



CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM



Update on Alternative Tax-Free Health Care Programs

Programs Being Evaluated

- Medicare Part B Premium Payment
- Monthly Health Allowances
- Medical Purchasing Power Payment
- Health Care Security Accounts

Medicare Part B Premium Payment

- Applies to all retired members enrolled in Part B with sufficient service credit
- Benefit equal to percentage of base Part B premium (\$93.50 in 2007)

Medicare Part B Premium Payment

- Percentage based on years of service
 - 20 years service receives 50 percent of base
 - Allowance increases five percentage points for each year of service
 - Maximum 100 percent of base at 30 years
 - Unreimbursed balance paid from retirement allowance

Medicare Part B Premium Payment

- No payment for surcharges
- Applies only to members, not spouses
- Members whose Part B paid from Social Security or other retirement benefit reimbursed upon proof of alternative payment source

Medicare Part B Premium Payment

- Required increased contribution rate of 1.5 percent, assuming 5 percent annual increase in premiums
- Next steps
 - Cost of 25 percent of base allowance for 10 to 20 years
 - Cost of limiting program to those already retired

Monthly Health Allowances

- Applies to all retired and disabled members with sufficient service credit

Monthly Health Allowances

- Base allowance of \$300 per month, graduated on years of service
 - 20 years service receives 50 percent of base
 - Allowance increases five percentage points for each year of service
 - Maximum 100 percent of base at 30 years

Monthly Health Allowances

- Allowance begins at age 60
- Allowance increased annually by lesser of
 - Medical care component of the Los Angeles-Riverside-Orange County CPI (which has increased by average of 3.3 percent annually since 1996 vs. 2.8 percent generally) or
 - Five percent
 - If increase is less than five percent, unused portion available for future

Monthly Health Allowances

- Distributions could be actuarially reduced to apply to beneficiary
 - Simpler if tied to DB beneficiary
- Amount of unused allowance available for future use

Monthly Health Allowances

- Distributions cease if member terminates retirement or disability benefit
- Required increased contribution rate of 4.8 percent, assuming maximum allowable annual adjustment
- Next steps
 - Cost of 25 percent of base allowance for 10 to 20 years
 - Cost of limiting program to those already retired
 - Cost of limiting program to expenses beginning age 65

Medical Purchasing Power Payment

- Once purchasing power of current DB allowance is reduced below 85 percent of initial allowance, member receives health benefit allowance
 - Currently applies to those retired in 1990 or earlier, rather than 1988

Medical Purchasing Power Payment

- Amount of allowance based on difference between 85 percent purchasing power benefit and amount eligible to receive from 80 percent purchasing power
- Benefit guaranteed only to extent funds in SBMA to pay benefit

Medical Purchasing Power Payment

- Health benefit allowance could be applied to any allowable medical expense
- Requires redirection of current SBMA contribution of 1 percent
- Next step: 90 percent purchasing power for those retiring before 1999

Health Care Security Accounts

- Applies to all employees performing service subject to DB coverage
 - Would include CB, Social Security or other alternative retirement program
- All compensation creditable to program
- 100 percent vesting

Health Care Security Accounts

- Minimum contribution rate of one percent
 - Additional contributions in one percentage point increments subject to collective bargaining
 - Contribution rates paid for classroom teachers could not be lower than rate paid by any other employee

Health Care Security Accounts

- Contributions paid by employer
- Contributions invested by CalSTRS
- Individual accounts subject to minimum interest rate set by Board prior to fiscal year
 - Authority for additional earnings credit

Health Care Security Accounts

- Account distributions
 - Upon retirement or disability
 - Upon death, allowable medical expenses to surviving dependents
 - If none, distribution to beneficiaries or estate
 - If terminated, distributions could be made beginning at age 60

Health Care Security Accounts

- Member makes irrevocable election at the time distribution begins to either
 - Draw down funds as needed
 - Once account expended, no further claims
 - Receive lifetime medical benefits at constant amount

Health Care Security Accounts

- Examples
 - Begins works at ages 25, 30, 35 or 45
 - Retires at age 61
 - No distributions until age 65
 - Lives to age 85

Health Care Security Accounts

- Medical inflation of 4.5 percent, 6 percent or 7.5 percent
- Account crediting rate of 6 percent, 7 percent or 8 percent
- Preliminary results
 - Contribution rate required to pay \$400 per month (in 2007 dollars) and account value at age 65 (in current dollars)

Health Care Security Accounts

- Next step: Validate estimates

Allowable Medical Expenses

- Subject to regulatory determination by Board
- Next step: Market review to determine administrative feasibility to reimburse for different types of expenses

Potential Funding Source

- Theoretically possible to redirect current state contribution for purchasing power to fund increased health benefits to retired members
- Depends on specific facts and relative value of increased benefit vs. potential for reduced future purchasing power benefits

California State Teachers' Retirement System

CALSTRS

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and sustaining the trust of California's educators.*