 2001, under which CalSTRS pays Medicare Part A (hospital) premiums, beginning July 1, 2001, for Defined Benefit (DB) Program members who meet specified criteria. Under authority provided in this legislation, the Board extended the eligibility to DB Program members who retire prior to July 1, 2006, if the DB member retires from a district that has held a Medicare Division Election.

<u>Chapter 874, Statutes of 2000 (AB 2383—Keeley)</u>, expands eligibility under PEMHCA for part-time school employees and requires CalSTRS to report on a prescription drug and retiree health program.

<u>Chapter 740, Statutes of 1999 (SB 159—Johnston)</u>, requires CalSTRS to develop a program to provide health care benefits for members, beneficiaries, children and dependent parents.

<u>Chapter 968, Statutes of 1998 (SB 1528—Schiff)</u>, requires CalSTRS to conduct a study on the feasibility of creating and administering a health care program, including vision and dental, for CalSTRS members, beneficiaries, children and dependent parents.

PROGRAM BACKGROUND:

Health insurance for public school employees is subject to collective bargaining at the district level and as a result, school employers secure health insurance through a variety of different vehicles. Currently, approximately 120 school districts contract with CalPERS to obtain health care coverage for their employees under PEMCHA. Many other districts purchase their own health insurance coverage individually.

Some districts join together with their employees to form benefit trusts administered by third parties. The Southern California Voluntary Employees Benefit Association and the Central Valley Schools Health and Welfare Trust are two examples of trusts that provide health benefits. Trusts allow smaller districts to band together to secure lower health insurance rates than they might otherwise through the power of their collective size. According to the California Teachers' Association (CTA), there are currently 11 of these trusts with 265 participating districts that provide health coverage for 365,000 individuals.

Districts may also partner with each other to form joint power agencies that purchase health insurance as a pool. The Self-Insured Schools of California is a joint powers entity administered by the Kern County Office of Education that provides health benefits to 266 school employers in 31 counties. These joint power agencies operate in a fashion similar to trusts to secure lower health insurance rates through risk sharing and negotiation.

Because each employer determines the level of health care coverage it will provide to its employees through the bargaining process, there is wide variation in the design and level of health benefits provided to active and retired public school employees. Some plans are comprehensive and therefore, relatively expensive, providing lifetime coverage to their employees; the plans offered by the Los Angeles Unified School District and the Los Angeles Community College District to their credentialed employees are two such comprehensive plans. Other districts terminate subsidized coverage after the retired employee qualifies for Medicare coverage once they reach age 65, or provide no financial support for health benefits to their retirees.

Over the years, the Board has evaluated a number of approaches to improving the health coverage security of CalSTRS members. At its May 2003 meeting, the Board determined that CalSTRS might be able to finance health care benefits in the future when funds become available. As a financier, the System would partially or completely fund the cost of health insurance, but would not necessarily negotiate coverage or premiums with the carrier.

In October 2003, CalSTRS surveyed districts about the health benefits they provide to their active and retired employees to determine the benefit cost pressures they face. The results of the survey were presented to the Board at its February 2004 meeting and included the following findings related to health care premiums and costs, health insurance carriers and flexible benefit plan options.

Rate Increases

Approximately 48 percent of districts expect increases of less than 20 percent between 2003 and 2006; 42 percent project health insurance premiums to increase 20 to 29 percent in that same period. Less than 10 percent of districts predict their health insurance premiums will increase 30 percent or more.

Reduction in the Number of Health Insurance Carriers

In 2003, 51 districts reported that Health Maintenance Organizations (HMOs) stopped offering services in their area or health insurance carriers ceased operations. 30 districts predict a further reduction in the services provided by HMOs or health insurance carriers in their area between 2003 and 2006. Furthermore, some health insurance carriers no longer bid on business in certain areas because those areas are not profitable.

Increased Employee Share of Health Care Costs

Some districts expect employees to pay an increased share of their health care premiums in the future. Districts may cap the portion the district contributes towards premiums or increase the employees' out-of-pocket expenses through higher co-payments for doctor visits and prescription drugs.

Flexible Benefit Plans

Districts also anticipate controlling their health care costs by offering a flexible benefit or cafeteria plan. Section 125 of the Internal Revenue Code (IRC) provides for cafeteria plans, which are maintained by an employer and allow employees to select from a menu of fringe benefits. An employee can pay for benefits, such as health insurance, with pretax dollars while allowing districts to limit costs.

ANALYSIS:

Assembly Bill 256 requires CalPERS to:

- Study and identify the advantages and disadvantages of providing a single statewide health care plan for all public school employees;
- Compare the cost or savings of establishing a single pool to the current method of providing coverage on a district-by-district basis;
- Analyze the pros and cons of setting health insurance premium rates on a statewide versus regional basis;
- Identify plan design options;
- Address the possibility of including all public school employees under PEMHCA.

If the study provides evidence that either a single statewide health care plan or PEMHCA coverage for school employees are viable options, then it is the intent of the author to pursue such a plan for health care coverage. According the sponsor, over 100,000 school employees are uninsured because they either do not qualify for benefits as a part-time employee, or cannot afford to pay the insurance premiums. AB 256 attempts to address the problems associated with a disjointed health care coverage environment by analyzing how spreading the financial and regulatory risks across the state may increase affordability.

FISCAL IMPACT:

Benefit Program cost/savings: None.

Administrative costs/savings: None.

SUPPORT/OPPOSITION

Support: CSEA (Sponsor); CTA

Opposition: None