



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

February 4, 2004

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Substitute Amendment 1 to Assembly Bill 674: Payment of Health Insurance Premiums for Certain Wisconsin Retirement System Annuitants Who Become Employed by the State

Assembly Bill 674, relating to payment of health insurance premiums by the state for certain Wisconsin Retirement System (WRS) annuitants who return to state employment, was introduced on November 13, 2003, and was referred to the Assembly Committee on Insurance. The Committee on Insurance held a public hearing on the proposal on December 16, 2003, and on January 21, 2004, adopted Assembly Substitute Amendment 1 (ASA 1) to AB 674, by a vote of ten to four. ASA 1 was then recommended for passage, by a vote of eight to six. On January 21, 2004, the proposal was referred to the Joint Committee on Finance. On January 22, 2004, Assembly Amendments 1, 2 and 3 to ASA 1 to AB 674 were offered.

BACKGROUND

Under current law, state employee WRS participants who retire and begin receiving a WRS annuity and who elect to continue group health insurance coverage offered to annuitants by the Group Insurance Board (GIB) must pay the entire amount of required health insurance premiums. Former state employees with accumulated sick leave credits may apply those credits to fund the health insurance premium costs until the credit balances are exhausted, at which time the annuitant becomes liable for the full premium costs. Any WRS annuitant who subsequently becomes employed by the state is not eligible for employer contributions toward the cost of health insurance premiums while the person continues to receive his or her WRS annuity. The employed annuitant who elects coverage continues to have his or her health insurance provided at the annuitant's expense through one of the following (depending on the provider of health insurance coverage prior to retirement): (1) the state employee group health insurance plan; (2) the GIB group health insurance plan for local government employers; or (3) a separate health insurance coverage plan

offered by the local government employer. A WRS annuitant has the option of terminating that annuity, however, at which time the individual would again become an active employee participant under the WRS. Such an active employee would then be eligible for coverage under the state employee group health insurance plan and for the employer contribution to the cost of health insurance premiums (subject to any statutory waiting period provisions for the commencement of those contributions).

SUMMARY OF THE SUBSTITUTE AMENDMENT

Under ASA 1 to AB 674, a WRS annuitant who becomes a state employee may become eligible for employer contributions toward the payment of the cost of health insurance coverage while employed by the state without having to terminate his or her WRS annuity. In order for the annuitant to become eligible for the employer contribution, the person's employer would be required to agree, in writing, to make the employer contribution. An annuitant working as a limited-term employee (LTE) or who is not expected to work at least one-third of what is considered full-time employment, as determined by the Department of Employee Trust Funds (ETF), by rule, would not be eligible for employer contributions toward health insurance premium costs. [The one-third of full-time employment standard is the current threshold for determining eligibility for coverage under the WRS.] An eligible WRS annuitant employee would become covered by state employee group health insurance by electing coverage within 30 days after the employer has agreed, in writing, to pay employer contributions toward the premium cost of such insurance.

AMENDMENTS

Assembly Amendment 1. Assembly Amendment 1 to ASA 1 to AB 674 would authorize a state agency employer to agree, in writing, to make the employer contributions toward the payment of the cost of the WRS annuitant employee's health insurance coverage only before January 1, 2014. The effect of the amendment would be to sunset the employer's ability to make an election to pay the employer contribution toward health insurance premium costs for WRS annuitant employees hired on and after that date. However, WRS annuitant employees who were already benefiting from employer contributions on that sunset date would continue to receive the benefit until their state employment ended.

Assembly Amendment 2. Assembly Amendment 2 to ASA 1 to AB 674 would exclude from eligibility for employer contributions toward the payment of health insurance premium costs any WRS annuitant who is employed in the same position the individual held immediately before terminating state service and becoming a WRS annuitant.

Assembly Amendment 3. Assembly Amendment 3 to ASA 1 to AB 674 would provide that no state employer may agree, in writing, to pay employer contributions toward the premium costs of health insurance coverage for an eligible WRS annuitant employee unless the employer is unable to employ any other qualified individual with a comparable employment background and experience and one of the following occurs:

1. For executive branch agencies, if the eligible employee is employed in an office, department, or independent agency or in an enumerated authority or entity eligible to participate in the WRS [the Wisconsin Housing and Economic Development Authority, the Wisconsin Health and Educational Facilities Authority, the Community Development Finance Authority, the nonprofit corporation with which the Department of Workforce Development contracts for the operation of sheltered employment for the blind, the World Dairy Center Authority, the University of Wisconsin Hospitals and Clinics Authority, and the Fox River Navigational System Authority], the Secretary of the Department of Administration (or designee) would have to approve the payment of employer contributions for that eligible employee.

2. For judicial branch agencies, if the eligible employee is employed in an office, department, or independent agency, the Chief Justice of the Supreme Court (or designee) would have to approve the payment of employer contributions for that eligible employee.

3. For legislative branch agencies: (a) if the eligible employee's salary is paid from the Assembly's general program operations appropriation, the Assembly Speaker would have to approve the payment of employer contributions for that eligible employee; (b) if the eligible employee's salary is paid from the Senate's general program operations appropriation, the Senate Majority Leader would have to approve the payment of employer contributions for that eligible employee; and (c) if the eligible employee is employed by a legislative service agency, the Speaker of the Assembly and the Senate Majority Leader jointly would have to approve the payment of employer contributions for that eligible employee.

Assembly Amendment 3 would also require the Secretary of ETF to submit an annual report to the Chief Clerk of each house of the Legislature, for distribution to the Legislature, specifying the number of eligible WRS annuitant employees that are employed at each state agency.

FISCAL EFFECT

No additional funds are appropriated under the substitute amendment for state agency-paid health insurance contributions for eligible WRS annuitant employees for whom an agency has agreed to pay the state's portion of such costs. Under current state budgeting procedures, the amounts required to fully fund all adjusted base level permanent, project and LTE position salary and fringe benefits costs are provided for each state agency as a standard budget adjustment item. Included in the amounts currently budgeted for fringe benefits are the employer costs of health insurance coverage for each authorized permanent and project position, including any positions that might be filled by WRS annuitant employees. Consequently, if ASA 1 were enacted, the employer contribution for health insurance premiums for eligible WRS annuitant employees would be funded from these budgeted base level amounts.

Under current law, any unexpended budgeted fringe benefits amounts at the end of a fiscal year relating to positions now being filled by WRS annuitant employees (such as WRS retirement contribution amounts and health insurance premium contributions) will lapse to the fund from which the positions are authorized. Therefore, one fiscal effect of the proposal would be to reduce

the amount of these agency fringe benefits lapses to the extent that state agencies might agree to make health insurance premium contributions for WRS annuitant employees.

Currently, no health insurance premium costs are paid by the state for annuitant employees. In its fiscal estimate developed for AB 674, ETF estimates that approximately 550 WRS annuitants are currently employed by state agencies. This estimate was based on a survey of state agencies (including the University of Wisconsin System) and also included LTE positions. Under ASA 1, LTEs and employees who do not meet the employment threshold for participation under the WRS (at least one-third of what is considered full-time employment) would not be eligible for employer contributions toward the payment of the cost of health insurance coverage. This exclusion was not originally contained in AB 674, as introduced, for which the ETF fiscal estimate was prepared.

ETF's fiscal estimate assumed that approximately 25% of these 550 annuitant employees are at least age 65. These individuals are eligible for Medicare benefits and are treated separately for costing purposes. The agency's estimates assume that 140 annuitant employees are age 65 and over while 410 annuitant employees are under age 65. The Group Insurance Board's consulting actuary (retained to provide analysis of proposed legislation affecting insurance programs for state employees) estimated that under AB 674 the 2004 per contract per month (PCPM) cost to the state for the WRS annuitant employees would be \$1,078 (for those annuitant employees age 65 and over), and the PCPM cost for all employees under the age of 65 years would be \$808. The additional costs for annuitant employees age 65 and over (\$270 PCPM) reflect: (1) age and sex adjustment to the medical costs of employees participating in the state's HMO plans; and (2) the fact that Medicare would no longer be the primary payer for health expenses for these employees.

Based on the foregoing assumptions and estimates for the two groups of annuitant employees, ETF estimated potential increased state contribution costs of \$5,786,400 (all funds) annually. An estimated \$1,811,000 of these costs are attributed to annuitant employees age 65 and over and an estimated \$3,975,400 of these costs are attributed to annuitant employees under age 65. ETF also identifies administrative costs for the agency totaling \$5,900 SEG annually, which would likely be supported from agency base level resources.

ETF officials now believe that approximately 50 of the 550 annuitant employees included in the original estimate prepared for AB 674 are LTE hires or are employees who might not meet the WRS participation threshold. These types of annuitant employees would be ineligible for employer-paid health insurance contributions under provisions of ASA 1. Applying this adjustment proportionately to the number of qualifying annuitant employees age 65 and over and to those under age 65, the revised estimate of potential state contribution costs under ASA 1 would be \$5,253,000 (all funds), reflecting \$1,617,000 for eligible annuitant employees age 65 and over and \$3,636,000 for eligible annuitant employees under age 65.

This estimate represents the maximum annual potential decrease in agency fringe benefits lapses that could occur if all eligible WRS annuitant employees requested their employing agencies to pay employer group health insurance premium contributions and all such employers agreed to do so. It is unknown the degree to which either of these factors would occur. Further, the ETF estimate assumes that any eligible annuitant would qualify for the maximum employer contribution

(rather than for 50% of this contribution amount that is provided for certain part-time employees). Finally, the agency's estimate does not reflect the impact of employee contributions to health insurance premiums currently required for all state employees under the provisions of the 2003-05 biennial budget act. It cannot be predicted how many eligible annuitant employees would be approved for state contributions for health care premiums, nor is it known the number of part-time annuitant employees that would not qualify for the maximum employer contribution. To the extent that annuitant employees would not be approved for coverage, or would not be eligible for full or partial employer contributions for health insurance premium costs, these projected employer contribution costs would decrease.

That portion of the increased costs attributable to eligible annuitant employees age 65 and over currently funded by Medicare (\$270 PCPM), or an estimated \$405,000 (all funds) annually, would be added to the costs of the state employee group health insurance coverage pool. This cost shift represents the second type of fiscal effect that might occur under the proposal. These potential additional costs would newly become costs for the state employee pool, and associated premiums for all state employees would be adjusted in the following plan year to reflect the participation of these annuitant employees in the plan. It is unknown whether such additional costs would be sufficient to increase state agency fringe benefits rates used for full funding budget calculations for the 2005-07 biennial budget.

Assembly Amendment 1. The provisions of Assembly Amendment 1 to ASA 1 would have no near-term fiscal effect. Employer-paid contributions for WRS annuitant health insurance premiums would be eliminated for newly hired annuitant employees beginning on January 1, 2014.

Assembly Amendment 2. The provisions of Assembly Amendment 2 to ASA 1 could potentially significantly limit the number of eligible WRS annuitant employees who might qualify for employer-paid health insurance premium contributions. To the extent that this would occur, the estimated costs identified by ETF would be reduced. It is unknown the number of WRS annuitant employees that would be hired in state positions other than the same position they held immediately prior to termination to become a WRS annuitant. Under the amendment, only these types of new hires would be eligible for the employer contribution.

Assembly Amendment 3. The provisions of Assembly Amendment 3 to ASA 1 would designate a centralized authority in each branch of government to approve the payment of employer-paid health insurance premium contributions to eligible WRS annuitant employees. The amendment would have the likely effect of establishing certain approval standards in each branch. Whether or not this type of change would ultimately affect the number of approvals granted is unknown, however.

Assembly Amendment 3 would also result in modest costs to ETF to prepare an annual report on the number of individuals receiving the benefits provided under the proposed legislation. These additional costs would likely be supported from agency base level resources.

Prepared by: Art Zimmerman