Legislative Analysis

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SCHOOL RETIREMENT HEALTH BENEFITS: "GRADED PREMIUMS"

House Bill 4797
Sponsor: Rep. Tim Melton

House Bill 4798
Sponsor: Rep. Bert Johnson
Committee: Education

Complete to 6-18-07

A SUMMARY OF HOUSE BILLS 4797 & 4798 AS INTRODUCED 5-17-07

House Bills 4797 and 4798 would amend the Public School Employees Retirement Act (MCL 38.1391) to change the way retiree health benefits would be provided to those entering the retirement system (new school employees) after June 30, 2007.

Under the bills, generally, the retirement system would pay up to 90 percent of the monthly premium for health care benefits of a retirant and dependants <u>after 30 years of service credit or employment</u>. For a retirant (or deceased member) with at least 10 years but less than 30 years, the system would pay <u>3 percent times the years of service</u> (e.g., 30 percent of the monthly premium for ten years, 45 percent for 15 years, etc.)

This would apply to medical, dental, vision, or hearing benefits, or any combination of those benefits. It would apply to members (public school employees) and deferred members (those who leave school employment before reaching the minimum retirement age).

The current system does not grade premiums based on years of service or employment for retirees who retire directly from school employment (members). Currently, the system pays the costs of medical benefits for a retirant, although an amount equal to the cost chargeable to a Medicare recipient for Part B Medicare is deducted from the retirant's retirement allowance. (For 2007, the monthly deduction is $93.50) In addition, the system pays up to 90 percent of health benefit costs for dependants of retirants. The system also pays 90 percent of hearing, dental, and vision benefits for retirants and dependants.

However, deferred members (those who leave school employment before reaching the minimum retirement age) currently must pay the total premium for health care if they have less than 21 years of service; deferred members with from 21 to 29 years of service receive a partial premium subsidy equal to 10 percent for each year of service credit over 20 years. (For example, a deferred member with 23 years of service would receive a subsidy of 30 percent of premiums and have 70 percent deducted from the monthly pension.) Those with 30 years receive a 100 percent subsidy.

The bills specify that the retirement system would not pay the premiums (or membership or subscription fees) until the retirant or beneficiary requests enrollment in the plans or combination of plans in the manner prescribed by the system.

The two bills contain the same provisions. House Bill 4797 would amend Section 91 of the act as it is currently in force. House Bill 4798 would amend Section 91 as amended by Public Act 617 of 2006; the amended section takes effect January 1, 2009. House Bill 4798 is tie-barred to House Bill 4797.

FISCAL IMPACT:

The bill would create an indeterminate future savings for local school districts. According to the Office of Retirement Services, changing the retirement health benefits to a graded premium plan would be cost neutral for the first ten years and would take 30-40 years until most or all employees were covered under the new system to fully see cost savings. However, the ORS estimates that once the savings were fully achieved, costs would be reduced by 43%. If this type of plan had been in place for the last 40 years, employer costs for MSPERS retiree health care benefits would have been reduced by nearly $300 million in 2006.

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