

**RETIREE HEALTH CARE COSTS**  
**Staff Paper #3: Current Statutes Affecting**  
**Health Plan Coverage for Public Retirees**

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## **INTRODUCTION**

### **Statutory overview**

The legislature has enacted certain provisions to govern how local government, school district, state agency, and the University system retirees are treated with respect to public employer-sponsored group health plans. Most of the pertinent statutes are found in Title 2, chapter 18, part 7 and part 8. (Title 2 relates to government structure and administration; chapter 18 relates to state employee classification, compensation, and benefits; part 7 relates to group insurance generally; and part 8 relates to state group health insurance.)

Although the State Administration Interim Committee's (SAIC) examination of public retiree health care costs is not limited to only a discussion of public employer group health insurance plans, the SAIC should remain cognizant of the fact that these statutes require public employers to treat public retirees in a certain way. These statutorily required ingredients add to the mix of retiree health plan issues by affecting group health plan costs. And, group plan costs in turn affect retiree premiums.

### **The key legislative policy questions**

The key legislative policy questions are:

- < What is current legislative policy be regarding public retirees?
- < What does this policy translate to in practical terms for current and future retirees?
- < How does this current policy and its application fit into the mix of the SAIC's discussion of various financing vehicles to help public retirees pay escalating health care costs?

- < Should current policy be changed? And, if so, why and how?

### **The problem identified**

Before further discussion of the policy questions, a review of activities to date is in order. The SAIC's Disability and Retiree Health Care Subcommittee, charged to examine these issues, has begun to identify the scope of the problem, which can be summed up as follows:

- < Health care costs, which include medical expenses as well as health insurance premiums, are escalating at rate of more than 11% to 15% per year.
- < These escalating costs require that public retirees spend an ever-increasing proportion of their after-tax retirement income on out-of-pocket postretirement health care expenses.
- < Public retirees have identified pos-retirement health care costs as their most significant concern. So, too, many active public employees have stated that these escalating costs mean that more and more public employees cannot afford to retire.

### **The options so far discussed**

The Subcommittee has also begun to explore some options for helping public employees and retirees finance these costs. Some of the options so far discussed involve financing vehicles that offer public employees and public retirees an opportunity to put pre-tax dollars aside for the future, to invest that savings so it can earn more money on a tax-free basis, and to spend that money tax-free by using it to pay postretirement medical expenses (including health insurance).

The two financing vehicles so far explored in some detail are: (1) an Internal Revenue Code Section 401(h) medical expense subaccount of a pension plan trust fund, which could assist current as well as future retirees; and (2) an Internal Revenue Code Section 501(c)(9) Voluntary Employee Benefit Association (VEBA) trust fund, which would be established by an independent board of trustees and would involve individual medical expense trust accounts.

At the March 31, 2000, Subcommittee meeting, Subcommittee members decided to request that the SAIC hire a consultant with expertise in this area to further explore these two options as well as other possible options to address the problem. The SAIC has contracted with the consulting and actuarial firm of Ice Miller Donadio & Ryan to provide the SAIC with further expertise.

### **What has not yet been discussed**

What has not yet been discussed by the Subcommittee are the policy questions listed above. This paper, which is the third staff paper in a series, begins the examination of these issues with the full SAIC and will lead into the more detailed information to be provided by the consultant and discussed in a committee work session/round table on June 21, 2000.

### **The goal**

Before adjourning on June 21, 2000, the SAIC will need to identify what legislation, if any, staff should begin to develop on this topic.

### **LEGISLATIVE POLICY QUESTIONS**

#### **What is current legislative policy be regarding public retirees?**

As mentioned in the introduction, Title 2, chapter 18, parts 7 and 8 relate to public employee group insurance coverage. Attachment 1 provides a copy the statutes contained in these parts. Although the SAIC's examination of retiree health care costs extends beyond the limits of employer-sponsored health plans, a detailed discussion of these statutes serve as a starting point for a discussion of current policy.