



Retirement Security Act

SB 141

Discussion Topic

Medical Benefits Program for DC Plan Members

March 31st, 2005



Alaska State Legislature
Senate Finance Committee



Discussion

Medical Benefits Program for DC Plan Employees





Eligibility for medical benefits (“Retirement”)

- A member is eligible for medical benefits **when**
 - The member has been an active member for at least a year; *and*
 - Meets the requisite age and/or service requirements of
 - Age 65 with 10 years of service; or
 - 25 years of service for peace officers/firefighters; 30 years of service for all others

- The surviving spouse of an eligible member is also eligible for medical benefits





Proposed change to eligibility

- Remove the requirement for a member to “retire directly from the system”
 - Concept originated in tier redesign initiative
 - Purpose: recruitment management tool for hiring managers who might not be aware of a person’s history in the retirement system
 - Suggest this is a management decision and should not be legislated





Proposed changes to election of benefits

- Add a deferral of election of medical benefits to a date specified
- Member must make irrevocable decision of coverage by age 70 ½ or termination of employment, whichever is later
- Clarify that participation in the retiree major medical insurance plan is not required to participate in health reimbursement arrangement





What are the medical benefits?

- Access to the retiree major medical plan and the health reimbursement arrangement (HRA)
- “Access” to the major medical plan means a person may not be denied coverage except for failure to pay the required premium
- Coverage of an eligible member includes the member, member’s spouse, and member’s dependent children
- Coverage of a surviving spouse includes the surviving spouse and dependent children of surviving spouse





Proposed change to coverage

- Change language to cover only “the dependent children of the eligible member who are dependent on the surviving spouse”
- Prevents coverage of second family dependents that had no relation to the member
- Keeps plan qualified under federal regulations

26 U.S.C. 152 defines a dependent child as: *a son, daughter, stepson, stepdaughter, eligible foster child, or adopted child who lives with the member, is less than age 19 (less than age 24 if a student), and has not provided more than one-half of their own support during the year*





Major medical plan premiums

- “Early retirees” are members and surviving spouses who meet the service requirements for eligibility but are not eligible for Medicare

‣ Pays one of the full monthly group premiums for coverage
(*retiree only, retiree+spouse, retiree+family, retiree+children*)

- Medicare eligible (currently age 65) members and surviving spouses pay a portion based on the member’s years of service

‣30% for 10-14 years
‣25% for 15-19 years
‣20% for 20-24 years
‣15% for 25-29 years
‣10% for 30+ years





Major medical premiums cost example

- FY 2004 Medicare projected claim cost: \$2,667
- Defined health benefit contribution % based on length of service of the member

Member's Years of Service	Annual Employee Contribution		Annual Employer Contribution	
10-14	30%	\$800	\$1,867	70%
15-19	25%	\$667	\$2,000	75%
20-24	20%	\$533	\$2,134	80%
25-29	15%	\$400	\$2,267	85%
30+	10%	\$267	\$2,400	90%





Employer contribution for major medical coverage

- Employer pays 3.75% of employee compensation into a health trust fund

- ▶ Current bill language calls for deposit into active group life and health insurance trust fund
- ▶ A legal opinion is presently being sought on accounting methods vs. true separation of assets
- ▶ Anticipated that language will have to be changed in some way

- Employer contribution was projected based on the tier redesign initiative which contains separate rates for TRS (3.75%) and PERS (3.5%)
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Rationale for cost sharing only after Medicare

- 25 states have a normal retirement age of 65, including
 - Arizona, Idaho, Nevada, and Washington
- 75% percent of the retiree medical costs for the AlaskaCare Plan are from normal retirement age until members are Medicare eligible
- Eliminating the cost sharing between ages 60 and 65 reduces the medical normal cost rates to 1.5% (TRS) and 1.4% (PERS)





Medical costs

- Every 1% of base payroll = \$21.6 million

Employer Group	Total FY 06 Estimated Base Payroll	Medical Normal Cost Rates		
		Current DB Plans	Tier Redesign Initiative	SB 141 (implied)
PERS	\$1,587,594,875	8.68%	3.50%	1.40%
TRS	\$573,410,095	9.07%	3.75%	1.50%
PERS	Medical Cost in Dollars	\$137,803,235	\$55,565,821	\$22,226,328
TRS		\$52,008,296	\$21,502,879	\$8,601,151
Total Annual Medical		\$189,811,531	\$77,068,699	\$30,827,480
Total Payroll	\$2,161,004,970	Savings	\$112,742,832	\$158,984,051

Proposed Change

