

**REPORT OF THE  
HJR 131 JOINT SUBCOMMITTEE ON**

**Life Insurance And Health Care  
Coverage Alternatives For  
Certain Employees Who  
Retire At An Early Age**

**TO THE GOVERNOR AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**House Document No. 12**

**COMMONWEALTH OF VIRGINIA  
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## INTRODUCTION

HJR 131 was approved by the 1984 General Assembly for the purpose of studying health insurance and life insurance coverage alternatives for State and local employees who retire at an early age. Health care coverage for two employee groups in particular, are often cited as needing review: 1) teachers who retire early, but whose employers do not permit membership in the group health insurance plan provided to active employees, and 2) State retirees who may enroll in the State's group plan for active employees, but who seek State assistance in meeting the plan's premiums.

The Joint Subcommittee consisted of five members. Three were appointed from the House Appropriations Committee and two from the Senate Finance Committee. The Subcommittee held meetings on November 12, 1984 and December 20, 1984.

During the course of its study, the Subcommittee heard testimony and received assistance from representatives of the following organizations:

- o Virginia Governmental Employees Association
- o Virginia Education Association
- o Department of Personnel and Training
- o Virginia Supplemental Retirement System
- o Blue Cross/Blue Shield of Virginia
- o Johnson and Higgins of Virginia, Inc.
- o William M. Mercer - Meidinger, Inc.

This report is organized according to the three major proposals reviewed by the Joint Subcommittee: health insurance coverage for retired teachers and political subdivision employees, health insurance costs for State retirees, and life insurance coverage for State retirees.

## I. HEALTH INSURANCE FOR RETIRED TEACHERS AND POLITICAL SUBDIVISION EMPLOYEES

The State health insurance plan, unlike the State retirement system (VSRS), does not enroll local school division employees. Instead school division employees generally obtain coverage within the group plan formed by their governing body for municipal employees. School divisions usually pay all or part of the premium on behalf of their active employees. According to a survey compiled by the Virginia Education Association (VEA), of the 135 school divisions surveyed, 124 contributed to the cost of their active employee health plans. However, unlike the State, only 81 localities permitted their teachers to maintain membership, at the group rate, upon retirement. Of the 81, five localities, not only provided membership in the group plan, but also paid part of their retirees' premiums.

Approximately 50 localities do not provide the advantage of group rates to their teachers after retirement. Without the advantage of group rates, retirees without coverage must purchase health insurance on the open market. Because of their age, insurance premiums are likely to be two and one-half to four times more costly than comparable coverage under a group plan. For example, a retiree under age 65 with no dependents, could obtain Blue Cross, Blue Shield, and Major Medical for \$65.52 per month, or \$786.24 annually from the State's group plan. However an annual cost of approximately \$2,360, or three times the group rate, could be encountered by the same retiree on the open market. Family coverage for the same individual would rise from a group rate of \$166.78 per month, or \$2,000 annually, to approximately \$6,000 on the open market.

### Subsidized Group Rates

Premium subsidies make membership in a group health insurance plan advantageous to a retiree. In a group plan the overall cost experience of the entire group is averaged to arrive at a single premium for each member. The averaged premium paid by high users of health care services is therefore subsidized by the same premium paid by healthy members who seldom incur medical expenses. Since older members tend to experience high medical costs, younger group members indirectly subsidize their elder colleagues. Where the employer pays the entire premium for every member, the subsidy does not flow from young to old members. Instead the employer provides a disproportionate subsidy to its older members.

Group plans which extend membership to retirees experience higher premiums than comparable plans geared to active employees only. Therefore, plans which include retirees tend to cost more to both the employer and the participating active employees. According to a Blue Cross/Blue Shield representative, localities which have considered adding retirees to their group plan have found that premiums would increase by a range of eight to ten percent.

### State Policy on Retiree Membership

The State group health plan permits all State employees to retain membership upon retirement, provided that the retired member pay the full premium. While not contributing to a retiree's premium, the State and many of its active employees do absorb the indirect subsidy caused by the adverse cost experience of retirees.

For example, in 1983-84 State retirees contributed \$3.9 million in premiums to the Commonwealth's Group Plan. However in the same year, Blue Cross and Blue Shield paid out \$6.9 million in claims on behalf of State retirees. Thus, the indirect premium subsidy to retirees amounted to \$3.0 million in 1983-84. Table 1 displays current enrollment in the State's Blue Cross/Blue Shield and Major Medical group plan.

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Table 1  
Enrollment in State BC/BS Group Plan  
September 1984

	<u>Active Employees</u>	<u>Retirees</u>
Subscribers Only	42,346	2,464
Family	33,643	666
Medicare Carve-Out	457	---
Medicare Supplement	---	<u>11,187</u>
TOTAL	76,446	14,317

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Enrolling a total of 90,763 members, the State plan (excluding Health Maintenance Organizations) includes 76,446 active employees and 14,317 retirees. The above-average cost experience of retirees is borne by employer contributions and by 33,643 active employees who pay a portion of the family premium (\$48.30 monthly).

## Proposal by the Virginia Education Association

The VEA proposes that local retirees who do not have access to their employer's group plan be permitted to join the State plan. These retirees would gain subsidized rates comparable to those listed in Table 3. It is difficult to estimate how many of these retirees would choose group health insurance rates if offered by the State. It is even more difficult to estimate the number of active local employees who would retire early if such group health care rates became available. Finally no estimate exists on the number of local employees currently eligible to enroll in their employer's group plan, who might become ineligible, should their employers seize an advantage by dumping their retirees into the State plan.

## Fiscal Impact of the VEA Proposal

According to VSRS representatives, the current number of retired teachers is 19,905. Of these, 16,347 are age 65 or over, while 3,558 are age 55 to 64. In addition, VSRS reports there are 7,508 political subdivision retirees. Of these, 5,907 are age 65 or over, and 1,601 are age 55 to 64.

To estimate the fiscal impact of the VEA proposal, BC/BS actuaries were asked to assume that all VSRS retirees from both school divisions and political subdivisions would immediately join the Commonwealth's group health plan if given the opportunity. This implies that the 81 localities which provide group rates to their retirees would all "dump" them into the State's plan. By so doing, local health plans would benefit financially by eliminating a significant portion of their high risk members.

According to BC/BS actuaries, transferring all teacher and political subdivision retirees into the State's group plan would increase the Commonwealth's premiums by 13.87%. Premiums paid by employees with family coverage would increase by the same amount.

With a premium increase of 13.87%, the State's cost in 1984-85, of including local retirees, would have been \$11.6 million. The additional cost incurred in 1985-86 would be \$12.9 million. Table 2 provides additional data.

Table 2  
1984-86 Fiscal Impact  
of the VEA Proposal  
(in thousands)

	<u>1984-85 Fiscal Year</u>			<u>1985-86 Fiscal Year</u>		
	<u>General</u>	<u>Nongeneral</u>	<u>Total</u>	<u>General</u>	<u>Nongeneral</u>	<u>Total</u>
Employer Contributions	\$41,394	\$42,061	\$83,455	\$46,293	\$47,040	\$93,333
13.87 Percent Increase	\$ 5,741	\$ 5,834	\$11,575	\$ 6,421	\$ 6,542	\$12,945

If only retired teachers were permitted to join the State's plan, the fiscal impact of the VEA proposal would be a 9.7 percent increase in premiums. These estimates of fiscal impact are valid only for a short period of time. Each year the fiscal impact of local retirees upon the Commonwealth's plan would increase. This is so because, over time, a relatively static active state workforce would subsidize the rates of an ever growing group of retirees. In other words, premiums for low-risk active employees would steadily rise each year as high-risk retirees steadily grew in proportion to total group membership.

## II. HEALTH INSURANCE COSTS FOR STATE RETIREES

State employees are eligible to retain membership in the State's group health plan when they retire. As of September 1984, 14,317 State retirees enrolled in the plan provided by Blue Cross/Blue Shield of Virginia. However, while they have access to a subsidized group rate, they must pay the entire premium. No employer contributions are paid on their behalf. Generally the Virginia Supplemental Retirement System handles premium collections by automatic deduction from retirement checks. Table 3 Provides a schedule of the various premiums paid by State retirees enrolled in the plan underwritten by Blue Cross/Blue Shield of Virginia (excludes HMO's), and the corresponding number of subscribers enrolled.

Table 3  
 1984-85 Group Health Care Rates  
 Paid by State Retirees  
 (Blue Cross/Blue Shield/Major Medical only)

<u>Type of Subscriber</u>	<u>Monthly Rate</u>	<u>Yearly Rate</u>	<u>Number of Retirees</u>
Retiree Only (Not Eligible for Medicare)	\$ 65.52	\$ 786.24	2,464
Retiree Only (Eligible for Medicare)	30.96(b)	371.52	11,187
Family (Not Eligible for Medicare)	166.78	2,001.36	666
Retiree & One Dependent (One Eligible for Medicare)	96.48	1,157.76	(a)
Retiree & One Dependent (Both Eligible for Medicare)	61.92	743.04	(a)
Total Retirees Enrolled			<u>14,317</u>

(a) Number is included in above categories.

(b) Does not include Medicare Part B premium.

Medicare plays a major role in determining health care premiums for retirees. Retired members of the group plan who are eligible for Medicare, obtain group coverage which is supplemental to Medicare. The supplement and Medicare combined, provide the same total coverage obtained by all other employees. However, the Medicare program enables eligible retirees to obtain comparable coverage for approximately half the cost of the regular program (excluding the Medicare Part B premium).

To be eligible for Medicare, a retiree must be at least 65 years old or disabled. Therefore, unless disabled, early retirees without dependents, between the ages of 55 and 64, must pay health care premiums of approximately \$786 annually. If the same retiree needs family coverage the annual cost climbs to \$2,001.



Proposal by the Virginia Governmental Employees Association (VGEA)

Although State retirees have access to subsidized group rates, their health care premiums are costly, particularly if they are ineligible for Medicare. To reduce the financial burden of health care premiums, and make early retirement and regular retirement more attractive, the VGEA requests the State to begin paying health care premiums for all retirees with 20 years of service. Under this proposal the State would pay the entire monthly premium of \$65.52 for retirees ineligible for Medicare (without dependents) and \$30.96 for those eligible. The added cost of premiums for dependents and families would be paid by retirees.

Fiscal Impact of the VGEA Proposal

Again the fiscal impact of this proposal is difficult to determine. However, limited data is currently available to provide some estimate of the order of magnitude. Added fiscal impact will be incurred by the State as follows: 1) current retirees that become eligible would participate in the employer-paid premium, and 2) active employees with 20 years of service might find early retirement more attractive under the proposed plan, thus expanding the eligible pool. Estimating the fiscal impact caused by the first factor is relatively straight forward. VSRS officials have identified the number of retirees with 20 years of service (Table 4).

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Table 4  
Fiscal Impact of the VGEA Proposal

<u>Category of Retiree</u>	<u>No. of Retirees</u>	<u>Monthly Premium</u>	<u>Annual Premium</u>	<u>Employer Cost</u>
Age 55 - 64 w/ 20 Yrs.	1,446	\$65.52	\$786.24	\$1,136,900
Age 65 & Over w/ 20 Yrs.	<u>5,354</u>	30.96	371.52	<u>1,989,120</u>
Total	6,800			\$3,126,020

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The above calculations indicate that the State's annual cost of implementing the VGEA plan, in 1984-85 dollars, would amount to \$3.1 million for current retirees with 20 years of service. Depending upon how this was funded, nongeneral fund programs might be assessed for up to half the cost of the proposal, leaving the general fund impact at \$1.6 million annually.

No estimate is available of the number of active employees with 20 years of service who, by virtue of the better health plan, might be attracted to retire earlier than they otherwise planned. However, VSRS reports that 3,215 active State members have 20 years of service. Therefore, some portion of this pool of 3,215 employees would be encouraged to retire early, thereby adding to the State's fiscal impact. If half of these employees retired because of improved health benefits, another \$1.2 million fiscal impact would result.

Health Plans for Retirees in Other States

Nationally, it is relatively common for states to contribute to a portion of their retirees' health premiums. As of January 1983 the 50 states plus the Virgin Islands contributed to retiree health plans according to the schedule in Table 5.

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Table 5  
Contributions to State Retiree Health Plans  
for Retiree Coverage Only

<u>Number of States</u>	<u>Range of Monthly Premiums Paid by Employer</u>
2	\$65 or over
3	\$50 - \$65
2	\$45 - \$50
9	\$30 - \$45
6	\$15 - \$30
7	\$ 1 - \$15
18	No employer contribution (includes Va.)
4	No group plan available to retirees.
<u>51</u>	

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In summary, a little less than half the states (22 of 51) either make no contribution for retiree premiums or provide no group plan for retirees. The remaining 29 states make an employer contribution ranging from \$1.50 per month in Missouri to \$116 per month in Alaska.

Among the southern states, six out of eleven do not provide an employer contribution for state retiree premiums. The remaining five southern states contribute from \$15 per month in Louisiana to \$51 per month in Georgia. According to a study by VSRS, Virginia's retirement program ranks sixth out of the eleven states, in terms of the average cash benefits paid to retirees at age 65 with 30 years of service. However, among these retirement systems, Virginia provides the most generous post-retirement cost-of-living adjustments.

## Health Plans for Retirees in the Private Sector

Private sector compensation is the benchmark established by the General Assembly for State employee compensation. Therefore, private sector practices regarding retiree health plans would be the best indicator upon which to judge the Commonwealth's health plan. Unfortunately, very little information is available to compare retiree health care contributions among private employers.

According to actuaries at two actuarial firms in Richmond, employer contributions to private sector retiree health plans are relatively common. According to one study, approximately one-third of all private sector employers nationally provide some contributions toward the health premiums of their retirees. However, another study pegged this proportion at two-thirds. In general, the larger a firm, and the greater degree to which its workforce is unionized, the more likely it is to contribute toward its retiree's premiums.

While the number of firms paying retiree premiums is uncertain, it can be shown that private sector retirement benefits, in total, average less than those provided to Virginia retirees. Actuaries estimate that VSRS benefits average 20 percent higher than benefits provided by private retirement plans. In addition, VSRS post-retirement cost-of-living adjustments are more generous than those found in private plans. These factors combined, indicate that even without health premium contributions, Virginia's retirees tend to enjoy greater retirement benefits, in total, than their private sector counterparts.

### III. LIFE INSURANCE COVERAGE FOR STATE RETIREES

Most members of VSRS, whether state or local employees, also participate in the group life insurance program administered by the retirement system. This program provides paid up life insurance upon retirement. No further premiums are required, once an employee retires.

Coverage for active employees amounts to twice an individual's annual salary (rounded to the next highest thousand dollars). This amount is doubled in the event of accidental death. At either retirement or age 70, a member's life insurance coverage is reduced by two percent per month until it reaches one-fourth of its original value. In other words, retirees eventually receive coverage, at no cost, which amounts to one-half of their last active year's annual salary, or equal to that salary for accidental death.

Since group life insurance coverage imposes no financial burden upon the retirees, there is no apparent need for the State to change its plan.

#### IV. CONCLUSIONS

The Joint Subcommittee makes no recommendation regarding proposed changes to the Commonwealth's group health care plan or life insurance plans. However, this report is submitted to the Governor and the General Assembly for use in future deliberations regarding State employer and teacher compensation.

Respectfully Submitted,

Richard M. Bagley

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1984 SESSION

LD4100414

HOUSE JOINT RESOLUTION NO. 131

Offered January 24, 1984

Requesting the House Appropriations Committee and the Senate Finance Committee to establish a joint subcommittee to study health care coverage alternatives for teachers who retire at an early age.

Patron—Bagley, R. M.

Referred to the Committee on Rules

WHEREAS, active service state employees who retire at an early age may continue to participate in the Commonwealth of Virginia health care coverage plan; and

WHEREAS, this continued participation allows these employees to maintain a comprehensive level of health insurance protection during these early retirement years; and

WHEREAS, teachers, as contractual employees of local school divisions, do not have access to such a state health care coverage plan; and

WHEREAS, this fact results in diminished health insurance protection at higher premium rates for many teachers who retire at an early age; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the House Appropriations Committee and the Senate Finance Committee are hereby requested to establish a joint subcommittee to study health care coverage alternatives for teachers who retire at an early age.

The joint subcommittee shall consist of five members, to be appointed as follows: three members from the House Appropriations Committee appointed by the chairman of that committee, and two members from the Senate Finance Committee appointed by the Senate Committee on Privileges and Elections.

The joint subcommittee is hereby requested to complete its study in time to submit recommendations to the 1985 Session of the General Assembly.

All direct and indirect costs of this study are estimated to be \$14,000.

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