LEGISLATIVE BUDGET BOARD

TRS-Care Overview

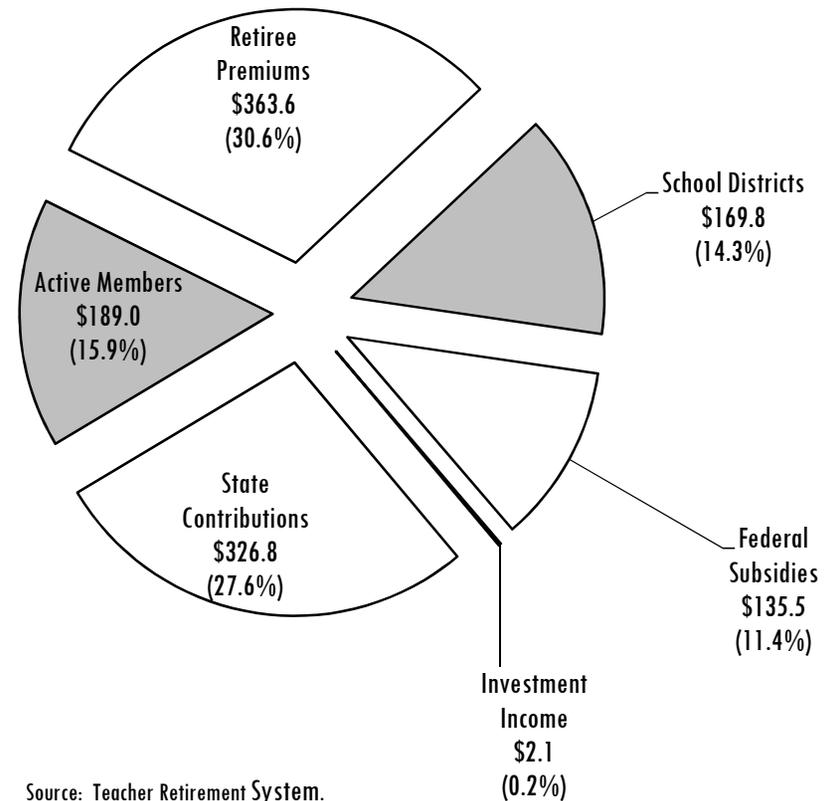**PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE**

SUBCOMMITTEE ON ARTICLE III

TRS-Care Overview

- Self-funded statewide health benefit program for public school retirees.
- In 1985, the Legislature enacted the Texas Public School Retired Employees Group Benefits Act.
- Third-party administration of medical and pharmaceutical benefits
- Plan design has separate plans with varying deductibles, co-pays, and premium costs.
- 244,784 participants as of August 2014
- $1.2 billion total plan costs paid for health benefits in Fiscal Year 2014
- State contribution: 1.0% of active member payroll
- Active member contribution: 0.65% of payroll
- School district contribution: 0.55% of payroll
- **Estimated shortfall in 2016-17: $768.1 million**

TRS-CARE TRUST FUND CONTRIBUTIONS
FISCAL YEAR 2014
(IN MILLIONS)

TOTAL = $1,186.8 MILLION

Retiree Premiums
$363.6
(30.6%)

School Districts
$169.8
(14.3%)

Active Members
$189.0
(15.9%)

State Contributions
$326.8
(27.6%)

Federal Subsidies
$135.5
(11.4%)

Investment Income
$2.1
(0.2%)

Source: Teacher Retirement System.

TRS-Care Estimated Shortfall

Fiscal Year	Ending Fund Balance	Fiscal Year Shortfall
FY 2015	$167.0 million	$0.0
FY 2016	($235.1 million)	($235.1 million)
FY 2017	($768.1 million)	($533.0 million)
FY 2018	($1,445.6 million)	($677.5 million)
FY 2019	($2,288.0 million)	($842.4 million)
Source: Teacher Retirement System		

LBB GEER Recommendations
TRS-Care Solvency

1.	Allocate the cost to maintain TRS-Care solvency across the following funding sources: a) 50.0 percent of the shortfall funded by a State contribution increase; b) 12.5 percent of the shortfall funded by an active member contribution increase; c) 12.5 percent of the shortfall funded by a school district contribution increase; and Remaining 25.0 percent to be addressed by the TRS Board. (See #4. below)
2.	• Add contingency rider appropriating GR associated with the increase in State contribution rate (per #1. above). • Delete the school district contribution rate in the 2016-17 General Appropriations Bill, deferring instead to the amended statutory rate (per #1. above).
3.	Delete the rider expressing legislative intent that TRS not increase retiree premiums.
4.	• Add contingency rider requiring TRS take appropriate action, such as plan design changes and premiums increases, to offset at least 25 percent of the TRS-Care shortfall. • Require TRS to report changes to LBB and the Governor prior to implementation.
5.	Amend statute to require TRS to annually report cost containment features and the savings generated.

These recommendations are not included in House Bill 1, as Introduced.

SOURCE: Legislative Budget Board.

Options Presented in the TRS November 2014 TRS-Care Sustainability Study

Based on a 2016-17 Shortfall of $748 million as reflected in the Study

Each of the following options may be considered independently.
However, not all of the options are mutually exclusive, and certain options may be combined.

1.	**Pre-fund the long-term liability**	Increase all contribution rates 2.7 times. Extends solvency indefinitely. Estimated additional General Revenue of $990 million per biennium above the current 1.0 percent contribution rate.
2.	**Biennial funding** Contribution increases needed each biennium to continue solvency.	(a) Increase the 1.0 percent state contribution sufficient to cover the projected shortfall, estimated increase to 2.23 percent in 2016-17 and to 3.19 percent in the 2018-19 biennium. (b) Increase the state, active member, and district contribution rates proportionally to: 1.56 percent, 1.01 percent, and 0.86 percent, respectively, in 2016-17; and 1.99 percent, 1.30 percent, and 1.10 percent in 2018-19. (c) Increase all contribution rates proportionally and increase retiree premiums by 34.8 percent in 2016-17 and 20.2 percent in 2018-19. Reduces contribution rates from (b) to: 1.35 percent, 0.88 percent, and 0.74 percent in 2016-17; and 1.62 percent, 1.05 percent, and 0.89 percent in 2018-19. (d) Reduce benefits to offset part of the retiree premium increase in (c).
3.	**10-Year Funding**	(a) Increase the state contribution to 3.87 percent. (b) Increase the state, active member, and district contribution rates proportionally to: 2.31 percent, 1.50 percent, and 1.27 percent for the ten-year period from 2016-25. (c) Increase all contribution rates proportionally and increase retiree premiums by 14.9 percent each biennium. Reduces contribution rates from (b) to: 2.01 percent, 1.30 percent, and 1.10 percent.

Options Presented in the TRS November 2014
TRS-Care Sustainability Study
Based on a 2016-17 Shortfall of $748 million as reflected in the Study

4.	**Eliminate Subsidy**	Require retirees to pay the full cost for optional coverage, which includes plans better than the basic catastrophic coverage and all dependent care coverage. Involves significant increases in premiums and benefit reductions.
5.	**Mandatory Medicare**	Require purchase of Medicare Part B and mandatory participation in Medicare Advantage and Medicare Part D plans. Current participation of eligible retirees is 68.0 percent in Medicare Advantage and 80.0 percent in Medicare Part D. This option would not mitigate the deficit but projections indicate a reduction of the deficit in the 2016-17 biennium by 21.2 percent.
6.	**Defined Contribution Plan**	Establish Health Reimbursement Account (HRA) for non-Medicare retirees, who must obtain coverage in the federal public exchange. Medicare Advantage and Part D plans available at age 65. This option would not mitigate the deficit but projections indicate a reduction of the deficit in the 2016-17 biennium by 63.6 percent.
7.	**Consumer Directed Health Care Plan**	Eliminate TRS-Care 2 and TRS-Care 3 and implement Accountable Care Organizations (ACOs) and high performance networks. This option would not mitigate the deficit but projections indicate a reduction of the deficit in the 2016-17 biennium by 26.4 percent.

Contact the LBB

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