TEACHERS' RETIREMENT SYSTEM OF KENTUCKY

Serving Kentucky Teachers Since 1940

GARY L. HARBIN, CPA
Executive Secretary
(502) 848-8500

Special Meeting of the

TRS Board of Trustees

A G E N D A

April 24, 2017, 1 p.m.

Committee Called to Order

Roll Call

- Consideration of HB 471 (RS 2017) and the Dependent Subsidy for Retired Teachers

Adjournment

The meeting will take place in the Boardroom at the offices of the
Teachers' Retirement System of Kentucky, 479 Versailles Road, Frankfort, Kentucky.

TO: Board of Trustees of the
Teachers' Retirement System of Kentucky

FROM: Gary L. Harbin, CPA

DATE: April 24, 2017

SUBJECT: Dependent Subsidy for Retired Teachers

The Board of Trustees will meet in special session on Monday, April 24, at 1 p.m., to consider changes to health insurance for retired teachers. House Bill 471 (RS 2017) permits the board to pay the dependent subsidy for retired teachers with health insurance through the Kentucky Employees' Health Plan (KEHP). The fiscal impact of this is minimal.

In HB 471, the General Assembly responded to retired teachers who questioned the current budget's cessation of the dependent subsidy for those retirees who retired before July 1, 2010 and are under 65. In passing HB 471, the General Assembly amended the two-year state budget and sent a strong message that the dependent subsidy could continue for retired teachers through at least plan year 2018, which is the calendar year. (The law only authorizes the dependent subsidy through end of the fiscal year on June 30, 2018 because budget bills cannot authorize an appropriation for a future period. That can be addressed in the next budget for July 1, 2018 through June 30, 2020.)

Recommendation

The Executive Secretary recommends that the board take the following action:

Authorize paying the dependent subsidy for all teachers who retired before July 1, 2010 and qualify for participation in the KEHP. This authorization is for the last six months of plan year 2017 (July 1, 2017 through December 31, 2017).

If the board does authorize paying the dependent subsidy, staff will work with the Department of Employee Insurance (DEI) to hold a special open enrollment permitting retirees who retired before July 1, 2010 and now wish to cover dependents for the last six months of plan year 2017.

Background on Recommendation

Beginning with plan year 2005, the General Assembly authorized a health insurance premium subsidy for retired teachers electing couple, family or parent plus coverage (dependent subsidy). The dependent subsidy was authorized in the state's budgets for each plan year thereafter until the middle of plan year 2016. The two-year state budget beginning July 1, 2016 did not include authorization for the dependent subsidy.

Because the authorization for the dependent subsidy ended in the middle of plan year 2016, the board sought the advice of outside counsel concerning its legal obligations to retired teachers receiving the dependent subsidy. Counsel's opinion included a detailed examination concerning obligations under the 2010 Shared Responsibility solution (HB 540) for funding retired teacher health insurance.

2010 Shared Responsibility Legislation

The 2010 General Assembly enacted the “Shared Responsibility” solution to change completely the way retired teachers’ health insurance is funded and lower the unfunded liability by $5 billion. The law, which ensures the long-term viability of health insurance for teachers, was the product of 18 months of negotiations involving stakeholders, including school boards, superintendents, active and retired teachers, the Council on Postsecondary Education and legislators where all agreed to play a role in funding the plan.

When Shared Responsibility was passed, teachers were assured that the health insurance plan in place then for retired teachers would continue. At that time, the dependent subsidy was available to retired teachers who had a dependent and were ineligible for Medicare. The cost of this subsidy was paid by the state and included in the state budget for all under-65 retirees. Therefore, changing the dependent subsidy was not contemplated.

Active and retired teachers and school districts all began paying into the TRS Medical Fund. Consequently, the Commonwealth saw its financial role in retired teachers’ health insurance diminish to one-quarter what it had been.

TRS was to pay single coverage for under-65 retired teachers who retired prior to July 1, 2010 as well as Medicare-eligible retired teachers.

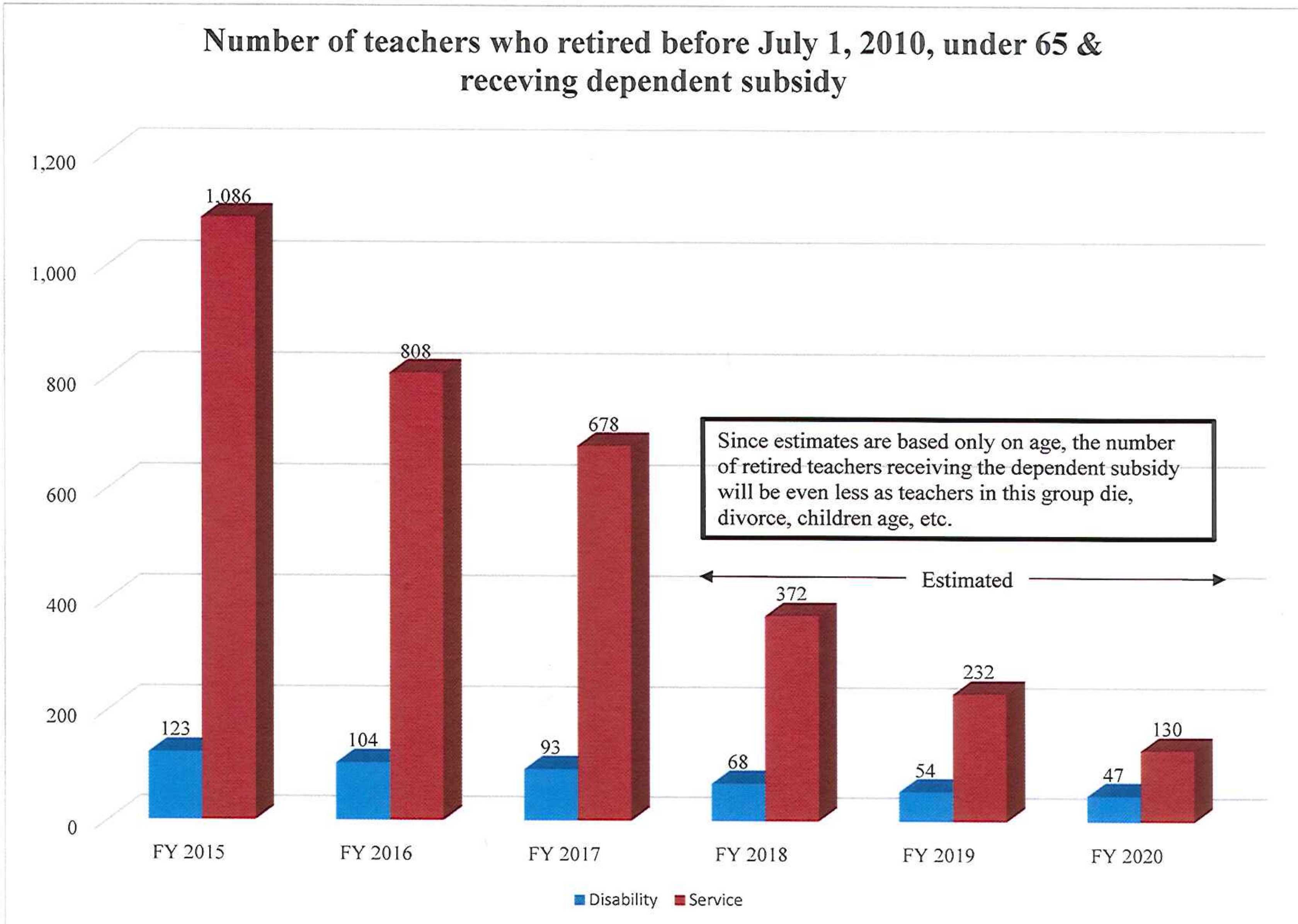
The Commonwealth’s part was to pay for under-65 teachers who retired on or after July 1, 2010.

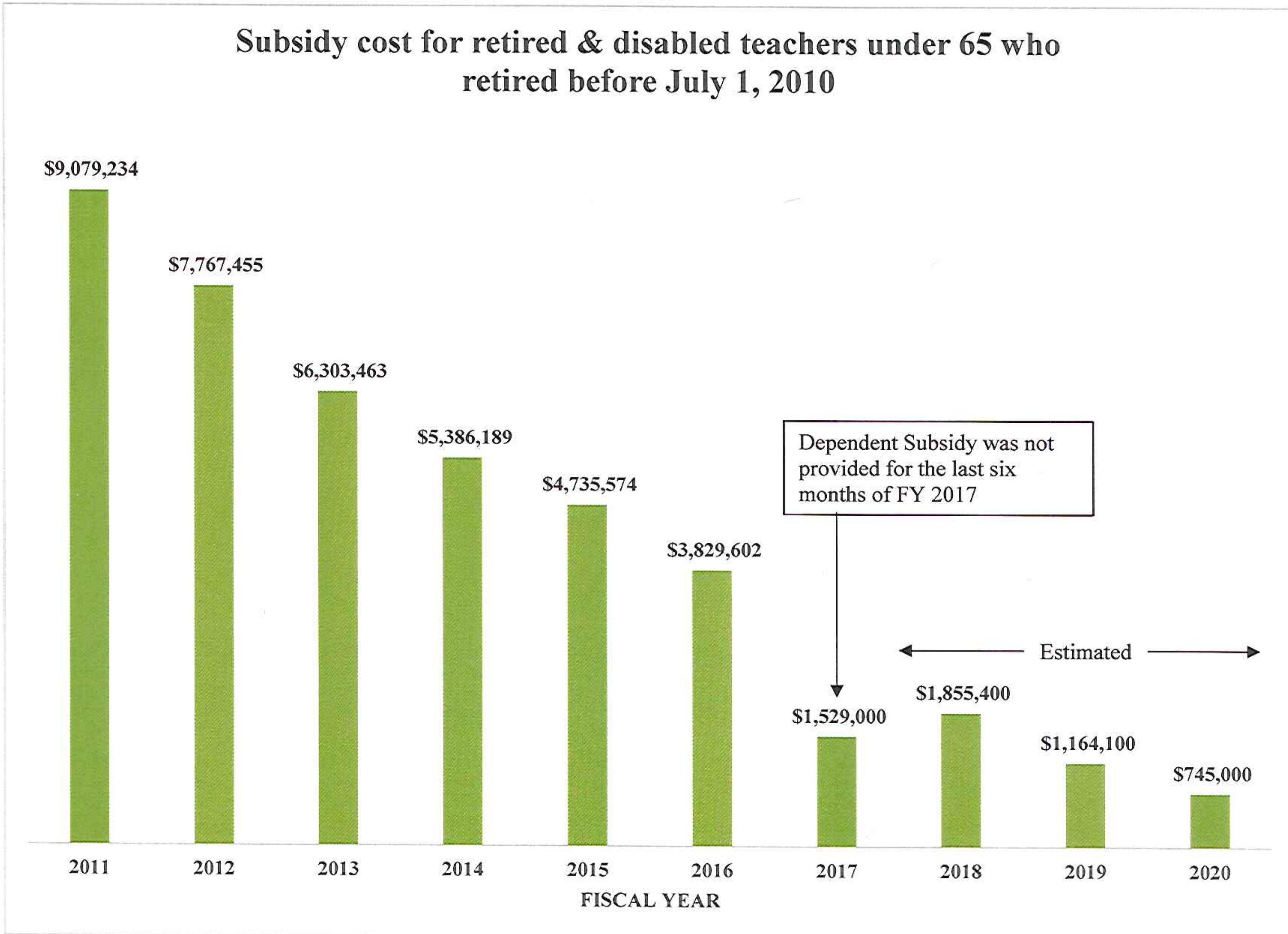
Teachers Retiring Before July 1, 2010

The law firm advised the board to continue payment of the subsidy to complete plan year 2016. The law firm counseled that paying for coverage for the remaining six months would limit the litigation risk regarding any claim of a contract breach with the retiree, particularly because those retirees would have no other recourse for addressing a mid-year change in the terms of coverage. The law firm also stated continuing coverage through the plan year would be consistent with the past practice of the DEI. However, for plan year 2017 and thereafter, counsel noted that state law did not support continued payment of the dependent subsidy for teachers retiring before July 1, 2010.

Cost of Paying the Dependent Subsidy

The cost of the retiree health insurance dependent subsidy for members retiring before July 1, 2010 for the fiscal year 2015-2016 was $3,829,602. Of retired teachers, approximately 2.4 percent were eligible to receive the dependent subsidy, which as mentioned is limited to the group that is under 65 and retired before July 1, 2010 (a group that now numbers about 800). Also, note that the cost and number of retired teachers receiving the subsidy are declining. Staff will present additional information at the meeting.


Number of teachers who retired before July 1, 2010, under 65 & receving dependent subsidy
1,200
1,000
800
600
400
200
0
1,086
808
678
372
232
130
123
104
93
68
54
47
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
Since estimates are based only on age, the number of retired teachers receiving the dependent subsidy will be even less as teachers in this group die, divorce, children age, etc.
Estimated
Disability
Service


Subsidy cost for retired & disabled teachers under 65 who retired before July 1, 2010
$9,079,234
$7,767,455
$6,303,463
$5,386,189
$4,735,574
$3,829,602
$1,529,000
$1,855,400
$1,164,100
$745,000
Dependent Subsidy was not provided for the last six months of FY 2017
Estimated
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
FISCAL YEAR