Retirement Security Act

SB 141
Discussion Topic
Medical Benefits Program for DC Plan Members

March 31st, 2005
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 1/2 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

<table>
<thead>
<tr>
<th>Member's Years of Service</th>
<th>Annual Employee Contribution</th>
<th>Annual Employer Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-14</td>
<td>30% $800</td>
<td>$1,867 70%</td>
</tr>
<tr>
<td>15-19</td>
<td>25% $667</td>
<td>$2,000 75%</td>
</tr>
<tr>
<td>20-24</td>
<td>20% $533</td>
<td>$2,134 80%</td>
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<tr>
<td>25-29</td>
<td>15% $400</td>
<td>$2,267 85%</td>
</tr>
<tr>
<td>30+</td>
<td>10% $267</td>
<td>$2,400 90%</td>
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</table>
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%)
Discussion: Medical Benefits
Program for DC Plan Members

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

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