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FISCAL IMPACT STATEMENT

LS 7163

BILL NUMBER: HB 1555

NOTE PREPARED: Jan 31, 2005

BILL AMENDED:

SUBJECT: Health Insurance for Retired State Employees.

FIRST AUTHOR: Rep. Buell

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides for group health insurance coverage for a state employee who retires under the Rule of 85 after June 30, 2005, and the retired state employee's spouse.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Summary:* This bill permits state employees who retire after June 30, 2005, under the "Rule of 85", and who are not eligible for Medicare to continue to participate in the health insurance program offered to active state employees, but with a reduced premium contribution. The retired employee will be required to contribute an amount equal to the same premium that is paid by active state employees. Currently, a retired state employee must pay a premium amount that is equal to both the employee share and the employer share. A preliminary estimate of the net additional state expenditures is \$0.7 M in FY 2006, \$2.2 M in FY 2007, \$3.8 M in FY 2008, and \$5.9 M in FY 2009. [Net expenditures are anticipated to continue growing past FY 2009, however, later years have at this time not been estimated.]

Background Information: Currently, state employees may retire with normal retirement benefits if the employee's (1) age is at least 65 and has accumulated at least 10 years of creditable service; (2) age is at least 60 and has accumulated at least 15 years of creditable service; or (3) age is at least 55 and whose age plus years of creditable service sum to at least 85 ("Rule of 85"). In addition, an employee may retire with reduced retirement benefits if the employee's (4) age is at least 50 with at least 15 years of creditable service. This bill applies to individuals who meet the criteria for (3), above, those who qualify under the "Rule of 85".

Under current statute, retired state employees who have at least 55 years of age, have completed 20 years of

creditable service (10 of which were completed immediately preceding retirement), and have completed at least 15 years of participation in the retirement plan are able to participate in the state employee group health benefit plans. Also under current statute, the entire cost of the insurance premium, both the employee and the state share, must be paid by a retired employee.

This bill provides that retired employees who meet the criteria for the "Rule of 85" and are under the age for Medicare eligibility must pay only the cost of the insurance premium paid by an active employee, and the state will pay the employer share. The current employer share of premiums for single coverage for active employees varies between 71% and 96%, depending on the health benefit plan. The employer share for family coverage varies between 71% and 94%.

The number of employees meeting the age and service requirements of the bill and can be expected to retire are estimated to total 529 in FY 2006, 536 in FY 2007, 539 in FY 2008, and 576 in FY 2009. These numbers include both the estimated number of employees who would have retired anyway, as well as the estimated number who would not have retired, but would choose to because of the additional incentive provided by the reduced cost of health insurance. These numbers are anticipated to continue growing past FY 2009, however, the number of expected retirements for later years have not at this time been estimated. The annual number of retirees for which the state will be contributing toward retiree health insurance will accumulate for several years before a relatively steady state is reached.

A salary savings is factored into the estimate because of the anticipated hiring of a less expensive replacement for those employees who would not have retired, but will now because of the incentive. An adverse experience factor is also applied to those individuals who would have retired anyway, but would not have chosen to participate in the state health plan were it not for the extra incentive provided by the reduced premium cost.

This analysis is based on a data set containing the age and service data for 33,500 active state employees as of December 31, 2004.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Public Employees Retirement Fund data.

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