

## **The Facts about the Changes in the PEEHIP Law**

The Alabama Legislature signed into law Act # 2011-704 that establishes changes in the Public Education Employees' Health Insurance Plan (PEEHIP) retiree sliding scale premium calculation.

As you read the Questions and Answers below, you will note that not everyone is impacted by the new law in the same way. Some will be highly impacted, some will be minimally impacted, and some will not be impacted at all. How the new law impacts you has a lot to do with your years of service in the public education system and your age at the time of retirement.

### **Question: To Whom Does the New Law Apply?**

**Answer:** The new law applies to employees who **retire** on or after January 1, 2012. The new law does not affect **active employee** premiums.

### **Question: Who is Exempt from the New Law?**

**Answer:**

- It is important to note that these changes do NOT apply to current retirees and those employees who retire before January 1, 2012.
- The new law will have no impact at all on those employees who have 25 years of service or more and are at least age 65 at retirement.

### **Question: How Does the New Law Affect Current DROP Participants and Post DROP Participants?**

**Answer:**

- Current DROP participants are exempt from the new law if the employee withdraws from state service at the end of his or her three to five year DROP participation period.
- Those who complete their DROP period after January 1, 2012, but do not separate from state service and continue their employment will be subject to the new law when they retire.
- Employees who have already completed their DROP participation period prior to January 1, 2012, will be exempt from the new law if he or she retires before January 1, 2012; if the employee retires on or after January 1, 2012, the new law will apply to the employee when he or she retires.

### **Question: Who Will Be Most Impacted by the New Law?**

**Answer:**

- The new law will have the greatest impact on employees who retire with minimal State service (for example, someone with 10 years of service at age 60), and those who have 25 years of service but are far from Medicare eligibility age 65.

### **Question: Who Will Be Minimally Impacted by the New Law?**

**Answer:**

- Those employees who have 25 years of service or more and are close to Medicare eligibility age 65 will be minimally impacted by the new law.

### **Question: Will my PEEHIP Premiums be Reduced When I Become Medicare Eligible?**

**Answer:**

- Yes. Whether an employee retires prior to or on or after January 1, 2012, the retiree's premium will be reduced upon attainment of Medicare coverage. Because Medicare pays primary and PEEHIP pays secondary on Medicare eligible members and their dependents, the Medicare-eligible Retiree Premium Class Rates are much lower than the Non-Medicare eligible Retiree Premium Rates. For example, a retiree who has 27 or more years of service and is age 65 with single coverage will pay **zero (\$0.00)** for his or her PEEHIP premium.

- Additionally, the age penalty and subsidy penalty (applied to those who retire on or after 1/1/2012) will cease upon Medicare entitlement. The years of service penalty, if applicable, will continue throughout retirement. The retiree premium is substantially reduced if the retiree is Medicare eligible at retirement because the age and subsidy penalties do not apply to a Medicare eligible retiree, and additionally the base retiree premium decreases when the retiree or eligible dependents become Medicare eligible.

**Question: Does PEEHIP have a Program that Offers Assistance with Premiums?**

**Answer:**

- Yes. PEEHIP provides premium assistance to active and retired PEEHIP members with a combined family income of less than or equal to 300% of the Federal Poverty Level (FPL) as defined by federal law. Members may apply at any time by completing an FPL Application and submitting a copy of their most recent tax return to PEEHIP. If qualified, members will receive a discount of 10 to 50 percent of the hospital medical premium. Members must reapply every year during Open Enrollment.

**Question: If an Employee Retires before January 1, 2012, but does not enroll in PEEHIP until after January 1, 2012, will the retiree be affected by the New Law?**

**Answer:**

- No. The new law is based on the retiree's retirement date and not their enrollment date in the PEEHIP coverage.

**Question: What Changes Did the New Law Make to the Retiree Sliding Scale Premium Calculation?**

**Answer:**

- The new law requires an employee who retires with less than 25 years of service to pay 4% more for each year under 25 years of service (**years of service premium**). The current law requires an employee to pay 2% more for each year under 25 years of service.
- The new law requires an employee who retires before becoming Medicare eligible:
  - To pay 1% more for each year less than age 65 (**age premium**), and
  - To pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (**subsidy premium**)
- Note: When the retiree becomes Medicare eligible, the age and subsidy premium will no longer apply. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement.

**Question: Explain how the Sliding Scale Calculation Under the New Law Works.**

**Answer:**

- To explain the calculation, you must first know that the **total premium or cost** for retiree coverage is broken down into two components:
  1. The **employer share** which is the subsidized amount PEEHIP pays, and
  2. The **retiree share** which is the out of pocket amount the retiree pays
- Under the sliding scale premium calculation, the **employer share** is adjusted up or down by a percentage based on years of service and by a percentage based on the age of the employee at the time of the employee's retirement.
- Please note that the **total premium** and its two components are subject to change each year because these amounts are based on several factors which include claims cost and medical trend, the amount of funding for the PEEHIP program set by the Alabama Legislature, the member out-of-pocket amounts for copayments and deductibles and premiums set by the Board.

**Question: When are the Penalties Under the New Law Due?**

**Answer:**

- The new law specifies that the additional penalties under the new law can be phased in over a five year period so that by October 2016 the full penalty is due. For example, employee retirees January 1, 2012, the monthly premium in year one of retirement would include 1/5 of the retiree's total penalty; the monthly premium in year two of retirement would include 2/5 of the retiree's total penalty; the monthly premium in year three of retirement would include 3/5 of the retiree's total penalty; the monthly premium in year four of retirement would include 4/5 of the retiree's total penalty; and finally, the monthly premium in year five of retirement would include the retiree's total penalty. No additional penalty increases will be applied beyond year 2016.
- Note: The age and subsidy penalties will cease upon attainment of Medicare.

**Question: What is the Last Day an Employee can Retire and Not be Subject to the New Law?**

**Answer:**

- The last day an employee can retire and not be subject to the new law is December 1, 2011.
- The employee must file all retirement paperwork with RSA no later than November 1, 2011 to retire by December 1, 2011.

**Question: What are the Pros for Not Retiring and Working Longer?**

**Answer:** Members need to really think about not making their retirement decision solely on the new law because there are advantages to working longer. Working an extra five years carries four advantages:

- First, you will continue to receive your full salary as an active employee instead of the reduced retiree pension.
- Second, those extra five years will give you about 10% more in retirement income for the rest of your life and more for the life of your designated dependent.
- Third, it will allow you to continue to be charged the lower insurance premium for an active employee versus the higher premium required for retired employees.
- Fourth, for each additional year you work over 25 years, you will receive a 2% bonus. For example, a retiree who has 35 years of service will earn of 20% discount off of his or her retiree premium.
- Additionally, if you retire and become employed by another employer and the other employer provides at least 50% of the cost of your insurance coverage, you are required to use the other employer's group health insurance plan for primary coverage. You may only enroll in the PEEHIP Supplemental hospital medical plan or the PEEHIP optional plans.

In conclusion, it is important for employees to fully understand the provisions of the new law and to understand that it does not affect everyone in the same way. As explained above, some will be heavily impacted, some will be minimally impacted, and some will not be impacted at all. Employees should fully understand the more years of service he or she has in the public education system and the closer to age 65 he or she is upon retiring, the least impact the new law will have on the retired employee. Employees who are eligible to retire by December 1, 2011, may actually benefit more by not retiring because the increase in their years of service will help defray the additional penalties under the new law but the increase in their retirement benefits may more than offset any increase in their PEEHIP premiums.

RSA has two retiree premium calculators and two retirement benefit calculators available on its website at [www.rsa-al.gov](http://www.rsa-al.gov) to help you estimate your future PEEHIP retiree health insurance premiums and future TRS retirement benefits to assist you in your financial planning for retirement.