

State Subsidy Increase for Non-Medicare-Eligible Retirees for the Plan Year Beginning October 1, 2020

From FY2020 to FY2021, the state's subsidy increased from **\$679** to **\$750** per month for a Non-Medicare-eligible individual premium due to escalating healthcare cost trend.

- If a Non-Medicare-eligible member worked **less** than 300 months, the effect upon their premium will be an **increase** in premium.
- If a Non-Medicare-eligible member worked **more** than 300 months, the effect upon their premium will be a reduction in premium.

Sliding Scale Adjustment Example 1

Single Coverage

Retired on/after 1/1/2012 with 33 years of service - 62 at age of retirement

The total cost for a non-Medicare retiree is made up of two components:

For FY2021, the total cost is \$920 (PEEHIP subsidy \$750 plus retiree base premium \$170)

For FY2020, the total cost is \$845 (PEEHIP subsidy \$679 plus retiree base premium \$166)

	FY2021 Premium	FY2020 Premium
Base Premium	\$170.00	\$166.00
Years of Service Discount 16%	-120.00 (120 = 16% x \$750)	-108.64 (108.64 = 16% x \$679)
Age Penalty 3%	+22.50 (22.50 = 3% x \$750)	+20.37 (20.37 = 3% x 679)
Third Tier Subsidy Penalty	+201.25	+179.14
Retiree Premium	\$273.75	\$256.87

In this example, the retiree's premium increased from FY2020 to FY2021. When projected claims costs increase from one year to the next, the PEEHIP subsidy increases which, in turn, causes the amount of the age and the third tier subsidy penalties to increase, and the service discount also increases. The effect of the sliding scale calculation will be different for each retiree if their years of service and age are different from this example. Note: Once the retiree becomes Medicare eligible, the age penalty and third tier subsidy penalty are no longer applicable and will not be part of the retiree premium calculation.

Sliding Scale Adjustment Example 2

Single Coverage

Retired on/after 10/1/2005 and before 1/1/2012 with 33 years of service
62 at age of retirement

The total cost for a non-Medicare retiree is made up of two components:

For FY2021, the total cost is \$920 (PEEHIP subsidy \$750 plus retire base premium \$170)

For FY2020, the total cost is \$845 (PEEHIP subsidy \$679 plus retiree base premium \$166)

	FY2021 Premium	FY2020 Premium
Base Premium	\$170.00	\$166.00
Years of Service Discount 16%	-120.00 (120 = 16% x \$750)	-108.64 (108.64 = 16% x \$679)
Retiree Premium	\$50.00	\$57.35

In this example, the retiree's premium decreased from FY2020 to FY2021. When projected claims costs increase from one year to the next, the PEEHIP subsidy increases which, in turn, causes the service discount to increase. This retiree is not subject to the age or third tier subsidy penalties because they retired prior to the amended sliding scale law which applies to members retiring on or after 1/1/2012. The effect of the sliding scale calculation will be different for each retiree if their years of service are different from this example. Or if they retired prior to 1/1/2012. Note: Once the retiree becomes Medicare eligible, the age penalty and third tier subsidy penalty are no longer applicable and will not be part of the retiree premium calculation.

Sliding Scale Adjustment Example 3

Single Coverage

Retired on/after 1/1/2012 with 12 years of service - 60 at age of retirement

The total cost for a non-Medicare retiree is made up of two components:

For FY2021, the total cost is \$920 (PEEHIP subsidy \$750 plus retire base premium \$170)

For FY2020, the total cost is \$845 (PEEHIP subsidy \$679 plus retiree base premium \$166)

	FY2021 Premium	FY2020 Premium
Base Premium	\$170.00	\$166.00
Years of Service Penalty 52%	+390 (390 = 52% x \$750)	+353.08 (353.08 = 52% x \$679)
Age Penalty 5%	+37.50 (37.50 = 5% x \$750)	+ 33.95 (33.95 = 5% x 679)
Third Tier Subsidy Penalty	+201.25	+179.14
Retiree Premium	\$798.75	\$732.17

In this example, the retiree's premium increased from FY2020 to FY2021. When projected claims costs increase from one year to the next, the PEEHIP subsidy increases which, in turn, causes the amount of the age, service, and third tier subsidy penalties to increase. The effect of the sliding scale calculation will be different for each retiree if their years of service and age are different from this example. Also, the date the retiree retires determines which sliding scale version they are subject to. Note: Once the retiree becomes Medicare eligible, the age penalty and third tier subsidy penalty are no longer applicable and will not be part of the retiree premium calculation.

FY2021 Base Premium Adjustment per Alabama Law

Pursuant to Section 16-25A-17(a)(2) *Code of Alabama*, the non-Medicare-eligible retiree individual premium cannot be less than the Medicare-eligible retiree individual premium plus the Medicare Part B premium.

The Medicare-eligible individual premium for FY2021 is \$25, and the Medicare Part B premium for 2020 is \$144.60. Therefore, the non-Medicare-eligible retiree individual premium cannot be less than the sum of these two amounts, or \$169.60 ($\$25 + \$144.60 = \169.60).

The FY2020 non-Medicare-eligible individual base premium was \$166, but to be in compliance with this Alabama law, it was adjusted to \$170, so that it was greater than the \$169.60 threshold. Because all base premiums are a function of the individual base premium amount, this slight increase applied to all base premiums (individual, family with spouse, family with spouse and non-spouse dependents, etc.)

Retiree Classifications and their premium adjustments per the sliding scale law

PEEHIP retiree contracts consists of three broad premium calculation methods which are a result of the statute:

1. Retirees retiring prior to 10/1/2005 pay their base premium with no sliding scale adjustment.
2. Retirees retiring 10/1/2005 through 12/31/2011, pay the basic premium adjusted (either a discount or penalty) by 2% of the state's subsidy (for individual coverage) for months more than or less than 300 months (or 25 years) of service.
3. Retirees retiring 1/1/2012 and after pay the basic premium adjusted by:
 - a) **Service Premium Component:**
 - i. Penalty: 4% of the state's subsidy for months less than 300 months of service
 - ii. Discount: 2% of the state's subsidy for months more than 300 months of service
 - b) **Age Premium Component:**
 - i. Penalty: 1% of the state's subsidy for each year of age of the member at retirement less than the Medicare entitlement age. Upon Medicare entitlement, the age component will be removed.
 - c) **Subsidy Premium Component:**
 - i. A subsidy premium component is applicable. For FY2021, the subsidy component is \$201.25. Upon Medicare entitlement, the subsidy premium component will be removed.

Benefit Change Letters

When the net retiree benefit payment changes from one month to another, the RSA sends a letter to the retiree.

The letters that show the reasons for the net change in the benefit payment were mailed on September 25, 2020.

PEEHIP Revenue staff is ready to assist anyone who calls regarding this change.

**PEEHIP**