

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

May 16, 2005

TO: Honorable Craig Eiland, Chair, House Committee on Pensions & Investments

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: SB1319 by Staples (Relating to participation of certain annuitants and their dependents in the state employees group benefits program.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1319, As Engrossed: a negative impact of (\$2,819,220) through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

| Fiscal Year | Probable Net Positive/(Negative) Impact to General Revenue Related Funds |
|-------------|--------------------------------------------------------------------------------|
| 2006 | (\$1,295,610) |
| 2007 | (\$1,523,610) |
| 2008 | (\$1,791,510) |
| 2009 | (\$2,106,720) |
| 2010 | (\$2,477,220) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable (Cost) from GENERAL REVENUE FUND 1 | Probable Revenue Gain/(Loss) from GR DEDICATED ACCOUNTS 994 | Probable Revenue Gain/(Loss) from OTHER SPECIAL STATE FUNDS 998 | Probable Revenue Gain/(Loss) from STATE HIGHWAY FUND 6 |
|-------------|------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------|
| 2006 | (\$1,295,610) | (\$136,380) | (\$11,365) | (\$375,045) |
| 2007 | (\$1,523,610) | (\$160,380) | (\$13,365) | (\$441,045) |
| 2008 | (\$1,791,510) | (\$188,580) | (\$15,715) | (\$518,595) |
| 2009 | (\$2,106,720) | (\$221,760) | (\$18,480) | (\$609,480) |
| 2010 | (\$2,477,220) | (\$260,760) | (\$21,730) | (\$717,090) |

| Fiscal Year | Probable Revenue Gain/(Loss) from FEDERAL FUNDS 555 |
|-------------|--------------------------------------------------------------|
| 2006 | (\$454,600) |
| 2007 | (\$534,600) |
| 2008 | (\$628,600) |
| 2009 | (\$739,200) |
| 2010 | (\$869,200) |

Fiscal Analysis

The bill amends Chapter 1551, Section 1551.323 of the Texas Insurance Code, to reduce the cost of interim insurance to annuitants who retired on or after 9/1/03 and prior to age 65 without having satisfied the Rule of 80. The cost to the retiree is reduced from an actuarial cost of coverage to the amount the state would contribute on behalf of other retirees who are eligible for the state contribution for insurance.

The bill adds Subsection (a-1), stipulating that payment of premiums under this section is in addition to other contributions required under Sections 1551.305 (cost of basic coverage exceeding employer contributions), Section 1551.306 (payment of excess cost over basic coverage), and Section 1551.307 (payment for voluntary coverages).

The bill adds Subsection (a-2) that if some or all of the costs specified in (a-1) are payable by a state contribution, then those costs shall be paid as specified by that legislation.

The bill adds Subsection (a-3) stipulating that an institution of higher education may provide some or all of the costs paid under Subsection (a) from sources other than the General Revenue fund.

Methodology

For purposes of this estimate, the Employees Retirement System's (ERS) actuarial value of Interim Insurance considers the following:

1) The experience data indicates that the cost of HealthSelect coverage for a member age 60-64 is approximately 175% of the average cost of coverage under HealthSelect. 2) Since Interim Insurance is optional, it is subject to adverse selection. Using COBRA experience as an indicator, it is estimated that the adverse selection increases the cost by approximately 60%.

Based on the above assumptions, it is determined that the cost of Interim Insurance is approximately 2.8 times (1.75x1.60) the average cost of coverage under HealthSelect. Therefore, the rates have been set at 2.8 times the HealthSelect rate.

For purposes of the estimate, it is assumed that participation would increase to 50% of those eligible in this category. Since the bill would limit the rate that can be charged for coverage, the amount that must be recovered on behalf of each Interim Retiree is equal to the difference between the cost and the rate paid by the Interim Retiree, resulting in a cost to the state.

Based on the lower premium cost, there would likely be an increase in the number of retirements, but no increase in cost is shown in the fiscal note.

Technology

No impact to technology resources is anticipated from implementation of the bill.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

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