

Governor's FY 2014 Budget: Articles



Staff Presentation to the House
Finance Committee
February 12, 2013

Introduction

- Two Articles today
 - Article 3 – Health Insurance Benefits – Coverage of Former Spouse
 - Article 4 – FICA Alternative Plan

Article 3 – Health Insurance Benefits

- Under current law:
- A former spouse may remain eligible for health insurance without additional premium or examination if the order is included in the final judgment of divorce
 - Coverage is extended until the employee or the former spouse remarries

Article 3 – Health Insurance Benefits

- Article would terminate health insurance coverage provided to divorced spouses of state employees, effective January 1, 2014
 - Coincides with operational date of the Health Benefits Exchange
 - May purchase coverage under COBRA

Article 3 – Health Insurance Benefits

- State currently covers 405 former spouses
- Estimated to save \$2.9 million annually
 - Budget assumes \$1.4 million in savings for 6 months, \$0.9 million from general revenues
 - Savings based on 405 x \$7,506
 - But state is self-insured
 - Some may still retain family coverage
 - Actual savings would appear in the form of lower rates

Article 3 – Health Insurance Benefits

□ Other states:

| State | Coverage |
|---------------|----------|
| Connecticut | No |
| Maine | No |
| Massachusetts | Yes |
| New Hampshire | No |
| New York | No |
| Vermont | No |

Article 4 – FICA Alternative Plan

- Federal Insurance Contributions Act (FICA)
 - 12.4% of earned income must be paid into Social Security
 - Employee and employer each pay 6.2%
 - Applicable to the first \$113,700 of income per IRS for 2013

Article 4 – FICA Alternative Plan

- Omnibus Budget Reconciliation Act of 1990 changed the IRS law
- Act allows temporary and part-time employees of a government entity to deposit money into a private retirement plan

Article 4 – FICA Alternative Plan

- This article would allow the state to establish an alternative retirement plan for:
 - Part-time employees – works less than 20 hours/week
 - Seasonal – less than 120 days (DEM, Taxation)
 - Those not eligible for state retirement system
 - Current employees may opt out
 - New employees automatically enroll

Article 4 – FICA Alternative Plan

- Participants will no longer pay their 6.2% contributions to Social Security
- Will contribute 7.5% of their pre-tax income to a 401(a) account
- State saves by not making contribution on behalf of employees
 - Budget assumes \$0.4 million, including \$0.3 million from general revenues

Article 4 – FICA Alternative Plan

| | Social Security | Alternative Plan |
|--------------------------------|------------------------|-------------------------|
| Gross Monthly wage | \$1,000.00 | \$1,000.00 |
| Less 7.5% Pre-Tax Contribution | - | 75.00 |
| Taxable Income | \$1,000.00 | \$925.00 |
| Less 15% Federal Income Tax | 150.00 | 138.75 |
| Less 5% State Income Tax | 50.00 | 46.25 |
| Less 6.2% FICA/Soc. Sec. | 62.00 | - |
| Less 1.45% Medicare Tax | 14.50 | 13.41 |
| Total Tax | \$276.50 | \$273.41 |
| Net Paycheck | \$723.50 | \$726.59 |

Article 4 – FICA Alternative Plan

- Other states:
 - Florida – Jan. 2011
 - Nevada – Jan. 2004

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