LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
54th Legislature, 1st Session, 2019

Bill Number HB95 **Sponsor** Salazar/Stefanics

Tracking Number .211661.2SA **Committee Referrals** HSEIC/HAFC

Short Title Retiree Health Care Fund Contributions

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Analyst Simon **Last Updated**

FOR THE INVESTMENT AND PENSIONS OVERSIGHT COMMITTEE

BILL SUMMARY

Synopsis of Bill

House Bill 95 (HB95) would increase contribution rates for participants in the retiree health care fund, including public school employers and employees.

This analysis is limited to the effect of these changes on public school employers and employees.

FISCAL IMPACT

HB95 would increase employer contributions to the retiree health care fund from 2 percent in FY19 to 2.5 percent in FY20 and 3 percent in FY21. The bill would increase employee contributions from 1 percent in FY19 to 1.25 percent in FY22 and 1.5 percent in FY23. Contribution rates would be set higher for members of the Public Employees Retirement Association in a public safety or judicial plan, but public school employees are eligible for retiree health care through membership in the Educational Retirement Board and not subject to these higher rates.

LESC staff estimate HB95 would have a general fund impact of $8.1 million for increased employer contributions in FY20 and an additional $8.1 million in FY21. Staff estimate an impact of $1.4 million on federal and other funding sources in FY20 and an additional $1.4 million in FY21. This estimate is based on FY18 contribution data from the Retiree Health Care Authority (RHCA), which totaled $57.3 million, and an estimated 85 percent of total school district and charter school funding from the general fund. RHCA estimates a total general fund impact of $12 million in FY20 and $12 million in FY21, meaning public schools represent about two thirds of the general fund impact of HB95. Including all funding sources, RHCA expects contributions to increase by $21.8 million in FY20 and $21.8 million in FY21.

LESC staff estimate HB95 would increase public school employee contributions by $4.8 million in FY22 and $4.8 million in FY23, based on the same FY18 contribution data. RHCA estimates total increases of $10.9 million in FY22 and $10.9 million in FY23.

HB95 does not contain an appropriation. Neither the LFC or executive recommendation for public school support include increases to cover the costs of increased employer contributions.

SUBSTANTIVE ISSUES

The Retiree Health Care Authority provides subsidized health insurance benefits to more than 63 thousand retired public employees and their dependents. RHCA's medical plans are funded by a combination of retiree-paid premiums and premium subsides that are funded through employer and employee contributions paid during the retiree's working life. When RHCA was created in 1990, the authority began to cover public employee retirees with no pre-funding of benefits and the retiree health care fund has never had sufficient assets to cover the plan's estimated liabilities. According to RHCA, in 2006 $154 million in assets supported accrued liabilities of $4.264 billion, leaving the plan with unfunded liabilities of $4.074 billion and a funded ratio of 3.6 percent.

	2006	2008	2010	2012
GASB Statement	43	43	43	43
Actuarial Accrued Liability	$ 4,264,180,967	$ 3,116,915,900	$ 3,523,664,871	$ 3,915,114,104
Actuarial Value of Assets	$ 154,538,668	$ 170,626,271	$ 176,922,935	$ 227,487,895
Unfunded Actuarial Accrued Liability	$ 4,109,642,299	$ 2,946,289,629	$ 3,346,741,936	$ 3,687,626,209
Funded Ratio	3.62%	5.47%	5.02%	5.81%
Covered Payroll	$ 4,073,731,873	$ 4,020,508,902	$ 4,001,802,240	$ 3,876,220,608
Total Participants	140,292	130,381	146,166	146,590
	2014	**2016**	**2017**	**2018**
GASB Statement	43	43	74	74
Actuarial Accrued Liability	$ 3,740,369,299	$ 4,277,042,499	$ 5,111,141,659	$ 5,006,011,109
Actuarial Value of Assets	$ 377,087,017	$ 471,978,347	$ 579,468,641	$ 657,656,294
Unfunded Actuarial Accrued Liability	$ 3,363,280,282	$ 3,805,064,152	$ 4,531,673,018	$ 4,348,354,815
Funded Ratio	10.08%	11.04%	11.34%	13.14%
Covered Payroll	$ 3,941,587,760	$ 4,271,183,612	$ 4,165,647,340	$ 4,290,616,760
Total Participants	155,098	159,642	160,035	156,025

While RHCA has been successful in growing total assets in the retiree health care fund, as of June 30, 2018 the plan had only $658 million in assets to cover $5 billion in total liabilities. According to the plan's actuaries, under current RHCA policies, projected expenses will begin to surpass projected revenue in FY22 and the trust fund will be exhausted by 2037. RHCA states that without additional revenue, future retirees may be at risk of not having access to a retiree health care benefit, despite having been required to contribute to the program throughout their career.

OTHER SIGNIFICANT ISSUES

In 2018, RHCA approved changes to the plan's administrative rules which established a minimum age limit of 55 to receive subsidies from the authority and required future retirees to work for at least 25 years before becoming eligible for the full health plan subsidy. For the past several years, RHCA has also make plan design changes to help extend the life of the plan.

CONSEQUENCE OF NOT ENACTING THE BILL

The RHCA board may need to make changes to health plans offered by the authority to ensure the plan's long term solvency. This would likely increase costs on retired public employees in the form of higher monthly premiums or other plan restrictions. RHCA indicates other options could include "conversion to the defined contribution type of program, elimination of its Medicare Supplement Plan, elimination of spousal subsidies, eliminating pre-Medicare coverage, limit access to care by narrowing the network of providers, facilities and hospitals."

RELATED BILLS

Senate Bill 14 (SB14) and House Bill 360 (HB360) would increase employer contributions to the Educational Retirement Board by 1 percentage point per year for three years. Although SB14 and HB360 would increase funding for retired employees' pensions and not retired employees' health plans, SB14, HB360, and HB95 would all increase the costs of employee benefits for school districts and charter schools.

SOURCES OF INFORMATION

- LESC Files

JWS/