ALABAMA POLICY INSTITUTE

GUIDE TO THE ISSUES

Public Education Employee Health Insurance Program (PEEHIP)

Background

Alabama, like almost every other state, is carrying massive unfunded liabilities for state education employee health benefits that are requiring massive payments to remain solvent. According to a July 2010 report by the Retirement Systems of Alabama (RSA), more than $11.9 billion in healthcare benefits have been promised to the more than 138,000 members of the state's Public Education Employee Health Insurance Program (PEEHIP) and 147,000 of their dependents.[i]

States typically provide generous healthcare benefits to employees. In addition, legislators often use a "back door" approach to rewarding employees by increasing benefits such as health insurance programs with continued benefits for retirees when they cannot provide pay raises.[ii]

In Alabama, the cost to the state for these unfunded liabilities is currently $864.5 million a year. To help offset these liabilities, in 2007 the Legislature finally directed the state to begin setting aside assets to pay for these benefits. By the end of fiscal year (FY) 2009, the state had saved only $670 million of the $11.9 billion needed to pay these obligations, leaving $11.2 billion unfunded.[iii] If this gap is not closed, members will likely see a reduction or even loss of healthcare benefits, significantly increased premiums and copays, or both. Or worse, taxpayers will have to foot the bill.

Alabama is not alone in this crisis. According to a February 2010 report by the Pew Center on the States, the total liability of states for healthcare and other non-pension benefits was $587 billion in FY 2008, with just $32 billion—about 5 percent of the total cost—set aside to help pay it.[iv]

ISSUE SNAPSHOT

More than $11.9 billion in healthcare benefits have been promised to the more than 138,000 members of the state's Public Education Employee Health Insurance Program (PEEHIP) and 147,000 of their dependents.

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Recommendation

Alabama's PEEHIP program needs an immediate comprehensive strategy for cost containment and pre-funding of PEEHIP benefits for future retirees. Of the three options available—raising taxes, reducing government spending, or reforming PEEHIP—only the latter two have the potential to save the state money and keep the state's economy from further harm.

- Increase premiums to an across-the-board percentage. Suggested premiums (and their consequent savings per year) could be a flat 20 percent for all groups ($72.2 million), regional averages ($99.6 million for active members; $237.3 million for all members), and national averages ($52.5 million for active members; $254.2 million for all members).
- Many spouses of state employees are also employed and most have access to health insurance at their place of business. These spouses should keep their own coverage, shifting these costs away from taxpayers and

to the private sector. For retired state employees, the state should consider paying nothing for non-Medicare family coverage and let the spouse's insurance cover them until they qualify for Medicare benefits.

- Adopt the "rule of 85" requiring retirees to have a combination of age plus service equal to 85. A "rule of 80" could be adopted for those longer-term employees who are currently members of the RSA and would retire at a younger age, with a reduced pension and a significantly increased premium cost. PEEHIP members within 24 months of their 25-year retirement could be grandfathered and asked to pay an increased portion of the PEEHIP premium.
- For non-Medicare retirees, provide only half of the premium for singles and families to discourage retiring prior to Medicare eligibility when the premiums significantly decrease.
- Pay a smaller portion of the non-Medicare eligible family member premium and require the member to pay the remainder. Thus, members with spouses who have other insurance would benefit by choosing single-only coverage, and the state would save about $49.8 million a year by not absorbing the increased cost of family premiums.
- Adopt a reasonable annual percentage increase to the PEEHIP drug deductible to reflect the increases in prescription drug costs thereafter.

Further Reading

- John R. Hill, "The PEEHIP Funding Crisis in Alabama." Alabama Policy Institute, January 2011. Available at http://tinyurl.com/3rtjfq3. Access verified May 6, 2011.

[i] Cavanaugh Macdonald Consulting, LLC, "Alabama Public Education Employees' Health Insurance Plan: Report of Actuary on the Retiree Medical Valuation—Prepared as of September 30, 2009." July 12, 2010. Available at http://tinyurl.com/24gpte8. Access verified July 14, 2010.

[ii] "DROP Bill Approved by House." Education News in Alabama, August 20-31, 2001.

[iii] "Alabama Public Education Employees' Health Insurance Plan: Report of Actuary on the Retiree Medical Valuation—Prepared as of September 30, 2009."

[iv] Pew Center on the States, "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform." Washington, D.C. February 2010, p. 5. Available at http://tinyurl.com/ygs6d6v. Access verified July 14, 2010.