an overview of the funding of the State of Illinois...

Teachers' Retirement Insurance Program & the College Insurance Program

compiled by the:

Commission on Government Forecasting & Accountability

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EXECUTIVE SUMMARY

TRIP (Teachers' Retirement Insurance Program) and CIP (College Insurance Program) cover the health needs of an estimated 72,870 lives throughout Illinois. According to data given to the Commission by the Department of Healthcare and Family Services, both of these programs are in danger of becoming insolvent.

	TRIP CASHFLOW		CIP CASHFLOW	
	FY 2010	FY 2011	FY 2010	FY 2011
Beginning Balance	$48.0	*$2.5*	*$3.8*	*-$1.9*
Program Costs	-$466.4	*-$516.0*	*-$34.2*	*-$39.2*
State Contributions (GRF)	$79.0	*$79.6*	*$4.1*	*$4.2*
Member Contributions	$181.7	*$187.8*	*$12.7*	*$14.1*
Employer Contributions	$57.9	*$59.7*	*$4.1*	*$4.2*
Active Teacher Contributions	$77.3	*$79.6*	*$4.1*	*$4.2*
Medicare Part D	$21.9	*$22.4*	*$2.0*	*$2.0*
Interest/Other	$3.1	*$3.1*	*$1.5*	*$1.5*
ENDING BALANCE	**$2.5**	***-$81.3***	***-$1.9***	***-$10.9***
Source: HFS				

According to the Department of Healthcare and Family Services, if new funding sources and/or plan design changes aren't initiated, TRIP will experience an estimated $81.3 million deficit in FY 2011. On average, the cost of TRIP is increasing at a faster pace (9.9%) than the overall funding sources of the program which are increasing at (5.4%). While there may be a short term solution to the overall funding problem, without a significant committed revenue line or significant program changes, the program will not remain solvent beyond FY 2010.

While a much smaller program in terms of population, CIP will experience a negative cash flow balance in FY 2010. According to HFS, by the end of FY 2010, CIP is expected to have a negative balance of $1.9 million. In FY 2011, CIP is estimated to have a $10.9 million deficit. The cost of CIP is increasing at a much faster pace (11.8%) than the overall funding sources of the program (4.43%).

The Teachers' Retirement Insurance Program currently has 64,636 participants, with an average cost per participant of $6,963. CIP has an average cost per participant of $5,353. The estimated liabilities for TRIP in FY 2010 are $468.7 million, or a 10.6% increase over the prior fiscal year. CIP's FY 2010 estimated liability is $34.4 million, which is also a 10.6% increase over the last fiscal year.

TEACHERS' RETIREMENT INSURANCE PROGRAM
(T.R.I.P)

INTRODUCTION

The original insurance program for teachers was authorized under the Teachers' Retirement System in 1980. The original program plan design required;

- 8 years of service
- Major medical and prescription benefits
- 50% subsidy on premiums

The original funding source for TRIP was TRS investment income, which was originally set at $3.6 million. In 1985, the funding maximum was increased to $6 million annually. Likewise, in 1987, the funding level increased to $20 million annually. In 1993, TRS notified the Trustees and the Governor that the teachers' insurance program was going to have a shortfall, and that a change in federal law would necessitate a change in the way TRIP was administered. According to the Dept. of Healthcare and Family Services (HFS), the Federal government stated that pension investment income could only be used for pension related expenses, not items such as health insurance.

TRIP, as we know it today, was introduced on January 1, 1996. At that time, the administration of the benefits portions of the program was moved from the Teachers' Retirement System to the Department of Central Management Services.

Up to the current time, TRS continues to enroll members in the program and answer questions concerning enrollment and benefits. In November of 2000, the Commission on Government Forecasting and Accountability (then the Economic and Fiscal Commission) issued a report that discussed the shortfalls that the program was faced with for FY 2002 and beyond. A subsequent report by the Commission estimated the FY 2002 shortfall to be $37 million. Fortunately, a combination of premium increases and increased school district contributions were initiated as a short term solution. In FY 2005, in the interest of finding a long term solution, CMS and the various stakeholders negotiated an agreement with the hopes of continuing the solvency of the program. The table on the following page represents a brief summary of the components of the TRIP agreement reached in FY 2005.

JOINT T.R.I.P AGREEMENT FY 2005
PPO 80%/60%-Changed the out of network co-insurance to 60%
$350 annual plan deductible
Chiropractic limit of $1,000 per year
Increased Rx Copays to $7 (generic) $14 (formulary) $28 (non-formulary)
Annual out of pocket maximum of $1,250
District payroll contributions increases from .50% to.60% in FY 2006
Active teacher payroll contributions increase from .75% to .80% of payroll in FY 2006
The state's contribution matches the active teacher contribution of .80% of payroll in FY 2006, plus $13 million
Weighted premium increases were defined in statute at 6.6% in FY 2005, 9.1% in FY 2006 and 3.9% in FY 2007
Starting in FY 2008 the premium increase could not exceed 5% annually
A committee was created to develop a long term funding solution

In FY 2010, the States' GRF contribution matches the active teacher contribution of 0.84% of payroll. The FY 2010 certified payroll is $9,252,805,000.

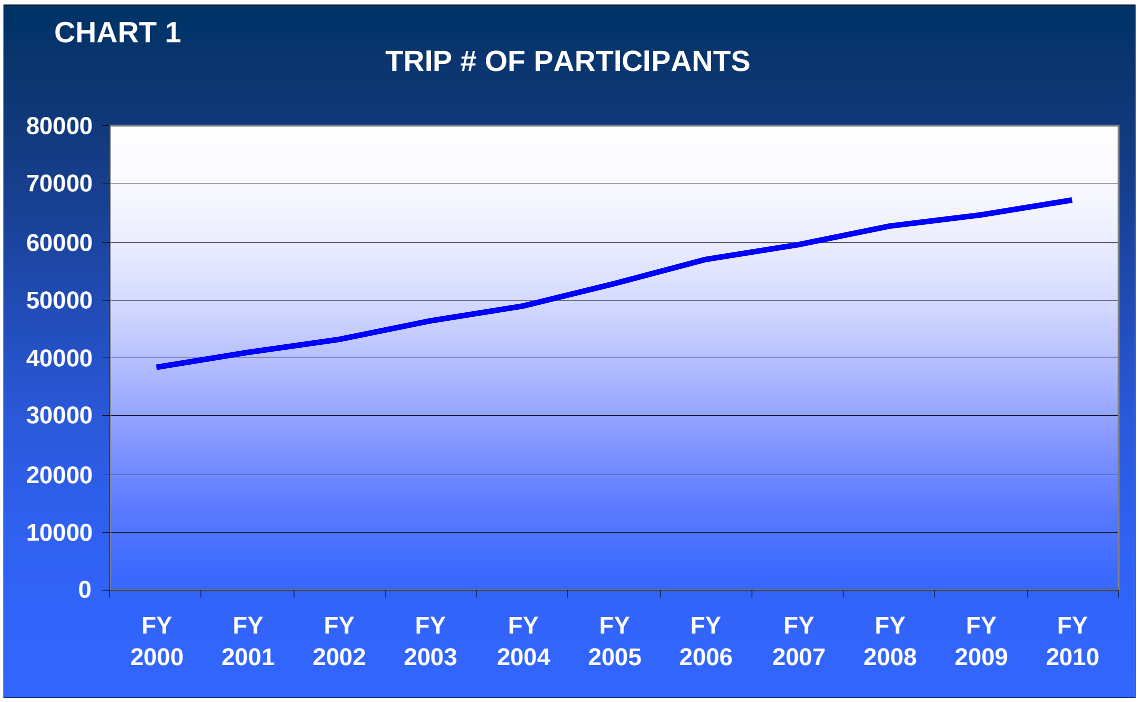
Today, the Teachers' Retirement Insurance Program (TRIP) is a comprehensive program of quality health care coverage for retired teachers and their eligible dependents. The Department of Central Management Services (CMS) is the agency that administers TRIP as set forth in the State Employees Group Insurance Act of 1971. The program offers two types of plans: PPO and managed care. The Teachers' Choice Health Plan (TCHP) is a PPO. You may enroll in TCHP regardless of where you live. Persons may also enroll in one of several managed care plans. TRIP offers two types of managed care plans: health maintenance organizations (HMOs) and an open access plan. Managed care plans are located throughout Illinois and in some neighboring states. Your place of residence determines which managed care plans are available to you.

In order to participate in TRIP, you must be receiving a monthly benefit from TRS under the Illinois Pension Code, Article 16, and:

- have at least eight years of creditable service with TRS *or*
- be the survivor of an annuitant or a benefit recipient who had at least eight years of creditable service.

ENROLLMENT

The estimated number of enrollees in TRIP for FY 2009 is 64,636. Overall, membership is expected to increase in FY 2010 to 67,260 or 4.1%. In comparison, the number of enrollees in FY 2000 was 38,446 or 42.8 percent less than the estimated FY 2009 enrollment. The chart below details overall TRIP enrollment.

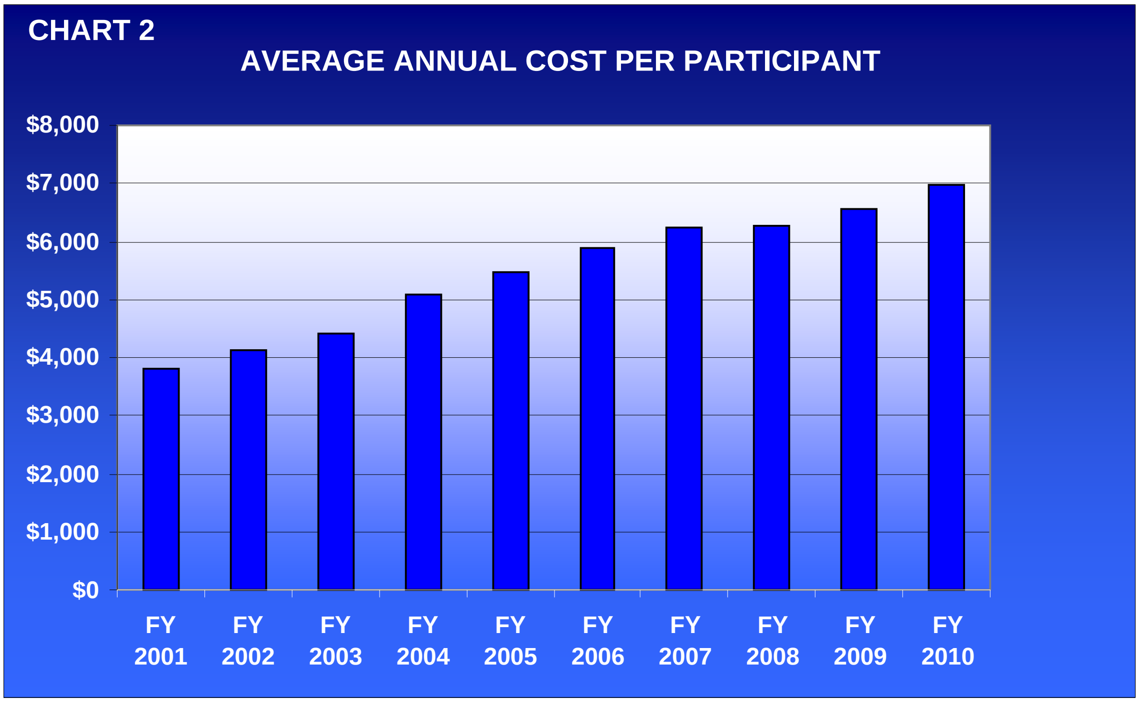


Source: HFS

TRIP has experienced continual enrollment growth. Since FY 2000, TRIP has experienced an average growth rate of 5.8%.

COST PER PARTICIPANT

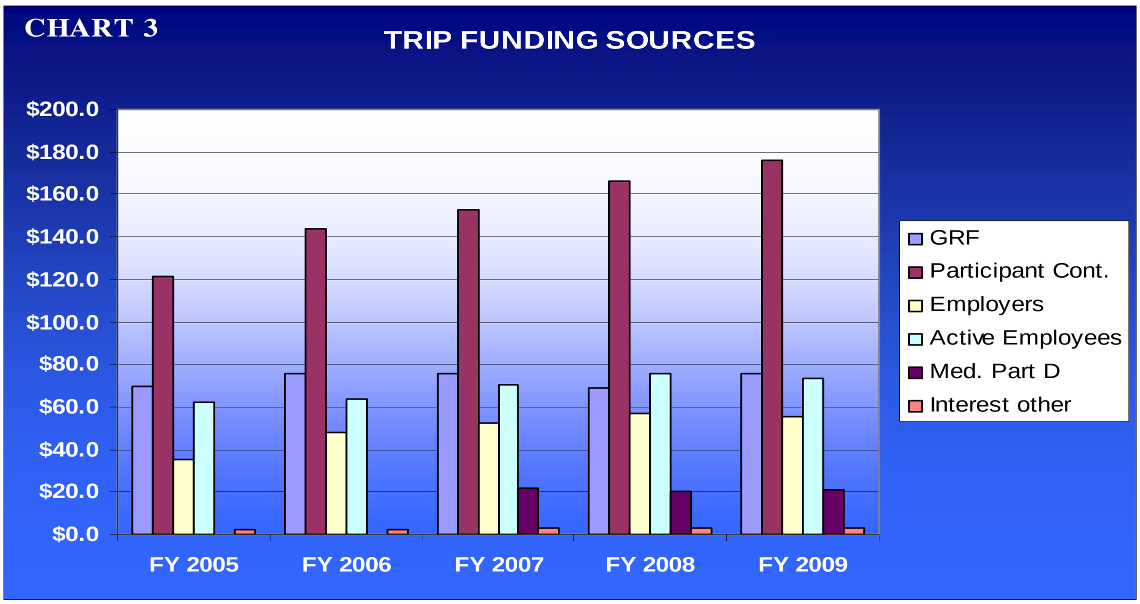
The expected cost per participant for FY 2010 is $6,963. Since FY 2001, average annual cost per participant has increased 82.3% from $3,820.



Source: HFS

FUNDING/LIABILITY

TRIP receives funding from a variety of different sources. In FY 2009, the majority of revenue coming into the program was from participant contributions. In FY 2000, participants in TRIP paid a total of $48.9 million in overall contributions. FY 2009 participant contributions will total an estimated $175.8 million. Chart 3 below identifies the various funding sources for TRIP over the last five fiscal years. ***These funding sources are not adequate, as the Teachers' Retirement Insurance Program is projected to have a negative cash balance of $81 million by FY 2011. This amount will grow substantially in future fiscal years without changes in the funding and/or benefits of the T.R.I.P.***



Source: HFS

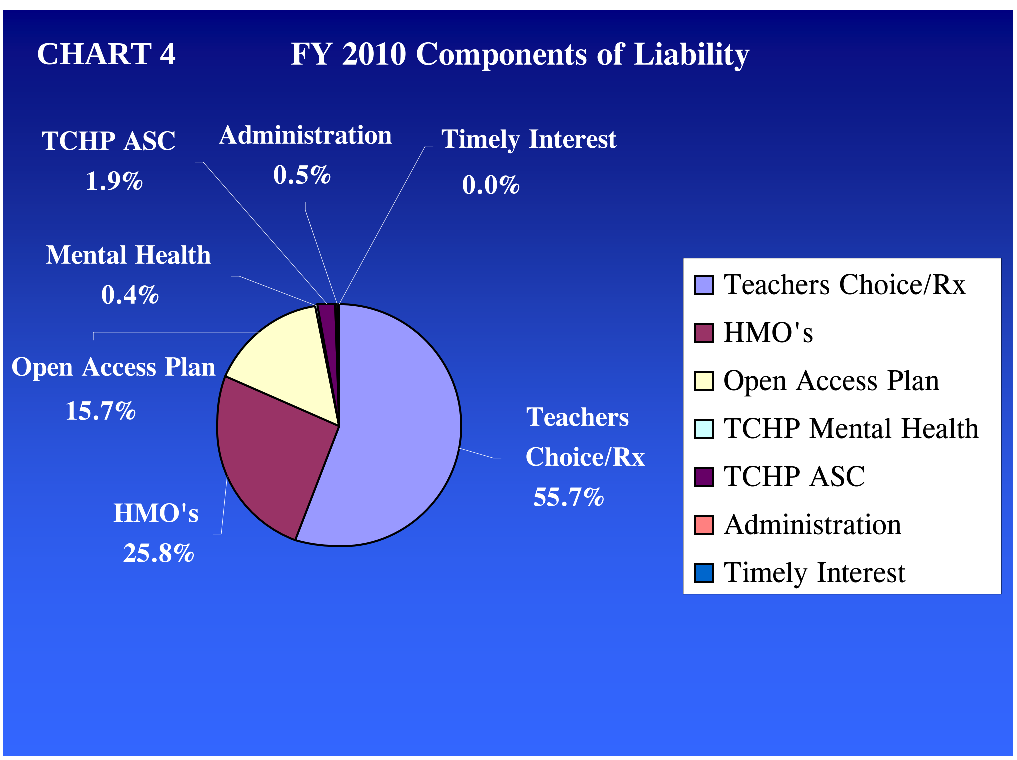
TRIP is expected to receive approximately $420.9 million in revenues in FY 2010. Table 1 below lists the funding sources for TRIP in FY 2010 & FY 2011.

TABLE 1	FY 2010/2011 TRIP FUNDING SOURCES	
Revenue Source	**FY 2010**	**FY 2011**
State Contributions	$79,007,411	$79,579,253
Participant Contributions	$181,726,636	$187,848,414
Employer Contributions	$57,946,058	$59,684,440
Active Teacher Contributions	$77,261,411	$79,579,253
Medicare Part D Subsidy	$21,936,804	$22,375,541
Interest/Other	$3,059,262	$3,120,447
TOTAL	**$420,937,582**	**$432,187,348**

Today, TRIP is again in danger of insolvency unless action is taken. The changes implemented in FY 2005 will no longer provide the necessary funding to meet the increased liabilities of the program. Table 2 on the following page, shows historical liabilities for TRIP.

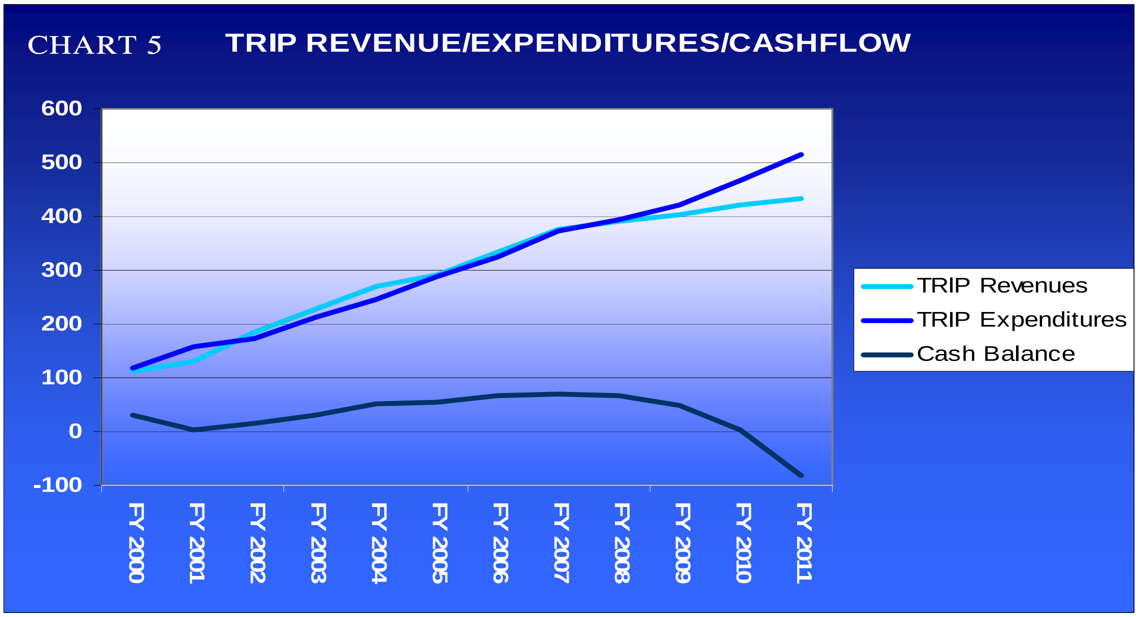
TABLE 2	TRIP HISTORIC LIABILITITIES						
	FY 2004-FY 2010 (in millions)						
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Teachers Choice/Rx	$167.1	$186.0	$201.7	$216.4	$218.9	$236.6	$260.9
HMO's	$52.2	$62.5	$77.8	$92.7	$102.4	$108.6	$120.7
Open Access Plan	$19.3	$31.1	$45.1	$50.3	$60.7	$66.0	$73.8
TCHP Mental Health	$1.6	$1.7	$1.8	$1.9	$1.9	$2.0	$2.1
TCHP ASC	$4.9	$5.3	$7.2	$7.1	$8.0	$8.3	$8.8
Administration	$8.0	$3.2	$2.4	$3.2	$2.3	$2.3	$2.4
Timely Interest	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL	**$253.1**	**$289.8**	**$336.0**	**$371.6**	**$394.2**	**$423.8**	**$468.7**
% over prior year	23.6%	14.5%	15.9%	10.6%	6.1%	7.5%	10.6%
Source: HFS							

As evident in the chart above, since FY 2004 overall liabilities for TRIP have increased by 85.2%. Since FY 2004, only in FY 2008 and FY 2009 has the program experienced single digit liability growth. Much like the State Employees Group Insurance Program, the largest components of TRIP are the PPO plan (Teachers' Choice) and prescription drug component. In addition, HMO's represent 25.7 % of estimated liability in FY 2010. Chart 4 below shows various components of FY 2010 TRIP liability.



Source: HFS

According to information provided to the Commission by the Department of Healthcare and Family Services, TRIP will experience a shortfall beginning in FY 2011. ***If no changes are made to the program, at years end (FY 2011) TRIP will be experiencing an estimated $81.3 million deficit.*** To illustrate the seriousness of the problem the Commission has created the chart below to show the significant drawdown in cash for TRIP over the last several fiscal years.



Source: HFS

As evidenced in the line chart above, beginning in FY 2002, TRIP revenues began exceeding expenditures. Unfortunately, towards FY 2008, expenditures exceeded TRIP revenues drawing down the overall cash balance of the program. **The "cash balance" line clearly shows the looming deficit that TRIP will face if new funding methodologies and/or program design changes are not implemented quickly.** A closer look at cash flow projections is included in the table below. Projections for future years are shown in Table 7 on page 16.

TABLE 3	**TRIP ESTIMATED CASH FLOW**				
	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Beginning Balance	$65.8	$70.4	$66.0	$48.0	***$2.5***
Program Costs	-$372.1	-$395.2	-$421.9	-$466.4	***-$516.0***
State Contributions (GRF)	$75.8	$68.6	$75.5	$79.0	***$79.6***
Member Contributions	$152.7	$166.5	$175.8	$181.7	***$187.8***
Employer Contributions	$52.8	$56.9	$55.2	$57.9	***$59.7***
Active Teacher Contributions	$70.4	$75.8	$73.7	$77.3	***$79.6***
Medicare Part D	$21.9	$20.3	$20.7	$21.9	***$22.4***
Interest/Other	$3.1	$2.9	$3.0	$3.1	***$3.1***
ENDING BALANCE	**$70.4**	**$66.2**	**$48.0**	**$2.5**	***-$81.3***
Source: HFS					

On average, the cost of TRIP is increasing at a faster pace 9.9%% than the overall funding sources of the program which are increasing at 5.4%. While there may be a short term solution to the overall funding problem, without a significant committed revenue line or significant program changes, the program will not remain solvent beyond FY 2010.

COMMUNITY COLLEGE INSURANCE PROGRAM
(C.I.P)

INTRODUCTION

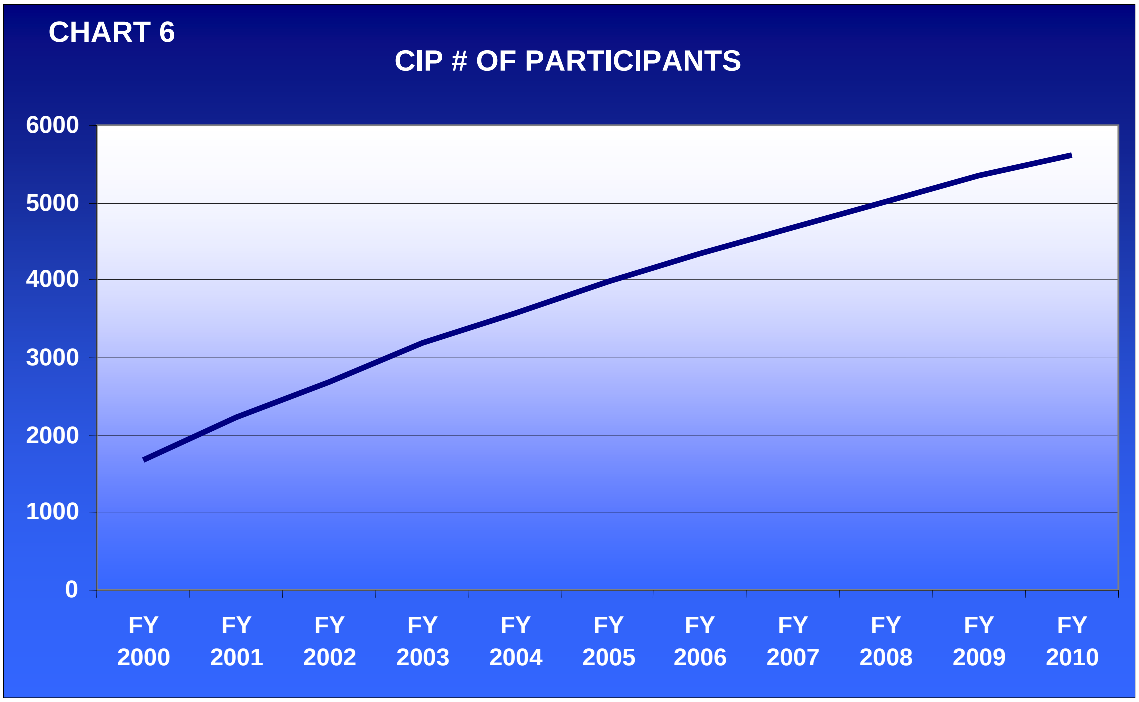
The College Insurance Program was created by P.A 90-0497. CIP was established as a remedy to the rising health care costs for the retirees of the 39 Illinois Community Colleges. Prior to the implementation of the CIP, 20 of the 39 Illinois Community colleges were unable to provide any health care benefits for their retirees.

In early 1997 Senate Bill 423 (P.A 90-0497) was introduced. The bill contained the provisions of CIP that was patterned after TRIP. The program that was created was called the College Insurance Program and is funded from four sources 1) active community college employees pay 0.5% of their gross pay; 2) community college employers match the employee contributions with a 0.5% gross payroll contribution; 3) the State provides a 0.5% contribution of community college gross payroll as certified by the State University Retirement System; 4) retirees who enroll in the program pay premiums established by CMS.

Today, The College Insurance Program (CIP) is a comprehensive program of quality health care coverage for retired employees and their eligible dependents. The State Universities Retirement System (SURS) role is to provide members with basic coverage information, enroll them in the program and collect the appropriate premiums. The State of Illinois determines coverage benefits, establishes premiums, negotiates contracts with the insurance carriers and resolves coverage and claim issues. The Department of Central Management Services is the agency that administers the College Insurance Program (CIP), as set forth in the State Employees Group Insurance Act of 1971 (Act).

ENROLLMENT

The estimated number of enrollees in CIP for FY 2009 is 5,353. Overall, membership is expected to increase in FY 2010 to 5,610 or 4.8%. In comparison, the number of enrollees in FY 2000 was 1,686 or -68.5% less than the estimated FY 2009 enrollment. The chart below details overall CIP enrollment.

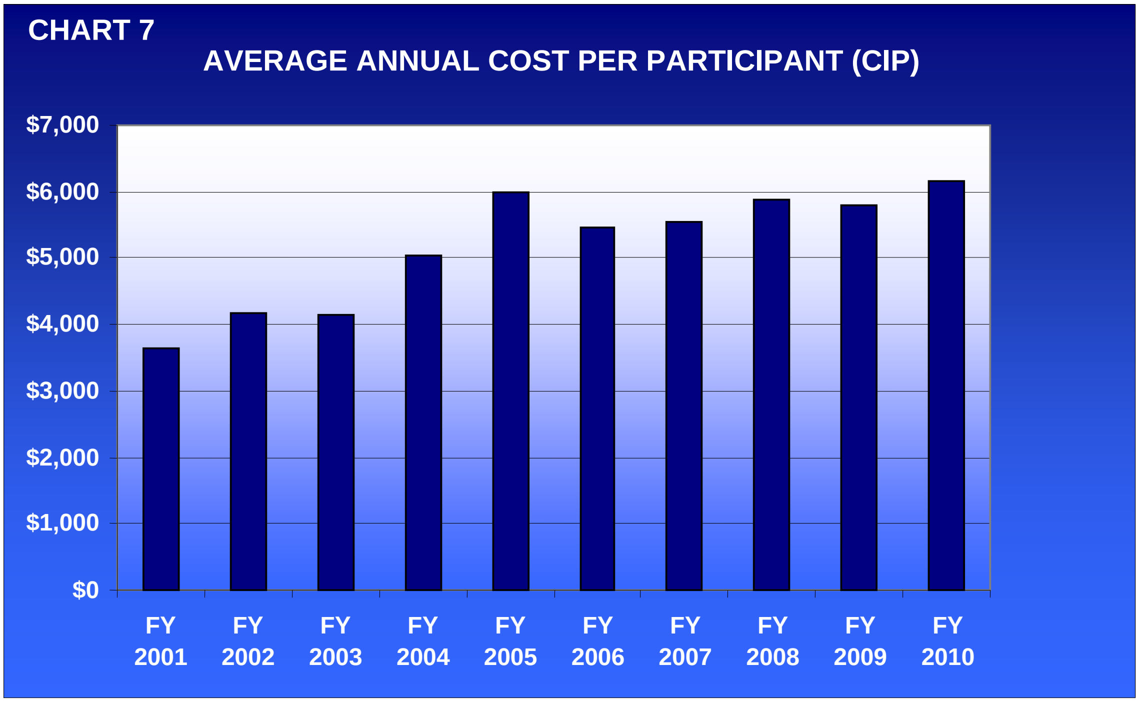


Source: HFS

CIP has experienced continual enrollment growth. Since FY 2000, CIP has experienced an average growth rate of 13.0%. The continued enrollment increases perpetuate the problem by adding to the overall liability.

COST PER PARTICIPANT

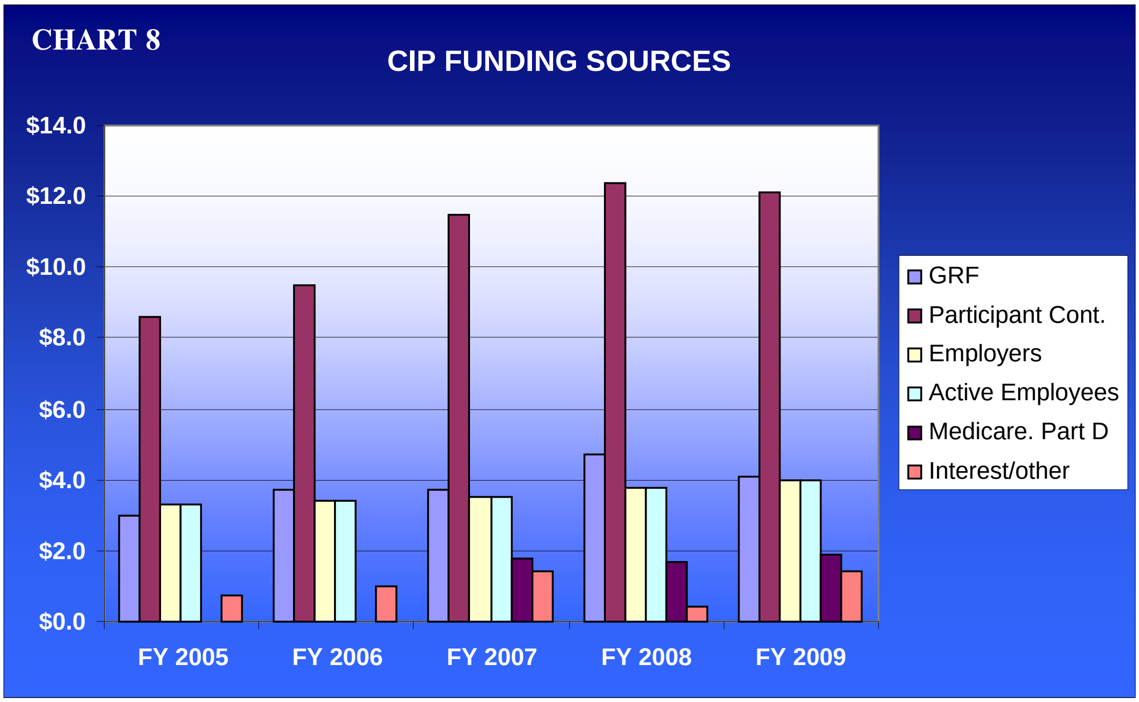
The expected cost per CIP participant for FY 2010 is $6,510. Since FY 2001, average annual cost per participant has increased 69.4%.



Source: HFS

FUNDING/LIABILITY

When discussing the overall function and cash flow of a program, the funding sources must be clearly delineated. CIP receives funding from a variety of different sources. In FY 2008, the majority of revenue coming into the program was from participant contributions, or premiums. FY 2010 participant premiums will total an estimated $12.7 million, which represents an increase of 429% over the total participant contributions in FY 2000. Chart 8 below helps identify the various funding sources for CIP over the last five fiscal years. ***These funding sources are not adequate, as the Community College Insurance Program will soon experience a fiscal crisis.***



Source: HFS

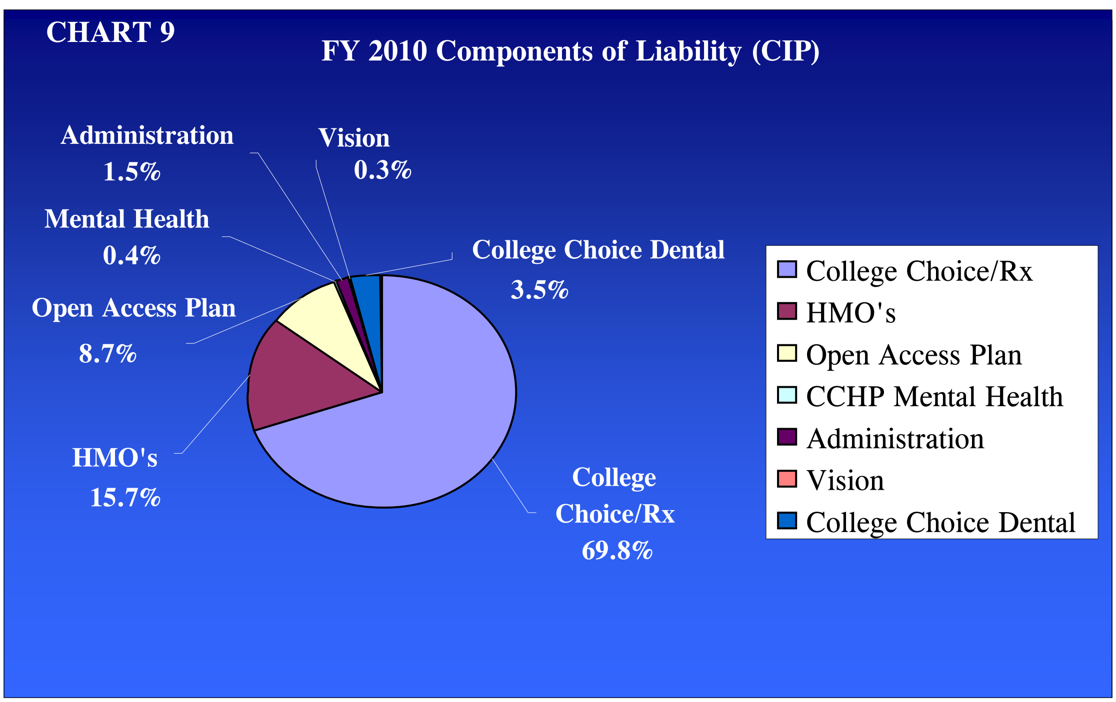
CIP is expected to receive approximately $28.4 million in revenues in FY 2010. Table 4 below lists the estimated revenues that will be received by CIP in FY 2010 & FY 2011.

TABLE 4	FY 2010/2011 CIP FUNDING SOURCES	
Revenue Source	**FY 2010**	**FY 2011**
State Contributions	$4,059,413	$4,181,195
Participant Contributions	$12,720,042	$14,069,913
Employer Contributions	$4,059,413	$4,181,195
Active Teacher Contributions	$4,059,413	$4,181,195
Medicare Part D Subsidy	$1,988,594	$2,048,252
Interest/Other	$1,488,045	$1,532,687
TOTAL	**$28,374,920**	**$30,194,437**

Today, CIP is in danger of insolvency unless action is taken. The table below shows historical liabilities for CIP.

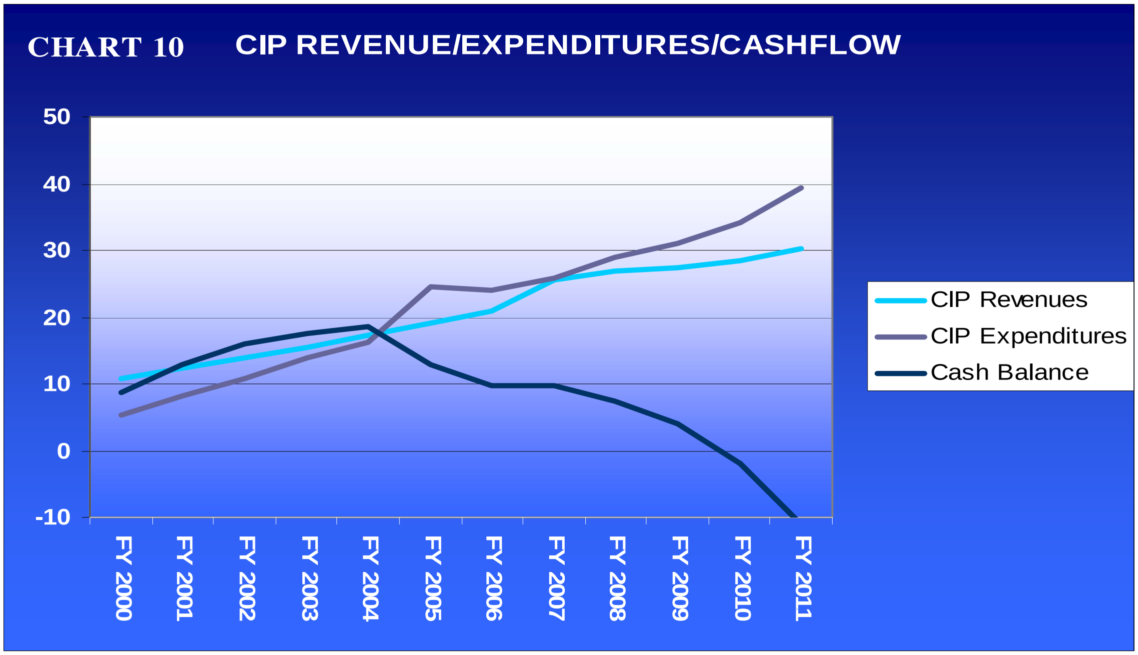
TABLE 5	CIP HISTORIC LIABILITITIES						
	FY 2004-FY 2010 (in millions)						
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
College Choice/Rx	$12.4	$17.6	$16.9	$17.8	$20.2	$20.7	$23.1
HMO's	$2.5	$2.9	$3.4	$3.9	$4.3	$4.9	$5.4
Open Access Plan	$1.0	$1.5	$1.5	$2.1	$2.5	$2.7	$3.0
College Choice Mental Health	$0.1	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2
College Choice ASC	$0.4	$0.5	$0.7	$0.7	$0.8	$0.9	$0.9
College Choice Dental	$0.7	$0.7	$0.8	$0.8	$0.9	$1.1	$1.2
Vision	$0.1	$0.2	$0.1	$0.1	$0.1	$0.1	$0.1
Administration	$0.7	$0.4	$0.3	$0.4	$0.4	$0.5	$0.5
Timely Interest	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL	**$17.9**	**$24.0**	**$23.9**	**$26.0**	**$29.4**	**$31.1**	**$34.4**
% over prior year		34.1%	-0.4%	8.8%	13.1%	5.8%	10.6%
Source: HFS							

Since FY 2004, overall liabilities for CIP have increased by 92.2%. Much like the Teachers' Retirement Insurance Program, the largest components of CIP are the PPO plan (College Choice) and prescription drug component, representing 69.8% of overall liability. In addition, HMO's represent 15.7 % of estimated liability in FY 2010. Chart 9 below shows various components of FY 2010 CIP liability.



Source: HFS

According to information provided to the Commission by the Department of Healthcare and Family Services, CIP will experience a shortfall beginning in FY 2010. ***If no changes are made to the program, at the end of FY 2010 CIP will experience an estimated $1.9 million deficit. The problem will become more severe in FY 2011 where the deficit will increase to $11.0 million.*** To illustrate the seriousness of the problem the Commission has created a chart below to show the significant drawdown in cash for CIP the last several fiscal years.



Source: HFS

As shown in the line graph above, beginning in FY 2000 CIP revenues began exceeding expenditures. Unfortunately, towards FY 2004 expenditures exceeded CIP revenues drawing down the overall cash balance of the program. The "cash balance" line clearly shows the looming deficit that CIP will face if new funding methodologies and/or program design changes aren't implemented quickly. A precise look at cash flow projections is included in the table below. Projections for future years are shown in Table 8 on page 16.

TABLE 6	**CIP ESTIMATED CASH FLOW**				
	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Beginning Balance	$9.9	$9.6	$7.3	***$3.8***	***-$1.9***
Program Costs	-$25.7	-$29.1	-$31.0	***-$34.2***	***-$39.2***
State Contributions (GRF)	$3.7	$4.7	$4.1	***$4.1***	***$4.2***
Member Contributions	$11.5	$12.4	$12.1	***$12.7***	***$14.1***
Employer Contributions	$3.5	$3.8	$4.0	***$4.1***	***$4.2***
Active Teacher Contributions	$3.5	$3.8	$4.0	***$4.1***	***$4.2***
Medicare Part D	$1.8	$1.7	$1.9	***$2.0***	***$2.0***
Interest/Other	$1.4	$0.4	$1.4	***$1.5***	***$1.5***
ENDING BALANCE	**$9.6**	**$7.3**	**$3.8**	***-$1.9***	***-$10.9***
Source: HFS					

The cost of CIP is increasing at a much faster pace 11.8% than the overall funding sources of the program, 4.43%. While there may be a short term solution to the overall funding problem, without additional revenue or significant program changes the program will not remain solvent into the future.

CONCLUSION

The most glaring problem with both T.R.I.P. and C.I.P is that in order to keep up with even a conservative growth trend, new funding and/or programmatic changes will have to be made quickly to both programs. These solutions, coupled with the State's financial problems, will make any solutions difficult to implement.

If no action is taken, both programs will continue to have negative cash balances into the future. Assuming that no changes are made to the structure of the program, by FY 2015 TRIP would be experiencing an estimated -$728.8 million deficit, as shown in the table below.

TABLE 7	TRIP ESTIMATED CASH FLOW PROJECTIONS			
	FY 2012	FY 2013	FY 2014	FY 2015
Beginning Balance	-81.3	-196.8	-343.9	-521.8
Program Costs	-562.6	-607.9	-650.7	-690.0
State Contributions (GRF)	82.0	84.4	87.0	89.6
Member Contributions	195.4	201.3	205.4	207.6
Employer Contributions	61.5	63.3	65.2	67.2
Active Teacher Contributions	82.0	84.4	87.0	89.6
Medicare Part D	23.2	24.0	24.8	25.7
Interest/Other	3.2	3.2	3.3	3.3
Ending Balance	**-196.8**	**-343.9**	**-521.8**	**-728.8**

Table 8 below shows the ominous cash flow trend for CIP. Assuming current medical trends continue, if no changes are made to the program, CIP would experience an estimated negative cash balance of -$77.56 million in FY 2015.

TABLE 8	CIP ESTIMATED CASH FLOW PROJECTIONS			
	FY 2012	FY 2013	FY 2014	FY 2015
Beginning Balance	-10.90	-22.61	-37.37	-55.55
Program costs	-43.07	-47.33	-52.00	-57.14
State Contributions	4.33	4.46	4.59	4.73
Member contribution	14.79	15.51	16.27	17.06
Employer Contributions	4.33	4.46	4.59	4.73
Active	4.33	4.46	4.59	4.73
Medicare Part D	2.07	2.14	2.22	2.30
Interest	1.52	1.55	1.57	1.60
Balance	**-22.61**	**-37.37**	**-55.55**	**-77.56**

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;
2) Analysis of the fiscal impact of revenue bills;
3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
4) Periodic assessment of capital facility plans;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

http://www.ilga.gov/commission/cgfa2006/home.aspx