LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 22, 2017

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3976** by Ashby (Relating to the administration of and benefits payable under the Texas Public School Retired Employees Group Benefits Act.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3976, As Passed 2nd House: a negative impact of ($162,112,477) through the biennium ending August 31, 2019.

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
2018	($79,662,151)
2019	($82,450,326)
2020	($85,336,088)
2021	($88,322,851)
2022	($91,414,151)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1
2018	($79,662,151)
2019	($82,450,326)
2020	($85,336,088)
2021	($88,322,851)
2022	($91,414,151)

Fiscal Analysis

The bill would amend the Insurance Code relating to the administration of and benefits payable under the Texas Public School Retired Employees Group Benefits Act (TRS-Care). The bill would eliminate the requirement for TRS to provide a premium-free health plan to retirees and instead require eligible retirees, surviving spouses, and dependents participating in the plan to pay a monthly contribution (premium) to TRS-Care as determined by the TRS board of trustees. The bill would provide that TRS shall establish and collect payments for the share of total costs allocated to retirees, surviving spouses, and surviving dependent children.

The bill would require TRS to establish three plans to be offered to retirees, surviving spouses, and dependents participating in the program, according to their eligibility. TRS would be required to establish a Medicare Advantage plan and a Medicare prescription drug plan for participants eligible to enroll in Medicare. Participants not eligible to enroll in Medicare would be eligible to enroll in a high deductible (HD) plan offered under the Retiree Health group benefits plan. If TRS made another health benefit plan available, any individual otherwise eligible to enroll in Medicare Advantage would be eligible to enroll in this plan.

The bill would establish that certain exemptions apply to disability retirees until the 2022 plan year. Under the provisions of the bill, a retiree would not be required to pay a monthly contribution to TRS if the retiree has taken a disability retirement effective on or before January 1, 2017; if the retiree is receiving disability retirement benefits from TRS; and if the retiree is not eligible to enroll in Medicare. These provisions would expire on December 31, 2021.

The bill would expand enrollment options by establishing that a retiree and a retiree's eligible dependents may enroll in the TRS-Care program during a period beginning on the date the retiree reaches 65 years of age and ending on a date set by the trustee by rule.

The bill would establish that, to the extent the program has available funds, TRS shall consider implementing a plan design for non-Medicare eligible members of the HD plan that provides assistance in the payment of preventive care, including generic preventive maintenance medications, in a manner consistent with federal law.

The bill would increase the state contribution rate from 1.0 to 1.25 percent of public education payroll. In addition, the bill would allow the trustee, as needed, to set premium contribution rates of participants and to modify benefit plan design to maintain the solvency of the fund.

The bill would take effect September 1, 2017.

Methodology

The bill would result in a fiscal impact to the state of an estimated $79.7 million in fiscal year 2018 and $82.4 million in fiscal year 2019, for a 2018-19 biennial total of $162.1 million, based on an increase of the state contribution rate from 1.0 to 1.25 percent of total public education payroll covered by the state. The bill's provision to allow eligible retirees and their dependents to enroll in TRS-Care upon becoming Medicare eligible at age 65 could only result in a savings to the TRS-Care fund.

These estimates are based on an annual growth assumption of 3.5 percent for public education payroll from fiscal year 2017 through the 2018-19 biennium, and the same growth assumption for out-year projections for 2020-22. The estimated fiscal impact to the state excludes employer contributions made for public education payroll covered by Federal Funds and private grants in accordance with current law on proportionality of benefits paid. Federal Funds and private grants cover an estimated 7.4 percent of total public education payroll.

The provisions related to preventive care and exemptions for disability retirees would result in some costs to the plan, but the costs would be absorbed by the program and are not expected to result in additional costs to the state. The exemptions for disability retirees would expire at the end of plan year 2021. The provisions related to preventive care would be contingent on the program having available funds, and therefore any costs to the plan would be subject to funding, revenue, plan experience, and decisions of the TRS Board of Trustees.

Based on an increase of the state contribution rate from 1.0 to 1.25 percent of payroll, phased-in premium increases, a proposed increase of the district contribution rate from 0.55 to 0.75 percent, and plan design changes, TRS anticipates that the bill would change the projected 2018-19 TRS-Care fund balance from negative $1.06 billion to positive $203.7 million. Increased premium revenue, decreased benefit payments due to anticipated plan design changes, and increased state and district contribution rates would each contribute to the reduction of the shortfall. The bill permits but does not require the increase of the district contribution rate. The district contribution rate is set by the General Appropriations Act within a range established by statute.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, SD, AG, KK, AM, TSI