

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION**

**April 30, 2019**

**TO:** Honorable Jim Murphy, Chair, House Committee on Pensions, Investments & Financial Services

**FROM:** John McGeady, Assistant Director    Sarah Keyton, Assistant Director  
Legislative Budget Board

**IN RE: HB4026** by Dominguez (Relating to authorizing certain retired public school employees to participate in the state employee group benefits program.), **As Introduced**

The fiscal implications of the bill cannot be determined at this time.
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This bill would amend the Texas Insurance Code to allow retirees of the Teacher Retirement System (TRS) of Texas who currently participate in TRS-Care to disenroll from that plan and enroll in the Employees Retirement System (ERS) Group Benefits Program (GBP) along with their dependents. The bill would also allow a surviving spouse of a TRS retiree to participate in the GBP.

The bill would require TRS to transfer contributions to ERS for TRS retirees who wish to disenroll from TRS-Care and enroll in the GBP. Due to the structure of the respective health plans, the cost of basic coverage in the GBP would be greater than contributions from TRS for retirees; therefore, the bill directs the state to deduct the difference from the retiree's annuity. Contributions transferred from TRS and the money deducted from the retiree's annuity would be the only sources of funding that may be used to pay the cost of retiree health coverage.

ERS and TRS both indicate that the cost cannot be determined without extensive legal and actuarial analysis. The cost of this bill largely depends on the number of TRS retirees who choose to transfer to GBP coverage and their cumulative actuarial health risk.

The possibility of adverse selection would be great as TRS-Care provides a consumer directed high deductible health plan, but the GBP provides a point-of-service plan with a higher premium and no deductible; therefore participants with higher actuarial health risk would be more likely to choose to enroll in the GBP plans.

ERS anticipates two possibilities to incorporate TRS retirees. The first option would be to rate TRS retirees separately, which would compound the premium differential over time and result in increasingly higher premiums relative to TRS-Care for those TRS retirees in GBP health plans.

The second option would incorporate TRS retirees into the current GBP risk pool which, if adverse selection does occur, would increase costs to current GBP members and drive the need for increased state contributions. This option could pose a legal challenge due to the mix of funds which comprise the reserve fund from which claims are paid and coverage is subsidized in years in which there is a shortfall. In the fund, federal funds should be allocated proportionately relative

to the source of funding from which the employee's salary is paid. This proportion may be improperly diminished by additional members who are not funded with federal funds and may preclude the use of these funds for TRS retirees. Therefore, an appropriate fund balance would have to be established to provide for this new membership group. The second option would have a significantly higher cost to the state than the first.

According to ERS, both options would have operational costs due to the complexity of administering a significantly larger plan. There are currently 230,000 retirees and dependents in TRS-Care, and all would be eligible to transfer under the bill provisions. It is unclear if the bill allows only a one-time choice for TRS retirees and whether Medicare primary and non-Medicare primary retirees would generate different contribution amounts provided to ERS.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 323 Teacher Retirement System, 327 Employees Retirement System

**LBB Staff:** WP, CMa, NV, KFB, LLo