

18A:66-18.1

LEGISLATIVE HISTORY CHECKLIST  
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(Revaluation of PERS & TPAF--  
adjustment--health benefits to  
certain school board employees)

NJSA: 18A:66-18.1

LAWS OF: 1993 CHAPTER: 8

BILL NO: A4

SPONSOR(S) Kramer

DATE INTRODUCED: December 14, 1992

COMMITTEE: ASSEMBLY: Appropriations

SENATE: ---

AMENDED DURING PASSAGE: Yes Amendments during passage  
denoted by asterisks

DATE OF PASSAGE: ASSEMBLY: January 12, 1993

SENATE: December 17, 1992

DATE OF APPROVAL: January 14, 1993

FOLLOWING STATEMENTS ARE ATTACHED IF AVAILABLE:

SPONSOR STATEMENT: Yes

COMMITTEE STATEMENT: ASSEMBLY: Yes

SENATE: No

FISCAL NOTE: No

VETO MESSAGE: No

MESSAGE ON SIGNING: No

FOLLOWING WERE PRINTED:

REPORTS: No

HEARINGS: No

KBG:pp

[FIRST REPRINT]

ASSEMBLY, No. 4

STATE OF NEW JERSEY

INTRODUCED DECEMBER 14, 1992

By Assemblyman KRAMER

1 AN ACT concerning the funding of pension adjustment and health  
2 care benefits for certain retirees and the providing of health  
3 care benefits for certain active and retired employees of  
4 school boards, amending P.L.1987, c.385<sup>1</sup>[, P.L.1990, c.6,]<sup>1</sup> and  
5 P.L.1992, c.41, and supplementing P.L.1961, c.49  
6 (C.52:14-17.25 et seq.).  
7

8 BE IT ENACTED by the Senate and General Assembly of the  
9 State of New Jersey:

10 1. Section 2 of P.L.1987, c.385 (C.18A:66-18.1) is amended to  
11 read as follows:

12 2. Pension adjustment benefits for members and beneficiaries  
13 of the Teachers' Pension and Annuity Fund as provided by the  
14 "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.)  
15 and health care benefits for qualified retirees and their  
16 dependents as provided by P.L.1987, c.384 (C.52:14-17.32f) shall  
17 be paid by the retirement system [from the contingent reserve  
18 fund] and shall be funded as employer obligations as provided in  
19 this section. Health care benefits for qualified retirees and their  
20 dependents shall be funded and paid through a separate fund or  
21 trust of the retirement system in accordance with the  
22 requirements of subsection (h) of section 401 of the federal  
23 Internal Revenue Code (26 U.S.C. §401) or other fund or trust,  
24 established under the jurisdiction of the board of trustees, which  
25 shall receive contributions only to the extent that contributions  
26 cannot otherwise be made to a section 401 (h) [account] trust due  
27 to the requirements of [subsection (h) of section 401 of the  
28 federal Internal Revenue Code of 1986 (26 U.S.C. §401)] the  
29 federal law. Any premium payments for retired participants shall  
30 first be a charge upon such other fund or trust and only  
31 secondarily on the assets set aside under [subsection (h) of section  
32 401 of the federal Internal Revenue Code of 1986 (26  
33 U.S.C. §401)] the section 401(h) trust. The pension adjustment  
34 [benefits] and [premiums for] health care benefits for qualified  
35 retirees shall be funded as employer obligations [in a similar  
36 manner to that] by the same method provided by law for the  
37 funding of employer obligations for the basic retirement benefits  
38 provided by the retirement system. [The funding] Normal and  
39 accrued liability contribution rates for these benefits for active  
40 employees shall be determined for the 1990 valuation year and  
41 shall be phased in [as provided by the board of trustees after  
42 consultation with the Director of the Division of Pensions and the  
43 actuary, except that: a. any reduction in contributions from

EXPLANATION--Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

<sup>1</sup> Assembly floor amendments adopted December 17, 1992.

1 recognition of the full market value of the assets as of March 31,  
2 1990 over the adjusted book value of the assets written up by 60%  
3 of the excess of market value over adjusted book value as of  
4 March 31, 1990 in a fashion similar to that presented in the draft  
5 revision of the annual actuarial reports for the valuation periods  
6 ending March 31, 1990 and March 31, 1991 submitted by the  
7 actuary on April 27, 1992 shall be used to accelerate the funding  
8 of the liabilities for pension adjustment and health care benefits,  
9 and b. (1)] so that the level of [funding] recognition of the full  
10 normal and accrued liability [contributions] contribution rates [to  
11 cover the pension adjustment and health care benefits for current  
12 active employees upon their retirement] shall be [at least 48%]  
13 31.25% for valuation year 1990, 34.50% for valuation year 1991,  
14 and 34.50% for valuation year 1992 [and 56% for valuation year  
15 1993], and [(2) thereafter,] the [funding of the pension adjustment  
16 and health care benefits for active employees shall be phased in  
17 in a uniform manner which fully recognizes those liabilities  
18 within 11 years commencing with valuation year 1994] level of  
19 recognition shall be increased by 6% for each valuation year  
20 thereafter until the full normal and accrued liability contribution  
21 rates are fully recognized. The board of trustees shall determine  
22 the assumed percentage rate of increase applied to the cost of  
23 providing paid health benefits for retirees.

24 (cf: P.L.1992, c.41, s.3)

25 <sup>1</sup>[2. Section 2 of P.L.1990, c.6 (C.43:15A-24.1) is amended to  
26 read as follows:

27 2. Pension adjustment benefits for members and beneficiaries  
28 of the Public Employees' Retirement System provided by the  
29 "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.)  
30 and premiums or periodic charges which the State is required to  
31 pay for benefits provided to retired State employees and their  
32 dependents under the "New Jersey State Health Benefits Program  
33 Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), shall be paid by the  
34 retirement system [from the contingent reserve fund] and shall be  
35 funded as employer obligations as provided in this section.  
36 Health care benefits for State employees and their dependents  
37 shall be funded and paid through a separate fund or trust of the  
38 retirement system in accordance with the requirements of  
39 subsection (h) of section 401 of the federal Internal Revenue  
40 Code (26 U.S.C. §401) or other fund or trust, established under  
41 the jurisdiction of the board of trustees, which shall receive  
42 contributions only to the extent that contributions cannot  
43 otherwise be made to a section 401 (h) [account] trust due to the  
44 requirements of [subsection (h) of section 401 of the federal  
45 Internal Revenue Code of 1986, 26 U.S.C.§401] the federal law.  
46 Any premium payments for retired participants shall first be a  
47 charge upon such other fund or trust and only secondarily on the  
48 assets set aside under [subsection (h) of section 401 of the federal  
49 Internal Revenue Code of 1986, 26 U.S.C.§401] the section 401(h)  
50 trust. The pension adjustment [benefits] and [premiums for]  
51 health care benefits for qualified retirees shall be funded as  
52 employer obligations [in a similar manner to that] by the same  
53 method provided by law for the funding of employer obligations  
54 for the basic retirement benefits provided by the retirement

1 system. [The funding] Normal and accrued liability contribution  
2 rates for these benefits for active employees shall be determined  
3 for the 1990 valuation year and shall be phased in [as determined  
4 by the board of trustees after consultation with the Director of  
5 the Division of Pensions and the actuary, except that: a. any  
6 reduction in contributions from recognition of the full market  
7 value of the assets as of March 31, 1990 over the adjusted book  
8 value of the assets written up by 60% of the excess of market  
9 value over adjusted book value as of March 31, 1990 in a fashion  
10 similar to that presented in the draft revision of the annual  
11 actuarial reports for the valuation periods ending March 31, 1990  
12 and March 31, 1991 submitted by the actuary on April 27, 1992  
13 shall be used to accelerate the funding of the liabilities for  
14 pension adjustment and health care benefits as follows: 70% of  
15 the State's portion of that amount shall be used to fund pension  
16 adjustment benefits and 30% to fund health care benefits and  
17 100% of the other employers' portion of that amount shall be  
18 used to fund pension adjustment benefits, and b. (1)] so that the  
19 level of [funding] recognition of the full normal and accrued  
20 liability [contributions] contribution rates for the State [to cover  
21 the pension adjustment and health care benefits for current  
22 active employees upon their retirement] shall be [at least 48%]  
23 25.30% for valuation year 1990, 25.30% for valuation year 1991,  
24 and 34.50% for valuation year 1992, and for the other employers  
25 shall be 82.50% for valuation year 1990, 93% for valuation year  
26 1991, and 93% for valuation year 1992 [and 56% for valuation  
27 year 1993], and [(2) thereafter,] the [funding of the pension  
28 adjustment and health care benefits for active employees shall be  
29 phased in in a uniform manner which fully recognizes those  
30 liabilities within 11 years commencing with valuation year 1994]  
31 level of recognition shall be increased by 6% for each valuation  
32 year thereafter until the full normal and accrued liability  
33 contributions rates are fully recognized. The board of trustees  
34 shall determine the assumed percentage rate of increase applied  
35 to the cost of providing paid health benefits for retirees. The  
36 liability for pension adjustment benefits and for premiums or  
37 periodic charges for health care benefits for retired State  
38 employees and their dependents shall be included as a liability of  
39 the retirement system as of April 1, 1988.

40 (cf: P.L.1992, c.41, s.16)]<sup>1</sup>

41 <sup>1</sup>[3.] 2.1 Section 35 of P.L.1992, c.41 is amended to read as  
42 follows:

43 35. The [service] terms of the trustees appointed by the  
44 Governor to the board of trustees of the Police and Firemen's  
45 Retirement System, the Public Employees' Retirement System,  
46 the State Police Retirement System, and the Teachers' Pension  
47 and Annuity Fund, and of the members appointed by the Governor  
48 to the Consolidated Police and Firemen's Pension Fund  
49 Commission, who are currently serving on the board and the fund  
50 shall terminate at the end of the sixth calendar month following  
51 the effective date of P.L.1992, c.41, except that they shall  
52 continue to serve until their successors have been appointed and  
53 have qualified.

54 (cf: P.L.1992, c.41, s.35)

1        1[4.] 3.1 (New section) 1[Each] With respect to any policy or  
2 contract between a local board of education and an<sup>1</sup> insurance  
3 company <sup>1</sup>writing insurance pursuant to Title 17B of the New  
4 Jersey Statutes<sup>1</sup>, hospital service corporation, medical service  
5 corporation, health service corporation, or <sup>1</sup>[other organization  
6 which provides hospitalization, medical, surgical, or major  
7 medical coverage to a local board of education] health  
8 maintenance organization which provides hospital or medical  
9 expense benefits:

10        a. upon the commencement of any policy or contract entered  
11 into after the effective date of this amendatory and  
12 supplementary act, P.L. , c. (C. ); or

13        b. in the case of any policy or contract in effect as of the  
14 effective date of this act, no earlier than the second anniversary  
15 date after the effective date of this act of any such policy or  
16 contract,

17        the insurance company, hospital service corporation, medical  
18 service corporation, health service corporation, or health  
19 maintenance organization<sup>1</sup> shall annually pay to the State Health  
20 Benefits Program a surcharge in the form of a percentage of the  
21 claims paid by the <sup>1</sup>[organization under the] insurance company,  
22 hospital service corporation, medical service corporation, health  
23 service corporation, or health maintenance organization which  
24 are attributable to the<sup>1</sup> coverage <sup>1</sup>[for] of<sup>1</sup> the employees of the  
25 board and their dependents for the time period from July 1  
26 through the following June 30<sup>1</sup>, except that if the  
27 commencement or the second anniversary date of the policy or  
28 contract occurs after July 1, the initial surcharge shall be  
29 prorated for the remainder of that year from July 1 through the  
30 following June 30<sup>1</sup>. The surcharge shall be paid on or before  
31 December 31 of the time period for which it is payable<sup>1</sup>, and the  
32 initial payment shall be due on or before December 31, 1993 for  
33 the time period ending June 30, 1994] in the manner prescribed  
34 hereafter, except that if the commencement or second  
35 anniversary date of the policy or contract occurs on or after  
36 November 1, an estimated initial surcharge shall be paid no later  
37 than the end of the sixth month following the commencement or  
38 anniversary date of the policy or contract or July 1 following the  
39 commencement or anniversary date of the policy or contract,  
40 whichever is earlier, and the actual surcharge payable for the  
41 initial time period shall be determined and adjustments, if any,  
42 shall be made to the surcharge payable for the succeeding time  
43 period in the manner prescribed hereafter<sup>1</sup>. <sup>1</sup>[The initial  
44 surcharge percentage shall be 3.25%. The actual surcharge  
45 payable for the time period from July 1, 1993 through June 30,  
46 1994 shall be determined and adjustments, if any, shall be made  
47 to the surcharge payable for the succeeding time period in the  
48 manner prescribed hereafter.]

49        The initial surcharge percentage for the time period July 1,  
50 1993 through June 30, 1994 shall be 3.25%.<sup>1</sup> The State Treasurer  
51 shall thereafter annually redetermine the surcharge percentage,  
52 which shall be the percentage of total claims paid for active  
53 employees and for retired employees receiving health care  
54 coverage under the State Health Benefits Program pursuant to

1 section 3 of P.L.1987, c.384 (C.52:14-17.32f) or subsection a. of  
2 section 2 of P.L.1992, c.126 (C.52:14-17.32f1) who are not  
3 eligible for Medicare which is reasonably attributable to the  
4 excess claim cost for these retired employees. The State  
5 Treasurer shall annually provide an estimated surcharge  
6 percentage based upon the claims paid for the 12 months  
7 immediately preceding the time period for which the surcharge is  
8 payable. <sup>1</sup>[Each] Except as otherwise provided herein in the case  
9 of the initial surcharge, each<sup>1</sup> organization shall pay to the State  
10 Health Benefits Program an estimated surcharge on or before  
11 December 31 of the time period for which the surcharge is  
12 payable, which shall be the amount determined by multiplying the  
13 total claims paid by the organization for the coverage for the 12  
14 months immediately preceding the time period for which the  
15 surcharge is payable by the estimated surcharge percentage.  
16 Within three months after the time period for which the  
17 surcharge is payable, the State Treasurer shall determine the  
18 actual surcharge percentage for the time period based upon the  
19 actual claims experience for the period. The surcharge for the  
20 succeeding time period shall be increased or decreased, as  
21 appropriate, by the difference between the estimated surcharge  
22 paid and the surcharge due based upon the actual claims  
23 experience.

24 <sup>1</sup>This section shall apply to any policy or contract in which the  
25 insurer has reserved the right to change the premium.<sup>1</sup>

26 <sup>1</sup>[5.] 4.<sup>1</sup> (New section) On or after July 1, 1993, a former  
27 employee of a local board of education who:

- 28 a. retires from employment with the board,  
29 b. is receiving a retirement benefit from a State- or  
30 locally-administered retirement system,  
31 c. is eligible for the federal Medicare program, and  
32 d. is participating in the health benefits plan of the board may  
33 enroll in the State Health Benefits Program upon enrollment in  
34 the federal Medicare program. The laws and regulations  
35 governing the program, except as provided in this section, are  
36 applicable to enrollments in the program under this section.

37 A former employee of a local board of education who shall  
38 have retired from employment with the board prior to July 1,  
39 1993 and who meets the requirements for enrollment in the State  
40 Health Benefits Program prescribed in this section may enroll in  
41 the program on or after July 1, 1993 and on or before June 30,  
42 1994.

43 <sup>1</sup>[6.] 5.<sup>1</sup> (New section) Notwithstanding the provisions of any  
44 other law, rule, or regulation to the contrary, any local board of  
45 education may elect to participate in the State Health Benefits  
46 Program <sup>1</sup>[on or after July 1, 1993 and on or before June 30,  
47 1994] upon the termination of any contract in effect on the  
48 effective date of this amendatory and supplementary act, P.L. ,  
49 c. (C. ), between the board of education and an insurance  
50 company writing insurance pursuant to Title 17B of the New  
51 Jersey Statutes, hospital service corporation, medical service  
52 corporation, health service corporation, or health maintenance  
53 organization to provide hospital and medical expense benefits.  
54 Such election shall be<sup>1</sup> in accordance with the laws and

1 regulations otherwise applicable to participation by employers  
2 other than the State in the program. <sup>1</sup>If the board does not elect  
3 to participate in the State Health Benefits Program at that time,  
4 its eligibility to elect such participation thereafter shall be  
5 subject to the time period specified by the State Health Benefits  
6 Commission for participating again in the State Health Benefits  
7 Program after a participant's withdrawal from the program.<sup>1</sup>

8 <sup>1</sup>[7.] 6.<sup>1</sup> This act shall take effect immediately.

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Adjusts revaluation of TPAF; provides opportunity for State  
Health Benefits Program coverage to certain active and retired  
employees of school boards.

1 1993 and who meets the requirements for enrollment in the State  
2 Health Benefits Program prescribed in this section may enroll in  
3 the program on or after July 1, 1993 and on or before June 30,  
4 1994.

5 6. (New section) Notwithstanding the provisions of any other  
6 law, rule, or regulation to the contrary, any local board of  
7 education may elect to participate in the State Health Benefits  
8 Program on or after July 1, 1993 and on or before June 30, 1994  
9 in accordance with the laws and regulations otherwise applicable  
10 to participation by employers other than the State in the program.

11 7. This act shall take effect immediately.

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#### STATEMENT

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16 One of the purposes of this legislation is to address some  
17 problems which have arisen as a result of the recently enacted  
18 pension revaluation law. This law provides for a further  
19 acceleration of the funding of pension adjustment benefits and  
20 post-retirement medical benefits under the Teachers' Pension  
21 and Annuity Fund (TPAF) and the Public Employees' Retirement  
22 System (PERS) over and above the acceleration of the funding for  
23 these benefits from the increase in the recognition of market  
24 value of pension assets from 60% and to 100% of the full market  
25 value in fiscal year 1992. This will result in dramatic increases in  
26 employer pension contributions for fiscal years 1994 and 1995. It  
27 will practically eliminate any increase in State school aid for  
28 fiscal year 1994, and will force the State and other employers  
29 participating in the State retirement systems to bear substantial  
30 pension contribution increases when their budgets will again be  
31 severely limited in terms of resources.

32 This bill will smooth out the acceleration of funding for pension  
33 adjustment and post-retirement medical benefits by eliminating  
34 the two additional jumps in the acceleration mandated by the  
35 original pension revaluation law. It will increase the rate of  
36 acceleration of this funding in fiscal year 1995 and the full  
37 liability for these benefits for active employees will be fully  
38 recognized and included in the funding formula by 2003, one year  
39 earlier than under the original law.

40 The second problem which the bill addresses concerns the  
41 members of the various pension boards and commissions  
42 appointed by the Governor. The pension revaluation law provides  
43 that these appointments shall be subject to the advice and  
44 consent of the Senate. It further provides that the service of the  
45 current appointees shall terminate six months after the effective  
46 date of the law, which is December 31, 1992. The appointment  
47 process for these members will be considerably longer than in the  
48 past, and there is a possibility that the ability of some of these  
49 boards to function may be adversely affected if the service of the  
50 current gubernatorial appointees is abruptly terminated on  
51 December 31, 1992. The bill provides that the current members  
52 will continue to serve until their successors have been appointed  
53 and have qualified.

54 The second purpose of this legislation is to make several



1 changes relative to the State Health Benefits Program. The first  
2 change is to eliminate a disadvantage to the program which  
3 benefits insurance companies and other carriers which provide  
4 health benefits coverage to local boards of education. Retirees  
5 from local boards of education with 25 or more years of service  
6 credit in a State- or locally-administered retirement system or  
7 who retired on a disability retirement are eligible for State  
8 payment of the premiums for coverage under the program  
9 directly or through the Teachers' Pension and Annuity Fund. The  
10 average claim cost for these retirees who are not eligible for the  
11 federal Medicare program is significantly higher than the average  
12 claim cost for active employees of local boards. These retirees  
13 are included in the local employer group (employers other than  
14 the State) in determining the premium rates under the program.  
15 Some insurance companies and other carriers are taking  
16 advantage of this situation and are inducing local school boards to  
17 leave or not join the State program with the claim that they can  
18 obtain lower health benefit premiums by insuring with a private  
19 carrier and avoid the claim liability for these retirees.

20 The intent of this legislation is to eliminate this disadvantage  
21 by requiring insurance companies and other carriers who are  
22 providing health benefits coverage to local boards of education to  
23 pay a surcharge to the State Health Benefits Program to cover  
24 the excess claim cost reasonably attributable to these retirees.  
25 The surcharge would be a percentage of the claims paid for  
26 active employees. The initial surcharge would be 3.25%. The  
27 surcharge would be redetermined annually by the State Treasurer  
28 and would be the percentage of the total claims for active  
29 employees and retirees whose coverage is paid by the State which  
30 is reasonably attributable to the excess claim cost for these  
31 retirees. The time period for the surcharges would be from  
32 July 1 through the following June 30, with the initial period being  
33 July 1, 1993 through June 30, 1994. Estimated surcharges would  
34 be payable on December 31 of each year based upon the  
35 surcharge percentage and claims experience for the 12 months  
36 immediately preceding the time period for which the surcharge is  
37 payable. Within three months following the surcharge time  
38 period, the actual surcharge based upon the claimers experience  
39 for the surcharge time period will be determined. The carriers  
40 will receive a debit or credit against the surcharge for the  
41 succeeding time period for the difference between the estimated  
42 surcharge paid and the actual surcharge.

43 A second change relative to the State Health Benefits Program  
44 is that the legislation would authorize all retirees from  
45 employment with local boards of education who are participating  
46 in the health benefits plan of their former employer to enroll in  
47 the State Health Benefits Plan when they become eligible for  
48 coverage under the federal Medicare program. This change would  
49 be effective July 1, 1993. Employees who retired prior to this  
50 date and met the requirements for enrollment in the State  
51 program under the legislation would be able to enroll in the State  
52 program within one year from the effective date of this change,  
53 from July 1, 1993 through June 30, 1994. The claims experience  
54 for these retirees should be essentially the same as retirees

1 covered by Medicare under the State program and their addition  
2 should have no adverse effect on the State program. Providing  
3 their coverage through the State program should be less  
4 expensive than through many smaller programs of local boards.

5 The final change relative to the State Health Benefits Program  
6 concerns elections by local boards of education to participate in  
7 the State program. Under the current regulations of the State  
8 Health Benefits Commission, employers who leave the State  
9 program may not reenter the program for five years. This  
10 regulation prevents a number of local boards which would like to  
11 participate in the program from doing so. This legislation would  
12 provide a one-year open enrollment period, from July 1, 1993  
13 through June 30, 1994, during which any local board of education  
14 could elect to participate in the program.

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19 Adjusts revaluation of TPAF and PERS; provides opportunity for  
20 State Health Benefits Program coverage to certain active and  
21 retired employees of school boards.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 4

STATE OF NEW JERSEY

DATED: DECEMBER 14, 1992

The Assembly Appropriations Committee reports favorably Assembly Bill No. 4.

Assembly Bill No. 4 addresses concerns in the pension revaluation law. The current law provides for a further acceleration of the funding of pension adjustment benefits and post-retirement medical benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) over and above the acceleration of funding from the increase in market value recognition. This will result in dramatic increases in employer pension contributions for fiscal years 1994 and 1995. It will practically eliminate any increase in State school aid for fiscal year 1994, and force State retirement system employers to bear substantial pension contribution increases.

This bill will smooth out the acceleration of funding for pension adjustment and post-retirement medical benefits by eliminating the two additional jumps in the acceleration mandated by the original pension revaluation law. It will increase the rate of acceleration of this funding in fiscal year 1995 and the full liability for these benefits for active employees will be fully recognized and included in the funding formula by 2003, one year earlier than under the original law.

Another problem which the bill addresses concerns the members of the various pension boards and commissions appointed by the Governor. The pension revaluation law provides that these appointments shall be subject to the advice and consent of the Senate. It further provides that the service of the current appointees shall terminate six months after the effective date of the law, which is December 31, 1992. The appointment process for these members will be considerably longer than in the past, and there is a possibility that the ability of some of these boards to function may be adversely affected if the service of the current gubernatorial appointees is abruptly terminated on December 31, 1992. The bill provides that the current members will continue to serve until their successors have been appointed.

The second purpose of this legislation is to make several changes relative to the State Health Benefits Program. The first eliminates a disadvantage to the program which benefits insurance companies and other carriers which provide health benefits coverage to local boards of education. Retirees from local boards of education with 25 or more years of service credit in a State- or locally-administered retirement system or who retired on a disability retirement are eligible for State payment of the premiums for coverage under the program directly or through the Teachers' Pension and Annuity Fund. The average claim cost for

these retirees who are not eligible for the federal Medicare program is significantly higher than the average claim cost for active employees of local boards. These retirees are included in the local employer group (employers other than the State) in determining the premium rates under the program. Some insurance companies and other carriers are taking advantage of this situation and are inducing local school boards to leave or not join the State program with the claim that they can obtain lower health benefit premiums by insuring with a private carrier and avoid the claim liability for these retirees.

The intent of this legislation is to eliminate this disadvantage by requiring insurance companies and other carriers to pay a surcharge to the State Health Benefits Program to cover the excess claim cost reasonably attributable to these retirees. The surcharge would be a percentage of the claims paid for active employees. The initial surcharge would be 3.25%. The surcharge would be redetermined annually by the State Treasurer and would be the percentage of the total claims for active employees and retirees whose coverage is paid by the State which is reasonably attributable to the excess claim cost for these retirees.

A second change would authorize all retirees from employment with local boards of education who are participating in the health benefits plan of their former employer to enroll in the State Health Benefits Plan when they become eligible for coverage under the federal Medicare program. This change would be effective July 1, 1993. Employees who retired prior to this date and met the requirements for enrollment in the State program under the legislation would be able to enroll in the State program within one year from the effective date of this change, from July 1, 1993 through June 30, 1994. The claims experience for these retirees should be essentially the same as retirees covered by Medicare under the State program and their addition should have no adverse effect on the State program. Providing their coverage through the State program should be less expensive than through many smaller programs of local boards.

The next change concerns elections by local boards of education to participate in the State program. Under the current regulations of the State Health Benefits Commission, employers who leave the State program may not reenter the program for five years. This regulation prevents a number of local boards which would like to participate in the program from doing so. This legislation would provide a one-year open enrollment period, from July 1, 1993 through June 30, 1994, during which any local board of education could elect to participate in the program. This bill is identical to Senate Bill No. 1432.

#### FISCAL IMPACT:

As of this date, no fiscal note has been prepared on this bill. However, it has been estimated that the provisions of this bill will result in substantial savings to the State.