

# 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) Third Tier Subsidy Premium Component:
    - i. A subsidy premium component is applicable. For FY2026, the subsidy component is \$151.17. Upon Medicare entitlement, the subsidy premium component will be removed.

## State Subsidy Increase for Non-Medicare-Eligible Retirees for the Plan Year Beginning October 1, 2025

From FY2025 to FY2026, the state's subsidy increased from \$801 to \$804 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 the premium penalty components related to age and service.
- If a Non-Medicare-eligible member worked **more** than 300 months, the effect upon their premium will be an **increase** in the premium discount component related to service and an **increase** in the premium penalty component related to age.
- The Third Tier Subsidy Premium is based upon the requirement that the State shall not subsidize a Non-Medicare Eligible Retiree's hospital medical insurance more than the State subsidizes an active's health insurance. Since the active subsidy increased significantly FY26 over FY25, while the NME subsidy remained relatively flat, the Third Tier Subsidy Premium is reduced for FY26.

	FY 26	FY 25	Difference
Subsidy for NME	\$804	\$801	\$ 3
Subsidy for Active	<u>\$602</u>	<u>\$556</u>	<u>\$ 46</u>
Difference	<u>\$202</u>	<u>\$245</u>	<u>\$(43)</u>

## FY2026 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 FY2026 is \$25, and the Medicare Part B premium for 2025 is \$185. Therefore, the FY2026 non-Medicare-eligible retiree individual premium cannot be less than the sum of these two amounts, or \$210 ( $\$25 + \$185 = \$210$ ).

The FY2025 non-Medicare-eligible individual base premium was \$200, but to be in compliance with this Alabama law, it was adjusted to \$210 for FY2026, so that it was equal to the \$210 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.)

# 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 FY2026, the total cost is \$1,014 (PEEHIP subsidy \$804 plus retire base premium \$210)

For FY2025, the total cost is \$1,001 (PEEHIP subsidy \$801 plus retiree base premium \$200)

	FY2026 Premium	FY2025 Premium
Base Premium	\$210.00	\$200.00
Years of Service Discount 16%	-128.64 (128.64 = 16% x \$804)	-128.16 (128.16 = 16% x \$801)
Age Penalty 3%	+24.12 (24.12 = 3% x \$804)	+24.03 (24.03 = 3% x 801)
Third Tier Subsidy Penalty	+151.17	+195.50
Retiree Premium	\$256.65	\$291.37

In this example, the retiree's premium decreased from FY2025 to FY2026. 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 FY2026, the total cost is \$1,014 (PEEHIP subsidy \$804 plus retire base premium \$210)

For FY2025, the total cost is \$1,001 (PEEHIP subsidy \$801 plus retiree base premium \$200)

	<b>FY2026 Premium</b>	<b>FY2025 Premium</b>
Base Premium	\$210.00	\$200.00
Years of Service Discount 16%	-128.64 (128.64 = 16% x \$804)	-128.16 (128.16 = 16% x \$801)
Retiree Premium	\$81.36	\$71.84

In this example, the retiree's premium increased from FY2025 to FY2026. The primary reason for the increase was due to the increases in the base premium. The effect of the sliding scale calculation will be different for each retiree if their years of service are different from this example.

# 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 FY2026, the total cost is \$1,014 (PEEHIP subsidy \$804 plus retire base premium \$210)

For FY2025, the total cost is \$1,001 (PEEHIP subsidy \$801 plus retiree base premium \$200)

	FY2026 Premium	FY2025 Premium
Base Premium	\$210.00	\$200.00
Years of Service Penalty 52%	+418.08 (418.08 = 52% x \$804)	+416.52 (416.52 = 52% x \$801)
Age Penalty 5%	+40.20 (40.20 = 5% x \$804)	+ 40.05 (40.05 = 5% x 801)
Third Tier Subsidy Penalty	+151.17	+195.50
Retiree Premium	\$819.45	\$852.07

In this example, the retiree's premium decreased from FY2025 to FY2026. The primary reason the monthly premium reduction is due to the Third Tier Subsidy penalty. 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.

## 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 will be mailed prior to September 30, 2025.

PEEHIP Revenue staff is ready to assist anyone who calls regarding this change. To reach PEEHIP, please call 1-877-517-0020

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