

**ILLINOIS ECONOMIC
and
FISCAL COMMISSION**

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



NOVEMBER 2000
703 Stratton Office Building
Springfield, Illinois 62706

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

The Teachers' Retirement Insurance Program (TRIP) is a health insurance plan for retired Illinois teachers. It was introduced on January 1, 1996, and is administered by the Department of Central Management Services. The predecessor to the Teachers' Retirement Insurance Program, the TRS Health Insurance Plan, was operated and funded by the Teachers' Retirement System. The Teachers' Retirement Insurance Program is currently administered by the state because of previous fiscal problems the program experienced.

There are currently three funding sources for TRIP: active teacher payroll contributions, contributions from the General Revenue Fund, and premiums paid by retired teachers who enroll in the program. Active teachers pay ½ percent of their salaries through payroll contributions; it is collected by TRS and remitted to the State treasury. The State contribution is a General Revenue Fund match equal to the ½ percent from active teachers, plus \$11 million for benefit enhancements implemented in FY 2001. Retired teachers who enroll in the Teachers' Retirement Insurance Program pay monthly premiums. These premiums are subsidized by the State from the Teacher Health Insurance Security Fund. The amount of the subsidy is not equal for all enrollees; it varies according to an enrollee's access to care and plan enrollment.

These three funding sources do not appear to be adequate, as the Teachers' Retirement Insurance Program will soon experience a fiscal crisis. CMS has estimated that the balance of funds available for the program at the end of FY 2001 will be \$10.1 million. (While FY 2001 program cost estimates include an \$11 million increase, to pay for benefit enhancements that were implemented July 1, 2000, it is unclear if program costs are the only factor responsible for the anticipated poor fiscal condition of the program by the end of FY 2001.) From FY 1997 through FY 2000, the estimated ending balance of funds available for the Teachers' Retirement Insurance Program fluctuated from \$36.8 million to \$29.9 million for FY 2000.

The cash flow tables on page 2 offer historical information about the Teachers' Retirement Insurance Program, and also include future estimates of program funding and program costs. Program costs refer to the annual liability associated with the entire Teachers' Retirement Insurance Program-TCHP and managed care enrollment combined. **The program cost estimates include analyses by the actuarial firm of Tillinghast-Towers Perrin, enlisted by the Commission to review the Teachers' Retirement Insurance Program indemnity plan, the Teachers' Choice Health Plan.** A summary of the actuarial projections of TCHP program costs will be included toward the end of this report. The actuaries only reviewed the more costly Teachers' Choice Health Plan because 27,962 (73% of the approximately 38,462 T.R.I.P. enrollees) members and dependents were enrolled in the indemnity plan as of June 2000.

As shown in Table 2, by FY 2002, revenues under the current structure will no longer be sufficient to keep the program solvent as a deficit begins to form. By FY 2004, the deficit will grow to over \$100 million.

	<u>FY '97</u>	<u>FY '98</u>	<u>FY '99</u>	<u>FY '00</u>
Beginning Balance	\$20.2	\$31.4	\$36.5	\$36.8
Program Costs	(85.1)	(92.7)	(102.9)	(117.9)
Member Contributions	43.9	42.8	44.8	48.8
Active Teacher Contributions	25.1	26.5	28.2	30.3
State Contribution	24.3	26.1	27.5	29.2
Interest/Other	3.1	2.5	2.7	2.7
ENDING BALANCE	\$31.4	\$36.5	\$36.8	\$29.9

	<u>FY 2001</u>	<u>IEFC FY 2002</u>	<u>IEFC FY 2003</u>	<u>IEFC FY 2004</u>	<u>IEFC FY 2005</u>
Beginning Balance	\$29.9	\$18.1	\$-9.3	\$-51.2	\$-107.2
Program Costs	(142.1)	(166.4)	(192.8)	(221.3)	(251.2)
Member Contributions	52.6	55.7	59.6	64.4	70.2
Active Teacher Contributions	32.9	36.2	40.1	45.0	50.8
State Contributions					
GRF	43.9	47.2	51.1	56.0	61.8
Interest/Other	1.0	0.0	0.0	0.0	0.0
ENDING BALANCE	\$18.1	\$-9.3	\$-51.2	\$-107.2	\$-175.6
<ul style="list-style-type: none"> • In FY 2001, Program Costs and State Contribution estimates each include \$11 million for FY 2001 benefit enhancements. • From FY 2001 to FY 2005, State Contribution estimates include an additional \$11 million for benefit enhancements. Program cost estimates include an additional \$12 million to \$15 million from FY 2002 to FY 2005. 					

The estimated ending balances for the Teachers' Retirement Insurance Program reflect the maintenance of the status quo in program funding. Member contributions, active teacher contributions, and State contributions do not keep pace with increasing program costs each year. While CMS strives to control program costs, it is likely that an additional funding source or increased funding will be necessary to prevent a negative balance for the Teachers' Retirement Insurance Program in the future.

Table 3 shows the FY 2000 and FY 2001 TRIP premiums.

TABLE 3: FY 2000 and FY 2001 T.R.I.P. MONTHLY PREMIUMS

Type of Enrollee/Plan		Not	Not	Not	Not
		Medicare Primary <i>Under 23</i>	Medicare Primary <i>Age 23-64</i>	Medicare Primary <i>Age 65 and Over</i>	Medicare Primary <i>ALL AGES</i>
Annuitant/Managed Care					
Benefit recipient enrolled in any TRIP MC plan	FY00	\$36.56	\$96.63	\$131.21	\$36.62
	FY01	\$36.56	\$101.63	\$136.21	\$41.62
Annuitant/TCHP					
Benefit recipient enrolled in TCHP indemnity plan when MC is available in county of residence	FY00	\$73.11	\$193.27	\$262.41	\$73.24
	FY01	\$73.11	\$203.27	\$272.41	\$83.24
Annuitant/TCHP					
Benefit recipient enrolled in TCHP indemnity plan when MC is not available in county of residence	FY00	\$36.56	\$96.63	\$131.21	\$36.62
	FY01	\$36.56	\$101.63	\$136.21	\$41.62
Dependents/All Plans					
Enrolled in any plan	FY00	\$146.22	\$386.53	\$524.82	\$146.48
	FY01	\$146.22	\$406.53	\$544.82	\$166.48

FY 2001 premiums for the following ANNUITANTS **increased \$5 per month** over FY 2000 premiums

Not Medicare Primary 23-64
Not Medicare Primary 65 +
Medicare Primary All Ages

enrolled in a TRIP managed care plan or enrolled in the TCHP indemnity plan where managed care is unavailable

FY 2001 premiums for the following ANNUITANTS **increased \$10 per month** over FY 2000 premiums

Not Medicare Primary 23-64
Not Medicare Primary 65 +
Medicare Primary All Ages

enrolled in a TCHP indemnity plan when MC is available

FY 2001 premiums for the following DEPENDENTS **increased \$20 per month** over FY 2000 premiums

Not Medicare Primary 23-64
Not Medicare Primary 65 +
Medicare Primary All Ages

enrolled in any plan

Premiums for annuitants and dependents AGE 0-23 remained the same from FY 2000 to FY 2001

The premium increase from FY 2000 to FY 2001 was a weighted average 7.4%. CMS has indicated that an increase of approximately 65% will be needed in FY 2002 to keep the program adequately funded.

Background of the Teachers' Retirement Insurance Program

Members of the Teachers' Retirement System are downstate, public schoolteachers. While there are both active and inactive teachers in the Teachers' Retirement System, only active teachers contribute to the Teachers' Retirement Insurance Program through their paychecks. Teachers may not enroll in the Teachers' Retirement Insurance Program unless they have at least eight years of service upon retirement.

Few school districts in the State of Illinois provide health insurance for their retired teachers. Enrollment in TRIP is voluntary, but it is available to all TRS members who are eligible upon retirement. In a teachers' retirement package, there is a TRIP enrollment application and a TRIP highlights brochure. Once a teacher enrolls, he or she receives a packet that includes an acknowledgement letter, a benefit handbook, and a benefit choice book. The TRIP benefit choice period that preceded FY 2001 enrollment was May 15, 2000 through June 30, 2000.

Enrollment Information

There are approximately 55,300 TRS retirees eligible for TRIP. These retirees, also known as annuitants, receive a monthly benefit or retirement annuity under Article 16 of the Illinois Pension Code. 33,614 TRS retirees were enrolled in TRIP as of August 2000. There were also 6,521 dependents enrolled in TRIP (for the FY 2001 benefit year) as of August 2000. **Approximately 61% of TRS retirees are enrolled in the Teachers' Retirement Insurance Program for FY 2001. The remaining 39% of TRS retirees may not have enrolled in TRIP for several reasons.** Enrollment in TRIP may be cost-prohibitive; retirees may have health insurance coverage through their spouse, a current employer, or the local school district from which they retired.

The chart below shows historical enrollment for TRIP:

	<u>Annuitants</u>	<u>% Change</u>	<u>Dependents</u>	<u>% Change</u>	<u>TOTAL</u>	<u>% Change</u>
January 1996	31,699	N/A	6,242	N/A	37,941	N/A
FY 1997	31,436	-0.83%	6,102	-2.24%	37,538	-1.06%
FY 1998	31,293	-0.45%	6,008	-1.54%	37,301	-0.63%
FY 1999	31,462	0.54%	5,940	-1.13%	37,402	0.27%
FY 2000	32,217	2.40%	6,090	2.53%	38,307	2.42%
FY 2001	33,614	4.34%	6,521	7.08%	40,135	4.77%

Current Funding Sources for the Teachers' Retirement Insurance Program

All revenue from the three funding sources is deposited into the Teachers' Health Insurance Security Fund (THIS). The three funding sources for TRIP are active teacher payroll contributions, contributions from the General Revenue Fund, and premiums paid by retired teachers who enroll in the program.

Active Teacher Payroll Contributions

For the 1999-2000 school year (FY 2000), there were 106,223 active public school teachers contributing through their paychecks. Active teachers are certified full and part-time employed classroom teachers. In FY 2000, active teacher payroll contributions (1/2 % of salary) accounted for \$30.3 million of revenue for TRIP, an increase of 7.4% over FY 1999 active teacher payroll contributions of \$28.2 million.

It is important to note that the Chicago Public School System is not covered by the Teachers' Retirement System or the Teachers' Retirement Insurance Program. The Chicago Public School System has its own retirement system for its 23,576 active public school teachers, the Public School Teachers Pension and Retirement Fund of Chicago. The Chicago Public School System does provide retired teachers with a health insurance program. The retired teachers pay a specific premium depending on eligibility, and have the choice to enroll in an HMO or a PPO.

State Contribution

In FY 2000, the State contributed, from the general revenue Fund, \$29.2 million to the Teachers' Health Insurance Security Fund for the Teachers' Retirement Insurance Program. This represented an increase of 6.2% over FY 1999 GRF contributions of \$27.5 million. By law, the State is required to match the contributions from the active teachers' salaries each fiscal year.

Member Contributions

Members of the Teachers' Retirement Insurance Program pay premiums based on their age, the type of plan in which they enroll, and their access to managed care. In FY 2000, premiums paid by retired teachers (members and dependents) totaled \$48.8 million, an increase of 8.9% over FY 1999 premiums of \$44.8 million. FY 2001 member contributions should be higher due to increased enrollment and increased FY 2001 premiums for all members and dependents above age 23.

Proposed Solutions to the Fiscal Crisis

One option that has been recommended to keep the program solvent is a combination of premium increases and contributions from local school districts or increased GRF funding.

Local School District Contributions

In future fiscal years, it may be necessary for local school districts to contribute to the Teachers' Health Insurance Security Fund. Currently, active teacher contributions represent 0.5% of their annual salaries; this amount is matched by the State from the General Revenue Fund. If local school districts were to match the contributions made by active teachers, it is estimated that \$36 million in additional revenue would be available for TRIP in FY 2002.

Expand a Current Funding Source

As mentioned earlier, there are three funding sources for TRIP: active teacher payroll contributions, contributions from the General Revenue Fund, and premiums paid by retired teachers who enroll in the program.

Member Contributions

CMS has already increased premiums for retired teachers as a short-term solution to the funding crisis. The FY 2001 increases are not substantial enough to sustain the program in future years, however, as program costs increase at a much higher rate than retiree premiums do.

Active Teacher Contributions

As the number of active teachers increases and their salaries increase, an increase to active teacher contributions may be required. If active teachers were to contribute .75% or 1% of their salaries to the Teachers' Retirement Insurance Program each year, active teacher contributions could increase \$15 to \$30 million in the first fiscal year of increased active teacher contributions.

State Contributions

The State contribution from the General Revenue Fund matches the active teacher contribution. If active teachers are required to contribute a higher percentage of their salaries to the Teacher's Retirement Insurance Program, then the State would be required to match this increase. An increase to active teachers' contributions would benefit TRIP twofold. In FY 2001 and thereafter, the GRF contribution to TRIP is \$11 million higher than in FY 2001 because the State agreed to benefit enhancements. Any increase in GRF match would supplement this new funding arrangement.

Decrease Member and Dependent Benefits

Another solution to the TRIP crisis would be to decrease benefits. In light of recent demands by retirees for benefit enhancements, it is not likely that TRIP enrollees would be agreeable to benefit decreases. While it may be a necessary step to control program costs, it is a solution that would likely meet great opposition from retired teachers' organizations.

<u>TCHP* COST ESTIMATES</u>					
	<u>Enrollment</u>	<u>Trend</u>	<u>PMPM</u>	<u>Trend</u>	<u>TOTAL</u>
2000	27,962		\$255.41		\$85,699,931
2001	29,103	4.08%	\$287.98	17.35%	\$100,572,038
2002	30,187	3.72%	\$330.84	19.16%	\$119,842,326
2003	31,311	3.72%	\$375.34	17.68%	\$141,025,688
2004	32,478	3.73%	\$420.09	16.10%	\$163,726,163
2005	33,689	3.73%	\$463.39	14.42%	\$187,337,009

*Estimates from Tillinghast-Towers Perrin for indemnity plan.

<u>HMO* COST ESTIMATES</u>					
	<u>Enrollment</u>	<u>Trend</u>	<u>PMPM</u>	<u>Trend</u>	<u>TOTAL</u>
2000	10,500		\$212.30		\$26,749,743
2001	10,710	2.00%	\$237.78	12.00%	\$30,558,906
2002	10,924	2.00%	\$263.93	11.00%	\$34,598,793
2003	11,143	2.00%	\$290.32	10.00%	\$38,819,846
2004	11,366	2.00%	\$319.36	10.00%	\$43,555,867
2005	11,593	2.00%	\$351.29	10.00%	\$48,869,683

*IEFC estimates for managed care plans.

<u>TRIP* COST ESTIMATES</u>					
	<u>Enrollment</u>	<u>Trend</u>	<u>PMPM</u>	<u>Trend</u>	<u>TOTAL</u>
2000	38,462		\$243.64		\$112,449,674
2001	39,813	3.51%	\$274.47	16.61%	\$131,130,944
2002	41,111	3.26%	\$313.06	17.78%	\$154,441,119
2003	42,453	3.27%	\$353.02	16.45%	\$179,845,534
2004	43,844	3.28%	\$393.98	15.26%	\$207,282,030
2005	45,282	3.28%	\$434.69	13.95%	\$236,206,692

*Estimates of entire Teachers' Retirement Insurance Program.

While the T.R.I.P. cost estimates above represent the base liability for T.R.I.P. each year, cash flow tables on the following page show higher program costs. From FY 2001 to FY 2005, an additional \$11 million to \$15 million was added to base program liability for benefit enhancements.

T.R.I.P. CASHFLOW SCENARIOS

INCREASED MEMBER CONTRIBUTIONS						
	CMS FY 2000	IEFC FY 2001	IEFC FY 2002	IEFC FY 2003	IEFC FY 2004	IEFC FY 2005
Beginning Balance	\$36.8	\$29.9	\$20.5	\$7.4	-\$9.2	-\$29.5
Program Costs	(117.9)	(142.1)	(166.4)	(192.8)	(221.3)	(251.2)
Member Contributions	48.8	55.0	70.0	85.0	100.0	115.0
Active Teacher Contribution	30.3	32.9	36.2	40.1	45.0	50.8
State Contribution (GRF)	29.2	43.9	47.2	51.1	56.0	61.8
Interest/Other	2.7	1.0	0.0	0.0	0.0	0.0
ENDING BALANCE	\$29.9	\$20.5	\$7.4	\$-9.2	\$-29.5	\$-53.1

.75% ACTIVE TEACHER CONTRIBUTIONS AND MATCHING STATE CONTRIBUTION						
	CMS FY 2000	IEFC FY 2001	IEFC FY 2002	IEFC FY 2003	IEFC FY 2004	IEFC FY 2005
Beginning Balance	\$36.8	\$29.9	\$43.2	\$44.5	\$35.3	\$16.7
Program Costs	(117.9)	(142.1)	(166.4)	(192.8)	(221.3)	(251.2)
Member Contributions	48.8	52.6	55.7	59.6	64.4	70.2
Active Teacher Contribution	30.3	45.5	50.0	55.5	62.2	70.2
State Contribution (GRF)	29.2	56.5	62.0	68.5	76.2	85.2
Interest/Other	2.7	1.0	0.0	0.0	0.0	0.0
ENDING BALANCE	\$29.9	\$43.2	\$44.5	\$35.3	\$16.7	\$-8.8

INCREASED GRF CONTRIBUTIONS						
	CMS FY 2000	IEFC FY 2001	IEFC FY 2002	IEFC FY 2003	IEFC FY 2004	IEFC FY 2005
Beginning Balance	\$36.8	\$29.9	\$18.1	\$-4.3	\$-36.2	\$-77.2
Program Costs	(117.9)	(142.1)	(166.4)	(192.8)	(221.3)	(251.2)
Member Contributions	48.8	52.6	55.7	59.6	64.4	70.2
Active Teacher Contribution	30.3	32.9	36.2	40.1	45.0	50.8
State Contribution (GRF)	29.2	43.9	52.2	61.1	71.0	81.8
Interest/Other	2.7	1.0	0.0	0.0	0.0	0.0
ENDING BALANCE	\$29.9	\$18.1	\$-4.3	\$-36.2	-\$77.2	-\$125.6

1/2% MATCH FROM LOCAL SCHOOL DISTRICTS						
	CMS FY 2000	IEFC FY 2001	IEFC FY 2002	IEFC FY 2003	IEFC FY 2004	IEFC FY 2005
Beginning Balance	\$36.8	\$29.9	\$18.1	\$26.9	\$25.1	\$14.1
Program Costs	(117.9)	(142.1)	(166.4)	(192.8)	(221.3)	(251.2)
Member Contributions	48.8	52.6	55.7	59.6	64.4	70.2
Active Teacher Contribution	30.3	32.9	36.2	40.1	45.0	50.8
Local School Districts	0.0	0.0	36.2	40.1	45.0	50.8
State Contribution (GRF)	29.2	43.9	47.2	51.1	56.0	61.8
Interest/Other	2.7	1.0	0.0	0.0	0.0	0.0
ENDING BALANCE	\$29.9	\$18.1	\$26.9	\$25.1	\$14.1	\$-3.5

BACKGROUND

The Illinois Economic and Fiscal Commission, 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; and
- 5) 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.

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 two primary reports. The "Revenue Estimate and Economic Outlook" describes and projects economic conditions and their impact on State revenues. "The Illinois Bond Watcher" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The Commission also periodically publishes special topic reports that have or could have an impact on the economic well being of Illinois.

These reports are available from:

Illinois Economic and Fiscal Commission
703 Stratton Office Building
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(217) 782-5320
(217) 782-3513 (FAX)

Reports can also be accessed from our Webpage:

http://www.legis.state.il.us/commission/ecfisc/ecfisc_home.html