

DEPARTMENT OF ADMINISTRATION
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November 9, 2009

Mr. Charles F. Stohl, President
Association of Montana Retired Public Employees
P.O. Box 4721
Helena, MT 59604-4721

Dear Mr. Stohl:

I received your letter of October 14, 2009 expressing concerns about the State Employee Health Plan on behalf of the Association of Montana Public Retired Public Employees (AMPRE)

As you know, health care costs have increased substantially for the state employee group benefit plan. The Department of Administration has made a number of changes to control these cost increases while striving to maintain benefit levels. However, despite our efforts we still must pay for the cost of the services we consume. This requires all stakeholders to participate—the employer (State of Montana), employees, retirees and their dependents.

During the recent legislative session, your association provided testimony to the general government subcommittee in response to the analysis done by the Legislative Fiscal Division (LFD) on the state employee group benefit plan. Because of this analysis, LFD staff recommended that the benefit plan cost could be reduced by addressing the cost of retiree coverage. Following is an excerpt from page A-141 of the 2011 Biennium Legislative Fiscal Report addressing this issue:

The legislature recommended that the Legislative Finance Committee (LFC) review the subsidy provided for retiree participation in the state employee health plan. The average premium paid by retirees under 65 was \$240 lower than average health plan cost per retiree in 2006 and \$229 lower in 2007. Monthly subsidies are lower for retirees over 65 who are Medicaid eligible - \$133 in 2006 and \$125 in 2007.

Specifically the legislature recommended that the LFC review policy issues related to pricing of state group health insurance in conjunction with the Interim Committee on State Administration and Veterans' Affairs. Study objectives could include review of:

- o Other state government health plans and subsidy of retiree participation in those plans, including the Montana university system*
- o Legal requirements to provide a subsidy to retirees*
- o Optional pricing strategies*

As you know, the department is charged by the Legislature with operating the state employee group benefit plan in an efficient manner while maintaining the plan on an actuarially sound basis (2-18-808, MCA and 2-18-812, MCA).

The amount of state share contribution required to maintain non-Medicare retiree rates at levels identical to active employees has increased significantly over the last several years. In 2005, the subsidy was \$1.38 paid out in benefits for every \$1 paid in premiums by non-Medicare retirees. During the most recent plan year, this subsidy increased to \$1.62 paid out in benefits for every \$1 paid in premium. To maintain the retiree subsidy at current levels would require an increase in the overall state share funding and/or divert more state share from paying for health care costs associated with active employees.

For the 2011 biennium, the level of available funding for state share was limited. No pay plan increases were available to state employees, other than a limited one-time payment for lower income employees. The total state share available is not sufficient to sustain either employees or retirees at the same level of out-of-pocket contribution toward premiums. Simply put, everyone was required to pay more for health care, i.e., both active employees and retirees.

It was not possible to maintain the subsidy for non-Medicare retirees to keep premiums at the same level as active employees without asking all other retirees and active employees to pay even higher premiums.

I welcome your continued involvement with the department as we work to maintain the state employee group benefit plan for all plan participants. I encourage you to stay in touch with our Health Care and Benefits Division as they work on the benefit plan and participate in the deliberations of the Legislative Finance Committee.

Sincerely,


Janet R. Kelly, Director