

FISCAL NOTE TO
SENATE, No. 794

STATE OF NEW JERSEY

DATED: July 15, 1996

Senate Bill No. 794 of 1996 provides State-paid health benefits under the State Health Benefits Program (SHBP) for a retired State employee and the dependents of the employee covered under the program, but not including survivors, if at the time the premiums or charges are paid the employee is at least 65 years old and is a veteran who retired from the Public Employees' Retirement System (PERS) on a benefit based on 20 or more years of service credited in the retirement system. The bill also provides for the State to reimburse veterans who qualify under this bill for the employee's premium charges under Part B of the federal Medicare program covering the retired employee and the employee's spouse. Finally, the bill is retroactive to January 1, 1996 and applies to State employees who retire on or after that date.

The Division of Pensions and Benefits, in a fiscal note to similar legislation (A-3030 of 1995), stated there are 5,574 active State employees with veteran status and that approximately 25 percent, or 1,363, are eligible for this benefit. The division estimated that 33 are eligible and would retire in 1997 with approximately 20 or more retiring in 1998. The division estimated that approximately 287 of the 1,363 eligibles will eventually retire under the provisions of this bill. The first-year cost of providing State-paid post-retirement medical benefits to the initial 33 qualifiers was estimated at \$78,600. This estimate was based on an annual premium, including Medicare, of \$1,959 for retirees age 65 or older increasing approximately 6 percent per year. The present-value lifetime liability for the estimated 287 qualifiers was estimated at \$11.6 million.

The division noted that in addition to this cost, employees would retire earlier than they otherwise would, increasing the cost of providing pension benefits to these individuals. The present value pension liability was estimated to be \$2.7 million. The division noted that State contributions to fund this additional liability would begin in FY 1998.

The first-year cost of employees retiring earlier than usual was estimated at \$120,400. When combined with the cost of providing State-paid post-retirement medical benefits, the FY 1998 cost was estimated at \$252,000. The division noted that this cost could be expected to increase 6 percent per year, due to medical inflation and salary increases, until the liability was fully paid in FY 2034.

The Office of Legislative Services (OLS) concurred with the

division's estimate. The OLS notes that according to the most recent actuarial valuation of the retirement system, dated March 31, 1995, the current annual premium, including Medicare, has increased to \$2,019 for retirees age 65 or older.

This fiscal note has been prepared pursuant to P.L.1980, c.67.