

**PSERS: HEALTH CARE DEPENDENT**

**House Bill 4244 (Substitute H-1)**  
**Sponsor: Rep. Jack Minore**

**House Bill 4677 as introduced**  
**Sponsor: Rep. John Garfield**

**Committee: Senior Health, Security and  
Retirement**

**First Analysis (6-17-03)**

***THE APPARENT PROBLEM:***

Two situations have come to the attention of lawmakers regarding health insurance coverage for the children or legal charges of retired school personnel. In one case, 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.

The second situation involves a teacher who recently retired and whose son is a college student. While the teacher remained employed by his school district, his health insurance extended to his son. However, when he retired, he was notified that his son no longer was eligible as a health insurance dependent because the teacher's ex-spouse paid the majority of their son's support. According to the retirement act, a child enrolled as a full-time student is covered up to age 25, but only if he or she can be claimed as a dependent on the retiree's federal income tax form.

However, if these two teachers had worked instead for the state and been members of the retirement system for state workers, the children in both scenarios would still be covered under the grandmother's and father's health plan. Legislation has been offered to correct what is seen as unequal treatment between two public retirement systems.

***THE CONTENT OF THE BILLS:***

The bills would amend the definition of a "health insurance dependent" contained in the Public School

Employees Retirement Act (MCL 38.1391) to include the child of a retiree or deceased member in situations where the retiree or deceased member is or had been the legal guardian of the child and also include a child who is the dependent (based on federal Internal Revenue Service criteria regarding level of financial support) of the retiree's or deceased member's ex-spouse.

Currently, the definition of a "health insurance dependent" for retirees or members of the public school employees retirement system includes an unmarried child, by birth or adoption, of the retiree or deceased member until December 31 of the calendar year in which the child becomes 19 years of age. The definition also includes an adopted or natural unmarried child who is or was at the time of the retiree's or member's death a dependent under IRS criteria (the child is the dependent of the parent who contributes the majority of the child's financial support) and who is 1) incapable of self-sustaining employment because of mental or physical disability or 2) enrolled as a full-time student until December 31 of the year he or she turns 25 years of age.

House Bill 4244 would amend the Public School Employees Retirement Act to include a child who otherwise is qualified to be a health insurance dependent if the retiree or deceased member is or was the legal guardian of the unmarried child.

House Bill 4677 would amend the Public School Employees Retirement Act to also include as a health insurance dependent an unmarried child who met the two latter requirements described above – with the exception of being a dependent of the retiree or deceased member – as long as the child was a

dependent of the retiree or deceased member's divorced spouse and the retiree or deceased member provided proof of qualification to the retirement board.

### ***FISCAL IMPLICATIONS:***

Fiscal information is not available.

### ***ARGUMENTS:***

#### ***For:***

The bills would correct a situation so that children who are covered under the health plan of a parent or legal guardian while that adult is still working in a public school can continue to have health insurance coverage when the parent or legal guardian retires. To lose health insurance for a child simply because of retirement presents a hardship for the child as well as the parent or legal guardian. For some, it may be necessary to postpone retirement in order to maintain health care coverage for the child and, therefore, continuity in treatment and health care providers. In other situations, parents have been unaware that retiring would end the child's health care coverage. This was only discovered after retirement and a claim for medical services for their child, or a child they had legal guardianship for, was rejected.

Some believe this is unfair because a child of divorce whose parent worked for state government or for the legislature would retain health care coverage after the parent retired regardless of which parent was able to claim the child as a dependent for income tax purposes. The same is true for a retiree who is the legal guardian of a child. If he or she worked for the state, the child would still be covered even after retirement. 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 that retired school personnel are responsible for that state workers already enjoy.

#### ***Against:***

The problems articulated above may sound easy to fix, but may 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 bills may have merit so far as they seek 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 pays 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.

### ***POSITIONS:***

The Michigan Education Association supports the bills. (6-16-03)

The Retirement Coordinating Council supports House Bill 4244, but has not yet taken a position on House Bill 4677. (6-16-03)

The Michigan Federation of Teachers & School Related Personnel supports House Bill 4244, but a position on House Bill 4677 was unavailable. (6-16-03)

The Michigan Association of Retired School Personnel supports both bills (6-16-03)

Analyst: S. Stutzky

■ 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.