

SEA 501: Retiree Medical Benefits and Personal Services Contingency Fund

Presentation to the
State Budget Committee

December 8, 2010

Agenda

- SEA 501: Retiree Medical Benefits
 - Overview of the program
 - See other presentation
 - Presented to PMOC in September 2010
 - Budget Committee review also required annually
 - Opportunity to benefit the general fund while ensuring program is actuarially funded
- Personal Services Contingency Fund

Two Components of SEA 501

1. “Bonus” contribution for retirees
 - “Bonus” contributions for qualified retirees based upon years of service (\$1,000 per year)
 - Approximately 750 retirees annually
 - Average contribution is approximately \$29,000
 - Approximately \$22M annually
 - State must set aside 100% of these funds to ensure no unfunded liability is created
 - “Bonus” contribution scheduled to end in 2017

Two Components of SEA 501

- “Active” contribution for active employees
 - “Active” contributions for active employees based upon employee’s age
 - Approximately 32,500 active employees annually
 - Average annual contribution is \$1,100
 - Approximately \$36M annually
 - State was initially advised that it must set aside 100% of these funds to avoid creating an unfunded liability

Opportunity

- State Budget Agency has now been informed that the State only needs to fund the portion of “active” contributions that are actuarially projected to be needed
 - Using data on actual retirements and terminations, actuary projects that only 55-60% of “active” contributions will ever be needed
 - Full actuarial study is under way to verify savings figures and to ensure that no unfunded liability would be created

Opportunity

- “Active” Contributions
 - At 100%, approximately \$36M required annually
 - At 60%, approximately \$22M required annually
- Plan has been funded roughly \$14M more annually than is required to be actuarially funded (based upon initial projections)
- For FY08-FY11, over funding will likely total in excess of \$50M

Opportunity

- Funding Sources for SEA 501 (with amounts through FY10):
 - Cigarette tax revenues at 4.1% = \$61.8M
 - Charges to federal and dedicated funds = \$64.4M
 - Personal Services Contingency Fund (General Fund) = \$41.9M
 - General Fund appropriations in excess of cigarette tax revenues = \$3.8M
 - Additional cigarette tax revenues at 5.74% = \$7.8M

Summary of Opportunity

- Cigarette tax revenue currently directed to Retiree Medical Benefit Trust Fund could be diverted to General Fund for FY12 and FY13
 - Reimbursing the General Fund for funds not originally contemplated when SEA 501 enacted
 - Full actuarial study in progress
 - Would ensure actuarial funding of plan

Personal Services Contingency Fund

From HEA 1001-2009(ss):

PERSONAL SERVICES/FRINGE BENEFITS CONTINGENCY FUND
Total Operating Expense 35,625,000

The foregoing personal services/fringe benefits contingency fund appropriation is subject to allotment to departments, institutions, and all state agencies by the budget agency with the approval of the governor.

The foregoing personal services/fringe benefits contingency fund appropriation may be used only for salary increases, fringe benefit increases, an employee leave conversion program, or a state retiree health program for state employees and may not be used for any other purpose.

The foregoing personal services/fringe benefits contingency fund appropriation does not revert at the end of the biennium but remains in the personal services/fringe benefits contingency fund.

Personal Services Contingency Fund

- Typically, funds have been used to cover salary increases, increased health care costs, and SEA 501 (retiree medical benefits)
- Historically, Indiana General Assembly has appropriated \$89M biennially
- In FY09-11 biennium, only \$35.6M was appropriated
 - No salary increases provided for state employees in 2009 or 2010
- State Budget Agency is requesting \$89M for the FY11-13 biennium