



PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN

May 2, 2016

Dear PEEHIP Member,

You are probably aware that PEEHIP has faced large budget shortfalls over the past few years, due to sharp increases in healthcare costs. For fiscal years 2015 and 2016, the PEEHIP Board has had to rely on funds from the Alabama Retired Education Employees' Healthcare Trust to fill funding gaps, but that can only be a temporary solution and eventually would deplete the Trust. Without long-term plan changes to address shortfalls on a continuing basis, the shortfalls continue to get larger as healthcare costs increase.

PEEHIP once again faced a substantial projected shortfall for 2017, and it faced an even larger shortfall for 2018. To ensure that the plan continued to remain sustainable and in recognition of the Legislature's intent to fund a much needed pay raise for educators, PEEHIP requested a reasonable funding increase of \$23.4 million, which the Legislature granted along with a 4% pay raise for educators. The salary increases granted by the Legislature will have the added advantage to members of potentially increasing their future pension benefits.

On April 27, 2016, the PEEHIP Board met to address PEEHIP's remaining shortfall of \$141.5 million for 2017. To minimize the need to increase costs for members, the Board adopted a number of other plan changes including a new plan design for Medicare members that will improve their benefits while also reducing PEEHIP costs. However, in order to address the large funding gap the Board also had to pass increases to member costs. Those increases are as follows:

- **Premiums:** For single coverage, premiums will increase **\$15 per month**, for a new premium of \$30 for active participants. For family coverage, premiums will increase **\$30 per month**, for a new premium of \$207 for active participants. New totals for retirees will vary under the governing statutes based on retirement date.
- **Spousal Surcharges:** The additional surcharge for spousal coverage will increase **\$50 per month** for active and non-Medicare retired members, so that the new spousal surcharge will be \$100 per month. The surcharge for Medicare members will increase **\$10 per month**, to \$30. New totals for retirees will vary under the governing statutes based on retirement date.

The salary increase granted by the Legislature should provide significantly more income than these increases in PEEHIP costs, and the cost impact would be further reduced by the premium discount offered through PEEHIP's premium reduction program for eligible members. For example, under the program a member with a family of four and an income of \$24,000 per year would pay only 50% of the monthly premium and spousal surcharge amounts, and the same member with an income of \$36,000 per year would pay only 60%. It is also important to note that premiums for active employees are not subject to income tax, so the impact on their take home pay will be less than the amount of the premium increases.

The PEEHIP Board and staff do not take these changes lightly, but without these increases PEEHIP simply could not continue to provide the strong health benefits that it has in place. The alternatives were to substantially reduce benefits or to eliminate altogether PEEHIP coverage of spouses, and PEEHIP believes the cost increases are preferable to those alternatives. The changes will not only provide savings necessary to fund the plan for fiscal year 2017, but they will also reduce the projected shortfall for fiscal year 2018. The PEEHIP Board and staff will continue working as always to maintain sound health benefits while keeping member costs under control.

Sincerely,

Don Yancey

Deputy Director