Framework for 2017 Revised SEBAC Agreement

MAY 23, 2017

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 groundbreaking agreement substantially reduces 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.

Savings

A complete financial 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 the next decade, and more than $20 billion over the next 20 years.

2017 SEBAC Agreement - Preliminary Savings in Millions					
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Wage Concessions	$ 348	$ 385	$ 510	$ 510	$ 510
Healthcare for Active Employees	$ 66	$ 70	$ 75	$ 81	$ 86
Changes to Retiree Healthcare	$ 81	$ 147	$ 137	$ 150	$ 152
Changes to Pensions	$ 197	$ 233	$ 265	$ 269	$ 289
Other	$ 16	$ 10	$ -	$ -	$ -
Total Savings	**$ 708**	**$ 845**	**$ 987**	**$ 1,010**	**$ 1,037**

Wages

- FY 2017 and 2018: Hard 0% wage freeze with no steps or wage increases, in addition to three furlough days in FY 2018, 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.

- FY 2020 and 2021: 3.5% wage increases each year.

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, which is less than the current rate of 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

- 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

Non-Hazardous Employee Contributions

Tier	Currently	FY2018	FY2020
I	2.00%	3.50%	4.00%
II	0.00%	1.50%	2.00%
II-A	2.00%	3.50%	4.00%
III	2.00%	3.50%	4.00%

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

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.

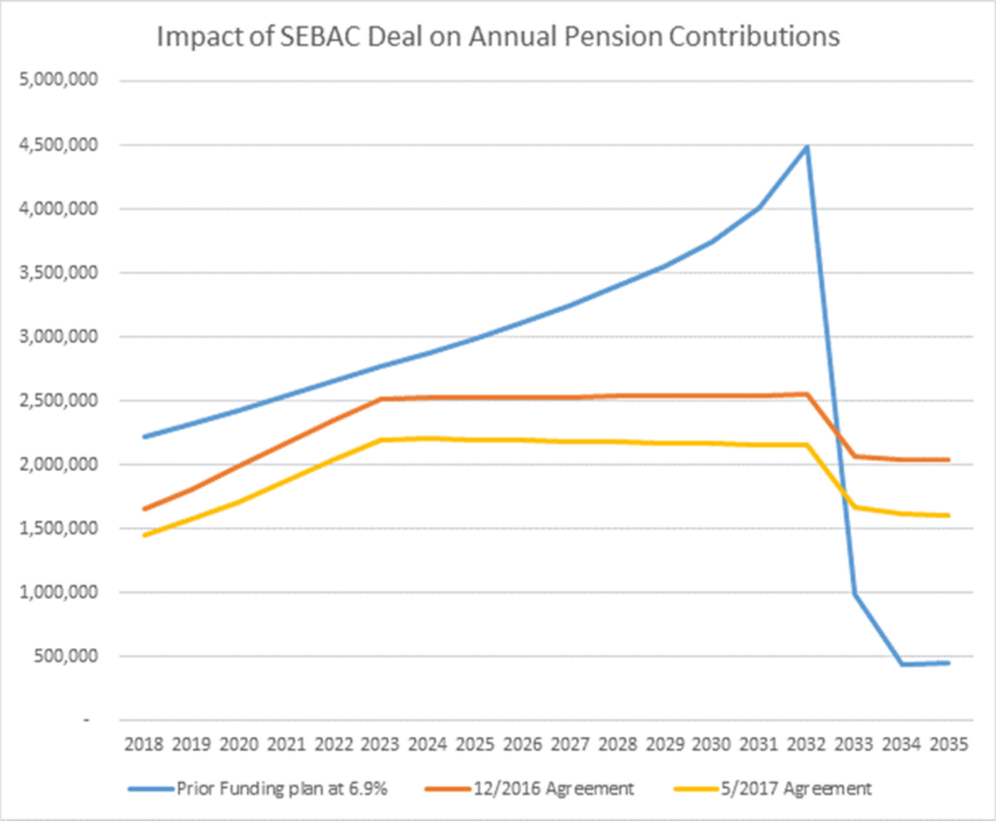
- New COLA Formula after 2022
  - For retirements occurring after July 1, 2022, future COLAs will no longer be set by the current formula with a minimum of 2% per year.
  - Instead, COLAs will match the Social Security COLA index (called the CPI-W, currently 0.3%) up to 2%. The COLA will only be able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

Pensions: Impact

- The various provisions of the new agreement will greatly reduce the state's share of pension contributions through FY 2047- for a total savings to the state of more than $11.7 billion.

- As part of a December 2016 agreement with SEBAC, the state's share of pension costs stabilized at an average of $2.2 billion annually, peaking at just over $2.5 billion.

- However, with the proposed changes, the state share could decline by $400 to $500 million per year, creating a new peak of about $2.2 billion, and with an average contribution of $1.8 billion.



Benefits: Health Insurance Redesign

- Comprehensively redesigns healthcare benefits for active employees and pre-65 retirees by implementing the following reforms, among others:
  - A 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
  - Inclusion of a "Centers of Excellence" model to connect employees to providers with proven records determined by cost, quality and outcomes
  - The conversion to a drug formulary for the first time

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

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%

Benefits: Retiree Healthcare

- Moves **<u>all current</u>** retirees over age 65 to a Medicare Advantage Plan
  - Savings in FY 2018: $77 million
  - Savings in FY 2019: $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% (3% for hazardous duty)

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**
  - The revised health and benefits are extended an additional 5 years, though June 30, 2027.
  - Wage agreements are in effect through June 30, 2021.

Conclusion and Next Steps

- Full actuarial analysis is expected within 2 weeks and will be made available by OPM.
- The state and individual collective bargaining units finalize the terms of unit specific contracts. Then, the state will work to reach the Tentative Agreement with SEBAC. These agreements then go out to the respective bargaining units for votes.
- Ultimately, the Connecticut General Assembly must approve this agreement.