



DATE: January 14, 2002

TO: All County Superintendents of Schools
District Superintendents of Schools
Community College Districts and
Other Employing Agencies

FROM: EXECUTIVE OFFICE

SUBJECT: Employer Directive 2002-01
Medicare Division – Clarification
Reference: Employer Direction 2001-08, Medicare Division – Report of
Completed Medicare Division Results
Employer Information Circular Volume 17 Issue 6 (4/4/01)
Medicare Benefits Program.

PURPOSE

Chapter 1032, Statutes of 2000 (Senate Bill 1435 – Johnston) established the Medicare Premium Payment (MPP) Program (formerly referred to as the Medicare Benefits Program). Under the MPP Program, beginning on July 1, 2001, the California State Teachers' Retirement System (CalSTRS) pays the Medicare Part A (hospitalization) premium for those eligible Defined Benefit (DB) Program members who do not receive Medicare Part A benefits premium-free from the federal government. The MPP Program initially covered any DB Program members who retired prior to January 1, 2001.

This directive does the following:

- ◆ Reports the extension of eligibility for the MPP Program to DB Program members who retire prior to January 1, 2006;
- ◆ Clarifies the definition of districts that “are in the process of completing a Medicare Division;” and
- ◆ Provides direction to districts that have consolidated or reorganized on or after April 1, 1986, and are paying the Medicare tax for all employees.
- ◆ Provide directions to districts in which all the DB Program members, who were hired prior to April 1, 1986, are 58 years of age or more.

**California State Teachers' Retirement System,
Research and Alternative Programs Division, Health Benefits Program MS 47
7667 Folsom Boulevard, Post Office Box 15275, Sacramento, CA 95851-0275
(916) 229-3731**

SCOPE

This directive applies to all school districts, including those that have reorganized or consolidated, that have not completed a Medicare Division resulting in a federal approval date prior to January 1, 2001.

DISCUSSION

The MPP Program initially covered any DB Program members who retired prior to January 1, 2001. **At its May meeting, the Teachers' Retirement Board extended the MPP Program to DB Program members who retire prior to January 1, 2006.** For CalSTRS DB Program members who retire after December 31, 2000, and prior to January 1, 2006, eligibility is limited to those who retire from a district that has completed or is in the process of conducting a Medicare Division prior to the DB Program members' retirement date.

CalSTRS provided information about a Medicare Division election in Employer Directive 2001-08, which is summarized later in this directive under the heading "What is a Medicare Division?" Directive 2001-08 implied that a member would not be eligible for the MPP Program if he or she retired before the 10-day election period in which eligible employees make an irrevocable decision whether to be covered by Medicare. Although this is consistent with the intent of the legislation that created the MPP Program, the definition was not explicit in that legislation.

Consequently, for **DB Program members retiring in calendar 2001**, CalSTRS will use the date that the district's governing board passes a resolution of the intent to complete a Medicare Division as the date upon which the district will be considered "to be in the process of conducting an election," because this is the initial step of the election process. That is, CalSTRS DB Program members who retire in 2001 on or after the date of their districts' resolution to hold a Medicare Division will be eligible for the MPP Program.

Chapter 803, Statutes of 2001 (SB 501—Senate Public Employment and Retirement Committee) clarifies the intent of Chapter 1032 by specifying that only those CalSTRS DB Program members who retire during or after the 10-day period of the Medicare Division will satisfy the eligibility requirements of the MPP Program. This legislation is effective on January 1, 2002. As a result, CalSTRS DB Program members who retire **in 2002 or thereafter** will satisfy the eligibility requirements of the MPP Program only if they retire during or after the 10-day period of the Medicare Division. **Therefore, unless a school district conducts a Medicare Division prior to the DB Program member's retirement, for retirements on or after January 1, 2002, the member will not be eligible for benefits under the CalSTRS MPP Program.** Further, pursuant to Chapter 1032, active DB Program members who are less than age 58 at the time of the 10-day election period are required to elect to be covered by Medicare to be eligible for the CalSTRS MPP Program. Active DB Program members age 58 or older are not required to elect to be covered by Medicare during the 10-day election period in order to receive a benefit under the CalSTRS MPP Program.

Extension of the MPP Program After December 31, 2005

The Teachers' Retirement Board may extend the program to DB Program members who retire after December 31, 2005. Information regarding any extension of the coverage to members who retire in 2006 or later will be provided to members in the CalSTRS *Bulletin* and on the CalSTRS website at www.calstrs.ca.gov.

Consolidated or Reorganized Districts

Some districts consolidated or reorganized on or after April 1, 1986, and are paying the Medicare tax for all employees. These districts do not have to conduct a Medicare Division for their DB Program members to be eligible for the MPP Program. Instead, such a district must send a letter to CalSTRS with the date of the consolidation and certify that the district and its CalSTRS DB Program members are paying the Medicare tax.

ACTION

Any district that consolidated or reorganized on or after April 1, 1986, and is paying the Medicare tax for all employees must send a letter to CalSTRS with the date of the consolidation and certify that the district and its CalSTRS DB Program members are paying the Medicare tax.

Any district in which all the DB Program members who were hired prior to April 1, 1986, (i.e. not paying the Medicare tax) are 58 years of age or more must send a letter to CalSTRS requesting an exception from the Medicare Division process. The district should include the names and social security numbers of all the DB Program members not paying Medicare tax.

These notifications are to be sent to the following address.

***California State Teachers' Retirement System
Health Benefits Program
P.O. Box 15275, MS 47
Sacramento, CA 95851-0275
(916) 229-3731***

What is a Medicare Division?

Eligibility for premium-free Medicare Part A is provided to people (and their spouses) who earned at least 40 credits by paying the 1.45 percent Medicare payroll tax (with an equal amount paid by the employer) generally for at least 10 years. CalSTRS DB Program members who were hired by their current school district before April 1, 1986, were not required to pay Medicare payroll tax. (In contrast, those hired on or after April 1, 1986, were required to Medicare payroll tax.) Federal law, subsequently incorporated in the California Government Code, permits a school employer to request that employees hired before April 1, 1986, be divided into two groups—members who desire to be covered by Medicare and those who do not desire such coverage. That is why the action is called a Division. (Under current state law, school districts

will not be able to initiate this process after June 30, 2004.) During the Medicare Division process, eligible employees hired prior to April 1, 1986, will make an irrevocable individual choice whether or not to be covered in Medicare. For those DB Program members who elect to be covered by Medicare, they and their employer will pay the payroll tax and the employees will earn Medicare credits.

The California Public Employees' Retirement System (CalPERS) administers the Division process. School districts interested in conducting a Division need to contact CalPERS at the following address:

***California Public Employees' Retirement System
Actuarial & Employer Services Division
Teachers' Medicare Services
P.O. Box 720720
Sacramento, CA 94229-0720
(916) 326-3993***

A school district interested in entering into an agreement for Medicare coverage of its members must adopt a resolution and return it with a completed questionnaire to the CalPERS Teachers' Medicare Services. This Division and election process will usually take 12 to 18 months to complete.

Additional Requirements during a Medicare Division

To be eligible for the CalSTRS MPP Program when they retire after December 31, 2001, active DB Program members who are less than age 58 at the time of the 10-day election period are required to elect to be covered by Medicare. Active DB Program members age 58 or older are not required to elect to be covered by Medicare during the 10-day election period. That is, a member age 58 or older can choose not to be covered by Medicare and still qualify for the MPP Program benefits. A DB Program member who retires in 2002 or later must retire during or after this 10-day election period to satisfy the eligibility requirement of the CalSTRS MPP Program. The school district must receive federal approval related to that election.

Additional References

For more information on the CalSTRS' MPP Program please refer to the following:

- Employer Direction 2001-08, Medicare Division – Report of Completed Medicare Division Results
- Employer Information Circular Volume 17 Issue 6 (4/4/01) Medicare Benefits Program.

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Questions regarding this Employer Directive should be addressed to the Health Benefits Program of the Research and Alternative Programs (RAP) Division. Questions regarding the letter should be directed to Virginia Johnson, Manager, Health Benefits Program at (916) 229-3731.

Thank you for your cooperation.

JAMES D. MOSMAN
Chief Executive Officer