LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
54th Legislature, 2nd Session, 2020

Bill Number HB45/aHAFC **Sponsor** Salazar/Lara

Tracking Number .216154.2SA **Committee Referrals** HLVMC/HAFC;SFC

Short Title Changes to Retiree Health Care Fund

Original Date 1/28/2020
Analyst Simon **Last Updated** 2/19/2020

FOR THE INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

BILL SUMMARY

Synopsis of HAFC Amendment

House Appropriations and Finance Committee Amendment to House Bill 45 (HB45/aHAFC) strikes the $12.4 million transfer from the general fund to the retiree health care fund.

Synopsis of Original Bill

House Bill 45 (HB45) would increase public employer and employee contributions to the retiree health care fund and transfers $12.4 million from the general fund to the retiree health care fund. The bill would become effective July 1, 2020. This analysis is limited to the impact of HB45 on school districts, charter schools, and public school employees.

FISCAL IMPACT

HB45/aHAFC would increase employer contributions from school districts and charter schools to the retiree health care fund, from 2 percent of each employee's salary in FY20 to 2.33 percent of each employee's salary in FY21. Public school employee contributions would increase from 1 percent of salary in FY20 to 1.17 percent of salary. Data from the Public Education Department (PED) shows school districts and charter schools statewide contributed $38.4 million to the retiree health care fund in FY19; based on that amount public school employees contributed an estimated $19.2 million in FY19. For FY21 and subsequent fiscal years, those amounts would increase to $44.7 million for employers and $22.4 million for employees, an increase of $6.3 million for employers and $3.3 million for employees. Under HB45/aHAFC, a public school employee earning $40 thousand per year would contribute an additional $68 per year.

The Senate Finance Committee Amendment to House Appropriations and Finance Committee Substitute for House Bills 2 and 3 does not include an appropriation to cover the costs of the increased employer contributions.

SUBSTANTIVE ISSUES

The Retiree Health Care Authority (RHCA) provides health, dental, vision, and life insurance to retired public employees, including public school educators. Although retirees pay health insurance premiums for coverage, that coverage is subsidized by the retiree health care fund, funded primarily with employer and employee contributions. When RHCA was created in 1990, the authority began to provide subsidized health insurance coverage to retired public employees without any pre-funding. As a result, the program has operated largely on a “pay as you go” basis, where employer and employee contributions are used to fund benefits for current retirees.

Although the Retiree Health Care Act states the benefits provided through RHCA do not carry the same legal protections as pension benefits, accounting rules issued by the Governmental Accounting Standards Board (GASB) require the fund’s actuaries to project liabilities incurred by the fund. As of June 30, 2019, the fund had projected liabilities of $4 billion and assets of $756.7 million, for a funded ratio of 18.9 percent. GASB rules require these liabilities to be reported on the financial statements of RHCA’s member entities; liabilities for “other post-employment benefits” such as RHCA have been cited by bond rating agencies as reasons for downgrading a school district’s debt.

RHCA’s actuaries project that, assuming no changes to the plan or contribution rates, RHCA will begin to draw from its trust fund to pay benefits in FY23 and the plan will become insolvent in FY44. Analysis from RHCA states the authority’s strategic plan calls for both plan modifications and contribution increases to support the program, but as the deficit spending and insolvency period approach, RHCA would need to consider one or a combination of the following proposals:

- eliminate the Medicare supplemental plan;
- eliminate or decrease subsidies for pre-Medicare coverage;
- eliminate subsidies for coverage of a retiree’s spouse;
- limit coverage to a narrow network of providers, facilities, and hospitals; and
- transition the program to provide a flat monthly contribution towards health insurance coverage, rather than cover a percentage of the total cost.

OTHER SIGNIFICANT ISSUES

In 2018, the RHCA board reduced the subsidies for members who retire after December 31, 2019 with 20 years or less of service credit or who are under age 55. Future retirees need to serve for 25 years before being eligible for the maximum subsidy from RHCA and will not be eligible for subsidized health insurance premiums until they reach age 55. RHCA enacted the rule change to improve the plan’s sustainability and push back the date of insolvency.

SOURCES OF INFORMATION

- LESC Files
- Retiree Health Care Authority (RHCA)

JWS/tb/mc/sgs