Commonwealth of Pennsylvania
Public Employee Retirement Commission

Issues Associated with Extending Commonwealth-Subsidized Healthcare Coverage to the Surviving Spouses of Certain Retired Commonwealth Employees

A report to the General Assembly of the Commonwealth of Pennsylvania in Response to House Resolution No. 161 Adopted in the Session of 2005

Issues Associated with Extending Commonwealth-Subsidized Healthcare Coverage to the Surviving Spouses of Certain Retired Commonwealth Employees

Commonwealth of Pennsylvania
Public Employee Retirement Commission
Harrisburg, Pennsylvania

March 2006

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
P. O. BOX 1429, HARRISBURG, PA 17105-1429

March 2006

To: Members of the Pennsylvania General Assembly

The attached report was prepared by the Commission in response to House Resolution Number 161, which was adopted by the House of Representatives on September 27, 2005 (and amended by House Resolution Number 516). The resolution directed the Commission to undertake a study of issues related to the provision of Commonwealth-subsidized retiree healthcare benefits to the spouses of deceased, retired Commonwealth employees who were members of the State Employees' Retirement System (SERS) and who had participated in the Commonwealth's Retired Employee Health Program (REHP).

The report contains a discussion of the REHP, including current program benefits, administration and financing, presents the Commission's findings on the potential cost impact of extending eligibility for subsidized healthcare benefits to spouse beneficiaries through the REHP, and addresses associated implementation and funding issues. Finally, the report provides topical discussions and recommendations pertaining to the benefit extension proposed by House Resolution Number 161.

On behalf of the Commission, I am pleased to submit this report for your review and consideration. The Commission is hopeful that you will find the report to be informative and useful in your deliberations on this important issue.

Sincerely,

Paul D. Halliwell
Chairman

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INTRODUCTION

The Public Employee Retirement Commission was established by Act 66 of 1981 to conduct actuarial and policy analyses of proposed legislation affecting public employee retirement systems in the Commonwealth, to administer the actuarial reporting and funding requirements for municipal pension plans, to study the Commonwealth's public employee retirement system operations and policies on an ongoing basis, and to formulate and recommend necessary legislative remedies in matters of public pension policy.

On September 27, 2005, the Pennsylvania House of Representatives adopted House Resolution Number 161, which directed the Public Employee Retirement Commission to study and provide the House of Representatives with information on the issues involved in providing Commonwealth-subsidized retiree healthcare benefits to the spouses of deceased, retired Commonwealth employees who were members of the State Employees' Retirement System and who had participated in the Commonwealth's Retired Employee Health Program (REHP). This report was prepared in response to that resolution. The report contains a description of the current benefits, administration and funding of the REHP, presents the Commission's findings on the potential cost impact of extending eligibility for subsidized healthcare benefits to spouse beneficiaries through the REHP, and addresses associated implementation and funding issues. Finally, the report provides topical discussions and recommendations pertaining to the benefit extension proposed by House Resolution Number 161.

The Commission wishes to express its sincere appreciation to the Pennsylvania Employees Benefit Trust Fund, the Governor's Office of Administration, the State Employees' Retirement System, and to the other organizations and individuals that contributed to the production of this report.

EXECUTIVE SUMMARY

House Resolution Number 161 directed the Public Employee Retirement Commission to study and report on the feasability of providing State funding for medical insurance for surviving spouses of deceased employees who are both members of the State Employees' Retirement System (SERS) and eligible to participate in the Retired Employee Health Program (REHP).

Retired Employee Health Program

The REHP is administered by the Governor's Office of Administration and SERS. Unlike active employee health benefits, which are set by the Board of Trustees of the Public Employees Benefit Trust Fund, the Governor and his Executive Board have overall responsibility for policy and benefit structure relating to the REHP.

Eligibility for the Commonwealth's REHP is based upon years of credited service and/or age at retirement. The eligibility criteria and associated premiums are not established by statute, but are subject to Executive discretion and the collective bargaining process. Retiring Commonwealth employees must meet certain conditions to qualify for REHP premium assistance, and the level of Commonwealth-subsidized premium assistance varies depending primarily on the retiree's date of retirement, age at retirement and years of credited service.

Under current law, any Commonwealth-subsidized premium assistance for postretirement healthcare coverage ceases upon the death of an REHP participating retiree. Following the death of a covered SERS retiree, an eligible surviving spouse may continue to participate in the REHP, but must pay the full amount of the applicable premium to maintain the healthcare coverage in effect under the REHP at the time of the retiree's death.

Projected Cost Impact

The funding requirements for REHP benefits are determined annually and based upon projected aggregate costs. The calculation of the contribution rate to be charged to participating employers is designed to include all healthcare and administrative costs for the upcoming fiscal year plus a reserve equal to 25% of expected expenditures for that fiscal year. Significant additional funding will be required to extend Commonwealth-subsidized healthcare to survivor spouses of retirees, whether the current pay-as-you-go funding system is maintained or an actuarial funding system is adopted:

- **Pay-As-You-Go Funding**: **$20.5 million in 2006**
  $101 million in 2016

- **Actuarial Funding**: **$204 million per year**
  $3 billion increase in actuarial accrued liability

Legal, Eligibility and Administrative Considerations

Article III, § 26 of the Pennsylvania Constitution forbids the granting of "extra compensation . . . after services have been rendered," except for increases in "retirement allowances or pensions of members of a retirement or pension system." Official Opinion of the Attorney General No. 24 of 1978 and subsequent court decisions have found that the authority to provide medical insurance to governmental employees and their dependents extends to future retired employees and their dependents. However, the extension of healthcare coverage to the spouses of currently retired or deceased members may not be permissible.

Not all State retirees participate in the SERS, nor do they all participate in the REHP. Some participate in one but not the other, and some participate in neither. While the General Assembly may restrict the extension of benefits to any reasonable class, the Commission believes that it is important to identify those who could receive the benefit enhancement contemplated by House Resolution Number 161, and those who could not.

Because the administrative structure for the continuation of healthcare benefits for surviving spouses through the REHP already exists, no change will be needed to implement Commonwealth subsidies.

Commission Recommendations

- **The Commission recommends that the General Assembly carefully consider the fiscal impact to the Commonwealth of providing the proposed benefit extension.**

- **The Commission recommends that, prior to the introduction of any legislation providing Commonwealth-subsidized healthcare to the surviving spouses of current or deceased retirees, the General Assembly investigate the constitutionality and legal implications of such legislative action.**

- **The Commission recommends that any legislation providing Commonwealth-subsidized healthcare to surviving spouses preserve the established administrative arrangement for providing such benefits pursuant to existing laws through the coordinated efforts of the SERS and the Governor's Office of Administration.**

- **The Commission recommends that, prior to the introduction of legislation mandating the provision of Commonwealth-subsidized healthcare to surviving spouses, the General Assembly should consider the policy rationale for, and potential consequences of, excluding certain groups of Commonwealth employees from eligibility for the proposed benefit extension based solely upon membership in the SERS and employment by a REHP participating entity.**

PART I

RETIRED EMPLOYEE HEALTH PROGRAM

RETIRED EMPLOYEE HEALTH PROGRAM

Synopsis

The provision of subsidized healthcare benefits to both active employees and retirees has been a long standing practice of the Commonwealth. The genesis of what is now referred to as the Retired Employee Health Program (REHP) is Act 274 of 1931, which first authorized the Commonwealth to provide health coverage and to pay the premium on behalf of active employees (although actual monetary contributions did not begin until 1966, with a four dollar monthly payment). In 1963, Act 518 permitted retiring employees to convert their active employee Blue Cross/Blue Shield healthcare benefit to postretirement coverage. Act 227 of 1965 permitted retirees already on annuity to enroll or re-enroll in health coverage. Act 255-A Supplemental Appropriation of 1976 provided additional monies for payment of the cost of medical and hospital insurance for Commonwealth retirees. And it was also in 1976 that the REHP was redesigned to its modern framework. In that year, Executive Board Resolution #MGT-CB-6-315, for the first time, authorized fully State-paid postretirement medical coverage for the majority of Commonwealth retirees, effective January 1, 1977. This was a major enhancement compared with previous subsidies, which had taken the form of nominal fixed-dollar amounts (a maximum of $10 in 1974). Eligibility criteria for fully State-paid coverage were: the attainment of normal retirement age (age 60 for most members of the State Employees' Retirement System) with at least five years of service; any age with 25 years of service; or disability retirement. The service requirements for State-paid benefits at normal retirement age have gradually increased from five years, to ten years, to the current fifteen years, and will increase to twenty years in 2008. All disability retirees continue to be eligible, as do employees who have attained 25 years of service with the Commonwealth, regardless of age at retirement.

The provision of fully State-paid postretirement healthcare was ended on July 1, 2005, and was replaced by what is now referred to as majority State-paid healthcare. Under this new program, the Commonwealth continues to pay the majority of health coverage costs for retirees who meet the current age and service eligibility criteria. The retiree is required to annually contribute an amount equal to one percent of the final base salary that was earned by the employee in the year prior to retirement.

Prior to 1991, postretirement healthcare was available only to retired employees. Act 35 of 1991, and later Act 183 of 1992, permitted survivor spouses of employees or retirees to elect or continue coverage under the REHP at their own expense.

The eligibility requirements for, and administration of, the REHP are set forth in Commonwealth Management Directives 530.24 and 315.16, as amended. These management directives can be found in Appendix III of this report.

Administration and Funding

The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF) through an administrative agreement with the Governor's Office of Administration, under which the PEBTF functions as a third party administrator. (A brief description of the PEBTF is provided in Appendix VI). The arrangement for that program requires that the PEBTF invoice the Office of Administration monthly for the cost of claims and administrative expenses, less other sources of income such as subscriber premiums and independent agency contributions. The Commonwealth then reimburses the PEBTF for the net costs.

Unlike active employee health benefits, which are set by the PEBTF Board of Trustees, the Governor and his Executive Board have overall responsibility for policy and benefit structure relating to the REHP. In 2003, it was agreed through the collective bargaining process that benefits provided under the REHP for employees retiring on or after July 1, 2004, would be identical to the benefits provided to active employees as determined from time to time by the PEBTF Board of Trustees. However, the Commonwealth asserts the right to modify the REHP at any time, regardless of an employee's date of retirement.

The funding requirements for REHP benefits are determined annually on a fiscal year basis by the Commonwealth based upon projected aggregate costs. This information provides the basis for the contributions required to fund the program and charged to REHP participating employers.

The cost projections for the REHP are prepared jointly by the Office of Administration and the Office of the Budget, and with the assistance and review of an actuarial consulting firm (Buck Consultants). The Office of Administration's Employee Benefits Division has the primary responsibility for preparing the funding projections, using a methodology and trends developed by the actuary. The actuary performs a final review and approval of the calculations. The projections are primarily based on the experience of the REHP and overall changes in the healthcare market. The calculation of the contribution rate to be charged to participating employers is designed to include all healthcare and administrative costs for the upcoming fiscal year plus a reserve equal to 25% of expected expenditures for that fiscal year. Should experience prove less favorable than originally projected, the reserve is available as a buffer. The overall funding projection for the program is divided by the total number of active employees who are eligible for medical/hospital benefits, and hence will be eligible in the future for REHP benefits. The resulting contribution rate per active employee is assigned on a per-pay-period basis. For example, at present the Commonwealth is paying $240 biweekly per active employee and deposits these sums into a restricted receipt account which is used to fund the REHP and hold the 25% reserve.

The REHP provides healthcare benefits to eligible retirees through subcontracts with independent, private sector health carriers, such as Capital Blue Cross, Highmark Blue Shield, and various Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and Medicare Advantage Plans. These contracted health carriers are responsible for the day-to-day administration and payment of the health claims submitted by healthcare providers or retirees and dependents according to the contracted plan provisions. The REHP also pays Medicare Supplemental and Major Medical claims for retirees who are eligible for and covered under the standard Medicare Parts A and B.

Eligibility and Enrollment

The majority of State Employees' Retirement System (SERS) members work for agencies that participate in the Active Employees Health Program (AEHP) and the REHP, both of which are administered by the PEBTF. Retiring employees who are employed by a participating agency may enroll in the REHP at the time of retirement if they are enrolled or are eligible to enroll in the AEHP on their last day of employment. Members of SERS are enrolled in REHP by a SERS retirement counselor at the time of retirement. A SERS member who formally declines to participate in REHP at the time of termination from State service is not permitted to enroll at a later date. Likewise, a member who discontinues participation in the program for any reason is barred from future re-enrollment. If, however, a member should return to active State service with a PEBTF participating agency and again becomes eligible to enroll in the AEHP, the member may become eligible to enroll in REHP upon subsequent re-retirement.

All Commonwealth agencies under the Governor's jurisdiction are required to participate in the REHP and certain independent agencies have the option of participating. Following is a list of SERS participating employers that currently participate in the REHP.

CHART I

LIST OF SERS PARTICIPATING EMPLOYERS THAT ALSO PARTICIPATE IN THE REHP

Aging
Agriculture
Attorney General
Auditor General
Banking
Civil Service Commission
Community & Economic Development
Conservation & Natural Resources
Corrections
Education
Environmental Hearing Board
Environmental Protection
Executive Offices
Fish and Boat Commission
Game Commission
General Services
Governor's Office
Health
Health Care Cost Containment Council
Historical and Museum Commission
Insurance
Labor and Industry
Liquor Control Board
Lt. Governor's Office
Military and Veterans Affairs
Milk Marketing Board
PA Emergency Management Agency
PA Gaming Control Board
PA Higher Education Assistance Agency
PA Infrastructure Investment Authority
PA Municipal Retirement System
PA Port Authority
PA Public TV Network Commission
PA State Police *
Probation and Parole Board
Public School Building Authority
Public School Employees' Retirement System
Public Utility Commission
Public Welfare
Revenue
Securities Commission
State
State Employees' Retirement System
State Ethics Commission
State System of Higher Education **
State Tax Equalization Board
Thaddeus Stevens College of Technology
Transportation
Treasury Department

* Pennsylvania State Police Officers have their own eligibility requirements and benefit levels that differ from those for regular REHP members and which are set forth in their collective bargaining agreement. Civilian employees of the State Police have regular REHP benefits.

** State System of Higher Education (SSHE) managers, faculty, administrators, and coaches in bargaining units 91, 92, O4, Q4, Q8, and U4 are in the SSHE education group, and do not participate in the REHP. Other employees of the SSHE may participate in the AEHP and the REHP.

Eligibility for Commonwealth-Subsidized REHP Premium Assistance

For SERS members, eligibility for the Commonwealth's REHP is currently based upon years of credited service in SERS and/or age at retirement. The eligibility criteria and associated premiums are not established by statute, but are subject to Executive discretion and the collective bargaining process. The Secretary of Administration and the Governor's Executive Board are empowered to make all decisions regarding the benefits to be provided, applicable deductibles, and co-payments payable by the retiree and any eligible dependents.

Currently, retiring Commonwealth employees must meet one of the following conditions to qualify for REHP premium assistance at either the Fully State-Paid or Majority State-Paid with 1% Member Share levels.

1) Retirement at or after superannuation age (age 60 for most members, depending upon class of service) with 15 or more years of credited service (effective July 1, 2008, 20 or more years of credited service will be required);

2) Retirement at any age with 25 or more years of credited service; or

3) Disability retirement.

Additionally, an employee who was a participant in the AEHP and who leaves State service and is eligible to receive a retirement benefit but chooses instead to vest that benefit and defer receipt until a later date may become eligible for REHP enrollment at the time of the former employee’s actual retirement. To be eligible, a vestee must have met the eligibility requirements for Commonwealth-subsidized REHP premium assistance effective on the date of termination from State service. For example, a vested member who terminates service on or after July 1, 2008, must have either (1) had 25 or more years of credited service at termination of State service or (2) had attained superannuation age and 20 or more years of credited service at the time of termination from State service.

Subsidy Levels

There are currently three levels for Commonwealth-subsidized REHP premium assistance:

- Fully State-Paid – For members who retired prior to July 1, 2005, and who meet the age and service requirements, the Commonwealth pays the full cost of the REHP coverage for the retiree and any eligible dependents.

- Majority State-Paid with 1% Member Share – For members retiring on or after July 1, 2005, who meet the age and service requirements, the Commonwealth pays the REHP premium and the retiree must contribute a member share equal to one percent of the member's final base annual salary. SERS deducts the member share in equal monthly payments from the member's monthly retirement benefit.

- $5.00 State Payment – The Commonwealth pays a $5.00 monthly State premium assistance payment for retiring members who do not meet the age and service requirements for either fully or majority State-paid health benefits. The retiree is responsible for the remaining monthly premium amount.

Duration of Premium Assistance

The Commonwealth will pay the applicable level of premium assistance for the retiree's lifetime. Upon the death of the retiree, eligible dependents, including surviving spouses, are no longer eligible to receive any subsidy from the Commonwealth. In order to continue coverage under the REHP, an eligible surviving spouse must pay the entire premium for coverage. Other dependents are not permitted to continue coverage in the REHP except for COBRA extensions.

Benefit Plans Available

The 2006 benefit plans available under the REHP vary based upon the member's date of retirement and location of residence within the Commonwealth. Retirees who reside outside the Commonwealth generally have access to an approved out-of-state PPO or similar plan. In addition to the health plan types listed below, there is a prescription drug benefit. There are separate prescription drug plans for State Police Officers.

CHART II

Available Health Plan Types		
	Retired before July 1, 2004	**Retired on or after July 1, 2004**
Non-Medicare Eligible	Basic Option – Capital Blue Cross Blue Cross PPO – Statewide PPO Various HMOs	Blue Cross PPO – Statewide PPO Various HMOs Consumer Driven Health Plan Comprehensive Major Medical Option – Offered by Capital Blue Cross
Medicare Eligible	PEBTF Medicare Supplement Medicare HMOs	PEBTF Medicare Supplement Medicare HMOs

Medicare and the REHP

A REHP enrolled retiree is required to enroll in Medicare effective the first day of the month that the retiree attains age 65.[1] Upon enrollment, Medicare becomes the retiree's primary insurance and REHP becomes the secondary provider through a Medicare Supplemental plan. If a REHP enrolled retiree is awarded a Social Security disability, Medicare enrollment is required within 24 months of the date of the award. Medicare-covered retirees retain their REHP Major Medical coverage and prescription drug coverage. Major Medical coverage continues after age 65, and a retiree may submit bills for payment that were not completely paid by Medicare or Medicare Supplemental coverage.

To prevent possible coverage gaps, enrollment in both Medicare Part A and Part B is necessary. Medicare Part A (Hospital Insurance) pays for hospital bills first. After that, REHP Medicare Supplemental coverage will pay the Medicare Part A 20% co-insurance and hospital in-patient deductible. Medicare Part B (Medical Insurance) pays for physician services and visits after the member meets the applicable annual deductible. After that, REHP Medicare Supplemental coverage pays the required 20% Medicare Part B co-insurance.

On July 1, 1992, the Commonwealth ceased paying for retiree benefits and services ordinarily covered by Medicare Part B. As a result, many retirees and dependents were required to enroll in Medicare Part B after they were first eligible, which resulted in these participants incurring a Medicare premium penalty. To remedy this situation, the General Assembly enacted legislation that provided funding (and continues to provide funding) to pay the penalty amount assigned for the affected retirees and dependents.

As an alternative to Medicare Supplemental coverage, Medicare-eligible retirees and dependents have the option of enrolling in a Medicare Health Maintenance Organization (MHMO) plan. MHMOs provide comprehensive healthcare coverage by replacing both Medicare and Medicare Supplemental coverage. To qualify, the member must be enrolled in both Medicare Parts A and B. All claims, including prescription drug claims, are handled by the MHMO plan. In some cases, the MHMO plan may provide additional benefits, including immunizations, routine dental and vision care, and hearing aids.

As an incentive for reducing the Commonwealth's retiree health coverage costs, retirees with Commonwealth-subsidized health insurance receive a monetary incentive for joining

[1]Technically, retirees cannot be compelled to enroll in Medicare. However, as a practical matter, REHP will not pay for services that would otherwise be covered under Medicare.

an MHMO. For retirees who pay their own health insurance premiums, joining an MHMO generally results in reduced premium payments.[2]

Dependent REHP Conversion and Continuation of Coverage

A dependent's loss of coverage may be due to the death of the retiree, divorce from the retiree or, in the case of a dependent child, exceeding the age for which coverage is provided. Following notification of death, a retiree's dependents automatically receive one or more healthcare coverage conversion notices from the PEBTF. All conversion coverages require premium payments by the dependents who elect the coverage. Following are coverages for which dependents may be eligible:

- The Consolidated Omnibus Reconciliation Act 1986 (COBRA) provides temporary group coverage for the spouse or other dependents who lose coverage due to a qualifying event such as the retiree's death, a divorce or, in the case of a dependent child, exceeding the maximum age limit. COBRA is only available when the spouse or dependent has no other health insurance. This temporary coverage may last up to 36 months depending on the qualifying event.

- Non-group Blue Cross/Blue Shield coverage is available to dependents who are not Medicare eligible.

- Continuation of State group coverage is available only to the surviving spouse of a deceased retiree pursuant to Act 183 of 1992. This coverage continues the same hospital and medical insurance benefits that the spouse had prior to the death of the retiree.

The Survivor Spouse Health Coverage Program

The current survivor spouse health coverage program was established pursuant to Act 35 of 1991, as amended by Act 183 of 1992, and enables the eligible surviving spouse of a deceased retiree who was a REHP participant to continue coverage under the REHP.[3] Under this program, the survivor spouse is ineligible to receive any Commonwealth subsidy, and is instead responsible for payment of the full premium of the specific health plan that was selected. Only survivor spouses who were covered as dependents under the retiree's REHP benefit plan are eligible.

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[2] Interested parties should consult the 2006 rates contained in Appendix VII of this report.

[3] In addition to the spouse of a deceased retiree, the spouse of an active employee who is a vested (at least five years of credited service) member of SERS and who dies in service (work or non-work related death) is also permitted to continue coverage under the REHP.

Prior to 1991, the survivor spouse of a deceased retiree who had been covered as a dependent in the REHP had no right to continue as a participant in the REHP after the death of the retiree. The first successful attempt to permit surviving spouses to continue REHP participation occurred with the enactment of Act 35 of 1991. Section 8 of Act 35 amended the Administrative Code of 1929 by adding a new Section 529, entitled "Medical Insurance Coverage for Survivor Spouses of Annuitants," which permitted the spouses of retirees who died subsequent to October 13, 1991, to continue coverage under the REHP at their own expense. Partly because Act 35 was interpreted to be applicable on a prospective basis only (the surviving spouse of a retiree who died prior to October 14, 1991, would be ineligible to participate), Act 35 was extensively amended by Act 183 of 1992, through which all spouses who were covered under the REHP prior to the death of the covered retiree, regardless of the date of the retiree's death, would be eligible to continue coverage through the REHP.

The current program is administered primarily by SERS pursuant to Act 183 of 1992, in coordination with the Office of Administration, the PEBTF and its various subcontracted healthcare providers. At the time of the retiree's death, the survivor spouse is given the option to elect survivor spouse or COBRA coverage.[4] Since Act 183 did not specify a time frame for electing coverage, survivor spouses who elect COBRA coverage or who simply delay making a decision may elect coverage months or years after the retiree's death. The only time a survivor spouse may not elect coverage is if coverage was formally declined. Due to the potential for adverse selection, the Commonwealth does not permit anyone (retiree or survivor spouse) to enroll or re-enroll in the REHP (except under special circumstances) once coverage has been declined. A survivor spouse electing coverage under the survivor spouse program is responsible for paying the full premium at the group rate of the specific healthcare plan (PPO, HMO, etc.) selected. Payment is deducted in whole or in part from any Commonwealth (SERS) pension benefit paid to the survivor spouse. If the survivor spouse does not have a pension benefit through SERS or the pension is insufficient to cover the premium, the survivor spouse is billed for any premium deficiency for the full cost of the coverage by the PEBTF.[5]

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[4]Although COBRA coverage is always an option for a survivor spouse, in most cases there would be no economic incentive for a survivor spouse of a retiree to enroll in COBRA instead of electing continuation of coverage through the REHP, because PEBTF charges the survivor spouse who enrolls in COBRA 102% of the cost for the applicable employee group health plan. The exception would be a survivor spouse who is ineligible for REHP enrollment. This would include a survivor spouse of an active employee who died in service prior to vesting (five years of service credit) with SERS (unless the death was work-related), or the survivor spouse of an active employee who was not a SERS member, unless the death was work-related.

[5]See the SERS Administrative Procedures Governing the Survivor Spouse Health Program in Appendix V.

PART II

PROJECTED COST IMPACT

PROJECTED COST IMPACT

Purpose and Scope of Analysis

House Resolution Number 161 directed the Commission to prepare a study on the feasibility and practicability of providing State premium assistance to surviving spouses of retired State Employees' Retirement System (SERS) members who participated in the Retired Employee Health Program (REHP) administered through the Commonwealth's Office of Administration and the Pennsylvania Employees Benefit Trust Fund (PEBTF). The Commonwealth-subsidized premium assistance to the surviving spouse would continue at the same level as that provided during the retiree's lifetime.

It should be noted that there are a number of employers that either do not participate in SERS or do not participate in the REHP. Because House Resolution Number 161 specifically restricts the scope of the Commission's study to SERS members who are, or will be, also eligible to participate in the REHP, an assessment of the costs associated with extending similar healthcare coverage to nonparticipating groups of employees is beyond the scope of the Commission's analysis. Additionally, House Resolution Number 161 does not specify if the proposed premium assistance would be extended to current surviving spouses. For purposes of this analysis, the Commission has instructed its consulting actuary to assume that the premium assistance would be extended to surviving spouses currently enrolled in the REHP.

Under current law, any Commonwealth-subsidized premium assistance for postretirement healthcare coverage ceases upon the death of an REHP participating retiree. Following the death of a covered SERS retiree, an eligible surviving spouse may continue to participate in the REHP, but must pay the full amount of the applicable premium to maintain the healthcare coverage in effect under the REHP at the time of the retiree's death.

The level of Commonwealth-subsidized premium assistance varies depending primarily on the retiree's date of retirement, age at retirement and years of credited service. The levels are Fully State-Paid, Majority State-Paid with 1% Member Share and $5.00 State Payment. Details of the subsidy levels and eligibility requirements are described in Part I of this report. A list of SERS participating employers that are currently participating in the REHP can also be found in Part I of this report.

Estimated Costs

The Commission's consulting actuary has estimated the increase in pay-as-you-go costs if the Commonwealth-subsidized premium assistance available to the retiree were extended to the surviving spouse. For purposes of this estimate, the Commission's consulting actuary has assumed that all current surviving spouses and spouses of current retirees would elect to continue coverage under the REHP. In addition, the Commission's consulting actuary has assumed that all surviving spouses of future retirees who are eligible for the Fully State-Paid or Majority State-Paid with 1% Member Share premium assistance would elect to continue coverage under the REHP. The Commission's consulting actuary has also assumed, based on an analysis of current utilization rates, that future retirees eligible only for the $5.00 State Payment would not enroll in the REHP. Increases in the Commonwealth's costs would result from the continuation of a Commonwealth-subsidized postretirement healthcare benefit that would otherwise have ceased upon the death of the covered retiree, but which would be extended for the remaining lifetime of an eligible surviving spouse.

One of the key factors that impacts the cost of providing these benefits is the rate of future increases in healthcare premiums. This factor is referred to as the healthcare trend assumption.[6] To illustrate the sensitivity of this assumption on the results, the Commission's consulting actuary has provided estimates based on two sets of trend assumptions: 1) a baseline estimate of the healthcare trend and 2) a trend assumption 1% percent higher than the baseline for each year.

The following chart indicates the estimated increase in the Commonwealth's pay-as-you-go costs if Commonwealth-subsidized premium assistance were extended to the surviving spouse upon the covered retiree's death.

[6]Healthcare Trend Assumption: The healthcare trend assumption is the projected rate of future increases in healthcare premiums. The projection shown was developed by professional actuaries, and is derived from a comprehensive examination of healthcare benefit cost experience, combined with certain economic assumptions. The healthcare trend assumption reflects the current best professional judgment of the Commission's consulting actuary.

CHART III

Estimated Increase in the Commonwealth's Annual Contributions (Pay-As-You-Go)		
Year	**Baseline Healthcare Trend**	**1% Increase in Healthcare Trend**
2006	$ 20,500,000	$ 20,500,000
2007	26,300,000	26,500,000
2008	32,800,000	33,400,000
2009	40,100,000	41,200,000
2010	48,400,000	50,200,000
2011	57,600,000	60,300,000
2012	67,600,000	71,400,000
2013	78,200,000	83,300,000
2014	89,300,000	96,000,000
2015	$101,000,000	$109,600,000

New Governmental Accounting Standards Board (GASB) Accounting Standards

In 2004, the GASB issued new accounting standards for public employers and public employee benefit plans regarding postemployment benefits, such as retiree health insurance. These new standards become effective for benefit plans covering employees of very large employers, such as the Commonwealth, for the fiscal year beginning after December 31, 2005, for the benefit plan's financial statements (GASB Statement No. 43), and for the fiscal year beginning after December 31, 2006, for the employer's financial statements (GASB Statement No. 45).

Thus, these new accounting standards will become effective for PEBTF for the fiscal year ending June 30, 2007, and for the Commonwealth as a whole for the following fiscal year.

Generally, these standards require benefit plans and employers to disclose the cost of Other Post-employment Benefits (OPEB), such as health insurance, on an accrual basis. Pension benefits have been traditionally funded on an actuarial basis, which is sometimes referred to as an advance funding basis. But OPEB benefits to retirees, such as health insurance benefits, usually have not been funded on this basis. Rather, they have typically been funded on an annual "pay-as-you-go" or term cost basis. Currently, the REHP benefits are funded on a fiscal year pay-as-you-go basis.

The new GASB accounting standards do not require that employers begin to fund OPEB benefits on an actuarial basis, but they do require employers to report costs in their financial statements on an accrual basis.

The Commission's consulting actuary has calculated the increase in the liability and Annual Required Contributions (ARC) that will be required under Governmental Accounting Standard No. 43 – *Financial Reporting for Postretirement Benefit Plans Other than Pension Plans*, "GASB 43," and demonstrated in the following chart:

CHART IV

Estimated Increase in the Commonwealth's GASB Reporting Liability (Actuarial Funding)		
	Baseline Healthcare Trend	**1% Increase in Healthcare Trend**
Increase in Actuarial Accrued Liability[7]	$3,000,000,000	$3,700,000,000
Normal Cost[8]	75,000,000	115,000,000
30-Year Level Percent of Payroll Amortization of Increase in Actuarial Accrued Liability	129,000,000	159,000,000
Annual Required Contribution (ARC)[9]	204,000,000	274,000,000
Estimated Payroll	4,460,000,000	4,460,000,000
ARC as Percent of Payroll	4.6%	6.1%

Actuarial Assumptions

Actuarial assumptions are those factors which actuaries use in estimating the cost of funding a defined benefit pension plan. Examples include: the rate of return on plan investments; mortality rates; and the rates at which plan participants are expected to leave the system because of retirement, disability, and termination.

For this study, the actuary utilized the following data.

- SERS active member data used in the December 31, 2004, valuation of SERS for those employed by a REHP-participating agency (93,200 active members).

[7] **Actuarial accrued liability -** The cost of fully projected benefits that has been earned (or accrued) as of the valuation date.

[8] **Normal cost -**The portion of the cost of projected benefits allocated to the current plan year.

[9] **Annual Required Contributions** (ARC) under GASB 43 (a reporting, not a funding, requirement).

- SERS retirees, surviving spouses, and dependent data with current coverage in the REHP reported as of November 6, 2005, excluding retirees who retired on or after July 1, 2005, and their dependents (58,756 retirees, 32,426 covered spouses and 4,004 surviving spouses).

Additional financial actuarial assumptions include an interest rate of 5.0% per year and payroll growth of 3.3% per year. The demographic assumptions for compensation increases, withdrawal, retirement, disability, and mortality are those used for the December 31, 2004, actuarial valuation of SERS. The liabilities for the December 31, 2004, active members were projected to January 1, 2006, using the actuarial assumptions stated above. All retirements during 2005 were assumed to occur on July 1, 2005, or later. And, because substantial State subsidies would be available under the legislation contemplated by House Resolution Number 161, it was assumed that all eligible surviving spouses would elect to continue coverage in the REHP after the death of the employee spouse.

Because the Commission's consulting actuary was unable to identify the retirees who retired during the first half of 2005, there is potentially some double counting of retirees. In addition, the Commission's consulting actuary did not include SERS' inactive members as of December 31, 2004, because it was estimated that relatively few of these members would be eligible and then elect coverage in the REHP upon retirement. The Commission's consulting actuary believes that the refinement of these estimates for the potential data discrepancies would have a de minimis impact on the results provided above.

Based upon past experience, the actuary also assumed a continuing increase in healthcare costs, based upon the following chart:

CHART V

Anticipated Percentage Increase in Healthcare Costs

Year	Rate
2006 to 2010	10.0%
2011	9.5
2012	9.0
2013	8.5
2014	8.0
2015	7.5
2016	7.0
2017	6.5
2018	6.0
2019	5.5
2020 and Later	5.0

Finally, the actuary looked at the current level of plan participation and cost to guide the anticipation of future enrollment.

CHART VI

Percent of Eligible Future Retirees Electing REHP Coverage and Percentage Covering Spouses		
Subsidy Level	**Percent Electing Coverage in REHP**	**If Electing, Percent Electing Spouse Coverage**
Fully State-Paid (State Police Only)	100%	75%
Majority State-Paid with 1% Member Share	100%	70% for Males 45% for Females
$5.00 State Payment	0	0

CHART VII

Current (2006) Monthly Premiums Paid by Surviving Spouses for the Most Popular Benefit Option		
	Pre-Medicare Eligible (e.g. Prior to Age 65)	**Medicare Eligible**
Pre-July 1, 2004, Retirement – Capital Blue Cross Major Medical	$458.31	$375.89
Post-July 1, 2004, Retirement – Blue Cross PPO	$728.12	$375.89
State Police – Highmark Indemnity	$838.84	$474.65

The liabilities for the December 31, 2004, active members were projected to January 1, 2006, using the actuarial assumptions stated above. All retirements during 2005 were assumed to occur on July 1, 2005, or later.

PART III

LEGAL, ELIGIBILITY AND ADMINISTRATIVE CONSIDERATIONS

LEGAL, ELIGIBILITY AND ADMINISTRATIVE CONSIDERATIONS

Legal Issues

In considering the practicability of providing additional postretirement medical insurance benefits to the surviving spouses of retired State employees, the legislature must be concerned with the possible constitutional problems arising under Article III, § 26 of the Pennsylvania Constitution. The Public Employee Retirement Commission does not presume to make definitive rulings on these legal issues, but simply to identify them as matters that require the General Assembly's careful consideration and treatment.

PENNSYLVANIA CONSTITUTION
ARTICLE III -- LEGISLATION

> Section 26. Extra Compensation Prohibited; Claims Against the Commonwealth; Pensions.
>
> No bill shall be passed giving any extra compensation to any public officer, servant, employee, agent or contractor after services shall be rendered or contract made, nor providing for the payment of any claim against the Commonwealth without previous authority of law. Provided, however, that nothing in this Constitution shall be construed to prohibit the General Assembly from authorizing the increase of retirement allowances or pensions of members of a retirement or pension system now in effect or hereafter legally constituted by the Commonwealth, its political subdivisions, agencies or instrumentalities, after the termination of the services of said member.

This provision forbids the granting of "extra compensation . . . after services have been rendered," except for increases in "retirement allowances or pensions of members of a retirement or pension system." Potential legislation must consider the meaning of those terms, in accordance with prior judicial interpretation.

Surviving Spouses of Future Retirees

With reference to surviving spouses of active employees who will retire in the future, the Official Opinion of the Attorney General No. 24 of 1978 found that the provision of dependent medical coverage after the death of a State employee is legal (in a review of a 1978 award of medical insurance coverage to the dependents of a State Police Trooper killed in the line of duty). Noting that the Commonwealth is authorized to purchase insurance on behalf of its employees and their dependents,[10] the Attorney General concluded that this provision "clearly contemplates . . . health insurance contracts for employees and their dependents (including surviving dependents)" under the following rationale:[11]

<u>Opinion of the Attorney General No. 24 of 1978</u>

* * *

> Your first question related to whether Article III, § 26 renders the arbitration award unconstitutional. The relevant portion of Article III, § 26 is as follows:
>
> > "No bill shall be passed giving any extra compensation to any public officer, servant, employe, agent or contractor, after services shall have been rendered."
>
> The crux issue is at what point is the compensation awarded or given. If we view the compensation as being awarded or given at the point where the medical benefits are actually paid out to the surviving dependents, then Section 26 is violated because no employment relationship exists at this point. Thus, payment of the benefit would be necessarily on account of service already rendered and an employment status which no longer exists.
>
> However, we believe the better view is that compensation is not awarded at the point when it is actually paid out of the State Treasury but that the crucial time for determination under Article III, § 26 is July 1, 1978, the date the award becomes effective. It is at this point where the right of the policeman to receive the benefit, which is the knowledge that his dependents' medical expenses will be paid after his work-related death, is established. To put it another way, on July 1, 1978, a State Policeman has a vested right that requires the continuation of his medical benefits for his dependents after his work-related death. Thus, the benefit is not given after the services are rendered, but in conjunction with or preceding the completion of services upon which the benefit is based, as is the case of insurance or retirement benefits which flow to the beneficiaries of deceased employees.

This Opinion of the Attorney General has been followed by a long line of court decisions that held that similar statutory authority to provide medical insurance to municipal employees and their dependents extends to retired employees and their dependents: *In Re: Appeal of Upper Providence*, 93 Pa. Cmwlth. Ct. 272, 502 A.2d 263 (1985); *Tp. of Tinicum v. Fife*, 95 Pa. Cmwlth. Ct. 516, 505 A.2d 1116 (1986) appeals denied 518 Pa. 656

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[10]"The Commonwealth of Pennsylvania, or any department or division thereof, . . . (is) hereby specifically authorized to make contracts of insurance . . . insuring its elected or appointed officers and employees or any class or classes thereof, or their dependents, under a policy or policies of group insurance covering life, health, hospitalization, ..." Section 1 of the Act of June 22, 1931, P.L. 844, *as amended* (40 P.S. § 535)

[11]The legal advice of the Attorney General is binding until a court rules otherwise: Commonwealth Attorneys' Act, 71 P.S. § 732-204(a)(2).

& 657, 544 A.2d 1343 &1344; *Newport Tp. v. Margalis,* 110 Pa. Cmwlth. Ct. 611, 532 A.2d 1263 (1987); *Wilkes-Barre v. Firefighters Local 104*, 142 Pa. Cmwlth. Ct. 168, 596 A.2d 1271 (1991), affirmed 623 A.2d 814 (Pa., 1993); *City of Chester v. FOP,* 150 Pa. Cmwlth. Ct. 235, 615 A.2d 893 (1992); *Fairview Township v. Fairview Township Police Association,* 795 A.2d 463 (Pa. Cmwlth. 2002), affirmed 576 Pa. 226, 839 A.2d 183 (2003). Therefore, it appears that public funding of dependent medical insurance coverage would be permitted for the surviving spouses of active employees who retire in the future.

Surviving Spouses of Current or Deceased Retirees

The legality of granting such benefits to the surviving spouses of current or deceased retirees is much less certain. In *Hutskow v. Washowich*, 156 Pa. Cmwlth. Ct. 655, 628 A.2d 1202 (1993), *petition for allowance of appeal denied*, the court addressed the question of who are "members of a retirement or pension system" under the Third Class City Code:

> The City stresses also that the prohibition in Pa. Const. art. 3, § 26 against bills giving extra compensation after services are rendered expressly exempts increases of pensions of "members of a retirement or pension system . . . ." Conceding that the phrase "members of a retirement system" is not defined in the Constitution, the City asserts that the phrase applies only to "participants" of the retirement system and not to their "beneficiaries." In the City's view the common pleas court erred by regarding the beneficiaries of retired police officers as "members of a retirement system" within the meaning of the Constitutional provision.
>
> Hutskow argues that the legislature . . . recognizes members' widows and children as potential "members" of the municipal retirement system within the meaning of Pa. Const. art. 3, § 26. . . .
>
> In our view the trial court correctly acknowledged that Section 4303 (c) of The Third Class City Code recognizes the surviving spouse of a member of the police force, or children under the age of eighteen, where applicable, as "members" of the municipal police retirement system within the meaning of Pa. Const. art. 3, § 26.

Hutskow v. Washowich, 156 Pa. Cmwlth. Ct. at 661-662, 628 A.2d 1205-1206.

Applying this decision, the spouse of a retired member and the surviving spouse of a deceased member would be "members of a retirement or pension system" within the meaning of Constitution Article III, Section 26, but that would only permit an "increase of retirement allowances or pensions." Historically, medical insurance benefits have not been viewed as retirement allowances or pensions, but as contractual benefits, earned now but with a deferred receipt:

> The trial court reasoned that Subsection A of the collective bargaining agreement was invalid in its entirety because it attempted to provide medical coverage for past retirees, i.e., employees who had already retired prior to January 1, 1996, the effective date of the New CBA, where no such coverage had been provided before. In this respect, the trial court was correct in its determination that providing new benefits to former retirees is unlawful, ...

Township of Wilkins v. Wage & Policy Committee of the Wilkins Township Police Department, 696 A.2d 917 (Pa. Cmwlth. 1997).

Under this analysis, the extension of healthcare coverage to the spouses of retired or deceased members may not be permissible.

Eligibility

House Resolution Number 161 directed the Public Employee Retirement Commission to study and report on the feasability of providing State funding for medical insurance for surviving spouses of deceased employees who are both members of the State Employees' Retirement System (SERS) and eligible to participate in the Retired Employee Health Program (REHP). However, the spouses of certain retired State employees are not eligible for both.

In anticipation of possible future legislative proposals, the Commission believes that the General Assembly should be aware of those classes of State employees and their dependent spouses who do not meet the eligibility criteria of the current REHP program or the conditions established by House Resolution Number 161.

Not all State retirees participate in the SERS, nor do they all participate in the REHP. Some participate in one but not the other, and some participate in neither. While the General Assembly may restrict the extension of benefits to any reasonable class, the Commission believes that it is important to identify those who could receive the benefit enhancement contemplated by House Resolution Number 161, and those who could not.

Only the employees of those agencies listed as SERS and REHP Participating Employers on page 6 of this report would receive State-funded benefits under the criteria established by House Resolution Number 161. Although they participate in SERS, employees of the General Assembly and its agencies or commissions, the judiciary, the Turnpike Commission, the Independent Regulatory Review Commission, Joint State Government Commission, Local Government Commission, PA Convention Center Authority, PA Housing Finance Agency, PA Crime Commission, community colleges and intermediate units, and others, do not participate in the REHP and are not included in this study because they do not meet the threshold eligibility requirements.

Conversely, Teachers' Insurance Annuity Association – College Retirement Equity Fund (TIAA-CREF) participants and certain members of the Public School Employees' Retirement System are eligible for REHP coverage, but are excluded from the House Resolution Number 161 analysis because they are not members of SERS.

Administration

The two agencies currently responsible for the administration of the REHP, SERS and the Governor’s Office of Administration, have advised that they foresee no substantial administrative obstacles to implementing the benefit extension contemplated by House Resolution Number 161.

Presently, SERS notifies the Office of Administration of the death of each retired employee whose spouse is a REHP participant, and the Office of Administration, through PEBTF, offers the spouse the opportunity to elect survivor coverage at his or her expense. Arrangements are then made for premium payment by direct deduction from the survivor’s annuity, and separate billing for any shortfall.

If the Commonwealth assumes responsibility for payment of those premiums, in whole or in part, the only anticipated change in that procedure will involve the payment arrangements. Many more surviving spouses would be expected to elect coverage if the individual contributive share is greatly reduced. But the administrative function would remain essentially unchanged.

PART IV

COMMISSION RECOMMENDATIONS

COMMISSION RECOMMENDATIONS

Issue – Funding

Significant additional funding will be required to extend Commonwealth subsidized healthcare to survivor spouses of retirees. Based upon the analysis of the Commission's consulting actuary, even without actuarial funding, projected annual costs start at $20.5 million and increase to $101 million in ten years. If funded in accordance with actuarial principles and the $3 billion increase in the actuarial accrued liability were amortized over thirty (30) years, the annual contribution requirement would be $204 million, or 4.6% of payroll.

CHART VIII

Pay-as-You-Go Funding of Survivor Spouse Benefits	
Year	**Baseline Healthcare Trend**
2006	$ 20,500,000
2015	$101,000,000

CHART IX

Actuarial Funding of Survivor Spouse Benefits	
	Baseline Healthcare Trend
Increase in Actuarial Accrued Liability	$3,000,000,000
Normal Cost	75,000,000
30-Year Level Percent of Payroll Amortization of Increase in Actuarial Accrued Liability	129,000,000
Annual Required Contribution (ARC)	**204,000,000**
ARC as Percent of Payroll	4.6%

RECOMMENDATION:

The Commission recommends that the General Assembly carefully consider the fiscal impact to the Commonwealth of providing the proposed benefit extension.

Issue – Potential Legal Obstacles

During the course of the Commission's research for this report, it became apparent that significant legal hurdles may exist to providing subsidized healthcare coverage to the spouses of current or deceased retirees. Although the Commission does not presume to make definitive rulings on such legal matters, the Commonwealth's consideration of any proposal to provide Commonwealth-subsidized healthcare to the surviving spouses of retirees should include a careful assessment of the potential legal issues involved.

RECOMMENDATION:

The Commission recommends that, prior to the introduction of any legislation providing Commonwealth-subsidized healthcare to the surviving spouses of current or deceased retirees, the General Assembly investigate the constitutionality and legal implications of such legislative action.

Issue – Administration

The agencies responsible for the administration of the current survivor healthcare program have advised that they foresee no substantial administrative obstacles to implementing the Commonwealth-subsidized survivor spouse benefit contemplated by House Resolution Number 161. The administrative structure for the continuation of healthcare benefits for surviving spouses through the Retired Employee Health Program, as mandated by Act 183, already exists.

If the General Assembly should enact legislation requiring the Commonwealth to assume responsibility for the payment of survivor spouse premiums, in whole or in part, the only anticipated change in the established administrative procedure will involve the payment arrangements and the number of surviving spouses expected to participate.

RECOMMENDATION:

The Commission recommends that any legislation providing Commonwealth-subsidized healthcare to surviving spouses preserve the established administrative arrangement for providing such benefits pursuant to existing laws through the coordinated efforts of the State Employees' Retirement System and the Governor's Office of Administration.

<u>Issue – Eligibility for Participation</u>

House Resolution Number 161 limits the scope of the Commission's study to employees and retirees who are both members of the State Employees' Retirement System and enrolled, or eligible to enroll, in the Retired Employee Health Program. In anticipation of possible future legislative proposals, however, the Commission believes that the General Assembly may wish to also consider those classes of employees who do not meet both criteria, and are, therefore, beyond the scope of this report.

Not all Commonwealth employees are eligible to participate in the State Employees' Retirement System, nor are all employed by agencies that participate in the Retired Employee Health Program. Some participate in one but not the other, and some participate in neither. While the General Assembly certainly may choose to restrict the proposed extension of benefits to certain groups of employees, the Commission believes that it is important to consider the implications of such action.

RECOMMENDATION:

The Commission recommends that, prior to the introduction of legislation mandating the provision of Commonwealth-subsidized healthcare to surviving spouses, the General Assembly should consider the policy rationale for, and potential consequences of, excluding certain groups of Commonwealth employees from eligibility for the proposed benefit extension based solely upon membership in the State Employees' Retirement System and employment by a Retired Employee Health Program participating entity.

PART V

APPENDICES

APPENDIX I

House Resolutions No. 161 and No. 516

PRIOR PRINTER'S NO. 1179 PRINTER'S NO. **2744**

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 161 Session of 2005

INTRODUCED BY WANSACZ, GERGELY, STABACK, GOODMAN, GRUCELA, BEBKO-JONES, BELARDI, CALTAGIRONE, CAPPELLI, CLYMER, CORRIGAN, DALEY, DeWEESE, FABRIZIO, FRANKEL, FREEMAN, GEORGE, GOOD, HESS, JAMES, LEACH, MAHER, MARSICO, McNAUGHTON, MUNDY, PAYNE, PETRARCA, ROBERTS, SAINATO, SAYLOR, SCAVELLO, SHANER, SURRA, TIGUE, THOMAS, YUDICHAK, KAUFFMAN, NICKOL, REED, WOJNAROSKI, ROONEY, WALKO AND HALUSKA, MARCH 21, 2005

AS AMENDED, HOUSE OF REPRESENTATIVES, SEPTEMBER 27, 2005

A RESOLUTION

Directing the ~~Legislative Budget and Finance Committee~~ PUBLIC EMPLOYEE RETIREMENT COMMISSION to study the feasibility of providing State premium assistance to surviving spouses of State Employees' Retirement System members who participated in the Retired Employee Health Program through the Pennsylvania Employees Benefit Trust Fund. <—

WHEREAS, State Employees' Retirement System members who are eligible to participate in the Retired Employee Health Plan (REHP) through the Pennsylvania Employees Benefit Trust Fund receive fully State-subsidized or partially State-subsidized health insurance for themselves and their dependents; and

WHEREAS, While surviving spouses may elect to continue their health insurance coverage on the death of the State Employees' Retirement System member under section 529 of The Administrative Code of 1929, they are no longer eligible for State premium assistance; and

WHEREAS, The average annual premium under the REHP can be as high as $683 a month; and

WHEREAS, Premiums for the REHP are subject to annual rate increases and are expected to rise each year; and

WHEREAS, The sudden loss of assistance in paying health insurance premiums can have a devastating impact on the ability of surviving spouses to pay their premiums, particularly if they have fixed or limited incomes; and

WHEREAS, Health insurance coverage is critical to ensuring access to medical care and maintaining the physical and financial well-being of families; therefore be it

RESOLVED, That the House of Representatives direct the ~~Legislative Budget and Finance Committee~~ PUBLIC EMPLOYEE RETIREMENT COMMISSION to examine the feasibility of providing State premium assistance to surviving spouses of State Employees' Retirement System members who participated in the Retired Employee Health Program through the Pennsylvania Employees Benefit Trust Fund; and be it further

RESOLVED, That the ~~Legislative Budget and Finance Committee~~ PUBLIC EMPLOYEE RETIREMENT COMMISSION examine the practicability of providing premium assistance to surviving spouses that is equal in amount to the premium assistance provided while the State Employees' Retirement System member was alive; and be it further

RESOLVED, That the ~~Legislative Budget and Finance Committee~~ PUBLIC EMPLOYEE RETIREMENT COMMISSION report its findings and recommendations to the House of Representatives no later than three months following the adoption of this resolution.

PRINTER'S NO. **3121**

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 516

Session of 2005

INTRODUCED BY REED, NOVEMBER 16, 2005

INTRODUCED AS NONCONTROVERSIAL RESOLUTION UNDER RULE 35, NOVEMBER 16, 2005

A RESOLUTION

Extending the deadline under House Resolution No. 161, Printer's No. 2744, for reporting by the Public Employee Retirement Commission.

WHEREAS, House Resolution No. 161, Printer's No. 2744, adopted September 27, 2005, directed the Public Employee Retirement Commission to study and report on the feasibility of providing State premium assistance to surviving spouses of State Employees' Retirement System members who participated in the Retired Employee Health Program through the Pennsylvania Employees Benefit Trust Fund; and

WHEREAS, The Public Employee Retirement Commission requires additional time to complete its study and report; therefore be it

RESOLVED, That the Public Employee Retirement Commission report its findings and recommendations under House Resolution No. 161, Printer's No. 2744, to the House of Representatives no later than March 15, 2006.

APPENDIX II

February 2, 2006, Letter from Katherine A. Warren and William A. Reimert of Milliman, Inc. Regarding Projected Benefits Costs

A MILLIMAN GLOBAL FIRM

Milliman
Consultants and Actuaries

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February 2, 2006

Mr. Anthony W. Salomone
Executive Director
Public Employees' Retirement Commission
P.O. Box 1429
Harrisburg, PA 17105-1429

Re: House Resolution 161, Printer's Number 2744

Dear Mr. Salomone:

As you requested, we have prepared an actuarial note on House Resolution 161, Printer's Number 2744.

Summary of the Resolution

House Resolution 161, Printer's Number 2744 directed the Commission to prepare a study on the feasibility of providing State premium assistance to surviving spouses of State Employees' Retirement System (SERS) members who participated in the Retiree Employee Health Program (REHP) administered through the Pennsylvania Employees Benefit Trust Fund (PEBTF). The State premium assistance to the surviving spouse would be at the same level as provided during the retiree's lifetime.

Discussion of the Resolution

After the death of a REHP covered retiree in SERS, a surviving spouse must currently pay the entire premium to maintain the healthcare coverage in effect under REHP at the time of the retiree's death. Under current law, the State premium assistance for coverage ceases upon the death of the retiree.

The State premium assistance varies depending on the retiree's date of retirement, age at retirement and years of credited service. There are three levels of State Premium Assistance: Fully State-Paid, Majority State Paid with 1% Member Share and $5.00 State Payment. The eligibility requirements for these subsidy levels are described on the enclosed summary of plan provisions for postretirement coverage. Also attached is a list of the State agencies who participate in PEBTF and in SERS.

HR 161 does not specify if this assistance would be extended to current surviving spouses. For purposes of this analysis, we have assumed that the premium assistance would be extended to current surviving spouses currently enrolled in PEBTF, but did not assume it would be extended to current surviving spouses not enrolled in PEBTF.

New GASB Accounting Rules

In 2004, the Governmental Accounting Standards Board (GASB) issued new accounting rules for public employers and public employee benefit plans regarding postemployment benefits, such as retiree health insurance. For benefit plans covering employees of very large employers, such as the Commonwealth, these new rules become effective

- for the fiscal year beginning after December 31, 2005 for the benefit plan's financial statements, (GASB Statement No. 43) and
- for the fiscal year beginning after December 31, 2006 for the employer's financial statements (GASB Statement No. 45).

Thus these new accounting rules will become effective for PEBTF for the 2007 fiscal year and for the Commonwealth for the 2008 fiscal year.

Generally, these standards require benefit plans and employers to *disclose* the cost of other postemployment benefits (OPEB), such as health insurance, on an actuarial basis. (Pensions have been traditionally funded on an actuarial basis, which is sometimes referred to as an advance funding basis. But OPEB benefits to retirees, such as health insurance benefits, usually have not been funded on this basis. Rather, they have typically been funded on a pay-as-you-go or term cost basis. PEBTF currently uses this basis.)

These accounting standards do not require that employers begin to *fund* OPEB benefits on an actuarial basis, but they do require employers to report costs in their financial statements on an actuarial basis.

It is not clear to us whether PEBTF is a cost-sharing multiple-employer plan because one outside group with 25 employees participated in it during fiscal years 2004 and 2005. Also, PEBTF is a private company rather than a state agency and its employees participate in PEBTF. Based on this information, PEBTF may be deemed to be a cost-sharing, multiple-employer plan. If so, each participating employer would continue to accrue costs in its financial statement based on the amount it contributes to PEBTF for retiree and dependent coverage. An Annual Required Contribution (ARC) would be calculated on an actuarial basis and disclosed in PEBTF's financial statements along with the actual amount contributed.

If PEBTF is not a cost-sharing multiple-employer plan, the Commonwealth will have to disclose in its financial statements commencing with FY 2008 the cost of benefits provided by PEBTF on an actuarial basis. (For further information on GASB 43 and GASB 45, please refer to the attached *PERiScope* articles titled "New GASB Rules for OPEB (Other Postemployment Benefits) Finalized" and "Managing OPEB Costs under New GASB Rules".)

Estimated Costs

As requested, we have estimated the increase in the pay-as-you-go costs and in the liability and annual required contribution that will be required under Governmental Accounting Standard No. 43 – Financial Reporting for Postretirement Benefit Plans Other than Pension Plans, "GASB 43", if the State premium assistance available to the retiree were extended to the surviving spouse if currently enrolled in PEBTF. For purposes of this estimate, we have assumed that all current surviving spouses and spouses of current retirees would elect to continue coverage under REHP if currently enrolled in PEBTF. In addition, we have assumed that all surviving spouses of future retirees who are eligible for the Fully State-Paid or Majority State-Paid with 1% Member Share premium assistance would elect to continue coverage under REHP. (We are assuming that future retirees only eligible for the $5.00 State Payment would not enroll in REHP as we estimate this cost would be de minimus.) The increase in the State's costs would be for the continuation of benefits for the surviving spouses during their remaining lifetimes at the Fully State-Paid or Majority State-Paid with 1% Member Share premium assistance levels.

One of the key factors that impacts the cost of providing these benefits is the rate of future increases in healthcare premiums. We refer to this as the healthcare trend assumption. To illustrate the sensitivity of this assumption on the results, we have provided estimates based on two sets of trend assumptions: (1) a baseline estimate of healthcare trend and (2) a trend assumption 1% percent higher than the baseline for each year.

The following table indicates the estimated increase in the State's pay-as-you-go costs for the next 10 years if the State premium assistance were extended to the surviving spouse upon the covered retiree's death.

Estimated Increase in State's Pay-As-You-Go Costs due to Surviving Spouse Benefit
(Amounts shown in Millions)

Year	Baseline Healthcare Trend	1% Increase in Healthcare Trend
2006	$20.5	$20.5
2007	26.3	26.5
2008	32.8	33.4
2009	40.1	41.2
2010	48.4	50.2
2011	57.6	60.3
2012	67.6	71.4
2013	78.2	83.3
2014	89.3	96.0
2015	101.0	109.6

We have also estimated the increase in the GASB 43 liability and annual required contribution, assuming a discount rate of 5.0%. Under GASB 43, the discount rate used to measure the liabilities and annual cost should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Because these benefits are not funded, the assets of the Commonwealth should be used to determine the discount rate. This estimate of the incremental GASB 43 cost is based on the variation of the Entry Age Normal Cost Method currently used by SERS for the pension plan with a level percent of payroll 30-year amortization of the liability. The following table illustrates these results.

Estimated Increase in State's GASB 43 Figures due to Surviving Spouse Benefit
(Amounts shown in Millions)

	Baseline Healthcare Trend	1% Increase in Healthcare Trend
Increase in Actuarial Accrued Liability as of January 1, 2006	$3,000	$3,700
Normal Cost	75	115
30-year level percent of payroll Amortization of Increase in Actuarial Accrued Liability	129	159
Annual Required Contribution (ARC) assumed payable July 1, 2006	204	274
Estimated Payroll	4,460	4,460
ARC as Percent of Payroll	4.6%	6.1%

Actuarial Assumptions

The above estimate is based on the following assumptions.

The demographic assumptions for compensation increases, withdrawal, retirement, disability, and mortality are those used in the December 31, 2004 valuation of SERS.

Discount rate: 5.0% per year.

Payroll growth: 3.3% per year

Healthcare trend:

Year	Rate
2006 to 2010	10.0%
2011	9.5
2012	9.0
2013	8.5
2014	8.0
2015	7.5
2016	7.0
2017	6.5
2018	6.0
2019	5.5
2020 and later	5.0

Percent of Eligible Future Retirees Electing REHP coverage and percentage covering spouses:

Subsidy Level	Percent Electing Coverage in REHP	If electing, Percent electing Spouse Coverage
Fully State – Paid (State Police Only)	100%	75%
Majority State – Paid with 1% Member Share	100	70% for males 45% for females
$5.00 State payment	0	0

Percent of eligible Surviving Spouses electing to continue coverage in REHP after death of covered retiree: 100%

Age Difference: For future retirees, wives were assumed to be 2 years younger than husbands.

Current (2006) Monthly Premiums paid by Surviving Spouses for the most popular plan:

	Pre-Medicare Eligible (e.g. prior to age 65)	Medicare Eligible
Pre-July 1, 2004 retirement – Capital Blue Cross Major Medical	$458.31	$375.89
Post-July 1, 2004 retirement – Blue Cross PPO	728.12	375.89
State Police – Highmark Indemnity	838.84	474.65

We understand that the above Medicare Eligible premiums reflect a reduction for the entire anticipated Medicare Part D subsidy expected to be received for the surviving spouses.

Please note that we have relied on the 2006 premiums as provided by PEBTF. We have not reviewed these amounts to determine if the premiums represent the actual full cost of benefits to the surviving spouses as that analysis was beyond the scope of our assignment. To the extent that premiums are or would be adjusted in the future to reflect the actual cost of providing benefits to surviving spouses, the actual cost of this proposed change would also change.

<u>Data Used</u>

This estimate was based on the following data.

- SERS active member data used in the December 31, 2004 valuation of SERS for those employed by a REHP-participating agency - 93,200 active members.
- SERS retirees, surviving spouses, and dependent data with current coverage in PEBTF reported as of November 6, 2005, excluding retirees who retired on or after July 1, 2005 and their dependents - 58,756 retirees with 32,426 covered spouses and 4,004 surviving spouses. Of the 4,004 surviving spouses, 3,691 are currently age 65 or older. Of the 32,426 covered spouses of retirees, 15,883 are currently age 65 or older.

The liabilities for the December 31, 2004 active members were projected to January 1, 2006 using the actuarial assumptions stated above. All retirements during 2005 were assumed to occur on July 1, 2005 or later.

Because we were unable to identify the retirees who retired during the first half of 2005, there is potentially some double counting of retirees. In addition, we did not include SERS' inactive members as of December 31, 2004 because we estimate that relatively few of these members would be eligible and then elect coverage in REHP upon retirement. We believe that refining our estimates for these potential data discrepancies would have a de minimus impact on the results provided above.

Basis for Analysis

In performing this analysis, we relied on data and other information provided by the Commonwealth, SERS, and PEBTF. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

We are members of the American Academy of Actuaries and meet its Qualification Standards to render this actuarial opinion.

Mr. Anthony W. Salomone
February 2, 2006
Page 8

Please let us know if we can provide any additional information regarding this Resolution.

Sincerely,

William A. Reimert

Katherine A. Warren

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Enclosures

Pennsylvania Employee Benefit Trust Fund

Summary of Current Plan Provisions for Postretirement Coverage

Introduction

The Pennsylvania Employee Benefit Trust Fund administers the Active Employees Health Program (AEHP) and Retired Employee Health Program (REHP) for participating Commonwealth agencies. This summary of plan provisions is only for REHP and is intended only to describe the basic features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

Eligibility for REHP enrollment

An employee of a participating agency is eligible to participate in REHP at the time of his retirement if he is enrolled or is eligible to enroll in the Active Employee Health Program on their last day of employment.

Employees who defer their retirement (e.g. become Vested Members) after their last day of employment with an AEHP agency will be eligible for REHP enrollment at the time of their retirement.

Eligibility Requirements for REHP Premium Assistance

Retired State employees meeting one of the following conditions are eligible for REHP premium assistance at the fully State-Paid or State-Paid with 1% Member Share levels.

- Retirement at or after superannuation age (age 50 or age 60, depending on the class of service) with 15 or more years of credited service (effective July 1, 2008, 20 or more years of credited service).
- Retirement at any age with 25 or more years of credited service.
- Disability retirement.

Vested members, when they terminated State service, must have satisfied the eligibility requirements that will be effective on their date of retirement. For example, a vested member who retires on or after July 1, 2008 must have either (1) had 25 or more years of credited service at termination of State service or (2) had attained his superannuation age and 20 or more years of credited service at termination of State service.

Eligible State Police Officers must meet one of the following conditions to qualify for fully-state paid health benefits.

- Retirement at or after superannuation age (at least age 50).
- Retirement at any age with 20 or more years of credited service.

Pennsylvania Employee Benefit Trust Fund

Summary of Current Plan Provisions for Postretirement Coverage

- Retirement prior to age 50 with less than 20 years of credited service if hired before January 1, 1979.
- Disability retirement.

Retired State Police Officers who do not meet the above requirements are not eligible to participate.

Levels of Premium Assistance

Fully State-Paid – For eligible non-State Police members who retired before July 1, 2005 and eligible State Police, the State will pay the full cost of the REHP coverage for the retiree and eligible dependents.

Majority State-Paid with 1% Member Share – For eligible non-State Police members retiring on or after July 1, 2005, the State will pay the REHP premium and the retiree must contribute a member share of 1% of final base annual salary each year, payable monthly.

$5.00 State Payment – For non-State Police retired members not eligible for REHP Premium Assistance, the State will pay $5.00 per month towards premium assistance.

Length of Premium Assistance

The State will pay the applicable level of premium assistance above for the retiree's lifetime. Upon the death of the retiree, eligible dependents, including surviving spouses, will no longer receive any subsidy from the State. In order to continue coverage under REHP, the surviving spouse must pay the entire premium for coverage. Other dependents are not permitted to continue coverage in REHP except for COBRA extensions.

Benefit Plans Available

The 2006 benefit plans available under REHP vary by the member's date of retirement. In addition to the health plans listed below, there is a prescription drug plan administered through Medco. There are separate prescription drug plans for State Police Officers.

Pennsylvania Employee Benefit Trust Fund

Summary of Current Plan Provisions for Postretirement Coverage

	Retired before July 1, 2004	Retired on or after July 1, 2004
Non-Medicare Eligible	Basic Option – Capital Blue Cross Blue Cross PPO – Statewide PPO Various HMOs	Blue Cross PPO – Statewide PPO Various HMOs Consumer Driven Health Plan Comprehensive Major Medical Option – offered by Capital Blue Cross
Medicare Eligible	PEBTF Medicare Supplement Medicare HMOs	PEBTF Medicare Supplement Medicare HMOs

Commonwealth Agencies participating in SERS and PEBTF	
ID	**NAME**
3	TREASURY DEPARTMENT
10	DEPT OF AGING
11	CORRECTIONS DEPARTMENT
12	LABOR AND INDUSTRY DEPT
13	MILITARY AFFAIRS DEPT
14	ATTORNEY GENERAL
15	GENERAL SERVICES DEPT
16	EDUCATION DEPT
17	PUBLIC UTILITY COMMISSION
18	REVENUE DEPT
19	STATE DEPT
20	PENNSYLVANIA STATE POLICE
21	PUBLIC WELFARE DEPT
22	FISH AND BOAT COMMISSION
23	GAME COMMISSION
24	DEPT COMMUNITY & ECONOMIC DEV
25	PROBATION AND PAROLE BOARD
26	LIQUOR CONTROL BOARD
27	MILK MARKETING BOARD
28	LT. GOVERNOR'S OFFICE
29	DCED
30	HISTORICAL AND MUSEUM COMM.
31	PA EMERGENCY MANAGEMENT AGENCY
32	CIVIL SERVICE COMMISSION
33	PENNVEST
34	PA PUBLIC TV NETWORK COMM.
35	DEPT-ENVIRONMENTAL PROTECTION
36	STATE TAX EQUALIZATION BOARD
37	ENVIRONMENTAL HEARING BOARD
38	DEPT OF CONSERV & NATURAL RES.
39	PA HIGHER EDUC. ASSIST AGCY
40	STATE ETHICS COMM.
65	PA GAMING CONTROL BOARD
66	SECURITIES COMMISSION
67	HEALTH DEPARTMENT
68	AGRICULTURE DEPARTMENT
70	SERS
71	PA MUNICIPAL RETIREMENT SYS
72	PUBLIC SCHOOL EMPL. RET. SYS
75	BANKING DEPARTMENT
78	TRANSPORTATION DEPARTMENT
79	INSURANCE DEPARTMENT
81	EXECUTIVE OFFICES
88	PENNSYLVANIA PORT AUTHORITY
98	ICS AGENCIES-SUMMARY (SPSBA)
99	GOVERNOR'S OFFICE
702	AUDITOR GENERAL DEPT

Commonwealth Agencies participating in SERS and PEBTF	
ID	**NAME**
720	ICA
736	THADDEUS STEVENS COLLEGE OF TE
746	HEALTH CARE COST CONTAIN. CNCL
790	STATE SYSTEM-HIGHER EDUCATION
798	PUBLIC SCHOOL BUILDING AUTH.
995	PHILADELPHIA RGNL. PORT AUTH.
998	P I C A
9011	INDIANA UNIVERSITY
9021	BLOOMSBURG UNIVERSITY
9022	CALIFORNIA UNIVERSITY
9023	CHEYNEY UNIVERSITY
9031	CLARION UNIVERSITY
9041	EAST STROUDSBURG UNIVERSITY
9051	EDINBORO UNIVERSITY
9061	KUTZTOWN UNIVERSITY
9062	LOCK HAVEN UNIVERSITY
9063	MANSFIELD UNIVERSITY
9064	MILLERSVILLE UNIVERSITY
9065	SHIPPENSBURG UNIVERSITY
9066	SLIPPERY ROCK UNIVERSITY
9067	WEST CHESTER UNIVERSITY
9072	PUBLIC SCHOOL EMPLOYES RET SYS

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SEPTEMBER 2004

New GASB Rules for OPEB (Other Postemployment Benefits) Finalized

by Glenn Bowen

Well, it finally happened. After a decade and a half on the Governmental Accounting Standards Board's (GASB) to do list, employers now have an accrual accounting standard for retiree welfare benefits, in the form of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." Governmental entities, auditors, taxpayers, and bond rating agencies will likely have many questions regarding the new standard. Let us start off with the basics:

WHO is affected by the standard? All public employers who follow GAAP and offer postemployment benefits other than pensions (see next paragraph) will be subject to the new accounting, reporting, and disclosure requirements. Note that even if retirees pay 100% of the premium for their insurance, in many cases the new rules will require reflecting an employer cost.

WHAT is OPEB? OPEB (other postemployment benefits) includes benefits other than pensions and termination incentives provided to former employees. Examples include medical, dental, and vision coverage, life insurance and long-term care. Note that some of these benefits may be provided by a pension plan. In that case, GASB 45 applies only to the healthcare benefits and GASB 27 applies to the rest.

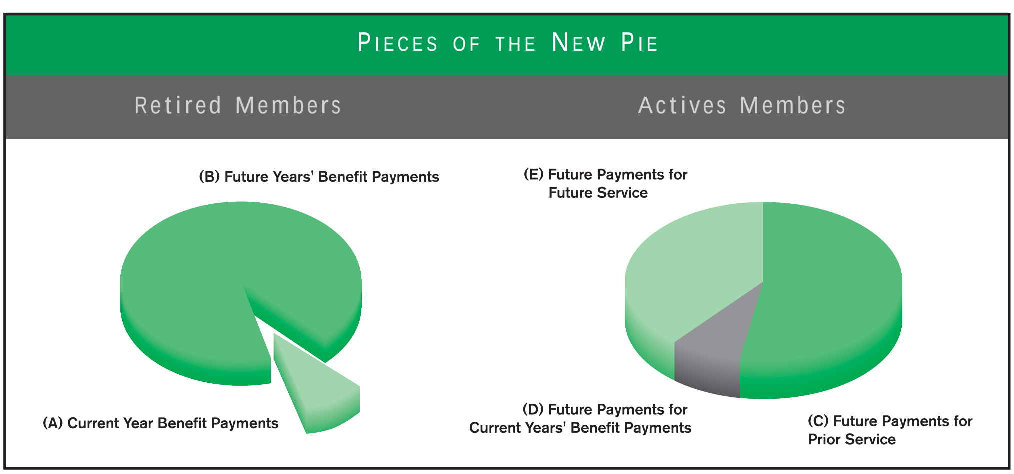
WHEN should we get started? Now would be just fine. Effective dates for GASB 45 are phased in for periods beginning after December 15 of 2006, 2007, or 2008, depending upon the size of the entity. This means that contracts resulting from upcoming union negotiations may extend beyond the effective date, thus you will want to determine the potential accounting impacts prior to bargaining. Since your first valuation can be performed based on census data collected up to 24 months prior to the effective date, many entities will soon be in a position to have calculations prepared that could be used for implementation.

WHERE do the numbers go? The Annual OPEB Cost will be reported on the income statement, and the Net OPEB Liability, if any, will appear on the balance sheet. See Figure 1,"The Pieces of the New Pie" for a discussion of how these numbers are developed.

WHY do we have to accrue for OPEB for active employees? Employees earn a right to postemployment benefits during their working years. The goal of accrual accounting is to match up the cost of an employee's services, including long term obligations such as OPEB, to that employee's period of active service. Thus GASB concluded that the current generation of users of governmental services should recognize the cost of government services as they accrue, even though the benefits are actually paid later. This is analogous to the treatment of pension benefits under GASB 27.

HOW often must we measure our liability? Plans with 200 or more members will require an actuarial valuation at least once every two years,

FIGURE 1



and plans with less than 200 members will require an actuarial valuation at least once every three years. Note that "members" includes all retirees and beneficiaries currently receiving benefits, as well as all current active employees and deferred vesteds who may ultimately earn a right to receive OPEB. (Plans with less than 100 members may choose to take advantage of a "simplified plan alternative" and forego an actuarial valuation. However, "simplified" in this case should not be confused with "simple.")

In Figure 1, pay-as-you-go accounting reflects slice (A) only, the current year's cash cost for OPEB actually paid to retirees. Accrual accounting under GASB 45 is designed to also reflect the value of future benefits for retirees and the portion of benefits for actives that have been earned but are not going to be paid in the current year. First, the present value in today's dollars of all future benefits expected to be received by each retired member and each active employee is calculated. An actuarial cost method is employed to allocate the active liability into the three pieces shown above in the Active Member pie. Slice (C) reflects the portion of the ultimate benefits allocated to prior service. Slice (D) is the portion allocated to the current year. Slice (E) is the portion allocated to future years. For retirees, all benefits to be paid this year (slice (A)) and in years to come (slice (B)) are also allocated to prior service. Actuaries call slice (D) the Normal Cost, and the combination of slices (A), (B), and (C) the Actuarial Accrued Liability (AAL).

The Annual OPEB Cost that will appear on the income statement comprises the Normal Cost and an amortization payment of the Unfunded Actuarial Accrued Liability (UAAL), plus some technical adjustments. The UAAL is the AAL less any assets that have been irrevocably set aside to fund future benefits.

The Net OPEB Liability that will appear on the balance sheet is the sum of all prior year's Annual OPEB Costs less the sum of all prior year's contributions, since the effective date of the standard.

Accrual Versus Pay-as-you-go Accounting in Real Life

To demonstrate the potential differences between accrual and pay-as-you-go accounting for OPEB, consider a study that Milliman recently performed for a municipal police and fire plan. The expected pay-as-you-go cost for retiree benefits in the effective year of the standard was roughly $300,000 (slice (A)). The expected Normal Cost (slice (D)) was roughly $800,000. The AAL (slices (A), (B), and (C)) was roughly $27,000,000. Since there were no plan assets to offset the AAL, the amortization payment of the UAAL was roughly $1,100,000. Thus, adding the Normal Cost and the UAAL amortization yields an expected Annual OPEB Cost of $1,900,000 under the new standard, over six times the pay-as-you-go or current cash cost that the municipality was used to thinking about when they considered the OPEB plan.

GASB 45 does not require advance funding for OPEB, just accrual accounting and reporting. Entities are free to continue pay-as-you-go funding. However, under the standard, the decision to advance fund would affect the allowable actuarial assumptions. More favorable investment return assumptions (discount rates) can generally be used only by entities that fund their liabilities as they accrue, which will produce significantly lower liabilities and accrual costs. Since funding, or the lack thereof, will influence the accounting results, there may be a strong incentive for governmental entities with available cash flow to commence funding their OPEB plans.

Does GASB 45 Really Matter?

If a sponsor's financial statements are used to assist in borrowing or are otherwise subject to scrutiny, the standard may have a significant impact. Ultimately, though, long-term plan costs are determined by plan provisions, not accounting treatments.

More Important Issues

Regardless of the details of the accounting standard, two significant issues looming on the horizon are certain to demand the attention of plan sponsors in years to come. The first is healthcare inflation, which has and likely will remain well in excess of wage inflation for the foreseeable future. The second is the pending wave of baby boomer retirements. Considering these two items in tandem, the resulting question is "How significant and sustainable are the benefit promises we are making?" Milliman was recently asked by a large statewide retirement system to project plan costs out for 10 years. We found that the annual pay-as-you-go cost, expressed as a percentage of annual payroll, was expected to nearly triple over that time. And, of course, that was just the start.

While many plan sponsors may find the new GASB 45 rules an added burden to the already complicated process of compiling financial statements, there is a silver lining to this new cloud. Many computer programs and methods used by actuaries to calculate the required disclosure amounts also produce projections of year-by-year future OPEB benefit payments. This information can help sponsors understand how pay-as-you-go costs will increase and plan for the retirement of baby boomers and medical cost increases.

It's Time to Act

The first item on a plan sponsor's to do list should be having an actuarial valuation performed to estimate accounting numbers, and project future pay-as-you-go costs. These estimates will help the plan sponsor understand how the accounting process works and prepare for the upcoming change. An analysis of the impact of funding these benefits on the accounting figures may be helpful for certain plan sponsors as well. While there is still some time until the effective date(s), it is advisable to start looking into the situation now, to allow as much reaction time as possible.

Glenn Bowen is a consulting actuary with Milliman's Philadelphia office.

This publication is intended to provide information and analysis of a general nature. Application to specific circumstances should rely on separate professional guidance. Inquiries may be directed to: Brent Banister, Editor; 1120 South 101st Street, Suite 400, Omaha, NE 68124-1088; (402) 393-9400; periscope@milliman.com

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APRIL 2005

Managing OPEB Costs under New GASB Rules

Available Funding Options Can Help Control Costs

by John Botsford, FSA, MAAA

Last year the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions*. This new standard will require governmental employers to account for post-retirement healthcare benefits on an "actuarial basis" during an employee's career instead of using the current practice, which accounts on a "pay-as-you-go" basis during retirement.

The new accounting rules apply to "other post-employment benefits" (OPEB), which include medical, prescription drug, dental, vision, life, and long-term care (LTC) benefits for retirees. While similar rules have applied to pensions for many years under GASB 27, pension obligations for employees and retirees have generally been funded in a separate trust, whereas OPEB benefits remain largely unfunded. Although the new rules do not mandate funding OPEB obligations, funding may lead to significantly lower annual expenses and balance sheet liabilities. This article discusses several funding vehicles available to governmental plan sponsors.

Overview of New Accounting Requirements

Governmental employers subject to GASB accounting must calculate and accrue a cost based on the Annual Required Contribution (ARC) for OPEB benefits. The ARC includes an amount that covers the current normal cost (or service cost) of benefits as they are earned during active employment and an amount that amortizes the unfunded OPEB liability for prior service, if any. The excess of the ARC over the sum of contributions made to a separate trust to fund benefits and actual benefit payments made directly by the employer accumulates each year as a net OPEB obligation on the employer's balance sheet (which must be disclosed as a note in financial statements). Since the ARC may be several times greater than actual benefit payments, balance sheet net OPEB obligations might grow rapidly unless additional funds are set aside each year to reduce the balance sheet liability.

How Big Will OPEB Liabilities Be?

The size of OPEB liabilities for prior service will vary with each sponsoring employer, depending on promised benefits, average age of the employee group, the number of retirees relative to actives, etc. As a general rule, the liability for retirees alone may be 10 - 20 times current annual benefit payments. The liability for prior service of active employees significantly adds to this ratio. The ARC may be 5 - 10 times greater than current annual benefit payments. Consequently, the size of the OPEB liabilities has drawn the attention of credit rating agencies.

How Will Funding OPEB Obligations Help Control Costs?

One of the most important factors in determining OPEB liabilities and costs is the interest rate used to discount future benefit payments to the present. As a general guideline, a 1% decrease in the discount rate may cause a 15% - 20% increase in liability and the ARC. GASB rules state that the discount rate to value OPEB liabilities must reflect expected returns on assets used to pay benefits. If OPEB liabilities are not funded in advance, this means the discount rate would be the expected return on the assets of the sponsoring employer. Statutory restrictions on fund investments (and the fact that few entities have extra funds that can be invested) likely means a low rate of return on assets. This results in the mandated use of a low discount rate for OPEB liabilities (and correspondingly high liabilities and costs). On the other hand, if the OPEB liabilities are funded in advance in a separate trust dedicated to provide OPEB benefits, the assets may be invested in longer-term investments with higher expected returns.

Table 1 illustrates how the discount rate might impact OPEB liabilities and ARC costs for an employer with approximately 500 active participants and 100 retirees.

TABLE 1

	Discount Rate		
	7%	5%	3%
OPEB Liability			
Actives	$8,300,000	$12,500,000	$20,100,000
Retirees	1,700,000	2,100,000	2,700,000
Total	$10,000,000	$14,600,000	$22,800,000
Annual Required Contribution	$1,400,000	$2,100,000	$3,500,000
Current Year Benefit Payment	$200,000	$200,000	$200,000

If an employer commits to setting aside funds at least equal to the ARC each year, then the expected return on the trust fund (rather than the employer's operating funds) would be the basis for setting a discount rate. Note that simply earmarking or reserving money that remains part of the employer's general assets does not count as a contribution for this purpose under GASB 45 rules. Instead, contributions must be made to a separate trust with assets designated to pay only OPEB benefits. Since the trust would be funding long-term obligations (and possibly have fewer statutory restrictions), it may be appropriate to invest in assets expected to earn a higher return than assets invested in an employer's general account.

Funding Vehicles for OPEB Obligations

An effective funding vehicle for OPEB benefits should meet the following criteria:

- Contribution limits, if any, are high enough to allow sufficient funding.
- Earnings in trust or account are not subject to unrelated business income tax (UBIT).
- Contributions to the trust are not taxable to employees, and benefit payments from the trust are not taxable to retirees.
- Funds are protected from creditors.

Although there are many funding options that meet some of the above criteria, three options—VEBAs, 401(h) accounts, and Section 115 Trusts—offer the best means for governmental employers to fund their OPEB Obligations. A sponsor could also accomplish somewhat similar results by purchasing insurance for future benefits, although the availability and affordability of insurance may be a problem.

A VEBA (Voluntary Employee Beneficiary Association) Trust may be established under IRC Section 501(c)(9). This is a separate trust for the sole purpose of paying OPEB benefits to retirees and is governed by both employer and employee trustees. OPEB benefit payments from a VEBA are tax-free to the retiree. UBIT on earnings within the trust is avoided if either the trust is maintained pursuant to a collective bargaining agreement or if all contributions to trust are made by a tax-exempt employer—conditions generally met by entities reporting under GASB 45. Some governmental employers already fund VEBAs as a way to earn a better return on assets set aside for OPEB benefits. VEBAs allow for funding up to the total OPEB liability, although expected increases in health costs may not be permitted in determining limits on funding. For most employers, these limitations will not restrict contributions for many years.

Alternatively, a governmental employer that also sponsors a pension trust may set up an account under IRC Section 401(h). This type of account is considered a sub-account of the pension trust. Contributions to the sub-account are included for GASB OPEB accounting purposes. These accounts provide the same tax-free earnings on investments as pension trusts, and assets can be invested easily and efficiently to earn higher returns compared to operating funds. The 401(h) account assets cannot be used to fund pensions, unless all OPEB benefits have been paid and no OPEB liabilities remain. Contributions are limited to one third of normal pension cost, which in many instances may be high enough to allow funding of the ARC. However, this funding option may not be possible if an employer's pension is provided through contributions to a state PERS program.

Still another option is to set up a governmental sponsored trust under IRC Section 115. Funds in a Section 115 trust held for a governmental purpose and funded by a tax-exempt governmental agency are not subject to income tax. OPEB benefits paid to retirees from a Section 115 trust are tax-free. Also, contributions to a Section 115 trust are not limited, as under 401(h) accounts or VEBAs. Section 115 trusts are not required to have the same limitations on usage of funds (i.e., the sponsoring governmental employer could decide at a later date to use the funds for something other than paying benefits). Although this feature allows the employer more flexibility, contributions would not count under GASB 45 accounting (i.e., they would not reduce the OPEB liability on the balance sheet) unless the trust was designed as an irrevocable trust. The IRS has issued little guidance with respect to the use of Section 115 trusts for funding OPEB benefits. Therefore, a governmental employer should seek advice from its attorney and perhaps an opinion from the IRS (known as a private letter ruling) to confirm that OPEB benefits paid from an irrevocable Section 115 trust are not taxable to retirees.

Conclusion

Governmental employers that sponsor OPEB plans may wish to consider funding OPEB benefits for several reasons. Funding may lead to lower actual plan costs over the long run due to higher returns on assets set aside in a trust compared to the return on general operating funds. Funding should lower the accounting liability and annual expense due to higher expected returns on assets and a higher discount rate used for valuing OPEB liabilities. Thus funding may reduce potential impact of the OPEB liability on borrowing costs. Finally, promised benefits to retirees would be more secure.

John Botsford is a consulting actuary with Milliman's San Francisco office.

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OFFICES IN PRINCIPAL CITIES WORLDWIDE

APPENDIX III

Commonwealth Management Directives 530.24 and 315.16, Governing Administration of the Retired Employee Health Program

MANAGEMENT DIRECTIVE

530.24
Amended
Number

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE

Subject:

Retired Employee Health Program Eligibility Requirements

By Direction Of:

Martin F. Horn, Secretary of Administration

Date:

October 5, 2001

This directive reduces the number of years required for Commonwealth employees who are covered under the TIAA-CREF retirement system to qualify for partially state-paid retiree health coverage. The change is being made to provide equity with the reduced number of years required for employees covered under the State Employees' Retirement System and Public School Employees' Retirement System as a result of the passage of *Act 2001-9;* employees under those systems may now retire with five years of service, reduced from ten. Section 2, Scope, has been expanded to add union covered bargaining units likely to include employees who may join TIAA-CREF. This directive also clarifies which organization will bill TIAA-CREF retirees for retiree health coverage when they are not eligible for full state payment.

1. PURPOSE. To revise the eligibility requirements for fully state-paid Retired Employees Health Program (REHP) coverage.

2. SCOPE. This directive applies to management and nonrepresented employees who are enrolled or eligible to enroll in the medical benefits provided by the Pennsylvania Employees Benefit Trust Fund (PEBTF) coverage. Employees in the following bargaining units are eligible: A3, A5, A6, A8, B3, B5, C3, D3, F3, G3, H3, J3, K3, K6, L6, M3, M8, N3, P3, R3, S3, S5, T3, T6, V3, W3, X3, Y3, Z3, 53, 55, 56, 98, and 99. Portions of Sections 3.b.(3), 3.c.(2), and 3.c.(4) of this directive apply to those employees who are in the following bargaining units and are covered under the TIAA-CREF retirement system: A1, A2, A4, B1, C4, C5, D4, E4, F4, F5, G4, G5, J1, N1, and N2. This directive also will apply to those employees in any bargaining unit not presently listed above, but who become eligible for coverage under the TIAA-CREF retirement system in the future.

3. POLICY.

a. Who is eligible?

(1) A Commonwealth annuitant may enroll in the REHP if he or she was an employee or dependent subscriber under (or was eligible for enrollment in) PEBTF coverage on his or her last

Distribution: B

day actively at work and if application for enrollment in the REHP is made at the time application for retirement is made.

(2) A Commonwealth annuitant who cancels his or her REHP to become a dependent subscriber under his or her spouse's PEBTF coverage may reenroll in the REHP if coverage ceases under the spouse's PEBTF coverage.

(3) If an annuitant did not enroll in the REHP at the time of retirement, enrollment will be permitted under the following circumstances:

(a) The annuitant is covered as a dependent subscriber under the PEBTF coverage and coverage ceases under the spouse's PEBTF coverage contract and the annuitant had been eligible for the PEBTF coverage on his or her last day of employment.

(b) The annuitant is covered as a dependent subscriber under the REHP and coverage ceases under the spouse's REHP contract and the annuitant had been eligible for the PEBTF coverage on his or her last day of employment.

b. When are premiums fully state-paid?

(1) The employer shall pay the entire cost of coverage for annuitants who retire under (a), (b), or (c) and who have elected coverage under the REHP.

(a) Retirement at or after superannuation age with at least 15 years of credited service in the State and/or Public School Employees' Retirement Systems, except that:

1 An employee who leaves state employment prior to superannuation age and subsequently retires at or after superannuation age must have at least 25 years of credited service in the State and/or Public School Employees' Retirement Systems.

2 An employee who is furloughed prior to superannuation age and subsequently retires at or after superannuation age during the recall period must have at least 15 years of credited service in the State and/or Public School Employees' Retirement Systems.

3 An employee who leaves state employment prior to superannuation age and is subsequently rehired and then retires at or after superannuation age must have at least 15 years of credited service in the State and/or Public School Employees' Retirement Systems with at least three years of credited service from the most recent date of reemployment. However, if the departure from state employment was due to furlough and the employee returns during the recall period, this three year requirement will not apply. If the employee had qualified other than through disability retirement for employer paid coverage in the REHP prior to the most recent rehire period, this three year requirement will not apply.

4 An employee who leaves state employment subsequent to superannuation age and is subsequently rehired and then retires must have at least 15 years of credited service in the State and/or Public School Employees' Retirement Systems with at least three years of credited service from the most recent date of reemployment. However, if the departure from state employment was due to furlough and the employee returns during the recall period, this three year requirement will not apply. If the employee had qualified other than through disability retirement for employer paid coverage in the REHP prior to the most recent rehire period, this three year requirement will not apply.

(b) Disability retirement, which requires at least five years of credited service in the State and/or Public School Employees' Retirement Systems, except that, if an employee had previously qualified based on an approved disability retirement then returns and retires under a normal or early retirement, he or she must retire at or after superannuation age with at least 15 years of credited service in the State and/or Public School Employees' Retirement Systems and at least three years of credited service from the most recent date of reemployment, or 25 years of credited service in the State and/or Public School Employees' Retirement Systems with at least three years of credited service from the most recent date of reemployment; or

(c) Other retirement with at least 25 years of credited service in the State and/or Public School Employees' Retirement Systems, except that an employee who leaves state employment and is subsequently rehired and then retires must have at least 25 years of credited service in the State and/or Public School Employees' Retirement Systems with at least three years of credited service from the most recent date of reemployment. However, if the departure from state employment was due to furlough and the employee returns during the recall period, this three year requirement will not apply. If the employee had qualified other than through disability retirement for employer paid coverage in the REHP prior to the most recent rehire period, this three year requirement will not apply.

(2) Notwithstanding the above, the following eligibility requirements also qualify an employee for fully state-paid REHP coverage:

(a) If an employee was age 60 or over on March 1, 1992, and also had at least five years of credited service as of that date, including service which had been purchased as of that date or was eligible to be purchased as of that date, then the total years of service requirement for that employee will be 10 years of credited service rather than 15, and the three year rehire requirement will not apply.

(b) If an employee is eligible for age 50 retirement and was age 45 or over on March 1, 1992, and also had at least five years of credited service as of that date, including service which had been purchased as of that date or was eligible to be purchased as of that date, then the total years of service requirement for that employee upon retirement will be 10 years of credited service rather than 15, and the three year rehire requirement will not apply.

(3) In determining eligibility under 3.b.(1) and (2) for an employee participating in the TIAA-CREF retirement system, years of service as a state employee should be considered in lieu of years of credited service in the State and/or Public School Employees' Retirement Systems. Retirement under TIAA-CREF with at least five years of service as a state employee should be considered as disability retirement if the retiree is granted disability life insurance for total and permanent disability under the Commonwealth's Group Life Insurance Program.

c. When are premiums partially state-paid?

(1) An annuitant who did not meet the requirements for a $10.00 state share in July 1974, but who has been grandfathered into that group because he or she had already retired, will continue to receive the $10.00 per month state share.

(2) For any other State and/or Public School Employees' Retirement Systems' annuitant subscriber who did not meet the requirements for fully state-paid REHP coverage, the state will contribute $5.00 per month toward the cost of the coverage and the annuitant is responsible for the remaining cost of the coverage. To qualify for the $5.00 state contribution, retirees under the TIAA-CREF retirement system must have at least five years of service as a state employee when retiring under superannuation age and at least three years of service as a state employee when retiring at superannuation age or over.

(3) An annuitant is required to pay monthly toward the cost of the coverage; these payments will be deducted from his or her annuity check for the month prior to that for which coverage is being provided.

(4) An annuitant whose annuity check is insufficient to pay the cost described in c.(1) and (2) or who has retired under the TIAA-CREF retirement system will be billed directly by the PEBTF at group component rates. If an annuitant fails to pay his or her billing within the time frames established by the PEBTF, coverage under the REHP will be terminated.

d. An annuitant may enroll for REHP coverage if his or her spouse, who had been eligible for PEBTF coverage as an employee or for REHP coverage as an annuitant subscriber terminates, dies, or divorces. The annuitant's state share will be based on his or her own state service, not on that of the spouse.

This directive supersedes Management Directive 530.24 dated May 7, 1997. Please recycle the previous version.

MANAGEMENT DIRECTIVE

315.16 Amended
Number

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE

Subject:

Payment of Annuitant Medical and Hospital Benefits

By Direction Of:

Thomas G. Paese, Secretary of Administration

Date:

September 10, 1997

This amendment sets forth the method of billing agencies for the Retired Employes Health Program (REHP). Marginal dots are being excluded due to major changes.

1. PURPOSE. To establish policy and procedures for billing the cost of Retired Employes Health Program (REHP) coverage to agencies.

2. SCOPE. Applies to all agencies under the Governor's jurisdiction and other independent agencies participating in the Active Employes Health Program (AEHP) and the State Police Health Program (SPHP).

3. OBJECTIVE. To establish payment procedures for benefits provided under the REHP.

4. DEFINITIONS.

a. Active Employes Health Program (AEHP). The plan of benefits for all employes covered under the PEBTF, including employes of those agencies not on the Commonwealth's Integrated Personnel/Payroll System (IPPS). The AEHP encompasses various mechanisms for providing medical/surgical, hospital, mental health/substance abuse, and supplemental health benefits for most active state employes.

b. Agencies. Departments under the Governor's jurisdiction as well as those departments not under the Governor's jurisdiction whose employes are eligible to participate in the REHP upon retirement. Enclosure 1 contains a list of agencies to which this directive applies, including agencies not on the IPPS.

c. Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF is a jointly trusteed health and welfare fund which is responsible for the AEHP. The PEBTF also administers the REHP for the Commonwealth in accordance with the REHP Administrative Agreement.

d. Retired Employes Health Program (REHP). The plan of benefits for eligible retired state employes, including employes who retired from bargaining units L1 and L3 and participating agencies not on the IPPS. The REHP encompasses various mechanisms for providing medical/surgical, hospital, mental health/substance abuse, prescription drug, and other such benefits for most retired state employes.

Distribution: B

e. REHP Administrative Agreement. The contractual agreement between the Commonwealth and the PEBTF which governs the administration and payment for benefits provided under the REHP.

f. State Police Health Program (SPHP). The plan of benefits under Blue Cross and Blue Shield for employes covered under bargaining units L1 and L3. The SPHP encompasses various mechanisms for providing medical/surgical, hospital, and major medical benefits for active State Police employes.

5. POLICY.

a. Coverage in the REHP is provided if an employe or dependent is covered under the AEHP or SPHP on the employe's last day actively at work (or was eligible for enrollment in the AEHP or SPHP on the employe's last day actively at work), and meets the eligibility requirements as specified in the Commonwealth's collective bargaining agreements and *Management Directive 530.24, Retired Employe Health Program Eligibility Requirements.*

b. The PEBTF, as third party administrator of the REHP, is reimbursed for REHP costs according to the methods and within the time frames established in the REHP Administrative Agreement between the Commonwealth and the PEBTF.

c. The REHP biweekly rate per active employe is determined by the Office of Administration (OA) and reviewed and approved by the Office of the Budget (OB), Deputy Secretary for Budget, based on the total estimated REHP costs, including necessary reserves, in accordance with the financial arrangements established by the REHP Administrative Agreement.

d. Effective with the first pay date in each fiscal year, the new REHP costs will be charged to and paid by agencies whose active employes will be eligible, as annuitants, to enroll in the REHP.

6. RESPONSIBILITIES.

a. The OA, Bureau of Personnel, will annually estimate the REHP costs and calculate the REHP biweekly rate per active employe to be charged to the agencies. Proposed rates will be submitted to the Office of the Budget, Deputy Secretary for Budget for review and approval.

b. The OA, Central Management Information Center (CMIC), will calculate the actual biweekly agency payroll costs for the REHP and update agency expenditures in the Commonwealth's Integrated Central Systems (ICS) Accounting System. CMIC will also produce monthly annuitant medical benefits contributions reports.

c. Agencies not on the Commonwealth's IPP system will submit payments directly to the PEBTF based on the REHP biweekly rate per active employe determined by the OA, and reviewed and approved by the Deputy Secretary for Budget.

d. The PEBTF will administer the REHP in accordance with the REHP Administrative Agreement.

7. PROCEDURES.

Action By	Step	Action
OA.	**1.**	Calculates the REHP biweekly rate per active employe and forwards to the OB, Deputy Secretary for Budget, for review and approval.
Deputy Secretary for Budget.	**2.**	Reviews the proposed rate and notifies OA of approval.
OA.	**3.**	Notifies the Bureau of Management Information Systems (BMIS), Bureau of Commonwealth Payroll Operations (BCPO), and independent agencies of the approved REHP annual biweekly rate.
OB, BMIS.	**4.**	Notifies CMIC of approved REHP annual biweekly rate.
OA, CMIC.	**5.**	Calculates the actual agency biweekly payroll costs for the REHP.
	6.	Charges the calculated agency REHP costs to minor object 142 in the Commonwealth's ICS Accounting System.

Action By	Step	Action
OA, CMIC.	**7.**	Prepares Annuitant Medical Benefits Contributions report (ADA Report # XAD58601) and forwards it to the Office of the Budget, BCPO.
OB, BCPO.	**8.**	Receives ADA Report # XAD58601 from CMIC.
	9.	Receives Monthly Payment Request Form from the PEBTF. Contacts the PEBTF if Payment Request Form is not received within the specified two day time frame.
	10.	Verifies the information and calculation on the Monthly Payment Request Form.
	11.	Prepares and processes monthly payment for the amount shown on the Monthly Payment Request Form within the time frames established in the REHP Administrative Agreement.
	12.	Forwards payment voucher to Treasury to initiate the transfer of funds to the PEBTF.
Treasury.	**13.**	Transmits monthly payment to PEBTF for agencies under IPPS and for independent agencies requiring such services.
OB, BCPO.	**14.**	Forwards check transmittal and Monthly Payment Request Form to the PEBTF.
Independent Agency.	**15.**	Prepares and processes monthly payment based on the REHP biweekly rate per active employe. Notifies Treasury of the monthly amount to be paid in the manner prescribed by its comptroller and agreed to by Treasury.
	16.	If appropriate, pays PEBTF monthly.

Enclosure:

1 – List of Agencies Whose Employes are Eligible to Participate in the REHP Upon Retirement

This directive supersedes Management Directive 315.16 dated June 4, 1982.

LIST OF AGENCIES WHOSE EMPLOYES ARE ELIGIBLE TO PARTICIPATE IN THE REHP UPON RETIREMENT

Executive Offices

Governor's Office

Aging

Agriculture

Attorney General

Auditor General

Banking

Civil Service Commission

Community and Economic Development

Conservation and Natural Resources

Corrections

Education

Environmental Hearing Board

Environmental Protection

Ethics Commission

Fish and Boat Commission

Game Commission

General Services

Health

Historical and Museum Commission

Insurance

Labor and Industry

Lieutenant Governor's Office

Liquor Control Board

Milk Marketing Board

Military and Veterans Affairs

PA Emergency Management Agency

PA Infrastructure Investment Authority (PENNVEST)

PA Higher Education Assistance Agency

PA Municipal Retirement System

PA Port Authorities

PA Public Television Network Commission

Probation and Parole, Board of

Public School Employes' Retirement System

Public Utility Commission

Public Welfare

Revenue

Securities Commission

State

State Employes' Retirement System

State Police

State Public School Building Authority

State System of Higher Education

State Tax Equalization Board

Transportation

Treasury Department

APPENDIX IV

Act 35 of 1991
and
Act 183 of 1992
Medical Insurance Coverage for Survivor Spouses of Annuitants

No. 1991-35

AN ACT

HB 804

Amending the act of April 9, 1929 (P.L.177, No.175), entitled "An act providing for and reorganizing the conduct of the executive and administrative work of the Commonwealth by the Executive Department thereof and the administrative departments, boards, commissions, and officers thereof, including the boards of trustees of State Normal Schools, or Teachers Colleges; abolishing, creating, reorganizing or authorizing the reorganization of certain administrative departments, boards, and commissions; defining the powers and duties of the Governor and other executive and administrative officers, and of the several administrative departments, boards, commissions, and officers; fixing the salaries of the Governor, Lieutenant Governor, and certain other executive and administrative officers; providing for the appointment of certain administrative officers, and of all deputies and other assistants and employes in certain departments, boards, and commissions; and prescribing the manner in which the number and compensation of the deputies and all other assistants and employes of certain departments, boards and commissions shall be determined," further providing for membership of the board of The Pennsylvania Industrial Development Authority, for crime victims' compensation and assistance and for the rights of crime victims; providing for the continuation of medical insurance coverage for survivor-spouse annuitants; providing for costs for offender supervision programs and for the deposit of certain surplus; further providing for the submission of agency budget requests to the General Assembly and for control of the budgeting processes by the General Assembly; providing for electronic access to certain information provided by the Governor; authorizing the Department of Environmental Resources to indemnify and hold harmless PermaGrain Products, Inc., from and against certain damages related to personal injury and property damage at Quehanna, Pennsylvania; permitting the drilling of water wells on State lands under certain conditions; further providing for municipal notices relating to certain permits issued by the Department of Environmental Resources; and providing for the expiration of the health care facilities' certificate of need process.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. The act of April 9, 1929 (P.L.177, No.175), known as The Administrative Code of 1929, is amended by adding a section to read:

Section 307. The Pennsylvania Industrial Development Authority; Additional Members.—In addition to the members of the board of The Pennsylvania Industrial Development Authority provided in section 4 of the act of May 17, 1956 (1955 P.L.1609, No.537), known as the "Pennsylvania Industrial Development Authority Act," the Majority Leader of the Senate, the Minority Leader of the Senate, the Majority Leader of the House of Representatives and the Minority Leader of the House of Representatives shall each appoint one member to the board of The Pennsylvania Industrial Development Authority. A member appointed pursuant to this section shall serve at the pleasure of the officer who appointed the member. Members of the General Assembly shall not be eligible for appointment to the board.

Section 2. Sections 477 and 477.3(b) and (d) of the act, amended June 30, 1984 (P.L.458, No.96) and December 11, 1986 (P.L.1490, No.155), are amended to read:

Section 477. Definitions.—So far as it relates to the crime victim's compensation provisions, the following terms shall be defined as:

"Board" means the Crime Victim's Compensation Board.

"Claimant" means the person filing a claim pursuant to this act.

[“Crime” means an act committed in Pennsylvania which, if committed by a mentally competent, criminally responsible adult, who had no legal exemption or defense, would constitute a crime as defined in and proscribed by Title 18 of the “Pennsylvania Consolidated Statutes,” (relating to crimes and offenses) or enumerated in the act of April 14, 1972 (P.L.233, No.64), known as “The Controlled Substance, Drug, Device and Cosmetic Act”: Provided, however, That no act involving the operation of a motor vehicle which results in injury shall constitute a crime for the purpose of this act unless such injury was intentionally inflicted through the use of a motor vehicle.]

"Crime" means an act, including an act resulting in injury intentionally inflicted through the use of a motor vehicle, which was committed:

(1) In Pennsylvania by a person without regard to legal exemption or defense and which would constitute a crime only as defined in, proscribed by or enumerated in:

(i) 18 Pa.C.S. (relating to crimes and offenses), 30 Pa.C.S. § 5502 (relating to operating watercraft under influence of alcohol or controlled substance) or 5502.1 (relating to homicide by watercraft while operating under influence) and 75 Pa.C.S. § 3731 (relating to driving under influence of alcohol or controlled substance) or 3735 (relating to homicide by vehicle while driving under influence);

(ii) the act of April 14, 1972 (P.L.233, No.64), known as "The Controlled Substance, Drug, Device and Cosmetic Act"; or

(iii) the laws of the United States.

(2) Against a resident of Pennsylvania which would be a crime under clause (1) but for its occurrence in a state other than Pennsylvania.

"Diversionary program" means a program used to divert the defendant to an alternative form of disposition under the Pennsylvania Rules of Criminal Procedure or statutory authority and includes those dispositions ~~authorized~~ by Rules 160, 176 and 314 of the Pennsylvania Rules of Criminal Procedure and sections 17 and 18 of the act of April 14, 1972 (P.L.233, No.64), known as "The Controlled Substance, Drug, Device and Cosmetic Act."

"Family," when used in reference to a person, shall mean (i) anyone related to such person within the third degree of consanguinity or affinity, (ii) anyone maintaining a common-law relationship with such person, or (iii) anyone residing in the same household with such person.

"Injury" shall include physical or mental damages incurred as a direct result of the crime and aggravation of existing injuries if additional losses can be attributed to the direct result of the crime. Compensation for mental damages shall be limited to expenses incurred for psychological or psychiatric services which became necessary as a direct result of the crime.

"Intervenor" shall mean a person who goes to the aid of another and suffers physical or mental injury or death as a direct result of acting not recklessly to prevent the commission of a crime, or to lawfully apprehend a person reasonably suspected of having committed such crime, or to aid the victim of such crime.

"Local law enforcement agency" means a police department of a city, borough, incorporated town or township.

"Loss of earnings," in addition to its ordinary meaning, shall mean the loss of the cash equivalent of [a] ***one month's*** social security, railroad retirement, ***pension plan, retirement plan, disability,*** child support or spousal support payment, where said payment is the primary source of the victim's income and where the victim is deprived of the money as a direct result of a crime.

"Out-of-pocket loss" means the unreimbursed and unreimbursable expenses or indebtedness incurred for medical care, nonmedical remedial care and treatment rendered in accordance with a religious method of healing as approved by the board, or other services, including psychological counseling, ***prosthetic devices, eyeglasses or other corrective lenses, or dental devices,*** reasonably necessary as a result of the injury upon which the claim is based and for which the claimant either has paid or is liable, to include expenses for physical examinations and materials used to obtain evidence. In no case shall property damages or compensation for pain and suffering be included.

"Victim" shall mean a person against whom a crime has been committed, other than the alleged offender, who, as a direct result of the crime, suffers physical or mental injury, death or the loss of earnings as herein defined[.] ***and shall include a resident of Pennsylvania against whom an act has been committed which otherwise would constitute a crime as defined in this act but for its occurrence in a state other than Pennsylvania and for which the person would otherwise be compensated by the crime victim compensation program of the state where the act occurred but for the ineligibility of such program under the provisions of the Victims of Crime Act of 1984 (42 U.S.C. § 10601, et seq.), as amended.***

Section 477.3. Persons Eligible for Compensation.—* * *

(b) A person who is criminally responsible for the crime upon which a claim is based or an accomplice of such person shall not be eligible to receive compensation with respect to such claim. A member of the family of the person who committed the crime shall not be eligible if the offender is living in the same household as the victim and will ***substantially*** benefit from the award. The Attorney General may sue the offender or the victim or both to recover the award if the offender at any time benefits from the award.

* * *

(d) Where a crime results in death, the spouse, children, parents or siblings of the victim, who reside within the same household as the victim, shall be eligible for compensation for the cost of psychological counseling [which is] ***and other reasonable out-of-pocket losses which are*** deemed necessary as a direct result of the criminal incident.

Section 3. Sections 477.9(e) and 477.15 of the act, amended or added June 30, 1984 (P.L.458, No.96), are amended to read:

Section 477.9. Awards.—* * *

(e) Except for any payments or proceeds that are specifically denominated as compensation for dismemberment or loss of an eye, any award made pursuant to this act shall be reduced by the amount of any payments received or to be received by the claimant as a result of the injury (i) from or on behalf of the person who committed the crime, (ii) under any insurance programs including those mandated by law, (iii) under any contract of insurance wherein the claimant is the **[insured]** beneficiary, (iv) from public funds, **[or]** (v) as an emergency award pursuant to section 477.8 of this act, ***or (vi) under any pension program, including those providing for disability or survivor's benefits.***

* * *

Section 477.15. **[Mandatory]** Costs.—(a) Any person who pleads guilty or nolo contendere or who is convicted of any crime, as defined in section 477 shall, in addition to costs imposed pursuant to 42 Pa.C.S. § 3571(c) (relating to Commonwealth portion of fines, etc.), be sentenced to pay costs of at least **[fifteen dollars ($15.)]** ***thirty dollars ($30), and may be sentenced to pay additional costs in an amount up to the statutory maximum monetary penalty for the offense committed.***

(a.1) Any person placed in a diversionary program, as defined in section 477, shall be required to pay costs of at least thirty dollars ($30), in addition to costs imposed pursuant to 42 Pa.C.S. § 3571(c).

(b) **[Ten dollars ($10)]** ***Fifteen dollars ($15) of the costs imposed under subsections (a) and (a.1) plus thirty per centum of the costs imposed under subsection (a) which exceed thirty dollars ($30)*** shall be paid into a special nonlapsing fund, which is hereby established, for use by the Crime Victim's Compensation Board for payment to victims ***and technical assistance.***

(c) **[Five dollars ($5)]** ***Fifteen dollars ($15) of the costs imposed under subsections (a) and (a.1) plus seventy per centum of the costs imposed under subsection (a) which exceed thirty dollars ($30)*** shall be paid into a special nonlapsing fund, which is hereby established, for use by the Commission on Crime and Delinquency for victim-witness services grants ***and technical assistance in nonvictim compensation related areas*** in accordance with this section.

(d) This cost shall be imposed notwithstanding any other provision **[to]** ***in*** this act or other act to the contrary.

(e) The district attorney, the Crime Victim's Compensation Board, ***the Commission on Crime and Delinquency*** or any victim of a crime (as defined in section 477) shall have standing to seek a mandamus order requiring the county to collect the costs imposed by this section.

Section 4. The act is amended by adding a section to read:

Section 477.20. Costs for Offender Supervision Programs.—(a) The court shall impose, as a condition of supervision, a monthly supervision fee of at least twenty-five dollars ($25) on any offender placed on probation, parole, accelerated rehabilitative disposition, probation without verdict or

intermediate punishment, unless the court finds that such fee should be reduced, waived or deferred based on the offender's present inability to pay. Of the fee collected, fifty percent (50%) shall be deposited into the County Offender Supervision Fund established in each county pursuant to this section and the remaining fifty percent (50%) shall be deposited into the State Offender Supervision Fund established pursuant to this section.

(b) The Pennsylvania Board of Probation and Parole shall impose, as a condition of supervision, a monthly supervision fee of at least twenty-five dollars ($25) on any offender under the board's supervision, unless the board finds that such fee should be reduced, waived or deferred based on the offender's present inability to pay.

(c) For offenders under supervision of a county probation department or the Pennsylvania Board of Probation and Parole, as of the effective date of this section, the fee will automatically become a part of the supervision conditions as if the court or board had imposed it, unless the court or board makes a finding that the offender is presently unable to pay.

(d) The court or board may make a finding that the offender is unable to pay based on any of the following factors:

(1) The offender has diligently attempted but has been unable to obtain employment that provides the offender sufficient income to make such payments.

(2) The offender is a student in a school, college, university or a course of vocational or technical training designed to fit the student for gainful employment.

(3) The offender has an employment handicap, as determined by an examination acceptable to or ordered by the court or board.

(4) The offender's age prevents employment.

(5) The offender is responsible for the support of dependents and the payment of the assessment constitutes an undue hardship on ~~the offender~~.

(6) Other extenuating circumstances as determined by the court or board.

(e) During fiscal year 1991-1992, the county treasurer of each county shall establish and administer a County Offender Supervision Fund consisting of the fees collected pursuant to this section. The county treasurer shall disperse moneys from this fund only at the discretion of the president judge of the court of common pleas. The moneys in this fund shall be used to pay the salaries and employe benefits of all probation and parole personnel employed by the county probation and parole department and the operational expenses of said department. Moneys from the fund shall be used to supplement Federal, State or county appropriations for the county adult probation and parole department. The president judge shall, on or before August 31 of each year, provide the board with an annual statement which fully reflects all collections deposited into and expenditures from the Offender Supervision Fee Fund for the preceding fiscal year. The board shall establish temporary rules, regulations and guidelines for the immediate implementation of the County Offender Supervision Fee Program ~~and shall~~, within one year of the effective date of this act, promulgate regulations

under the act of July 31, 1968 (P.L.769, No.240), referred to as the Commonwealth Documents Law, and the act of June 25, 1982 (P.L.633, No.181), known as the "Regulatory Review Act," to provide for the permanent administration of this program.

(f) Beginning in fiscal year 1991-1992, there is hereby established a State Offender Supervision Fund to be administered by the board and comprised of the supervision fees collected by the board pursuant to this section. The moneys in this fund shall be used to supplement the Federal or State funds appropriated for the improvement of adult probation services.

(g) For purposes of this section, the term "board" shall refer to and mean the Pennsylvania Board of Probation and Parole.

Section 5. The definition of "crime" in section 479.1 of the act, added June 30, 1984 (P.L.458, No.96), is amended to read:

Section 479.1. Definitions.—The following words and phrases when used in sections 479 through 479.5 shall have the meanings given to them in this section unless the context clearly indicates otherwise:

* * *

["Crime" means an act committed in this Commonwealth which, if committed by a mentally competent, criminally responsible adult who had no legal exemption or defense, would constitute a crime as defined in and proscribed by Title 18 of the Pennsylvania Consolidated Statutes (relating to crimes and offenses) or enumerated in the act of April 14, 1972 (P.L.233, No.64), known as "The Controlled Substance, Drug, Device and Cosmetic Act." No act involving the operation of a motor vehicle which results in injury shall constitute a crime for the purpose of this act unless the injury was intentionally inflicted through the use of a motor vehicle.]

"Crime" means an act resulting in injury, including an act intentionally inflicted through the use of a motor vehicle, which was committed by a person in Pennsylvania, without regard to legal exemption or defense, which would constitute a crime only as defined in, proscribed by or enumerated in:

(1) 18 Pa.C.S. (relating to crimes and offenses), 30 Pa.C.S. § 5502 (relating to operating watercraft under influence of alcohol or controlled substance) or 5502.1 (relating to homicide by watercraft while operating under influence) and 75 Pa.C.S. § 3731 (relating to driving under influence of alcohol or controlled substance) or 3735 (relating to homicide by vehicle while driving under influence);

(2) the act of April 14, 1972 (P.L.233, No.64), known as "The Controlled Substance, Drug, Device and Cosmetic Act"; or

(3) the laws of the United States.

* * *

Section 6. Section 479.3 of the act, added June 30, 1984 (P.L.458, No.96), is amended to read:

Section 479.3. Basic Bill of Rights for Victims.—Victims of crime have the following rights:

(1) To have included in any presentence report information concerning the effect that the crime committed by the defendant has had upon the victim, including any physical or psychological harm or financial loss suf-

fered by the victim, to the extent that such information is available from the victim or other sources.

(2) To have restitution ordered as a condition of probation whenever feasible.

(3) Upon request of the victim of a feloniously assaultive crime, to be promptly informed by the district attorney whenever the assailant is to be released on parole, furlough or any other form of supervised or unsupervised release from full incarceration.

(4) To have assistance in the preparation of, submission of and follow-up on financial assistance claims to the board.

Section 7. Section 479.5(f) of the act, added December 11, 1986 (P.L.1490, No.155), is amended to read:

Section 479.5. Grant Program for Services.—* * *

(f) In the allocation of funds for services under section 479.4, the commission shall consider the revenue collected by potential grant recipients under the penalty assessments authorized in section 477.15 of this act and section 1203 of the act of June 13, 1967 (P.L.31, No.21), known as the "Public Welfare Code," pertaining to domestic violence and rape crisis services *and the extent to which crime victims' compensation claims assistance is made available.*

Section 8. The act is amended by adding a section to read:

Section 529. Medical Insurance Coverage For Survivor-Spouses of Annuitants.—(a) A survivor-spouse of an annuitant under the State Employees' Retirement System who had elected to convert medical, major medical and hospitalization insurance coverage shall have the option to continue such insurance coverage. The State Employees' Retirement Board, upon receipt of the election by the survivor-spouse of the annuitant to continue such insurance coverage, shall notify the insurance carrier of the election and deduct the appropriate annual charges in equal monthly installments. Such deductions shall be transmitted to the designated fiscal officer of the Commonwealth having jurisdiction over the payment of such group charges on behalf of the annuitant or the survivor-spouse.

(b) In the event that the monthly annuity of the survivor-spouse of the annuitant is less than the amount needed or such person receives no survivor annuity to cover the applicable monthly installment payments, the Commonwealth's fiscal officer shall identify the total annual difference between these amounts and shall notify the survivor-spouse of the annuitant of the deficiency. Within thirty (30) days of this notification, the survivor-spouse of the annuitant shall make a payment to the Commonwealth's fiscal officer in an amount sufficient to cover the full year's deficiency. If payment is not received by the Commonwealth's fiscal officer within the specified time period, the eligibility for State insurance coverage for the survivor-spouse of the annuitant shall be forfeited. Upon forfeiture, the Commonwealth's fiscal officer shall notify both the insurance carrier and the State Employees' Retirement Board.

(c) If the survivor-spouse of the annuitant elects to continue insurance coverage and makes the annual deficiency payment, insurance coverage will

continue for twelve (12) months, during which the Commonwealth's fiscal officer will redetermine the required annual deficiency amount and notify the survivor-spouse of the annuitant of the amount required to assure continued coverage. This notification shall take place at least thirty (30) days prior to the anniversary date of the election by the survivor-spouse of the annuitant to pay for insurance coverage.

Section 9. Sections 613 introductory paragraph and 614 of the act, added September 27, 1978 (P.L.775, No.149), are amended to read:

Section 613. Submission of Budget to General Assembly.—As soon as possible after the organization of the General Assembly, but not later than the first full week in February of each year, except in the case where a Governor has been elected for his first term of office and then no later than the first full week in March, the Governor shall submit to the General Assembly copies of ***original*** agency budget requests ***and all subsequent revised agency budget requests*** and a State budget and program and financial plan embracing:

* * *

Section 614. List of Employes to be Furnished to Certain State Officers.—(a) All administrative departments, boards, and commissions and the Attorney General shall on July 15 of each year, transmit to the Auditor General, the State Treasurer and Secretary of the Budget a complete list, and to the Legislative Data Processing Center a computer tape of such list, as of July 1 preceding, of the names of all persons, except day-laborers, entitled to receive compensation from the Commonwealth for services rendered in or to the department, board, or commission, as the case may be. Such list shall show the position occupied by each such person, the date of birth and voting residence of such person, the salary at which or other basis upon which such person is entitled to be paid, the date when such person entered the service of the Commonwealth, whether such person has been continuously employed by the Commonwealth since that date, and all periods of service and positions held as an employe of the Commonwealth, or such part of such information as the Governor may prescribe.

(b) **[Each]** ***No later than the 15th of each*** month thereafter, the Attorney General, the heads of the several administrative departments, and the several independent administrative boards and commissions, shall certify to the Auditor General, the State Treasurer and the Secretary of the Budget any changes in the annual list of employes last transmitted to them which shall have occurred during the preceding month**[.]** ***and shall provide to the Legislative Data Processing Center a computer tape of such changes.***

(c) The information received by the Auditor General, the State Treasurer and the Secretary of the Budget, under this section, shall be public information.

Section 10. Section 615 of the act is amended by adding a subsection to read:

Section 615. Estimates of Current Expenditures by Departments, Boards and Commissions.—* * *

(d) The Secretary of the Budget shall not, under his authority pursuant to this section, disapprove or reduce any amount appropriated by the General Assembly for grants and subsidies without giving ten (10) days' prior notice to the Majority and Minority Chairmen of the Appropriations Committees of the Senate and the House of Representatives, for their review and comment. Such notice shall include the amount of the appropriation to be reduced or disapproved, the reasons why the appropriation should be reduced or disapproved and the estimated impact of such reduction or disapproval on the programs, services or purposes for which the appropriation is provided.

Section 11. The act is amended by adding sections to read:

Section 620.1. Electronic Access of Information.—Except for confidential information, the Majority and Minority Chairmen of the Appropriations Committees of the Senate and House of Representatives shall have access to all information available on inquiry-only screens through the Integrated Central System.

Section 622. Transfer of Portion of Surplus.—In any fiscal year in which the Secretary of the Budget certifies that there is a surplus of operating funds in the General Fund, ten per centum (10%) of such surplus shall be deposited by the end of the next succeeding quarter into the Tax Stabilization Reserve Fund established under Chapter 2 of the act of July 1, 1985 (P.L.120, No.32), known as the "Tax Stabilization Reserve Fund Act."

Section 623. Disposition of Commonwealth Assets.—Money received from the disposition of assets of the Commonwealth shall be deposited into the Tax Stabilization Reserve Fund.

Section 12. Section 1903-A(5) and (11) of the act, amended December 3, 1970 (P.L.834, No.275), are amended to read:

Section 1903-A. Forest Powers; Lease of Small Areas of State Forests.—The Department of Environmental Resources shall have the power:

* * *

(5) To give to boroughs and other municipalities of this Commonwealth *and to related municipal authorities*, upon such terms and subject to such restrictions and regulations as the department may deem proper, the privilege of impounding water *and drilling water wells* upon any State forest, and of constructing, maintaining, and operating lines of pipes upon and through State forests for the purpose of conveying water therefrom, whenever it shall be to the public interest so to do.

* * *

(11) To lease, with the approval of the Governor, and in cooperation with the Department of Commerce, those State forest lands acquired by gift from Pennsylvania State University or by acquisition from the Curtiss-Wright Corporation which are located at Quehanna, Pennsylvania, or recovered through the termination of a lease with Curtiss-Wright Corporation relating to Quehanna, Pennsylvania, and upon which are erected certain industrial buildings constructed by the Curtiss-Wright Corporation for industrial or economic development purposes or for nuclear reactor safety zone purposes.

Such leases may be made with industrial tenants or nonprofit industrial development corporations. The department in securing tenants shall cooperate fully with the Department of Commerce. Every such lease entered into shall conform in general to the terms of the standard industrial lease used by the department and approved by the Attorney General. Every such lease shall otherwise than as in this act prescribed be upon such terms and conditions as the Secretary of Environmental Resources deems in the best interests of the Commonwealth. However, all paved roads through the Quehanna project shall remain open to the general public use. Any such lease may permit the tenant to alter or expand, at its own expense and with the approval of the department first obtained in writing, existing buildings to meet the requirements of its particular industrial operation. Every such lease shall provide for the deposit of industrial floor space rentals and sewage and water rentals in a restricted receipts fund, from which the department may draw moneys for use in developing, operating and maintaining the water and sewage disposal facilities, and replacing machinery, equipment and fixtures appurtenant thereto, at aforesaid Quehanna. Said restricted receipts fund shall be audited two years from the effective date of this act and at two-year intervals thereafter, with any residue appearing in said fund at the end of each auditing period to be deposited in the General Fund.

The department is hereby authorized to indemnify and hold harmless PermaGrain Products, Inc., from and against any and all damages incurred by PermaGrain Products, Inc., related to personal injury or property damage, resulting from radioactive contamination arising exclusively from performance by the Commonwealth or its contractors of the characterization, remediation, decontamination and removal of radioactive materials from contaminated structures on those State forest lands acquired from the Pennsylvania State University or Curtiss-Wright Corporation and located at Quehanna, Pennsylvania.

* * *

Section 13. Section 1905-A(b) of the act is amended by adding a clause to read:

Section 1905-A. Cooperation with Municipalities.—* * *

(b) * * *

(4) When the department issues an emergency permit to respond to or alleviate an actual or imminent threat to life, property or the environment, such as activities conducted in compliance with the emergency response provisions of the Natural Gas Pipeline Safety Act of 1968 (Public Law 90-481, 49 U.S.C. § 1671 et seq.) and 49 CFR 192.615 (relating to emergency plans), the provisions of clause (2) and any other provision in regulation requiring notice to the affected municipality shall not apply. The applicant shall notify the affected municipality of an emergency permit as soon as possible verbally and provide a follow-up notice in writing within forty-eight (48) hours from the issuance of an emergency permit.

Section 14. The act is amended by adding a section to read:

Section 2122. Expiration of Certificate of Need Process Generally.—The certificate of need process established under the act of July 19, 1979

(P.L.130, No.48), known as the "Health Care Facilities Act," shall expire December 31, 1992, unless sooner extended by the General Assembly pursuant to the review procedure set forth in the act of December 22, 1981 (P.L.508, No.142), known as the "Sunset Act." The certificate of need process may not be used after December 31, 1992, unless this expiration date is extended by statutory amendment.

Section 15. The provisions of this act are severable. If any provision of this act or its application to any person or circumstance is held invalid, the invalidity shall not affect other provisions or applications of this act which can be given effect without the invalid provision or application.

Section 16. The addition of section 529 of the act shall apply to all survivor-spouses of annuitants who attain such status subsequent to the effective date of the addition of section 529 of the act.

Section 17. The amendment of the definition of "crime" in section 477 of the act shall be retroactive to September 1, 1990.

Section 18. This act shall take effect as follows:

(1) The amendment or addition of sections 477.3, 477.9, 477.15, 479.1, 479.3 and 529 of the act shall take effect in 60 days.

(2) The remainder of this act shall take effect immediately.

APPROVED—The 14th day of August, A. D. 1991.

ROBERT P. CASEY

No. 1992-183

AN ACT

HB 2390

Amending the act of April 9, 1929 (P.L.177, No.175), entitled "An act providing for and reorganizing the conduct of the executive and administrative work of the Commonwealth by the Executive Department thereof and the administrative departments, boards, commissions, and officers thereof, including the boards of trustees of State Normal Schools, or Teachers Colleges; abolishing, creating, reorganizing or authorizing the reorganization of certain administrative departments, boards, and commissions; defining the powers and duties of the Governor and other executive and administrative officers, and of the several administrative departments, boards, commissions, and officers; fixing the salaries of the Governor, Lieutenant Governor, and certain other executive and administrative officers; providing for the appointment of certain administrative officers, and of all deputies and other assistants and employes in certain departments, boards, and commissions; and prescribing the manner in which the number and compensation of the deputies and all other assistants and employes of certain departments, boards and commissions shall be determined," further providing for medical insurance coverage for survivor-spouses of annuitants; validating expenditures by the Department of Environmental Resources; further providing for certain powers of the Environmental Quality Board in relation to surface mining; providing for the use of the proceeds of certain condemnation proceedings; and making a repeal.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Section 529 of the act of April 9, 1929 (P.L.177, No.175), known as The Administrative Code of 1929, added August 14, 1991 (P.L.331, No.35), is amended to read:

Section 529. Medical Insurance Coverage For Survivor-Spouses of Annuitants.—(a) A survivor-spouse of an annuitant under the State Employees' Retirement System who had elected to convert medical, major medical and hospitalization insurance coverage shall have the option to continue such insurance coverage. *The State Employees' Retirement System shall notify prospectively the appropriate State agency administering that annuitant's group health insurance program. A previously covered survivor-spouse of an annuitant who died before October 14, 1991, must notify the State Employees' Retirement System of potential eligibility. The survivor-spouse must submit satisfactory documentation supporting the claim of eligibility to the appropriate State agency administering that annuitant's group health insurance program. The State agency or fund administering that annuitant's group health insurance program must send an election form to the eligible survivor-spouse within thirty (30) days of notification that the annuitant died.* The State Employees' Retirement **[Board]** *System*, upon receipt of the election by the survivor-spouse of the annuitant to continue such insurance coverage, shall notify the insurance carrier of the election and deduct the appropriate **[annual]** charges in equal monthly installments. Such deductions shall be transmitted to the designated fiscal officer of the Commonwealth having jurisdiction over the payment of such group charges on behalf of the annuitant or the survivor-spouse. *This section shall apply to all survivor-spouses of annuitants regardless of when they attain ~~such status~~. An eligible survivor-spouse who does not return the election form to the State Employees' Retirement System or the appropriate State agency administering the annuitant's group health insurance program within ~~thirty (30)~~ days shall have a coverage effective date of the first day of the month subsequent to the receipt of the election form.*

(b) In the event that the monthly annuity of the survivor-spouse of the annuitant is less than the amount needed or such person receives no survivor annuity to cover the applicable monthly installment payments, the Commonwealth's fiscal officer shall identify the total **[annual]** difference between these amounts and shall notify the survivor-spouse of the annuitant of the deficiency. Within thirty (30) days of this notification, the survivor-spouse of the annuitant shall make a payment to the Commonwealth's fiscal officer in an amount sufficient to cover the **[full year's]** deficiency *for the period mandated by the State agency administering the annuitant's group health insurance program, which period shall not exceed three (3) months*. If payment is not received by the Commonwealth's fiscal officer within the specified time period, the eligibility for State insurance coverage for the survivor-spouse of the annuitant shall be forfeited. Upon forfeiture, the Commonwealth's fiscal officer shall notify both the insurance carrier and the State Employees' Retirement Board.

(c) If the survivor-spouse of the annuitant elects to continue insurance coverage and makes the **[annual]** *installment payment or* deficiency payment, *or both,* insurance coverage will continue **[for twelve (12) months, during which]** *in force with* the Commonwealth's fiscal officer **[will redetermine the]** *determining rate adjustments annually and any* required **[annual]** deficiency amount **[and]**. *The Commonwealth's fiscal officer shall* notify the survivor-spouse of the annuitant of the amount required to assure continued coverage. This notification shall take place at least thirty (30) days prior to the **[anniversary]** date of the **[election by the survivor-spouse of the annuitant to pay for insurance coverage.]** *proposed rate change.*

Section 2. The act is amended by adding sections to read:

Section 1929-A. Expenditures for Correctional Institutions.—Expenditures by the Department of Environmental Resources for utility services for Rockview Correctional Institution under section 2 of the act of June 21, 1978 (P.L.1485, No.16A), entitled "An act to provide for the expenses of the Executive, Legislative and Judicial Departments of the Commonwealth, ~~the~~ public debt and for the public schools for the fiscal period July 1, 1978, to June 30, 1979, and for the payment of bills incurred and remaining unpaid at the close of the fiscal period ending June 30, 1978," are validated.

Section 1930-A. Powers of Environmental Quality Board.—The Environmental Quality Board shall have the power and its duty shall be ~~to~~ review any petition submitted to it to designate an area as unsuitable for surface mining as provided for in section 315(h) through (n) of the act of June 22, 1937 (P.L.1987, No.394), known as "The Clean Streams Law," and make *designations pursuant thereto: Provided, however, That the board or the Department of Environmental Resources shall not make such designations for surface mining operations regulated by the act of December 19, 1984 (P.L.1093, No.219), known as the "Noncoal Surface Mining Conservation and Reclamation Act." This section shall not apply to any petition to designate an area as unsuitable for noncoal mining operations filed with the Department of Environmental Resources prior to July 30, 1992.*

Section 2421. Utilization of Lock Haven University Condemnation Proceeds.—All sums received from the condemnation of lands owned by the Commonwealth and utilized by Lock Haven University which have been condemned by the Army Corps of Engineers on behalf of the Lock Haven Area Flood Protection Authority, specifically Clinton County Tax Parcel Numbers 21-H-1-121 through 21-H-1-126 and 21-H-1-222, shall be used for improvement to the replacement properties or remaining properties impacted by this condemnation. All sums realized by the condemnation of Tax Parcel Numbers 21-A-01-25, 21-A-01-26 and part of 21-A-01-24 shall be used for improvements to the remaining property impacted by this condemnation. Any additional benefits received from the condemnation shall be used by the university for public improvement of the remaining Commonwealth properties impacted by the condemnation.

Section 3. Section 16 of the act of August 14, 1991 (P.L.331, No.35), entitled "An act amending the act of April 9, 1929 (P.L.177, No.175), entitled 'An act providing for and reorganizing the conduct of the executive and administrative work of the Commonwealth by the Executive Department thereof and the administrative departments, boards, commissions, and officers thereof, including the boards of trustees of State Normal Schools, or Teachers Colleges; abolishing, creating, reorganizing or authorizing the reorganization of certain administrative departments, boards, and commissions; defining the powers and duties of the Governor and other executive and administrative officers, and of the several administrative departments, boards, commissions, and officers; fixing the salaries of the Governor, Lieutenant Governor, and certain other executive and administrative officers; providing for the appointment of certain administrative officers, and of all deputies and other assistants and employes in certain departments, boards, and commissions; and prescribing the manner in which the number and compensation of the deputies and all other assistants and employes of certain departments, boards and commissions shall be determined,' further providing for membership of the board of The Pennsylvania Industrial Development Authority, for crime victims' compensation and assistance and for the rights of crime victims; providing for the continuation of medical insurance coverage for survivor-spouse annuitants; providing for costs for offender supervision programs and for the deposit of certain surplus; further providing for the submission of agency budget requests to the General Assembly and for control of the budgeting processes by the General Assembly; providing for electronic access to certain information provided by the Governor; authorizing the Department of Environmental Resources to indemnify and hold harmless PermaGrain Products, Inc. from and against certain damages related to personal injury and property damage at Quehanna, Pennsylvania; permitting the drilling of water wells on State lands under certain conditions; further providing for municipal notices relating to certain permits issued by the Department of Environmental Resources; and providing for the expiration of the health-care facilities' certificate of need process," is repealed.

Section 4. This act shall take effect immediately.

APPROVED—The 18th day of December, A. D. 1992.

ROBERT P. CASEY

APPENDIX V

State Employees' Retirement System Administrative Procedures Governing the Survivor Spouse Health Program

SERS PROCEDURE OUTLINE
FOR ACT 183 SURVIVOR-SPOUSE COVERAGE
CURRENT RETIREE DEATHS

The following procedures are currently used by SERS and PEBTF to administer the Survivor-Spouse Health Program (ACT 183).

1. SERS - Receives notification of retiree death via phone call or correspondence.

2. SERS - Date of death data is then entered into the SERS Annuity Payroll records.

3. SERS - Makes a weekly computer file transfer available to PEBTF that lists all retiree deaths.

4. PEBTF - Retrieves the retiree death information file from SERS.
   - cancels retiree contract
   - notifies insurance co. (initiating non-group bill for dependents)
   - send COBRA notices to listed dependents
   - send survivor-spouse ACT 183 conversion letter/election form

5. Survivor-spouse receives election notice and form. When Health Insurance coverage is desired, completes and returns election form to SERS.

6. SERS - Receives survivor spouse election form from survivor.

7. SERS - Determine if payroll deduction is possible and initiate deduction.

8. SERS - Forward election notice to the PEBTF with information regarding payroll deductions and any premium Deficiency.

9. SERS - Maintains a copy of the election form.

10. PEBTF - Receives election information from SERS.
    - converts the survivor-spouse to their own contract on eligibility files
    - send deficiency billings as required (coupon books)
    - send a new coverage card to the survivor-spouse

11. SERS - Forward payroll deductions for this program to the PEBTF monthly.

12. SERS - Process annual premium rate changes and adjust premium deductions.

13. SERS - Send letters to Deduction type survivor-spouses notifying them of rate adjustments and partial PEBTF billings if applicable.

14. SERS - Notify PEBTF of any deficiency billing changes.

15. PEBTF - Notify survivor-spouses of deficiency balance remaining after SERS deduction or when no deduction is possible and bill for deficiency.

SERS PROCEDURE OUTLINE
FOR ACT 183 SURVIVOR-SPOUSE COVERAGE
PAST RETIREE DEATHS

The following procedures are used by SERS and PEBTF to administer the Survivor-Spouse Health Program (ACT 183) when the retiree death occurred in the past.

1. SERS - Receives Survivor Spouse election request from surviving spouse via phone call or correspondence.

2. Survivor-spouse must provide adequate information regarding deceased retiree and former REHP coverage.

3. SERS - Researches records to determine if spouse is eligible for Survivor Spouse election.

4. SERS - When eligible SERS prepares a Survivor-Spouse information letter and election form and mails to the surviving spouse.

5. Survivor-spouse receives election notice and form. When Health Insurance coverage is desired, completes and returns election form to SERS.

6. SERS - Receives survivor spouse election form from survivor.

7. SERS - Determine if payroll deduction is possible and initiate deduction.

8. SERS - Forward election notice to the PEBTF with information regarding payroll deductions and any premium Deficiency.

9. SERS - Maintains a copy of the election form.

10. PEBTF - Receives election information from SERS.
    - enrolls the survivor-spouse to their own contract on eligibility files
    - send deficiency billings as required (coupon books)
    - send a new coverage card to the survivor-spouse

11. SERS - Forward payroll deductions for this program to the PEBTF monthly.

12. SERS - Process annual premium rate changes and adjust premium deductions.

13. SERS - Send letters to Deduction type survivor-spouses notifying them of rate adjustments and partial PEBTF billings if applicable.

14. SERS - Notify PEBTF of any deficiency billing changes.

15. PEBTF - Notify survivor-spouses of deficiency balance remaining after SERS deduction or when no deduction is possible and bill for deficiency.

SERS PROCEDURE OUTLINE
FOR ACT 183 SURVIVOR-SPOUSE COVERAGE
DIED IN SERVICE

The following procedures are currently used by SERS and PEBTF to administer the Survivor-Spouse Health Program (ACT 183) when members die in state service.

1. Survivor-spouse contacts SERS about possible enrollment in the Survivor-Spouse coverage.

2. SERS - Determines if the deceased employee was eligible to retire and enroll in the REHP at the time of their death.

3. SERS - Provides surviving-spouse with a comparison of the Survivor-Spouse coverage versus COBRA coverage, including the premium costs.

4. SERS - If the surviving-spouse is still interested in the Survivor-Spouse coverage, SERS prepares and mails a Survivor-Spouse information letter and election form.

5. Survivor-spouse receives election notice and form. When Health Insurance coverage is desired, completes and returns election form to SERS.

6. SERS - Receives survivor spouse election form from survivor.

7. SERS - Determine if payroll deduction is possible and initiate deduction.

8. SERS - Forward election notice to the PEBTF with information regarding the premium Deficiency.

9. SERS - Maintains a copy of the election form.

10. PEBTF - Receives election information from SERS.
    - enrolls the survivor-spouse to their own contract on eligibility files
    - send deficiency billings as required (coupon books)
    - send a new coverage card to the survivor-spouse

11. PEBTF - Notify survivor-spouses of deficiency balance changes as they occur due to health plan or annual premium rate changes.

APPENDIX VI

Summary Description of the Pennsylvania Employees Benefit Trust Fund

THE PENNSYLVANIA EMPLOYEES BENEFIT TRUST FUND

Established in 1988, the Pennsylvania Employees Benefit Trust Fund (PEBTF) administers healthcare benefits for approximately 85,000 active Commonwealth employees and dependents, and approximately 62,000 retired employees and dependents. The PEBTF is a jointly administered, collectively bargained health and welfare trust fund. The Fund operates through a declaration of trust that is referenced in the collective bargaining agreements of all participating public employee unions. The Fund functions independently and is not an agency of the Commonwealth.

Prior to the formation of the PEBTF, the Governor's Office of Administration directly administered the healthcare benefits for all Commonwealth employees under the Governor's jurisdiction, as well as for several independent agencies. Supplemental health benefits, such as prescription drug , dental, and vision care were administered by eleven separate Health and Welfare funds established through various collective bargaining agreements with the individual unions.

In the mid-1980's, healthcare inflation averaged in the double digits. During that era, benefits became a major concern in public employee collective bargaining, and nationally there were more public sector strikes over benefits than over wages. During the collective bargaining process in 1988, the American Federation of State, County and Municipal Employees (AFSCME), the largest union representing Commonwealth employees, reached the initial agreement with the Commonwealth that ultimately resulted in the formation of the PEBTF on October 1, 1988. Over the course of the next several years, the remaining unions representing public employees (with the exception of the Pennsylvania State Troopers Association) gradually elected to participate in the PEBTF. From the viewpoint of the public employee unions, this step provided a greater say in the structure and level of benefits to be provided to Commonwealth employees. From the Commonwealth's perspective, the new language meant that the parties generally would no longer bargain over the actual level of benefits to be provided, since those were subject to the PEBTF Board of Trustee's oversight. Instead, the unions would only bargain over the amounts to be contributed to the PEBTF, and the Board of Trustees would determine how the funds would be spent.

Article IV of the General Agreement and Declaration of Trust (as amended) between the Commonwealth and PEBTF, sets forth the powers, duties and obligations of the Trustees. These include the duty to hold in trust all funds transferred to the PEBTF by the Commonwealth and certain independent agencies, and to use those funds solely for the benefit of the participants. The PEBTF is funded through contributions made by participating employers, and contribution levels are determined through the collective bargaining process. A per-employee contribution amount is determined for each contract cycle as part of the collective bargaining process. These sums are then contributed by each participating employer on behalf of each employee and as part of the payroll process.

The PEBTF is governed by a 14-member Board of Trustees with equal membership by Commonwealth of Pennsylvania management and the unions that represent Commonwealth employees, with seven trustees representing each group. The Secretary of the Budget and AFSCME's Executive Director rotate the positions of Chairman and Secretary of the Board. The Secretary of Administration is responsible for appointing the other management trustees. The unions participating in the PEBTF elect the union trustees. The day-to-day operations of the PEBTF are overseen by the Executive Director, and the PEBTF currently employs approximately 160 employees.

Management employees of the Commonwealth are covered by the PEBTF under the same plan of benefits and contribution rates as all other employees. A contract with the PEBTF authorizes this arrangement and specifies the terms. The PEBTF offers active employees many choices of coverage, depending on their county of residence, and all plan offerings are uniform throughout the Commonwealth of Pennsylvania. Types of medical plans include Health Maintenance Organizations (HMO's), the basic option (Blue Cross and/or Blue Shield), and Preferred Provider Organization (PPO) coverage. The PEBTF also manages supplemental health benefits for covered employees, including prescription, dental, vision, and hearing coverage.

APPENDIX VII

2006
Pennsylvania Employees Benefit Trust Fund
Annuitant Healthcare Premium Rates by Plan Type

PEBTF ANNUITANT INDEMNITY & PPO MONTHLY RATES
2006

		Monthly Rates 2006		
	NFSP Annuitant Plan Code And Name Indemnity & PPO Options	ŝurvivor Spous 100% Deductio	$5 Share Deduction	$10 Share Deduction
	Individual Coverage (Non-Medicare)			
	INDEMNITY			
560	Capital Blue Cross Out-of-State Resident	458.31	453.31	448.31
561	Capital Blue Cross	458.31	453.31	448.31
	PPO			
565	Blue Cross PPO	728.12	723.12	718.12
566	Blue Cross PPO Out-of-State Resident	728.12	723.12	718.12
	Multi-Party Coverage (Non-Medicare)			
	INDEMNITY			
560	Capital Blue Cross Out-of-State Resident	SSA members	1,074.34	1,069.34
561	Capital Blue Cross	will be single	1,074.34	1,069.34
	PPO	contracts only.		
565	Blue Cross PPO		1,677.63	1,672.63
566	Blue Cross PPO Out-of-State Resident		1,677.63	1,672.63
	Multi-Party SPLIT (1 with both Medicare A&B)			
	INDEMNITY			
x60	Capital Blue Cross Out-of-State Resident	SSA members	743.43	738.43
x61	Capital Blue Cross	will be single	743.43	738.43
	PPO	contracts only.		
x65	Blue Cross PPO		1,200.38	1,195.38
x66	Blue Cross PPO Out-of-State Resident		1,200.38	1,195.38
	Multi-Party SPLIT (1 with only Medicare Part A)			
	INDEMNITY			
x60	Capital Blue Cross Out-of-State Resident	SSA members	951.95	946.95
x61	Capital Blue Cross	will be single	951.95	946.95
	PPO	contracts only.		
x65	Blue Cross PPO		1,496.85	1,491.85
x66	Blue Cross PPO Out-of-State Resident		1,496.85	1,491.85
	Individual Coverage (Medicare A&B)			
	INDEMNITY			
x60	Capital Blue Cross Out-of-State Resident	375.89	370.89	365.89
x61	Capital Blue Cross	375.89	370.89	365.89
	PPO			
x65	Blue Cross PPO	375.89	370.89	365.89
x66	Blue Cross PPO Out-of-State Resident	375.89	370.89	365.89
	Multi-Party Coverage (Both Medicare A&B)			
	INDEMNITY			
x60	Capital Blue Cross Out-of-State Resident	SSA members	741.78	736.78
x61	Capital Blue Cross	will be single	741.78	736.78
	PPO	contracts only.		
x65	Blue Cross PPO		741.78	736.78
x66	Blue Cross PPO Out-of-State Resident		741.78	736.78
	Individual Coverage (Medicare Part A only)			
	INDEMNITY			
x60	Capital Blue Cross Out-of-State Resident	657.81	652.81	647.81
x61	Capital Blue Cross	657.81	652.81	647.81
	PPO			
x65	Blue Cross PPO	620.22	615.22	610.22
x66	Blue Cross PPO Out-of-State Resident	620.22	615.22	610.22
	Multi-Party Coverage (Both Medicare Part A)			
	INDEMNITY			
x60	Capital Blue Cross Out-of-State Resident	SSA members	1,298.12	1,293.12
x61	Capital Blue Cross	will be single	1,298.12	1,293.12
	PPO	contracts only.		
x65	Blue Cross PPO		1,194.27	1,189.27
x66	Blue Cross PPO Out-of-State Resident		1,194.27	1,189.27
	Multi-Party Coverage (One Part A/One Part A&B)			
	INDEMNITY			
x60	Capital Blue Cross Out-of-State Resident	SSA members	1,031.08	1,026.08
x61	Capital Blue Cross	will be single	1,031.08	1,026.08
	PPO	contracts only.		
x65	Blue Cross PPO		986.57	981.57
x66	Blue Cross PPO Out-of-State Resident		986.57	981.57

x= First digit of plan code is 5 for non-Medicare members, S for Medicare member of split contract and M for total Medicare contract.

PEBTF ANNUITANT MHMO, MPPO, & HMO MONTHLY RATES
2006

		Monthly Rates 2006		
	NFSP Annuitant Plan Code And Name	Survivor Spouse 100% Deduction	$5 Share Deduction	$10 Share Deduction
	Medicare HMO Option			
510	UPMC	198.53	193.53	188.53
511	Aetna Southeast PA	336.78	331.78	326.78
512	Aetna Philadelphia	322.82	317.82	312.82
513	Aetna Southeast - Lehigh & Northampton	308.46	303.46	298.46
514	Aetna Pittsburgh Area 1	358.51	353.51	348.51
515	Aetna Central PA Area 1	261.61	256.61	251.61
516	Aetna Central PA Area 2	300.22	295.22	290.22
517	Aetna Northeastern	282.33	277.33	272.33
593	Geisinger Gold	218.00	213.00	208.00
595	Highmark Security Blue	211.00	206.00	201.00
596	Senior Blue - Keystone Central	239.00	234.00	229.00
	Medicare PPO Option			
520	Senior Blue - Keystone Central	263.00	258.00	253.00
521	Aetna Central PA Area 1	321.75	316.75	311.75
522	Aetna Central PA Area 2	358.71	353.71	348.71
523	Aetna Northeastern	346.48	341.48	336.48
	HMO Option - Individual Coverage			
540	BlueCare	649.93	644.93	639.93
541	Geisinger Health Plan	585.60	580.60	575.60
543	HealthAmerica	643.38	638.38	633.38
546	Keystone Health Plan Central	672.50	667.50	662.50
548	Keystone Health Plan East	578.26	573.26	568.26
549	Keystone Health Plan West	889.27	884.27	879.27
550	Aetna HMO PA	557.77	552.77	547.77
558	UPMC Health Plan	861.97	856.97	851.97
	HMO Option - Multi-Party Coverage			
540	BlueCare	SSA members	1,522.04	1,517.04
541	Geisinger Health Plan	will be single	1,370.21	1,365.21
543	HealthAmerica	contracts only.	1,506.57	1,501.57
546	Keystone Health Plan Central		1,575.30	1,570.30
548	Keystone Health Plan East		1,352.89	1,347.89
549	Keystone Health Plan West		2,086.88	2,081.88
550	Aetna HMO PA		1,304.54	1,299.54
558	UPMC Health Plan		2,022.45	2,017.45

PEBTF ANNUITANT HMO, INDEMNITY, & PPO COBRA MONTHLY RATES 2006

	PLAN CODE AND NAME	Monthly Rates 2006	
		Single	Multi
	HMO Options		
540	BlueCare	662.93	1,557.58
541	Geisinger Health Options	597.31	1,402.71
543	Health America	656.24	1,541.80
546	Keystone Health Plan Central	685.95	1,611.90
548	Keystone Health Plan East	589.82	1,385.04
549	Keystone Health Plan West	907.06	2,133.72
550	Aetna HMO PA	568.93	1,335.73
558	UPMC Health Plan	879.21	2,068.00
	Indemnity Options		
560	Capital Blue Cross Out of State Resident	467.47	1,100.93
561	Capital Blue Cross	467.47	1,100.93
	PPO Options		
565	Blue Cross PPO	742.68	1,716.29
566	Blue Cross PPO Out of State Resident	742.68	1,716.29

PEBTF ANNUITANT HMO, INDEMNITY, & PPO 150% COBRA MONTHLY RATES 2006

PLAN CODE AND NAME		Monthly Rates 2006	
		Single	Multi
	HMO Options		
540	BlueCare	974.90	2,290.57
541	Geisinger Health Options	878.40	2,062.81
543	Health America	965.07	2,267.36
546	Keystone Health Plan Central	1,008.75	2,370.44
548	Keystone Health Plan East	867.39	2,036.83
549	Keystone Health Plan West	1,333.91	3,137.82
550	Aetna HMO PA	836.66	1,964.31
558	UPMC Health Plan	1,292.96	3,041.18
	Indemnity Options		
560	Capital Blue Cross Out of State Resident	687.46	1,619.01
561	Capital Blue Cross	687.46	1,619.01
	PPO Options		
565	Blue Cross PPO	1,092.18	2,523.95
566	Blue Cross PPO Out of State Resident	1,092.18	2,523.95

PEBTF ANNUITANT MHMO, MPPO, & MEDICARE SUPPLEMENT COBRA MONTHLY RATES

2006

PLAN CODE AND NAME		Monthly Rates 2006	
		Single	Multi
	Medicare HMOs		
510	UPMC	202.50	-
511	Aetna Southeast PA	343.52	-
512	Aetna Philadelphia	329.28	-
513	Aetna Southeast - Lehigh & Northampton	314.63	-
514	Aetna Pittsburgh Area 1	365.68	-
515	Aetna Central PA Area 1	266.84	-
516	Aetna Central PA Area 2	306.22	-
517	Aetna Northeastern	287.98	-
593	Geisinger Gold	222.36	-
595	Highmark Security Blue	215.22	-
596	Senior Blue - Keystone Central	243.78	-
	Medicare PPO Option		
520	Senior Blue - Keystone Central	268.26	-
521	Aetna Central PA Area 1	328.19	-
522	Aetna Central PA Area 2	365.88	-
523	Aetna Northeastern	353.41	-
	Indemnity & PPO Options		
	INDEMNITY		
x61	Capital Blue Cross - Medicare A & B Supplement	383.41	761.72
	PPO		
x65	Blue Cross PPO - Medicare A & B Supplement	383.41	761.72
	INDEMNITY		
x61	Capital Blue Cross - Medicare Part A Supplement	670.96	1,329.18
	PPO		
x65	Blue Cross PPO - Medicare Part A Supplement	632.62	1,223.25

x= First digit of plan code is S for Medicare member of split contract and M for total Medicare contract.

7-1-04 RETIREE - PEBTF ANNUITANT MHMO, MPPO, CMM, CDHP, HMO, & PPO MONTHLY RATES

2006

Plan Code	Plan Name and Type	Single: Survivor Spouse 100% Deduction	Single: $5 Share	Multi-Party: Survivor Spouse 100% Deduction (SSA members only enrolled as single contracts)	Multi-Party: $5 Share	Split Contract: Plan Code	Split Contract: Medicare Member (PEBTF supp to Medicare) (Non-Medicare member receives single rate)	Split Contract: $5 Share	Medicare Contract: Plan Code (PEBTF use only)	Medicare Contract: Single Contract Medicare (PEBTF supp to Medicare)	Medicare Contract: Both Medicare Members (PEBTF supp to Medicare)	Medicare Contract: $5 Share
	Medicare HMO Options											
510	UPMC	198.53	193.53	-	-	-	-	-	-	-	-	-
511	Aetna Southeast PA	336.78	331.78	-	-	-	-	-	-	-	-	-
512	Aetna Philadelphia	322.82	317.82	-	-	-	-	-	-	-	-	-
513	Aetna Southeast - Lehigh & Northampton	308.46	303.46	-	-	-	-	-	-	-	-	-
514	Aetna Pittsburgh Area 1	358.51	353.51	-	-	-	-	-	-	-	-	-
515	Aetna Central PA Area 1	261.61	256.61	-	-	-	-	-	-	-	-	-
516	Aetna Central PA Area 2	300.22	295.22	-	-	-	-	-	-	-	-	-
517	Aetna Northeastern	282.33	277.33	-	-	-	-	-	-	-	-	-
593	Geisinger Gold	218.00	213.00	-	-	-	-	-	-	-	-	-
595	Highmark Security Blue	211.00	206.00	-	-	-	-	-	-	-	-	-
596	Senior Blue - Keystone Central	239.00	234.00	-	-	-	-	-	-	-	-	-
	Medicare PPO Option											
520	Senior Blue - Keystone Central	263.00	258.00	-	-	-	-	-	-	-	-	-
521	Aetna Central PA Area 1	321.75	316.75	-	-	-	-	-	-	-	-	-
522	Aetna Central PA Area 2	358.71	353.71	-	-	-	-	-	-	-	-	-
523	Aetna Northeastern	346.48	341.48	-	-	-	-	-	-	-	-	-
	Comprehensive MM Options											
760	Capital Blue Cross-Out of State Resident	458.31	453.31	-	1,074.34	S60	375.89	370.89	M60	375.89	746.78	741.78
761	Capital Blue Cross	458.31	453.31	-	1,074.34	S61	375.89	370.89	M61	375.89	746.78	741.78
	Consumer Driven Health Plan											
756	United HealthCare (non-Medicare annuitant only)	728.12	723.12	-	1,677.63	-	-	-	-	-	-	-
	HMO Options											
740	BlueCare	649.93	644.93	-	1,522.04	S40	375.89	370.89	M40	375.89	746.78	741.78
741	Geisinger Health Plan	585.60	580.60	-	1,370.21	S41	375.89	370.89	M41	375.89	746.78	741.78
743	HealthAmerica	643.38	638.38	-	1,506.57	S43	375.89	370.89	M43	375.89	746.78	741.78
746	Keystone Health Plan Central	672.50	667.50	-	1,575.30	S46	375.89	370.89	M46	375.89	746.78	741.78
748	Keystone Health Plan East	578.26	573.26	-	1,352.89	S48	375.89	370.89	M48	375.89	746.78	741.78
749	Keystone Health Plan West	889.27	884.27	-	2,086.88	S49	375.89	370.89	M49	375.89	746.78	741.78
750	Aetna HMO PA	557.77	552.77	-	1,304.54	S50	375.89	370.89	M50	375.89	746.78	741.78
758	UPMC Health Plan	861.97	856.97	-	2,022.45	S58	375.89	370.89	M58	375.89	746.78	741.78
	PPO Options											
765	Blue Cross PPO	728.12	723.12	-	1,677.63	S65	375.89	370.89	M65	375.89	746.78	741.78
766	Blue Cross PPO -Out of State Resident	728.12	723.12	-	1,677.63	S66	375.89	370.89	M66	375.89	746.78	741.78

7-1-04 RETIREE - PEBTF ANNUITANT MHMO, MPPO, CMM, CDHP, HMO, & PPO COBRA MONTHLY RATES

2006

Plan Code	Plan Name and Type	Single	Multi-Party	Split Contract Plan Code	Split Contract Medicare Member (PEBTF supp to Medicare) (Non-Medicare member receives single rate)	Medicare Contract Plan Code (PEBTF use only)	Medicare Contract Single Contract Medicare (PEBTF supp to Medicare)	Medicare Contract Both Medicare Members (PEBTF supp to Medicare)
	Medicare HMO Options							
510	UPMC	202.50	-	-	-	-	-	-
511	Aetna Southeast PA	343.52	-	-	-	-	-	-
512	Aetna Philadelphia	329.28	-	-	-	-	-	-
513	Aetna Southeast - Lehigh & Northampton	314.63	-	-	-	-	-	-
514	Aetna Pittsburgh Area 1	365.68	-	-	-	-	-	-
515	Aetna Central PA Area 1	266.84	-	-	-	-	-	-
516	Aetna Central PA Area 2	306.22	-	-	-	-	-	-
517	Aetna Northeastern	287.98	-	-	-	-	-	-
593	Geisinger Gold	222.36	-	-	-	-	-	-
595	Highmark Security Blue	215.22	-	-	-	-	-	-
596	Senior Blue - Keystone Central	243.78	-	-	-	-	-	-
	Medicare PPO Option							
520	Senior Blue - Keystone Central	268.26	-	-	-	-	-	-
521	Aetna Central PA Area 1	328.19	-	-	-	-	-	-
522	Aetna Central PA Area 2	365.88	-	-	-	-	-	-
523	Aetna Northeastern	353.41	-	-	-	-	-	-
	Comprehensive MM Options							
760	Capital Blue Cross-Out of State Resident	467.47	1,100.93	S60	383.41	M60	383.41	761.72
761	Capital Blue Cross	467.47	1,100.93	S61	383.41	M61	383.41	761.72
	Consumer Driven Health Plan							
756	United HealthCare (non-Medicare annuitant only)	742.68	1,716.29		-		-	-
	HMO Options							
740	BlueCare	662.93	1,557.58	S40	383.41	M40	383.41	761.72
741	Geisinger Health Plan	597.31	1,402.71	S41	383.41	M41	383.41	761.72
743	HealthAmerica	656.24	1,541.80	S43	383.41	M43	383.41	761.72
746	Keystone Health Plan Central	685.95	1,611.90	S46	383.41	M46	383.41	761.72
748	Keystone Health Plan East	589.82	1,385.04	S48	383.41	M48	383.41	761.72
749	Keystone Health Plan West	907.06	2,133.72	S49	383.41	M49	383.41	761.72
750	Aetna	568.93	1,335.73	S50	383.41	M50	383.41	761.72
758	UPMC	879.21	2,068.00	S58	383.41	M58	383.41	761.72
	PPO Options							
765	Blue Cross PPO	742.68	1,716.29	S65	383.41	M65	383.41	761.72
766	Blue Cross PPO-Out of State Resident	742.68	1,716.29	S66	383.41	M66	383.41	761.72

7-1-04 RETIREE - PEBTF ANNUITANT MHMO, MPPO, CMM, CDHP, HMO, & PPO 150% COBRA MONTHLY RATES

2006

Plan Cod	Plan Name and Type	Single	Multi-Party	Split Contract		Medicare Contract		
				Plan Code	Medicare Member (PEBTF supp to Medicare) (Non-Medicare member receives single rate)	Plan Code (PEBTF use only)	Single Contract Medicare (PEBTF supp to Medicare)	Both Medicare Members (PEBTF supp to Medicare)
	Medicare HMO Options							
510	UPMC	297.80	-	-	-	-	-	-
511	Aetna Southeast PA	505.17	-	-	-	-	-	-
512	Aetna Philadelphia	484.23	-	-	-	-	-	-
513	Aetna Southeast - Lehigh & Northampton	462.69	-	-	-	-	-	-
514	Aetna Pittsburgh Area 1	537.77	-	-	-	-	-	-
515	Aetna Central PA Area 1	392.42	-	-	-	-	-	-
516	Aetna Central PA Area 2	450.33	-	-	-	-	-	-
517	Aetna Northeastern	423.50	-	-	-	-	-	-
593	Geisinger Gold	327.00	-	-	-	-	-	-
595	Highmark Security Blue	316.50	-	-	-	-	-	-
596	Senior Blue - Keystone Central	358.50	-	-	-	-	-	-
	Medicare PPO Option							
520	Senior Blue - Keystone Central	394.50	-	-	-	-	-	-
521	Aetna Central PA Area 1	482.63	-	-	-	-	-	-
522	Aetna Central PA Area 2	538.07	-	-	-	-	-	-
523	Aetna Northeastern	519.72	-	-	-	-	-	-
	Comprehensive MM Options							
760	Capital Blue Cross-Out of State Resident	687.46	1,619.01	S60	563.84	M60	563.84	1,120.17
761	Capital Blue Cross	687.46	1,619.01	S61	563.84	M61	563.84	1,120.17
	Consumer Driven Health Plan							
756	United Healthcare (non-Medicare annuitant only)	1,092.18	2,523.95	-	-	-	-	-
	HMO Options							
740	BlueCare	974.90	2,290.57	S40	563.84	M40	563.84	1,120.17
741	Geisinger Health Plan	878.40	2,062.81	S41	563.84	M41	563.84	1,120.17
743	HealthAmerica	965.07	2,267.36	S43	563.84	M43	563.84	1,120.17
746	Keystone Health Plan Central	1,008.75	2,370.44	S46	563.84	M46	563.84	1,120.17
748	Keystone Health Plan East	867.39	2,036.83	S48	563.84	M48	563.84	1,120.17
749	Keystone Health Plan West	1,333.91	3,137.82	S49	563.84	M49	563.84	1,120.17
750	Aetna	836.66	1,964.31	S50	563.84	M50	563.84	1,120.17
758	UPMC	1,292.96	3,041.18	S58	563.84	M58	563.84	1,120.17
	PPO Options							
765	Blue Cross PPO	1,092.18	2,523.95	S65	563.84	M65	563.84	1,120.17
766	Blue Cross PPO -Out of State Resident	1,092.18	2,523.95	S66	563.84	M66	563.84	1,120.17

PEBTF RETIRED STATE POLICE INDEMNITY & PPO MONTHLY RATES
2006

		Monthly Rates 2006		
	Plan Code And Name **Indemnity & PPO Options**	**Survivor Spous** **100% Deductio**	**$5 Share** **Deduction**	**$10 Share** **Deduction**
	Individual Coverage (Non-Medicare)			
	INDEMNITY			
HRP	Highmark (hired < 4/21/05)	838.84	833.84	828.84
	PPO			
RPO	Highmark	730.23	725.23	720.23
	Multi-Party Coverage (Non-Medicare)			
	INDEMNITY			
HRP	Highmark (hired < 4/21/05)	SSA members	1,976.21	1,971.21
	PPO	will be single		
RPO	Highmark	contracts only.	1,682.54	1,677.54
	Multi-Party SPLIT (1 with both Medicare A&B)			
	INDEMNITY			
HPC	Highmark (hired < 4/21/05)	SSA members	1,367.50	1,362.50
	PPO	will be single		
RPC	Highmark	contracts only.	1,203.89	1,198.89
	Multi-Party SPLIT (1 with only Medicare Part A)			
	INDEMNITY			
HPA	Highmark (hired < 4/21/05)	SSA members	1,751.07	1,746.07
	PPO	will be single		
RPA	Highmark	contracts only.	1,501.24	1,496.24
	Individual Coverage (Medicare A&B)			
	INDEMNITY			
HPC	Highmark (hired < 4/21/05)	474.65	469.65	464.65
	PPO			
RPC	Highmark	474.65	469.65	464.65
	Multi-Party Coverage (Both Medicare A&B)			
	INDEMNITY			
HPC	Highmark (hired < 4/21/05)	SSA members	939.31	934.31
	PPO	will be single		
RPC	Highmark	contracts only.	939.31	934.31
	Individual Coverage (Medicare Part A only)			
	INDEMNITY			
HPA	Highmark (hired < 4/21/05)	830.64	825.64	820.64
	PPO			
RPA	Highmark	783.18	778.18	773.18
	Multi-Party Coverage (Both Medicare Part A)			
	INDEMNITY			
HPA	Highmark (hired < 4/21/05)	SSA members	1,643.78	1,638.78
	PPO	will be single		
RPA	Highmark	contracts only.	1,512.28	1,507.28
	Multi-Party Coverage (One Part A/One Part A&B)			
	INDEMNITY			
HPA/HPC	Highmark (hired < 4/21/05)	SSA members	1,305.63	1,300.63
	PPO	will be single		
RPA/RPC	Highmark	contracts only.	1,249.28	1,244.28

PEBTF RETIRED STATE POLICE INDEMNITY & PPO COBRA MONTHLY RATES 2006

PLAN CODE AND NAME		Monthly Rates 2006	
		Single	Multi
	Indemnity Options		
HRP	Highmark (hired <4/21/05)	855.62	2,020.83
	PPO Options		
RPO	Highmark	744.84	1,721.30

PEBTF RETIRED STATE POLICE INDEMNITY & PPO 150% COBRA MONTHLY RATES 2006

PLAN CODE AND NAME		Monthly Rates 2006	
		Single	Multi
	Indemnity Options		
HRP	Highmark (hired <4/21/05)	1,258.26	2,971.81
	PPO Options		
RPO	Highmark	1,095.35	2,531.32