Legislative Fiscal Office
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Prepared by: Roxanne Adams
Reviewed by: John Borden
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Bill Title: Relating to health insurance subsidies under the Public Employees Retirement System.

Government Unit(s) Affected: Public Employees Retirement System

Summary of Fiscal Impact
Costs associated with the measure are indeterminate at this time - See explanatory analysis.

Measure Description
The measure changes the calculation of the Retirement Health Insurance Account (RHIA) subsidy under the Public Employees Retirement System (PERS) from $60 to $100 or the total monthly cost of the health insurance coverage, whichever is less. The measure makes members of the Oregon Public Service Retirement Plan (OPSRP) eligible to receive subsidies under the RHIA and the Retiree Health Insurance Premium Account (RHIPA).

Under current law, the PERS Health Insurance Program (PHIP) offers optional medical, dental, and long-term care insurance plans to eligible Tier One/Tier Two retired members, judges, their spouses, and dependents. Upon retirement, these insurance options become a choice available to all PERS retired members. While primarily serving the Medicare-eligible population, the PHIP also offers insurance coverage options for those not yet Medicare eligible. Active members, their spouses, and dependents are not eligible for this program.

Under current law, only Tier One and Tier Two retired members are eligible for the following subsidies, which are funded as part of participating employer's rates. RHIPA provides an insurance premium subsidy for non-Medicare coverage. The subsidy is a percentage of the cost difference between the retired member coverage available through PHIP and the state employee coverage available under the Public Employees Benefits Board. Only retired members who have eight or more years of qualifying service and retire from a state agency are eligible. The amount of the subsidy varies with years of state service, from 50% to 100% of the difference. The current PERS retiree participation rate in RHIPA ranges between 10% at the lowest subsidy level to 25% for members qualifying for the maximum subsidy (30 years of service or more).

RHIA provides a $60 health insurance premium subsidy for eligible retired members who had eight or more years of qualifying service with any PERS employer and are eligible and enrolled in Medicare. The current PERS retiree participation rate in RHIA is 25% for non-disabled members and 15% for disabled members.

Member health and dental insurance premiums are paid by the member through pension deductions, direct payments, and electronic funds transfer. Premiums are paid by PERS to the carriers that participate in the program with funding from member benefits, premium subsidies, and member payments. These payments are administered through the Standard Retiree Health Insurance Account.

The RHIPA and RHIA programs are funded from employer contributions and the return on investment of those contributions, which include funding for any unfunded liability. These funds are held in the Public Employees Retirement Fund and are budgeted as Nonlimited expenditures, which can be increased administratively by PERS. The cost to administer PHIP are subject to an expenditure limitation established by the Legislature.

Fiscal Analysis

The fiscal impact of the measure is indeterminate for those public employers participating in PERS, as such costs are primarily dependent upon the number of retired members now eligible to receive a higher RHIA subsidy or, for eligible OPSRP members, choosing to participate in the PHIP. Other indeterminate factors include the impact of the measure to the funded status of both RHIA and RHIPA along with each account's investment returns, which impact employer contribution rates.

Employer contributions include a component for a retiree healthcare rate contribution. The measure is expected to have no fiscal impact to employer contributions for the 2025-27 biennium, as the PERS Board has already adopted 2025-27 employer contribution rates at the Board's meeting in October of 2024, and a re-adoption of the retiree healthcare rate contribution is not anticipated by PERS. Employer contribution rates for the 2027-29 biennium may increase based upon this measure.

PERS' external actuarial firm estimates, based upon a December 31, 2022, actuarial valuation, but using 2023 PERS-eligible payroll data ($13.9 billion), that increasing the RHIA subsidy to $100, as well as opening the subsidy to OPSRP members, would increase employer contributions from between 0.04% and 0.28% of PERS-eligible payroll costs, or $5.5 million to $38.8 million per biennium across all employers. This may increase the RHIA Unfunded Actuarial Liability (UAL) from zero to $176.9 million, which would decrease the RHIA funded status to 80% from 209%. Current RHIA employer contribution rates are zero due to the overfunded status of the account. The UAL will be amortized over a closed ten-year amortization period.

PERS' external actuarial firm estimates, based upon a December 31, 2022, actuarial valuation and using 2023 PERS-eligible payroll data ($4.3 billion), coupled with a doubling of participation rates (with eligibility requirements are maintained to only state agencies), that expanding RHIPA to OPSRP retirees would increase employer contributions between 0.04% and 0.12% of PERS-eligible payroll costs, or $1.7 million to $5.1 million per biennium across state agency employers. This may increase the RHIPA UAL up to $7 million and decrease the RHIPA funded status to 92% from 208%. Current RHIPA employer contribution rates are zero due to the overfunded status of the account. The UAL will be amortized over a closed ten-year amortization period.

PERS' PHIP administrative expenses for both agency staff, as well as the agency's external health insurance consulting contract, are not expected to increase under the measure for either the 2025-27 or the 2027-29 biennia, according to PERS.

Relevant Dates

The measure takes effect on January 1, 2026.