House Legislative Analysis Section

Washington Square Building, Suite 1025
Lansing, Michigan 48909
Phone: 517/373-6466

SCHOOL RETIREES: ADD INSURANCE

House Bill 4433 (Substitute H-2)
First Analysis (4-19-89)

Sponsor: Rep. Justine Barns
Committee: Senior Citizens and Retirement

THE APPARENT PROBLEM:

Public Act 91 of 1985 virtually overhauled the Public School Employees Retirement System (PSERS), extending to retired school employees many of the benefits enjoyed by retired state employees. Many older retirees, however, especially those who have been retired for some time, report that dental, hearing, and vision care expenses take up a disproportionately large portion of their income. Some retirees are angry because their "13th checks" are spent on these expenses. Many people believe that dental, vision, and hearing insurance coverage, similar to that provided retired state employees, could be granted to public school retirees.

THE CONTENT OF THE BILL:

Under the Public School Employees Retirement Act, the retirement system currently pays the monthly insurance premiums of retirees who elect coverage in a group health benefits plan authorized by the retirement board and the Department of Management and Budget, or who elect coverage in an alternative group health benefits plan. The retirement system also pays 90 percent of the premiums for dependents' health care coverage. The bill would amend the act to require the retirement system to provide, in addition, dental, optical and hearing benefits, pursuant to a contract between the retirement system and a nonprofit dental care corporation. The retirement system would be required to pay 90 percent of the monthly premium, membership, or subscription fees for these services for persons entitled to benefits under the act, effective January 1, 1990. Under the bill an "alternative group health benefits plan" would be one that was certified by the retirement board and the department between February 28, 1989, and October 1, 1989. A "group health benefits plan" would be defined under the bill as a group plan that provided hospital, medical-surgical, dental, optical, hearing, and sick care benefits, and could include a nonprofit dental care corporation.

Under the bill, the Department of Management and Budget (DMB) would be required to review the methods of financing — including methods of prefunding — the dental, vision, and hearing benefits the bill would provide. DMB would study the potential utilization of dental, vision, and hearing benefits provided by the bill; compare utilization of dental, vision, and hearing benefits provided by the bill to utilization of comparable benefits in other state-financed public employee retirement systems, including the effect of retirement system-retirant cost sharing versus total retirement system funding of the monthly premium or membership or subscription fee for those benefits; review the potential effects of annual increases in the cost of providing dental, vision, and hearing benefits compared to the effects of annual increases in the cost of providing hospital, medical-surgical, and sick care benefits; and make specific recommendations by October 1, 1993 in a written report to the standing committees in the Senate and House that have jurisdiction over public school employees retirement.

MCL 38.1391

FISCAL IMPLICATIONS:

According to the Retirement Bureau in the Department of Management and Budget (DMB), the cost to the state of the additional benefits proposed in the bill have been initially estimated at $36 million annually. This figure, however, is based on the assumption that the benefits would be pre-funded by the method now used to fund basic retirement health benefits. If, as has been proposed by the House Senior Citizens and Retirement Committee, the costs are instead funded by an annual cash-basis appropriation, the cost to the state would be $15-$25 million for the first year of the plan, but would increase each year thereafter, and would finally equal and then exceed prefunded annual costs. The House committee estimates that the bill would be revenue neutral, based on the investment return assumptions currently used by the State Employees Retirement System, and assuming that the proposed benefits will be utilized by 75 percent of the retirement system's members, and 90/10 percent cost sharing. (4-17-89)

ARGUMENTS:

For:

The bill would help those who need help most. According to the Retirement Bureau's latest pension payroll report, the average pension received by PSERS members is around $7,500 per year, out of which the retiree must pay for dental, hearing, and vision care. While many of these retirees have incomes augmented by Social Security, Michigan public schools did not come under the Social Security Program until 1955, and many who retired twenty-five or thirty years ago are not eligible for those benefits. The costs of dental work, eye examinations and glasses, and treatment for hearing problems unfortunately increase as one ages. Many who have been retired for some time, and who do not have the financial resources to take care of these medical needs when they arise, often delay seeking medical help, and the problems get worse.

Against:

The state cannot afford to provide extended health care coverage for current and future retirees unless the method of funding used is the pre-funding method. In fact, if the bill does not include a provision for pre-funding, it is likely that the Retirement Bureau will recommend that the governor veto the bill.

The system's health insurance coverage is currently pre-funded, instead of being paid on a year-to-year basis. The act currently requires that state appropriations for health benefits be paid into a health benefits fund. Under

OVER

pre-funding, the cost of health coverage is predicted for future years and each year's contribution is actuarially determined at a level percentage of payroll. More money is put into the fund than is initially needed so that increases due to rising medical costs and inflation are paid from investment income. Pre-funding therefore increases the security of health benefits by protecting against periods in which health care costs rise rapidly, when the legislature could decide that the state could not afford to fully pay premiums. On a cash, or "pay-as-you-go" basis, on the other hand, no reserves are built into the fund to pay for rising costs, so cash outlays are greater.

Pre-funding is preferred by actuaries. In the long run — and retirement benefits have to be looked at as long-term, since they are guaranteed by the constitution — pre-funding is more reliable and more stable than cash funding.

Against:

As written, the bill would delete the December 31, 1988 expiration date on a provision of the act requiring the retirement system to pay the entire monthly premium or membership or subscription fee for health benefits for retirants or their beneficiaries who have elected coverage in an alternative group health benefits plan. The bill would require that the retirement system also pay 90 percent of the monthly premium, membership, or subscription fees for dental, optical, and hearing benefits for these members. Since the legislature intended that the provision governing alternative group health benefits plans be in effect for three years only, ending December 31, 1988, the bill should be amended to delete this section of the act entirely.

Against:

Despite the committee's intention that the new benefits be funded on a cash basis, the bill is drafted in such a way that it is unclear whether that could occur. Section 41 of the act requires an annual level percentage of payroll contribution rate (pre-funding) for health benefits, as well as basic retirement benefits. Health benefits are paid for out of the health benefits fund. Although the definition of "health benefits" does not include the new dental, hearing and vision care benefits the bill intends to provide, the act says that "benefits payable pursuant to Section 91 shall be paid from the health benefits fund;" thus implying that the new benefits would be funded in the same manner as other health benefits. At the very least, the bill should be amended to clearly specify what method of funding would be used. Without that certainty, the legislature cannot possibly know the potential costs of the bill, which may be extensive.

POSITIONS:

The Michigan Federation of Teachers supports the bill. (4-17-89)

The Retirement Coordinating Council supports the bill. (4-17-89)

The Michigan State AFL-CIO supports the bill. (4-18-89)

The Michigan Education Association opposes the bill as written, since it does not provide for a pre-funding method of financing. (4-18-89)

The Retirement Bureau in the Department of Management and Budget has no position on the bill. (4-17-89)

The Michigan Association of Retired School Personnel has no position on the bill. (4-17-89)