Governor’s FY 2014 Budget: Articles 2 and 5

Staff Presentation to the House Finance Committee
February 6, 2013
State will establish a Medicare exchange for eligible retirees
- Offer a wider array of health benefit choices
- Expected to cost less through competition
State offered self-insured health plan to early retirees (under age 65) and their spouses with medical and drug benefits.

State subsidized early retiree plans by offering them at the active rate instead of actuarial cost.

- Older retirees cost more.
## Retiree Health – Pre FY 2008

<table>
<thead>
<tr>
<th>Health Benefits: Non Medicare Eligible</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan cost for Retiree/Spouse</td>
<td>$8,461</td>
</tr>
<tr>
<td>Plan cost for Active Employee</td>
<td>5,427</td>
</tr>
<tr>
<td>State cost to subsidize difference</td>
<td>$3,034</td>
</tr>
</tbody>
</table>
Retiree Health – Pre FY 2008

- State also directly shared in cost of active rate for state employees
  - 50%-100% based on age and years of service
- No additional cost sharing offered to teachers
  - Local district plans vary
At age 65, retirees must purchase Medicare Part B and enroll in a Medicare Supplemental Plan
- Retiree share is based on actual plan cost
- State share % same share as before
GASB mandated governments include unfunded liability as part of financial statements.

- At the time (2005 Val), unfunded liability was calculated to be $696.2 million.
- Pay-go costs estimated at 3.67% of payroll with growing unfunded liability.
- Actuarial funding would cost 6.74% with no benefit reduction.
2008 legislation set up framework for actuarial funding effective July 1, 2008
- Subsequently delayed two years because of budget pressures
- Also included significant reductions in benefits to those retiring after October 1, 2008
- Intended to reduce unfunded liability and allow state to move to actuarial funding
Retiree Health – Post FY 2008

- Employees retiring after cut off date subject to new rules
- Must have at least 20 years of service and be age 59 to be eligible for state subsidy
- State employees allowed to buy plan at 100% of cost
- All eligible for subsidy would pay a 20% cost share on the actual cost of plan
Pre reform, retiree health was 3.67% of payroll (pay-go)
For FY 2014, it is 7.8% based on 2011 valuation
- Includes unfunded liability and cost of benefits to current retirees
Current Law: at age 65, retirees must purchase Medicare Part B and transition to a Medicare supplemental plan
- Part B includes out patient and doctor’s services
- Paid through deduction in Social Security checks
  - Varies by income but roughly $100 per month
State currently offers 2 plans for those over 65 with Medicare Parts A&B

- **Supplemental 65**: no pharmacy, dental, vision and no deductibles or copays
  - Annual cost of $2,704.92

- **Medicare Advantage HMO**: includes limited vision and dental and includes copays
  - Annual cost of $2,304.00
Proposal: Medicare exchange for post-65 retirees
- Retirees will choose between multiple plans from different insurers
- At least one plan must provide comparable benefits in concert with Medicare to those provided prior to age 65
State will set up a Health Reimbursement Arrangement (HRA) for each retiree and deposit state subsidy into account each month.

- Same % of subsidy that retiree is currently getting.
- Maximum state contribution equal to lowest cost plan, adjusted for age, that is comparable to current Supplemental 65 plan.
### Article 2 – Medicare Exchange

<table>
<thead>
<tr>
<th></th>
<th>Annual Rate</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State’s Current Plans</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare Advantage HMO</td>
<td>$2,304.00</td>
<td></td>
</tr>
<tr>
<td>Supplemental 65</td>
<td>$2,704.92</td>
<td></td>
</tr>
<tr>
<td><strong>2012 Comparable Supplemental 65 Plan</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplemental Plan (age 75+)</td>
<td>$2,339.64</td>
<td>($365.28)</td>
</tr>
<tr>
<td>Supplemental Plan (age 70-74)</td>
<td>$2,139.72</td>
<td>($565.20)</td>
</tr>
<tr>
<td>Supplemental Plan (age 65-69)</td>
<td>$1,616.47</td>
<td>($1,088.45)</td>
</tr>
</tbody>
</table>
Article 2 – Medicare Exchange

Retiree could choose a lower cost plan and use the balance of funds in the HRA for any IRS approved expense, including:

- Purchasing a plan for a spouse
- Dental or vision coverage, and
- Payment of Medicare Part B premiums
**Article 2 – Medicare Exchange**

<table>
<thead>
<tr>
<th>Supplemental 65 Plan</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Example: Retiree Age: 70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Cost Share</td>
<td>State</td>
<td>Retiree</td>
</tr>
<tr>
<td>Current Cost</td>
<td>$2,164</td>
<td>$541</td>
</tr>
<tr>
<td>Proposed Cost</td>
<td>$1,712</td>
<td>$428</td>
</tr>
<tr>
<td>Difference</td>
<td>($452)</td>
<td>($113)</td>
</tr>
</tbody>
</table>
Article 2 – Medicare Exchange

- Budget assumes 6 months of pay-go savings
- $1.1 million, $0.6 million from general revenues
- State pays for retiree health on actuarial basis
- Not clear how this proposal would impact rates
Nevada and Louisiana have already implemented exchanges.
Pending legislation in Ohio, California, and New York.
Article 5 – State Funds

- Removes requirement that any surplus revenue be transferred to the Retirement System to pay down unfunded liability
- Revised budget includes $12.9 million based on FY 2012 audited closing
# Article 5 – State Funds

<table>
<thead>
<tr>
<th>FY 2012 Closing (in millions)</th>
<th>Enacted</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Surplus</td>
<td>$68.8</td>
<td>$68.8</td>
<td>$-</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,257.4</td>
<td>3,270.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Transfer to Rainy Day Fund</td>
<td>(93.0)</td>
<td>(93.4)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Total Available</td>
<td>3,233.2</td>
<td>3,246.1</td>
<td>12.9</td>
</tr>
<tr>
<td>Transfer to Retirement</td>
<td>$-</td>
<td>($12.9)</td>
<td>($12.9)</td>
</tr>
</tbody>
</table>
This is one of two laws that force savings into System to improve funding. Other requires that for any fiscal year in which contribution rates are lower than prior year, 20% of rate reduction be transferred to System. Both provisions retained by Assembly when it enacted pension reform in 2011.
Governor proposed repealing that requirement last year
Assembly rejected his proposal
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