
Senate Enrolled Act 501
Retirement Medical Benefits Accounts
2012 Annual Update

Jon Vanator
Deputy Director
Indiana State Budget Agency

SEA 501 – Background

- SEA 501-2007 established a retirement medical benefits account for members of the general assembly, state elected officers and most employees of the executive, legislative and judicial branches
- Two components – active participants and retirees
- Only a retired participant and covered dependents are entitled to receive benefits from the account

SEA 501 – Active Participants

- Active portion is funded on an actuarial basis (55-60% of current employees will reach eligibility)
- Annual state contribution to each full-time, active employee's account based on age

<u>Age</u>	<u>Annual Contribution</u>
Less than 30	\$500
30-40	\$800
40-49	\$1,100
At least 50	\$1,400

SEA 501 – Retired Participants

- Retiree portion is fully funded based on actual retirements
- SEA 501 established the account as a Health Reimbursement Arrangement
- The account is funded with (1) any annual contributions received from the state on behalf of an active participant, (2) if applicable, a “bonus contribution” from the state and (3) investment earnings
- Funds may be used to pay premiums for individual or group health, medical, dental and vision coverage and long-term care premiums

SEA 501 – Retired Participants

- The bonus contribution applies to a participant who:
 - Retires after June 30, 2007 and before July 1, 2017; and
 - Has ten (10) years of service as an elected officer or has fifteen (15) years of service as an employee of the legislative, judicial or executive branch; and
 - Is eligible for and has applied to receive a normal, unreduced retirement benefit from a public employee retirement fund
- The bonus contribution equals the participant's years of service multiplied by \$1,000

SEA 501 – CEP and ISP

- Conservation Officers, Excise Police, and State Police have established their own defined benefit retiree health plans (per IC 5-10-8-6)
 - Plans heavily subsidize retirees resulting in significant OPEB liability

- These groups removed from 501 eligibility, and Active contributions now directed to their respective plans' trusts to reduce OPEB liability per HEA 1001 (2011)
 - Exception for ISP employees who had previously waived coverage under ISP health plan and those who opt out of ISP health care plan when transferring in from a 501-eligible state agency
 - As a result of the change, transfers have been made of \$957k for DNR, \$393k for ATC, and \$8.9M for ISP into dedicated trust funds

SEA 501 – Communication/Outreach

- Participation by the State Budget Agency at State Personnel pre-retirement seminars
- Correspondence with nearly 30,000 employees informing them of the annual contribution and interest earnings, and directing them to resources for additional information
- Section of the State Budget Agency website dedicated to SEA 501
 - Includes the Plan Document, contract with Key Benefits, claim forms, the presentation made to employees at the information sessions, and frequently asked questions

SEA 501 – Statistics

- Through FY12, there were 4,344 retired participants with an average contribution of \$27,850
 - Added 584 retirees in FY12
 - Average contribution was \$26,947
- 27,816 active employees received a contribution on June 30, 2012, ranging from \$500 to \$1,400
 - Average contribution of \$1,120
- Total claims paid in FY12 were \$12.4M (\$9.6M in FY11)
 - 24,685 individual claims; average claim = \$502
 - Total paid claims to date of \$33.7M

SEA 501 – Statistics

- Due to another year of historically low interest rates, and the timing of investment maturity dates, there was no interest remaining to be credited to accounts once administrative fees were paid (in FY11, \$36,761 of remaining interest earnings were distributed proportionally to accounts; in FY10, there was no interest remaining to be distributed)
- Administrative costs totaled \$363,114 in FY12
 - Approximately 1% of the annual cost of the plan
- RFP for plan administration was released in September, with responses due on October 19

SEA 501 – Fiscal Impact

- Actual cost in FY12
 - Annual state contributions – 27,816 at an average contribution of \$1,120 = \$31.2M. Actuarial funding at 60% = **\$18.7M**
 - Bonus contributions for retired participants – 584 (FY12 retirements only) at an average credit of \$26,947 = **\$15.7M**
 - **TOTAL COST = \$34.4M**
- Prior to HEA 1001 (2011), 5.74% of cigarette tax revenues deposited directly into the Retiree Health Trust Fund
 - Cigarette tax revenue redirected to general fund for FY12 and FY13 (5.74% in FY12 = \$25.6M); repays GF for FY08-11 overpayments
 - Study confirmed plan was 130% actuarially funded as of June 2010; current valuation will estimate necessary future state contributions and confirm current funded status
 - Cigarette tax revenue will again be deposited directly into Retiree Health Trust Fund starting in FY14 per statute