Legislative Analysis

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PSERS: HEALTH CARE DEPENDENT

House Bill 4244 as enrolled
Public Act 117 of 2004
Sponsor: Rep. Jack Minore
House Committee: Senior Health, Security, and Retirement
Senate Committee: Education

Second Analysis (3-31-05)

BRIEF SUMMARY: The bill would allow a child whose legal guardian is a retired school employee to be classified as an eligible dependent for health insurance under the Public School Employees Retirement Act.

FISCAL IMPACT: The fiscal impact would be indeterminate. There is no existing data to determine how many of the retired system members are legal guardians of unmarried children who would qualify under the bill's provisions.

THE APPARENT PROBLEM:

In a recent case that has come to the attention of the legislature, a teacher who will be retiring soon is the legal guardian of her young grandchild. Though the child is currently covered under the teacher's health plan, the teacher discovered that the definition of "health insurance dependent" contained in the act regulating retirement benefits for school employees includes only natural born or adopted children. Therefore, the grandchild will no longer be covered once the teacher retires.

However, if this teacher had worked instead for the state and been a member of the retirement system for state workers, the child in this scenario would still be covered under the grandmother's health plan after retirement. Legislation has been offered to correct what is seen as unequal treatment between two public retirement systems.

THE CONTENT OF THE BILL:

The bill would amend the Public School Employees Retirement Act to include an unmarried child as a health insurance dependent if the retiree or deceased member is or was the <u>legal guardian</u> of the child (and the child is otherwise qualified to be a health insurance dependent).

Currently, the definition of a "health insurance dependent" for retirees or members of the retirement system includes an unmarried child <u>by birth or adoption</u> until December 31 of the calendar year in which the child becomes 19 years of age.

MCL 38.1391

ARGUMENTS:

For:

The bill would correct a situation so that children covered under the health plan of a legal guardian while that adult is working in a public school can continue to be covered when legal guardian retires. Losing coverage for a child simply because of retirement presents a hardship for the both the child and legal guardian. Some may postpone retirement in order to maintain health care coverage for the child and, therefore, continuity in treatment and health care providers. Some parents have been unaware that retiring would end the child's health care coverage until after retirement when a claim for medical services was rejected. Some believe this is unfair because a child would still be covered even after retirement if the legal guardian had been a state employee. Since the retirement systems for both state and school employees are administered by the Office of Retirement Services (ORS) within the Department of Management and Budget, it appears an easy oversight to correct. The bill would merely extend the same health care benefits to the children of retired school personnel that children of state workers already enjoy.

Against:

The problem articulated above may sound easy to fix, but the solution could result in increased costs to the retirement system. The health care benefits afforded to retired school personnel are cash funded; this means that today's workers are paying for the health care costs of today's retirees. Each year, ORS must estimate how much it will cost to fund the health care services of retirees and their dependents for the next year, and then must bill school districts in the state accordingly. Current contributions are about six percent of salaries. However, as health care costs continue to increase due to longer life spans, expensive new drugs, and new technological breakthroughs, the contribution is expected to increase to 15 to 16 percent of a school employee's salary by 2020. There is a limit to how much can be expected to be deducted from an employee's pay to fund health care benefits. The bill may have merit insofar as it seeks to provide equal treatment of dependents of two state-run retirement systems. However, before any changes are made that would increase the number of children that would be eligible as dependents for insurance coverage, it may be prudent to see what effect such a change would have on the viability of the retirement system.

Response:

Though true that current school employees are the primary funding source for health care services for current and retired personnel, it is also true that retirees pay a portion of the health plan premium for themselves and also pay a monthly premium for any dependents. For 2003, a retiree paid about one-tenth of the premium for the master health care plan and for the dental/vision plan. Therefore, any costs associated with an increased number of eligible dependents would be partially offset by the premiums paid for those dependents by the retiree.

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