

Changes in the PEEHIP Law

The Alabama Legislature enacted legislation (Act 2011-704) that establishes changes to the Public Education Employees' Health Insurance Plan (PEEHIP). The new legislation will slowly but significantly raise health care premiums for public education and state retirees who **retire on or after January 1, 2012**. Below is a summary of the changes in the PEEHIP Law:

There will be a new way to calculate the sliding scale premium which will now take into effect a retiree's:

1. Years of service at the time of retirement (**Service Premium Component**) and
2. Age at the time of retirement (**Age Premium Component**)
3. Also there is a third component to the premium referred to as the "subsidy premium" (**Subsidy Premium Component**)

We want to make clear the impact the new law will have on retirees who retire after December 31, 2011, especially those who have minimal years of service (for example, someone with 10 years of service at age 60), so that those who have the ability to retire prior to January 1, 2012, clearly understand the benefits of retiring prior to that date. Each of the above three components are explained in more detail below:

1. **Service Premium:** Members who retire on or after January 1, 2012, (regardless of age) and have less than 25 years of service will have a 4% penalty for each year under 25 years instead of a 2% penalty. For example: If you retire with 10 years of service, you are 15 years away from having 25 years of service and will have a 60% service penalty on your premiums (15 years x 4%). Members who have at least 25 or more years of service will see no change in the "service premium" component. They will continue to receive a 2% bonus for every year of service over 25 years.
2. **Age Premium:** This premium applies only to non-Medicare eligible members who retire on or after January 1, 2012. These retirees will have a 1% penalty for each year that they are not Medicare eligible. For example: If you retire at age 60, you are 5 years away from Medicare eligibility and will have a 5% penalty on your premiums until you become Medicare eligible. This age premium will cease upon notification to PEEHIP of the attainment of Medicare coverage.

3. **Subsidy Premium:** This premium applies only to non-Medicare eligible members who retire on or after January 1, 2012. These retirees will have an additional premium amount called the "subsidy premium". The subsidy premium is the net difference in the active employee subsidy and the non-Medicare retiree subsidy (the subsidy amount is the amount of the premium paid by PEEHIP) after taking into account the total member contributions from 1 & 2 above. This additional subsidy premium will cease upon notification to PEEHIP of the attainment of Medicare coverage.

Act 2011-704 allows five years to implement the increases in premiums resulting from 1 - 3 above. The intent of the legislation is to eliminate the excess funding of the non-Medicare eligible retirees over the active employees and fully implement the difference by October 1, 2016. The chart below illustrates the estimated monthly premium increase that will be spread over the next five years. (Exception: Medicare-eligible members who retire after December 31, 2011, with less than 25 years will immediately be subject to the entire 4% Service Premium Component and will not have a 5 year phase-in of this increase.)

NOTE the following exceptions:

- ◆ All retirees who retired after September 30, 2005, but before January 1, 2012, are **not** subject to the new sliding scale provisions or the subsidy premium. They are only subject to the sliding scale provisions in effect prior to Act 2011-704. Also, all retirees who retired on or before September 30, 2005, are not subject to any sliding scale provisions or the subsidy premium.
- ◆ Current DROP participants are exempt from these new provisions if the employee does not voluntarily terminate participation in DROP within the first three years and goes forward with withdrawing from service at the end of the DROP participation period. Otherwise, the provisions of this new legislation will apply to current DROP participants. Current DROP participants who have completed their DROP participation period prior to December 1, 2011, and continue to work, must retire prior to January 1, 2012, in order to be exempt from the new provisions in Act 2011-704.

Comparison of Current to Proposed Premium Calculations

Scenarios		Single Coverage Fiscal Year 2012 Rates		Family Coverage Fiscal Year 2012 Rates	
Years of Service	Age	Current Monthly Premium	Estimated Monthly Increase in Premium for 1/1/2012*	Current Monthly Premium	Estimated Monthly Increase in Premium for 1/1/2012*
10	60	\$ 303.10	\$ 55.02	\$ 543.10	\$ 55.02
15	60	\$ 252.40	\$ 44.88	\$ 492.40	\$ 44.88
20	60	\$ 201.70	\$ 34.74	\$ 441.70	\$ 34.74
25	50	\$ 151.00	\$ 34.74	\$ 391.00	\$ 34.74
25	55	\$ 151.00	\$ 29.67	\$ 391.00	\$ 29.67
25	60	\$ 151.00	\$ 24.60	\$ 391.00	\$ 24.60
30	50	\$ 100.30	\$ 34.74	\$ 340.30	\$ 34.74
30	55	\$ 100.30	\$ 29.67	\$ 340.30	\$ 29.67
30	60	\$ 100.30	\$ 24.60	\$ 340.30	\$ 24.60

These rates do not include the monthly tobacco premium.

* The monthly premium is estimated to increase by this amount each year until 2016.

Other provisions of the legislation are explained below:

- ◆ Employees who retire on disability and apply for and are approved for Social Security Disability are only exempt from the years of service premium component of the sliding scale provisions for a period of two years and thereafter. Upon attainment of Medicare Parts A & B, these retirees will also be exempt from the age and subsidy premium components.
- ◆ The PEEHIP Board is given authority to disqualify from coverage those employees or retirees who knowingly and willfully submit false or misleading information or engage in fraudulent activity with respect to their PEEHIP coverage.
- ◆ The Federal Poverty Level (FPL) income ranges are expanded up to 300% of FPL for reductions on the hospital medical insurance premiums for qualifying employees effective with the new fiscal year beginning October 1, 2011, (see FPL chart below).

Federal Poverty Level Assistance Program (FPL)

Discount Allowed:

Based on Income Ranges:

Over 300% of FPL

Member pays 100% of the member contribution

Member contribution reduced by 10%:

If income is equal to or less than 300% but more than 250% of FPL

Member contribution reduced by 20%:

If income is equal to or less than 250% but more than 200% of FPL

Member contribution reduced by 30%:

If income is equal to or less than 200% but more than 150% of FPL

Member contribution reduced by 40%:

If income is equal to or less than 150% but more than 100% of FPL

Member contribution reduced by 50%:

If income is equal to or less than 100% of FPL

NOTE: The income levels can be obtained from the PEEHIP Open Enrollment Packet or the PEEHIP Web site.