

**HEALTH BENEFITS FOR ANNUITANTS**

Item 377 from the General Fund

Budget p. 1018.

|   |              |
|---|--------------|
| Requested 1977-78 .....                       | \$18,410,319 |
| Estimated 1976-77.....                        | 14,837,305   |
| Actual 1975-76 .....                          | 10,985,127   |
| Requested increase \$3,573,014 (24.1 percent) |              |
| Total recommended increase .....              | \$1,668,413  |

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis page*

1. *Funding for Premium Increase. Augment by \$1,668,413.* 1033  
 Recommend full funding of anticipated premium increase.

**GENERAL PROGRAM STATEMENT**

This appropriation provides the state's contribution toward payment of monthly health insurance premiums for annuitants of state retirement systems to which the state contributes as an employer. These systems include the Judges', Legislators', Public Employees' (for retired state employees only) and Teachers' (for retired state employees only) Retirement Systems.

The objective of this program is to provide a degree of post-retirement security for employees and their dependents by contributing one of the following amounts toward the monthly premium of a state-approved insurance plan: (1) \$29 for the annuitant only, (2) \$49 for an annuitant with one dependent and (3) \$60 for an annuitant with two or more dependents. These contribution levels, effective May 28, 1976, were authorized by Chapter 188, Statutes of 1976 (SB 1450), the total equivalent compensation (TEC) legislation. The prior contribution rates were \$22, \$37 and \$47, respectively.

**ANALYSIS AND RECOMMENDATIONS**

An anticipated increase in the number of annuitants, a projected 10 percent rise in premium costs and a one percent increase (from 3.25 percent to 4.25 percent of total premiums) in contributions to the State Employees' Contingency Reserve Fund account for the \$3,573,014 (24.1 percent) growth in the proposed budget year appropriation. The contribution increase to the Contingency Reserve Fund is necessary in order to pay the rising administrative costs and contingency expenditures for this program and still maintain adequate reserves in the fund.

Table 1 sets forth the number of annuitants by system and the cost of the benefits for the past, current and budget years.

**Table 1**  
**Annual Health Benefit Costs by Retirement System**

| Retirement System | Number of Annuityants |         |         | Cost of Benefits |              |              |
|-------------------|-----------------------|---------|---------|------------------|--------------|--------------|
|                   | 1975-76               | 1976-77 | 1977-78 | 1975-76          | 1976-77      | 1977-78      |
| Judges.....       | 313                   | 313     | 336     | \$111,599        | \$139,598    | \$167,128    |
| Legislators.....  | 72                    | 77      | 80      | 30,187           | 33,227       | 40,431       |
| Employees.....    | 31,459                | 33,756  | 36,295  | 10,766,412       | 14,542,945   | 18,039,239   |
| Teachers.....     | 242                   | 303     | 332     | 76,929           | 121,535      | 163,521      |
| Totals.....       | 32,086                | 34,449  | 37,043  | \$10,985,127     | \$14,837,305 | \$18,410,319 |

This program is funded initially from the General Fund. Special fund agencies are assessed pro-rata charges for their retired employees which are then credited to the General Fund.

**Premium Cost-Increase Underbudgeted**

*We recommend a General Fund augmentation of \$1,668,413 to fund fully the anticipated increase in health insurance premium costs for annuitants.*

The proposed budget includes \$1.6 million for a projected 10 percent increase in health insurance premiums. However, both the State Personnel Board and the Public Employees' Retirement System report that premiums are expected to increase by about 20 percent effective August 1, 1977. Consequently, it appears that the budget provides only for one-half of the reasonably expected premium increase. Accordingly, an additional 10 percent, or \$1,668,413 would be required to fund fully the anticipated premium increase for annuitants. In our analysis of Employee Compensation (Items 379-381), we are also recommending full funding of the anticipated 20 percent premium increase for active state employees.

**REFUNDS OF TAXES, LICENSES AND OTHER FEES**

| Item 378 from the General Fund    | Budget p. 1020 |
|-----------------------------------|----------------|
| Requested 1977-78 .....           | \$30,000       |
| Estimated 1976-77.....            | 30,000         |
| Actual 1975-76 .....              | 946            |
| Requested increase—None           |                |
| Total recommended reduction ..... | None           |

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This item provides a source from which expeditious refunds can be made for erroneous payments or overpayment of taxes, licenses, and other fees which are noncontroversial, thereby avoiding the necessity of filing claims with the Board of Control and inserting items in the Claims Bill.