DRAFT

Framework for 2017 Revised SEBAC Agreement

MAY 23, 2017

DRAFT

Overview

- This is an historic agreement that prioritizes structural, verifiable reductions to long-term pension and benefit costs, while also achieving significant savings in the coming biennium.

- The administration's negotiations with the State Employees Bargaining Agent Coalition (SEBAC) have resulted in significant reforms to wages, pensions, and health benefits – including for retirees.

- This agreement reduces substantially the unfunded liability for both the state employee retirement system and our retiree health benefits trust fund.

- It redesigns healthcare for both active employees and retirees, producing large annual savings for many years to come.

DRAFT

Savings

A complete actuarial analysis will be made publicly available in the next two weeks. In the meantime, both parties are confident that this agreement will save more than $1.5 billion this biennium, more than $10 billion in next decade, and more than $20 billion over the next 20 years.

2017 SEBAC Agreement - Savings in millions					
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Wage Concessions	$ 347.6	$ 385.2	$ 509.6	$ 509.6	$ 509.6
Healthcare for Active Employees	69.6	73.3	78.9	84.5	90.1
Changes to Retiree Healthcare	81.6	146.7	136.7	150.0	151.9
Changes to Pensions	197.8	234.2	278.7	299.9	317.9
Other	16.0	10.0	0	0	0
Total Savings	$ 712.6	$ 849.4	$ 1,003.9	$ 1,043.0	$ 1,068.5

DRAFT

Wages

- FY 2017 and 2018: Hard 0% wage freeze with no steps or wage increases, in addition to three furlough days and delay of a longevity payment result in $347.6 million in budgetary savings in FY 2018.
- FY 2019: Hard 0% wage freeze paired with a one-time payment in lieu of increase. No wage increases or steps of any kind, in addition to the hard 0%.
- The three years of wage concessions in FY 2017, FY 2018 and FY 2019 result in budgetary savings of $385.2 million in FY 2019.
- FY2020 and 2021: 3.5% wage increases each year.

DRAFT

Wages: Continued

- Taken together, this represents an historic wage concession:
  - The agreement includes three zeros and is the first time in SEBAC history that more than two consecutive zeros have been negotiated.
  - An average increase of less than 1.5% per year, less than inflation.

- In addition to immediate savings for the state, these wage freezes drastically and immediately impact the cost of pensions.

- The agreement contains no wage increases over the three-year period between FY 2017 through FY 2019. At the same time, the actuarial valuation of the SERS plan assumes wage increases of approximately 3.5% per year, so the three-year freeze permanently reduces the projected pensionable salary, and therefore projected pension liability, of future retirees **by more than 10%.**

Pensions: Changes for All Current Employees

DRAFT

- Everyone pays more into their pensions
  - Employee pension contributions increase by 2% of pay:
    - July 1, 2017: employee pension contribution increases by 1.5% of pay for all current tiers
    - July 1, 2019: employee pension contribution increases by additional 0.5% of pay for all current tiers

DRAFT

Pensions: New Tier IV

- Immediately upon adoption, a new Tier IV hybrid pension/defined contribution retirement plan for new state employees will be introduced.

- The new plan combines a traditional defined benefit plan with a 401(k) style defined contribution plan with overtime capped at 60%.

  - **Defined benefit:**
    - 1.3% multiplier for calculating defined benefit portion
    - 5% employee contribution; up to 7% if the return is less than 6.9%

  - **Defined contribution:**
    - State will match 1% of pay to employee-owned, defined contribution retirement account
    - Employees must contribute at least 1% of pay

DRAFT

Pension: Retiree COLA Reform

- COLA deferment for retirees after 2022
  - Significantly increases the time before the first COLA is distributed to 30 months after retirement, instead of 9 to 15 months, currently.
  - Employees retiring after July 1, 2022 will forego approximately 18 months of COLA increases after they retire, except that they may receive a reduced amount if inflation is above a threshold.

- New COLA Formula after 2022
  - For retirements occurring after July 1, 2022, future COLAs will no longer be set by the current formula with a minimum of 2% per year.
  - Instead, COLAs will match the Social Security COLA index (called the CPI-W, currently 0.3%) up to 2%. The COLA will only be able to exceed 2% if inflation exceeds 3.33%.

DRAFT

Benefits: Health Insurance Reform

- Comprehensively redesigns healthcare benefits for active employees and pre-65 retirees:
  - New tiered network based on quality and cost criteria
  - Anthem's "Smart Shopper" program to incent employees to seek high quality, low-cost care, resulting in medical cost savings
  - Utilizes a "Centers of Excellence" model to connect employees to providers with proven records determined by cost, quality and outcomes
  - Conversion to a drug formulary for the first time

DRAFT

Benefits: Increased Co-Pays

- Increased co-pays: immediate for all employees:
  - ER co-pay will increase more than 700%, from $35 to $250
  - Prescription drug co-pays increase:
    - Generic: Doubles from $5 to $10, except the cheapest drugs will remain $5
    - Non-generic: Increase from $25 to $40

DRAFT

Benefits: Premium Cost Sharing

- Premium cost sharing:
  - New employees start at 15% immediately (up from approximately 12%)
  - Existing employees: 1% increases each year for three years (FY 2020, FY 2021, FY 2022), increasing the average contribution from 12% to 15%

DRAFT

Benefits: Retiree Healthcare

- Moves **all current** retirees over age 65 to a Medicare Advantage Plan
  - Savings in Year 1: $77 million
  - Savings in Year 2: $141 million
- Increases retiree cost share of Medicare Part B
  - Currently, the state pays full cost. This agreement would implement income driven cost-sharing arrangement with retirees on the supplemental portion of Medicare Part B for retirements after June 30, 2022.
- Increases retirees' healthcare contribution for new retirees
  - For retirements after October 1, 2017: increases by 1.5%
  - For retirements after June 30, 2022: increases to 5% (4% for hazardous duty)

DRAFT

State Concessions

Negotiations are about achieving a balance of ‘gives’ and ‘takes’ between two parties. SEBAC has an existing contract. If the state is asking employees to give back some of the benefits or provisions in that contract, it is reasonable to expect that the state will also need to give something.

- **Job security**
  - Avoids the need for mass layoffs, which would have a detrimental impact on state services and the economy.
  - Provides the state greater flexibility than has been provided in previous agreements to work with individual collective bargaining units regarding major reorganizations.

- **Contract extensions**
  - Revised health and benefits extended an additional 5 years, though June 30, 2027
  - Wage agreements through June 30, 2021

DRAFT

Conclusion and Next Steps

- A full actuarial analysis is expected within 2 weeks
- Info on SEBAC vote schedule?
- Other?