



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
- Alternatively, full payment for those with sufficient service credit
- No payment for surcharges

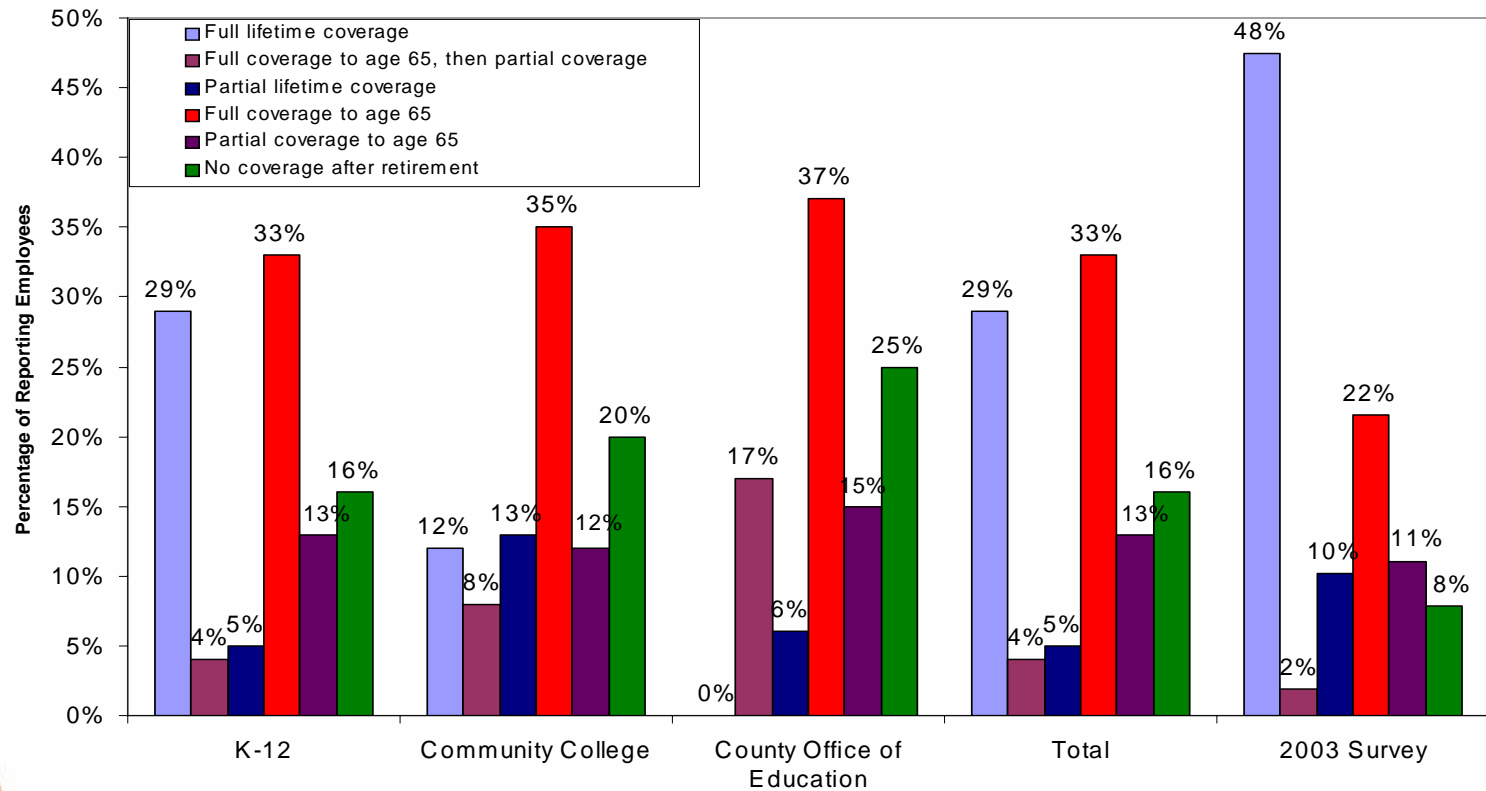


Medicare Part B Premium Payment

- 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

84% Have Some Employer-Paid Health Benefit After Retirement, But 62% Don't After Age 65

Distribution of All Reporting Employees



Qualified Medical Expenses

- Cost of diagnosis, cure, mitigation, treatment, or prevention of disease, and the cost for treatments affecting any part or function of the body, including dental expenses
 - Include cost of equipment, supplies, and diagnostic devices needed for these purposes
- Must be primarily to alleviate or prevent a physical or mental defect or illness
 - Excludes expenses that are merely beneficial to general health, such as vitamins or a vacation



Qualified Medical Expenses

- Premiums for insurance that covers the expenses of medical care, and the amount paid for transportation to get medical care
 - Include amount paid for qualified long-term care services and limited amounts paid for any qualified long-term care insurance contract
- Limiting distributions to simplify administration



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 actuarially reduced for effective date prior to age 60
 - Alternatively, no payment until age 65
- 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
- Distributions cease if member terminates retirement or disability benefit



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

- Could have higher purchasing power rate for those who retired prior to 1999
- Health benefit allowance could be applied to any allowable medical expense

Health Care Security Accounts

- Applies to all active DB members
 - Alternatively, 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

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
- Alternatively, participation by employer could be voluntary

Health Care Security Accounts

- Contributions generally paid by employer
- Contributions paid by employee credited to DB Program and employer DB contribution actuarially reduced and credited to HCS account

Health Care Security Accounts

- Contributions invested by CalSTRS
- Individual accounts subject to minimum interest rate set by Board prior to fiscal year
 - Authority for additional earnings credit
- Alternatively, could have market-based return on account

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, balance distributed to other accounts
 - Alternatively, distributions could be made at age 60

Health Care Security Accounts

- Vesting requirement effectively imposed
 - More difficult to administer if non-DB members participate
- Annuitizing distributions

Health Care Security Accounts

- Examples:
 - One percent contribution rate
 - Salary increase of 4.25 percent annually plus increases of up to 3.5 percent
 - Amounts available upon retirement at age 65 with different initial ages of participation and annual interest rates for every \$10,000 of initial annual compensation

Health Care Security Accounts

	Entry at age 25	Entry at age 35	Entry at age 45
6% annual interest	\$47,663	\$18,888	\$6,532
7% annual interest	\$57,908	\$21,829	\$7,188
8% annual interest	\$70,993	\$25,350	\$7,924

Health Care Security Accounts

- July 2006 EBRI study projected amounts needed for individual to fully pay for group health benefits, assuming premium grows by 7 percent each year, \$750 is spent out of pocket in 2006, and that amount grows each year by 7 percent, and 4 percent after-tax return on investments after age 65

Health Care Security Accounts

- A 65-year-old retiring in 2006 who lives to age 80 needed \$115,000 in savings to pay for premiums and assumed annual out-of-pocket expenses
- An individual retiring in 2006 who lives to age 90 needed \$214,000 in savings at age 65 to pay for premiums and cover out-of-pocket expenses each year

Health Care Security Accounts

- A 65-year-old retiring in 2016 who lives to age 80 will need \$219,000 in savings at age 65 to pay for premiums and to cover out-of-pocket expenses each year
- An individual retiring in 2016 who lives to age 90 will need \$409,000 at age 65 in savings to pay for premiums and out-of-pocket expenses

California State Teachers' Retirement System

CALSTRS

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*Securing the financial future
and sustaining the trust of California's educators.*