

# SEA 501: Retiree Medical Benefits and Personal Services Contingency Fund

Presentation to the  
State Budget Committee

December 12, 2012

# Agenda

- SEA 501: Retiree Medical Benefits
  - Overview of the program
    - See other presentation
      - Presented to PMOC in September 2012
      - Reviewed by Budget Committee in October 2012
  - Discussion of funded status and future funding needs
- Personal Services Contingency Fund

# Two Components of SEA 501

1. “Bonus” contribution for retirees
  - “Bonus” contributions for qualified retirees based upon years of service (\$1,000 per year)
  - Approximately 750 retirees annually
  - Average contribution is approximately \$27,000
  - Approximately \$20M annually
  - State must set aside 100% of these funds to ensure no unfunded liability is created
  - “Bonus” contribution scheduled to end in 2017

# Two Components of SEA 501

## 2. “Active” contribution for active employees

- “Active” contributions for active employees based upon years of service
- Approximately 28,000 active employees annually
- Average annual contribution is \$1,120
- Approximately \$31M annually
- State only needs to fund 58% of above total
  - 42% of employees will not be eligible to receive these funds based upon recently completed actuarial study

# Recent Funding History

- By statute, cigarette tax revenue was directed to the General Fund for FY12 and FY13
  - Reimbursed the General Fund for funds not originally contemplated when SEA 501 enacted
- Cigarette tax revenue will again be deposited in the Retiree Health Benefit Trust fund effective July 1, 2013
  - Combined with dedicated and federal funds, these dollars will ensure the program remains at least 100% actuarially funded

# Actuarial Valuation

- Recent valuation confirms plan remains >100% funded
  - Funded status decreased as designed while cigarette tax revenue redirected to GF for FY12 and FY13 only
- Valuation accounts for spike in retirements as end of bonus contribution nears
- Funded status will continue to improve even through retiree spike
  - Elimination of bonus contribution halves cost of plan
  - Assumes same share of declining cigarette tax revenue

# Recommendations

- Continue to update actuarial valuation at least once per biennium
- Continue to evaluate percentage of cigarette tax needed to maintain at least 100% funded status
- Consider changing funding stream to payroll deduction (similar to pensions and other benefits) after bonus contribution ends in 2017

# Personal Services Contingency Fund

- Funds may be used for salary increases, fringe benefit increases, or retiree health expenses
  - \$30 million used in FY12 to eliminate unfunded OPEB liability from implicit subsidy caused by retiree utilization of state health plans (SEA 501)
- Historically, Indiana General Assembly has appropriated \$89M biennially
- State Budget Agency is again requesting \$89M for the FY13-15 biennium



Questions?