Governor's FY 2014 Budget: Articles 2 and 5

Staff Presentation to the House Finance Committee
February 6, 2013

Article 2 – Medicare Exchange

- State will establish a Medicare exchange for eligible retirees
  - Offer a wider array of health benefit choices
  - Expected to cost less through competition

Retiree Health – Pre FY 2008

- 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

Health Benefits: Non Medicare Eligible	
Plan cost for Retiree/Spouse	$8,461
Plan cost for Active Employee	5,427
State cost to subsidize difference	$3,034

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

Retiree Health – Pre FY 2008

- 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

Retiree Health - GASB

- 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

Retiree Health - GASB

- 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

Retiree Health – Post FY 2008

- 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

Article 2 – Medicare Exchange

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

Article 2 – Medicare Exchange

- 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

Article 2 – Medicare Exchange

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

Article 2 – Medicare Exchange

- 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

	Annual Rate	Difference
State's Current Plans		
Medicare Advantage HMO	$2,304.00	
Supplemental 65	$2,704.92	
2012 Comparable Supplemental 65 Plan		
Supplemental Plan (age 75+)	$2,339.64	($365.28)
Supplemental Plan (age 70-74)	$2,139.72	($565.20)
Supplemental Plan (age 65-69)	$1,616.47	($1,088.45)

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

Supplemental 65 Plan		
Example: Retiree Age: 70		
	State	**Retiree**
Current Cost Share	80%	20%
Current Cost	$2,164	$541
Proposed Cost	$1,712	$428
Difference	($452)	($113)

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

Article 2 – Medicare Exchange

- 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

FY 2012 Closing (in millions)	Enacted	Actual	Variance
Total Surplus	$68.8	$68.8	$-
Revenues	3,257.4	3,270.7	13.3
Transfer to Rainy Day Fund	(93.0)	(93.4)	(0.4)
Total Available	3,233.2	3,246.1	12.9
Transfer to Retirement	**$-**	**($12.9)**	**($12.9)**

Article 5 – State Funds

- 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

Article 5 – State Funds

- Governor proposed repealing that requirement last year
- Assembly rejected his proposal

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