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FISCAL IMPACT STATEMENT

LS 7683 | **NOTE PREPARED:** Apr 5, 2007
BILL NUMBER: SB 501 | **BILL AMENDED:** Feb 22, 2007

SUBJECT: State Retirement Medical Benefits Account.

FIRST AUTHOR: Sen. Kenley | **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Rep. C. Brown

FUNDS AFFECTED: X GENERAL | **IMPACT:** State
X DEDICATED
X FEDERAL

Summary of Legislation: (Amended) *Retirement Medical Benefits Account:* This bill establishes a retirement medical benefits account for elected officers, appointed officers, and employees of the executive, legislative, and judicial branches of state government to pay participants' medical expenses after retirement. The bill designates the Budget Agency as the account administrator.

Account Contributions: The bill requires the state to make annual contributions to the account based on the age of the participant. It provides for a supplemental contribution to the account for a participant who retires with at least: (1) 15 years of service with the state, for an employee; or (2) 10 years of service as an elected or appointed officer.

Account Benefits: The bill also provides that: (1) employees who qualify and have applied for a normal unreduced or disability retirement benefit at separation from service; and (2) elected or appointed officers with at least 10 years of service; are entitled to a benefit from the account. The bill allows the surviving spouse or dependent of a retired participant to receive a benefit. It also provides that unused amounts credited to a retired participant are forfeited if the retired participant dies without a surviving spouse or dependent.

State Budget Committee Oversight: The bill requires the Budget Committee to review the financial status of the account annually.

PERF Retirement Medical Benefits Account: The bill also provides that, if allowed by the Internal Revenue Service, the retirement medical benefits account established by the Public Employees' Retirement Fund (PERF) must: (1) require a state employee to convert certain unused vacation leave to a monetary contribution to the account at retirement; and (2) allow the state to contribute to the account on the

employee's behalf an amount not to exceed two times the amount of the employee's contribution.

Required Appropriations: The bill also specifies that the Budget Agency may not establish the retirement medical benefit account or implement the health reimbursement arrangement unless the General Assembly makes a specific appropriation to implement the health reimbursement arrangement.

Effective Date: (Amended) August 1, 2007.

Explanation of State Expenditures: *Summary:* This bill involves two programs established for the purpose of providing a source of payment for insurance premiums and for sickness, accident, hospitalization, and medical expenses upon the retirement of a state employee. The bill establishes the Retirement Medical Benefits Account into which the state is to make "regular" contributions to employees based on age, and a "bonus" contribution upon normal, unreduced retirement based on years of service. The "bonus" contribution is only to be provided through June 30, 2017. The bill also provides for the mandatory conversion of up to 30 days of unused vacation leave upon retirement (either full or early retirement with a reduced benefit) into a PERF-managed account, and the state would contribute twice the amount contributed by the employee.

Since the bonus contribution expires June 30, 2017, the following table provides cost estimates through FY 2018, the year after the bonus contribution requirement expires.

	Retirement Medical Benefits Account			PERF-Managed Account		
FY	Regular Contrib.	Forfeited Amounts	Bonus Contrib.	Leave Conversion Payments	Net State Contributions	General Fund Share *
2008	$38.1 M	($0.9 M)	$14.6 M	$3.9 M	$55.7 M	**$30.6 M**
2009	38.1 M	(1.8 M)	16.0 M	4.0 M	56.3 M	**31.0 M**
2010	38.1 M	(2.6 M)	17.3 M	4.1 M	56.9 M	**31.3 M**
2011	38.1 M	(3.3 M)	18.6 M	4.1 M	57.5 M	**31.6 M**
2012	38.1 M	(4.1 M)	19.8 M	4.2 M	58.0 M	**31.9 M**
2013	38.1 M	(4.9 M)	20.8 M	4.3 M	58.3 M	**32.1 M**
2014	38.1 M	(5.5 M)	21.6 M	4.4 M	58.6 M	**32.2 M**
2015	38.1 M	(6.1 M)	22.5 M	4.5 M	59.0 M	**32.5 M**
2016	38.1 M	(6.7 M)	23.3 M	4.6 M	59.3 M	**32.6 M**
2017	38.1 M	(7.2 M)	24.1 M	4.8 M	59.8 M	**32.9 M**
2018	38.1 M	(7.7 M)	-	4.9 M	35.3 M	**19.4 M**

***** The amounts to be contributed from the state General Fund are assumed to represent approximately 55% of the state contributions listed above, with the balance, or 45%, to be contributed by various dedicated funds.

Note: The estimated contributions required by the state do not factor in any potential behavioral changes that may occur in the retirement decisions of employees as a result of these additional benefits.

Background Information -

Retirement Medical Benefits Account: The bill establishes the Retirement Medical Benefits Account, which is a defined contribution account for the purpose of providing a source of payment for insurance premiums upon the retirement of an employee. If the State Budget Agency, administrator of the program, requests and receives an appropriate ruling from the Internal Revenue Service (IRS), the Account proceeds may be used for premiums for non-insurance health policies or for sickness, accident, hospitalization, and medical expenses.

Participants in the Account include employees of the executive, legislative, or judicial branches of state government; state elected or appointed officers; members of the General Assembly; and magistrates, juvenile court magistrates, and prosecuting attorneys.

Account Contributions: Regular, ongoing contributions are to consist of annual state payments made to employee subaccounts based on the age of the employee on the schedule provided in the following table.

Employee's Age in Years	Annual State Contributions
Less than 30	$500
At Least 30, Less Than 40	$800
At Least 40, Less Than 50	$1,100
At Least 50	$1,400

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The annual state contribution total is estimated to be approximately $38.1 M. The source of state contributions are approximately 55% from the state General Fund with the balance, or 45%, coming from various dedicated funds. This proportion applies to all state contributions described in this bill.

A bonus contribution is to be made upon a participant's retirement with normal unreduced benefits if the retirement occurs between July 1, 2007, and July 1, 2017, and the retiree on the last day of service has completed at least 15 years of service. The amount of the bonus contribution is to equal the number of years of service multiplied by $1,000. Based on estimates from PERF actuaries, bonus contributions are estimated to total approximately $14.6 M initially and grow to $24.1 M by FY 2017.

Upon the death or separation from service of an employee prior to retirement, the accumulated funds (both contributions and earnings) revert to the state. Based on estimates from PERF actuaries, the reversions to the account will be approximately $0.9 M in FY 2008 and will grow to about $7.2 M in FY 2017. The reversions grow over time as individuals who die or separate from state employment prior to retirement have a longer history of state contributions and earnings into their individual subaccounts.

Personnel from the State Budget Agency, who will administer this portion of the program, have provided an estimate of the cost to administer the program as $2.5 M annually based on an estimated $6 per member per month cost. The bill specifies that the administrative costs of the account are to be paid from the earnings of the account before the earnings are credited to the employees' subaccounts.

This analysis does not factor in potential behavioral changes in the timing of retirement decisions which may occur as a result of the increased retirement benefit. To the extent that the added benefits provide an incentive for earlier retirements than would otherwise occur, there could be some offsetting personnel expenditure reductions from hiring replacement employees at lower, entry-level wages.

Account Benefits: The bill provides that benefits are available to an employee upon separation from service and who qualifies and has applied for a normal, unreduced or disability retirement benefit. Benefits include the regular and bonus contributions made by the state plus any earnings on the money in the account (less administrative expenses). Currently, state employees may retire with normal, unreduced 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").

PERF Retirement Medical Benefits Account: The bill also provides for an additional contribution made to an existing retirement medical benefits account administered by PERF. To the extent permitted by the IRS, employees upon retirement will be required to convert to a monetary contribution the amount of accrued and unused vacation leave up to a maximum of 30 days times the value of the individual's salary; and the state will contribute an additional amount equal to twice the amount contributed by the retiring employee. This account is for the purpose of funding on a pretax basis benefits for the payment of sickness, accident, hospitalization, and medical expenses for the employee and the spouse and dependents of the employee after retirement. The additional contributions paid by the state are estimated to be approximately $3.9 M in FY 2008 and will grow each year based on the average state employee salary growth. [Note: This benefit is provided to employees who retire early with reduced benefits, as well as to those who retire with normal, unreduced benefits. An employee may retire with reduced retirement benefits if the employee's age is at least 50 with at least 15 years of creditable service.]

Data: Estimates of total contributions are based on data received from the State Budget Agency on the age distribution of 34,227 state employees. Estimates on the amounts of bonus contributions upon retirement and the amounts reverted by employees separating from state employment prior to retirement were provided by actuaries of PERF. Estimates for the cost of the leave conversion provision are based on State Auditor data for actual cash payments for up to 30 days of unused vacation leave made to employees who separated from state service during CY 2006.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: State Budget Agency; State Auditor data; Doug Todd, McCready & Keane, Inc., actuaries for PERF, 317- 576-1508.

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