House Legislative Analysis Section
House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

PSERS: LONG TERM CARE INSURANCE

House Bill 4376 (Substitute H-1)
First Analysis (9-18-02)

Sponsor: Rep. Stephen Ehardt
Committee: Senior Health, Security and Retirement

THE APPARENT PROBLEM:

It has been estimated that any person who lives to age 65 will have a 50 percent chance of spending some time in a nursing home. Nursing home care, including skilled nursing care and intermediate nursing care, costs approximately $54,000 per year, or $150 per day. Less intensive custodial care alone (including such things as help with bathing, dressing, eating, and supervision, and which may be provided at home or in other settings) can cost as much as $15,000 per year. Many people, perhaps most, are not prepared to deal with the staggering costs of paying for long term care, should the need arise. Unfortunately, most private medical and disability insurance does not cover the cost of long term care, and Medicare offers limited assistance. Medicaid, designed for people who have very little in assets and income, covers nursing home care only after a person spends most of his or her assets. Medicaid may also limit choices about which nursing homes may be used.

For these reasons, states and the federal government, along with many employers, have embarked on public educational campaigns to promote awareness about the need for people to plan ahead for long term care needs. The State of Michigan recently added a group long term care insurance plan for its employees through MetLife (the plan is voluntary and the premium is entirely paid by the employee). Open enrollment for state employees was conducted early this year, and active state employees were offered a guaranteed issue policy with no medical underwriting. Eligibility was extended to spouses and family members, and to retired state employees, public school employees, state police employees, and judges; however, these groups were subject to medical underwriting.

Active state employees who enrolled in the long term care plan pay their premiums through payroll deduction. Retirees, however, were not offered the option of having premiums deducted from their retirement benefits. At the request of an organization that represents retired school personnel, legislation has been introduced to require the Public School Employees Retirement System to provide an option for retirees to direct part (or all) of their retirement benefit toward the cost of long term care insurance.

THE CONTENT OF THE BILL:

The bill would amend the Public School Employees Retirement Act to require the retirement system to withhold the entire monthly premium for group long term care insurance coverage for retirees and their beneficiaries and dependents, at the option of the retiree. The bill specifies that if the entire monthly premium were greater than the retirement allowance, the retirement system would withhold the entire retirement allowance and apply it toward the premium. The bill would apply only for a long term care benefit plan authorized by the retirement system.

"Long term care benefits" would be defined to mean group insurance to cover the cost of services provided by nursing homes, assisted living facilities, home health care providers, adult day care providers, and other similar service providers.

MCL 38.1304 and 38.1392

BACKGROUND INFORMATION:

A similar bill, Senate Bill 462, has passed the Senate and is pending before the House Appropriations committee. As passed by the Senate, Senate Bill 462 differs from House Bill 4376 in that it would *allow* rather than *require* the retirement system to withhold the premium from a retiree's retirement allowance and apply it toward a long term care policy.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill would result in administrative costs for the Office of Retirement Services in the Department of Management and Budget. The amount of such costs is indeterminate at this time. (9-16-02)

ARGUMENTS:

For:

As a matter of convenience for retirees, the retirement system should provide a payroll deduction option so that retirees could have their long term care insurance premium deducted from their retirement benefits and paid directly to their insurer. There would not be a cost to the state, except for administrative expenses, as the coverage is completely at the expense of the retiree. As the state has in place a system for state employees to receive this service, it should not be overly burdensome for the retirement system to do likewise. Perhaps the added convenience would even persuade some retirees to purchase long term care insurance, which the state has been trying to promote among its citizens, employees, and retirees.

Response:

The Office of Services to the Aging, in its contract with MetLife, has provided for an alternative option for retirees for ease of convenience in paying the premiums for the state's authorized long term care group insurance plan. At present, a retiree may elect to have payments for LTC premiums deducted directly from his or her bank account – but there is no option for a deduction from one's retirement benefit check. The Office of Retirement Services reports that to accomplish that would require reprogramming of computer software (in a system due for replacement within the next year), and that the same end is accomplished through the contractual agreement that allows direct payment from a bank account. Because of this, the Department of Management and Budget would prefer to see the bill amended to allow, rather than require, the retirement system to provide for payroll deduction. Then, if the contractual arrangements with MetLife are modified in the future, the retirement system would be authorized to implement a payroll deduction system. (It should be noted that the bill would apply only to the Public School Employees Retirement System; the current contractual arrangements with MetLife are effective for retirees receiving benefits from the retirement systems for state employees, public school employees, state police, and judges.)

Reply:

While the current arrangements meet the needs of those retirees who have enrolled in the state's group plan offered by MetLife, there is no similar arrangement in place for those who hold policies from other companies. The direct deposit system would seem to be preferable if the goal is to meet the needs of the majority of retirees (who, so far, have not chosen to participate in large numbers in the state's group plan with MetLife).

POSITIONS:

The Michigan Association of Retired School Personnel supports the bill. (9-13-02)

The Retirement Coordinating Council supports the bill. (9-17-02)

The Office of Retirement Services in the Department of Management and Budget would support the bill if it were amended to allow, rather than require, the retirement system to implement payroll deduction for long term care premiums. (9-17-02)

Analyst: D. Martens

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.