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FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/22

SPONSOR Gonzales LAST UPDATED _____ HB _____

SHORT TITLE Retiree Health Care Fund Contributions SB 112

ANALYST Jorgensen

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24		
	24,600.0	24,600.0	Recurring	Retiree Health

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$8,200.0	\$8,200.0	\$16,400.0	Recurring	Various

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Responses Received From
 Retiree Health Care Authority (RHCA)
 State Personnel Office (SPO)

SUMMARY

Synopsis of Bill

Senate Bill 112 (SB112) increases employee and employer contributions as shown in the table below:

	Current Rates	Proposed Rates
Non-Enhanced Retirement Plan		
Employer	2.00%	2.33%
Employee	1.00%	1.17%
Enhanced Retirement Plan		
	Current Rates	Proposed Rates
Employer	2.50%	2.93%
Employee	1.25%	1.47%

FISCAL IMPLICATIONS

The Retiree Health Care Authority estimates SB112 will generate \$24.6 million in annual revenue to the fund. Of this amount, \$16.4 million will come from employers and must be absorbed in the existing operating budgets as there is no appropriation to pay for the increased costs. The amount of the increased employer cost is included in the estimated additional operating budget impact table.

SIGNIFICANT ISSUES

In addition to employee and employer contributions and participant premiums, RHCA receives a direct distribution from the tax suspense fund. In FY23, the distribution will be \$41.3 million. Statute mandates the distribution from the tax suspense fund increases at a rate of 12 percent per year, roughly doubling every six years. Monies distributed to RHCA from the tax suspense fund would otherwise go to the general fund.

At the end of FY21, the RHCA trust fund balance was \$1 billion, compared with \$190 million a decade ago. However, on an actuarial basis, funding is only sufficient to cover about 16.5 percent of the estimated \$4.2 billion in current and future healthcare liabilities. The program is projected to maintain a positive fund balance through 2052.

RHCA membership includes 14.4 thousand pre-Medicare retirees with an average age of 54 years and 40.6 thousand Medicare eligible retirees with an average age of 74. Depending on years of service, pre-Medicare retirees receive a subsidy up to 64 percent of plan cost while Medicare-eligible participants may receive a subsidy up to 50 percent. RHCA also provides spousal subsidies up to 25 percent for Medicare-eligible spouses and 36 percent for pre-Medicare spouses depending on the retiree's years of service. Premiums for dependent coverage are 100 percent paid by the retiree, as are premiums for dental, vision, and life insurance. In FY21, RHCA paid \$173.4 million for coverage of pre-Medicare participants, \$12 thousand per member on average, and \$103.4 million for Medicare-eligible participants, or \$2,600 per member on average.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB112 is identical to House Bill 74.

CJ/acv