COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2017 REGULAR SESSION

MEASURE

2017 BR NUMBER **1537** | **HOUSE** BILL NUMBER **367**

RESOLUTION NUMBER_____ | AMENDMENT NUMBER _____

SUBJECT/TITLE An ACT relating to retiree health benefits from the Kentucky Teachers' Retirement System and declaring an emergency.

SPONSOR Representative Ruth Ann Palumbo

NOTE SUMMARY

FISCAL ANALYSIS: ☒ IMPACT ☐ NO IMPACT ☐ INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: ☒ STATE ☐ LOCAL ☐ FEDERAL

BUDGET UNIT(S) IMPACT: **Teachers' Retirement System**

FUND(S) IMPACT: ☒ GENERAL ☐ ROAD ☐ FEDERAL ☒ RESTRICTED AGENCY TRS Medical Insurance Fund ☐ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			
EXPENDITURES	Indeterminable	Indeterminable	Indeterminable
NET EFFECT	(Indeterminable)	(Indeterminable)	(Indeterminable)

( ) indicates a decrease/negative

MEASURE'S PURPOSE: HB 367 would allow the Teachers' Retirement System to pay the medical insurance dependent subsidy for retired members who are not eligible for Medicare. This would only be in effect through the end of calendar year 2018.

PROVISIONS/MECHANICS: Section 1 notwithstands KRS 161.674(4)(a) and (b) to allow TRS to provide a medical insurance dependent subsidy to retired members who are not eligible for Medicare. This section applies only to calendar year 2017.

Section 2 applies the same language to calendar year 2018.

Section 3 declares an emergency, making the legislation effective upon its signature by the governor or otherwise becoming law.

FISCAL EXPLANATION: Current statute allows TRS to provide a health insurance supplement for retired members, with a cap set at the single coverage premium. Language in past budget bills suspended the cap and allowed TRS to offer a dependent subsidy, reducing the member cost for spouses and children. That budget language was not included in the 2016 Budget Bill, requiring TRS to eliminate the dependent subsidy.

TRS has interpreted KRS 161.550 to mean that the dependent subsidy continues for those members who retired on or after July 1, 2010, so the end of the subsidy only affects those who retired prior to that date. Furthermore, because the medical insurance plan runs on a calendar year basis rather than a fiscal year basis, TRS maintained the dependent subsidy for all retirees through the end of calendar year 2016.

TRS has previously supplied data projecting that for fiscal year 2016-2017, there would be an estimated 848 members who retired prior to July 1, 2010, and received the dependent subsidy. This number would decline over time as members become eligible for Medicare. Because of the July 1, 2010, cutoff, there are no new members entering this cohort.

These dependents were required to pay the full cost of their health insurance beginning in calendar year 2017, or else find coverage elsewhere. It is unclear how many of these dependents would return to the Kentucky Employees Health Plan given the opportunity.

TRS has also previously provided cost estimates for the dependent subsidy for this cohort: $3,083,000 in fiscal year 2016-2017, $2,096,000 in fiscal year 2017-18, and $1,340,000 in fiscal year 2018-2019. Assuming the bill becomes effective for dependents to enroll in KEHP by May 1, 2017, and all eligible dependents choose to obtain coverage through KEHP, this would result in the following costs incurred by the TRS Medical Insurance Fund:

Fiscal Year	Cost	Notes
2016-2017	$ 513,800	Last Two Months
2017-2018	$ 2,096,000	Full Year
2018-2019	$ 670,000	First Six Months (CY 2018)
TOTAL	$ 3,279,800	20 Months Total

However, these figures represent the projected maximum. The actual cost would depend entirely on the number of dependents obtaining coverage.

TRS can reasonably be expected to make a budget request to recoup these funds as part of the biennial budget process. Fiscal year 2016-2017 costs would be part of the 2018 Regular Session budget request, while fiscal years 2017-2018 and 2018-2019 costs would be part of the 2020 Regular Session budget request.

Because the subsidy would be paid for from the TRS Medical Insurance Fund initially, with anticipated General fund appropriations later, there would be no fiscal impact to the state initially. Future fiscal impacts would depend on the General Assembly's decisions regarding the budget bills.
In addition, there would likely be an indeterminable amount of administrative expenses to TRS due to the timing of a new open enrollment period for a select cohort of membership.

DATA SOURCE(S): **Teachers' Retirement System, LRC Staff**
PREPARER: **Chuck Truesdell** **NOTE NUMBER**: **96** **REVIEW**: **JRS** **DATE**: **2/22/2017**