SEBAC Agreement Summary

	FY 2012	FY 2013 (in 000's)	20-Year Projection	OFA Notes	OFA Questions***
Pension Changes					*Are all pension savings in the biennium reflecting ARC reductions? If not, please identify which savings reflect other budgeted areas. Will the new valuation to be undertaken to factor in agreement changes be a full valuation, or be a partial valuation based on 2010 data?*
Provision 1: Cap salary that can be considered as part of an individual's pension benefit as provided under the Internal Revenue Code	$ 2,400	$ 2,500	$ 62,000	Under the Internal Revenue Code, the current federal ceiling on pensionable salary ($245,000 in 2011) applies to the base salaries of pension plan members. Salary earned in excess of this amount may not be used in determining member contributions and benefits. The State currently does not place a ceiling on pensionable salary. Therefore, adopting the federal cap should generate savings to respective pension funds. The extent to which savings would be achieved depend upon the number of state employee salaries at retirement in excess of this cap .	
Provision 17 Related Savings: Pension savings due to 2 year wage freeze	$ 69,316	$ 71,198	$ 140,000	**Per OPM** -no out-year savings - savings for biennium only. **Per OFA** - Actuarial assumptions currently provide for 4% annual wage growth. Therefore, a two-year wage freeze should result in an actuarial gain to the SERS retirement fund. It is unclear how this actuarial gain would translate into a short-term reduction in the annual required contribution (ARC) for FY 12 and FY 13. It is further unclear, why, if this is a savings in the biennium, there would not be additional associated savings in the out years.	*Why only a 2-year savings? How was ARC savings calculated if not amortized over 21 year period?*
Provision 2: Change the minimum COLA for individuals who retire after 9/2/11 from 2.5% to 2.0% with the highest amount going from 6.0% to 7.5%	$ 32,525	$ 34,315	$ 1,342,000	Annual adjustments each July 1st. For employees retiring after 6/30/99, the annual adjustment will be 60% of the increase in CPI up to 6% and 75% of the increase in CPI over 6%. This adjustment will be no less than 2.5% and no greater than 6%. Current SERS actuarial COLA assumptions: Pre July 1, 1980 Retirees = 3.6%; 1980 - 1997 Retirees = 3%; Post July 1, 1997 Retirees = 2.7%. As actuarial assumptions are currently set above this new minimum, it is unclear how savings will be achieved.	*If we are currently assuming COLA increases above the current minimum of 2.5%, how will lowering that minimum generate any savings?*
Provision 3: Change the Early retirement reduction factor from 3% to 6% for each year before eligible to take Normal Retirement with associated health care savings	$ 35,000	$ 32,400	$ 662,000	**Per OPM** - reflects ARC reduction, however 2/3rds is attributable to health savings which assumes individuals retiring closer to age 65. **Per OFA -** based on OPM lapse figures the break-out between health and pension for this provision is approximately 3/4 retiree health; 1/4 pension: Pension savings is $8,917,000 in FY 12 and $8,479,000 in FY 13. Retiree health savings is $26,083,000 in FY 12 and $23,921,000 in FY 13. Increasing the penalty for early retirement should result in an actuarial gain to the SERS retirement fund and in turn, a reduction in the annual required contribution (ARC) for FY 12 and FY 13. The amount of these savings requires actuarial analysis, however actuarial methods have not been provided.	*Please provide a break-out of the ARC reduction and related health savings. Do the savings include early retiree health premiums as the summary includes reference to "associated health care savings"? If not, can you please describe what "associated health care savings" includes? Please identify where the savings for this provision are reflected and how much the estimated savings are.*

SEBAC Agreement Summary

	FY 2012	FY 2013 (in 000's)	20-Year Projection	OFA Notes	OFA Questions***
Provision 4: Increase the Employee Contribution to 3% for Retiree health care trust fund for all employees (not just new employees) phased in beginning 7/1/13.	$ -	$ -	$ 871,000	Information is not available to assess the validity behind the 20 year projected savings. The amount of the savings would depend on the number of current employees and new employees anticipated, who are not currently contributing and the duration for which they would be contributing. In FY 11, employee contributions for retiree health was approximately $20 million. **Per OPM** - although state will make matching annual contributions between 2017-2022, these costs are not reflected.	*Do out year savings reflect amortizing OPEB liability?* *Would there be any restrictions on how OPEB trust funds could be used?* *When would the state begin to draw from the OPEB trust to fund retiree health?* *How many employees currently pay the 3%?*
Provision 5: For current employees who retire after 7/1/2022, Normal Retirement eligibility increase from Age 60 and 25 YOS or Age 62 and 10 YOS to Age 63 and 25 YOS or Age 65 and 10 YOS. By 7/1/13, present employees may elect to pay the actuarial pension costs of maintaining the normal retirement eligibility that exists in the present plan which is scheduled to change effective July 1, 2022.	$ 22,000	$ 22,000	$ 677,000	**Per OPM** - may include health care? **Per OFA** - increasing the retirement eligibility age should result in an actuarial gain to the SERS retirement fund and in turn, a reduction in the annual required contribution (ARC) for FY 12 and FY 13. The amount of these savings requires actuarial analysis, however actuarial methods have not been provided.	*How much of the estimated savings (if any) is attributed to employees purchasing the 3 years in order to maintain their current retirement eligibility?* *Does changing the retirement age impact the OPEB unfunded liability? If so, what the nature and scope of the impact?* *Will a new valuation for OPEB be completed this year based on the agreement changes?*
Provision 6:New Tier III for individuals hired after 7/1/11, Normal Retirement eligibility Age 63 and 25 YOS or Age 65 and 10 YOS and salary based on Final five year average; HD 20 Years of HD service and age 50 or 25 Years of HD Service regardless of age and salary based on final five year average pay; Early Retirement Age 60 and 15 YOS; Ten year cliff vesting.	$ -	$ 9,649	$ 2,982,000	Short-term savings in FY 13 are unclear as differences in state costs between Tier IIA and new Tier III have not been provided. Short-term savings will also depend on the number of new hires during the biennium, which are anticipated to be low due to the hiring freeze as well as leaving 1,000 retirement vacancies unfilled.	*Please define "10 year cliff vesting" – does this refer to ten years of actual state service, or can a combination of vesting or credited service count as well?*
Provision 7: Increase number of retirees due to absence of ERIP; reduce refills	$ 65,000	$ 65,000	$ 1,300,000	PS savings - based on leaving ~ 1,000 positions unfilled @ $65,000/yr avg salary. Savings will depend on the extent to which these positions remain unfilled and how closely actual average employee salaries at retirement are in comparison to assumed salary levels.	
Provision 8: Provide the availability of individuals in the Alternate Retirement Plan to switch to a Hybrid-Defined benefit/Defined contribution type plan.	$ 10,750	$ 11,190	$ 235,000	Without information on differences between state costs in traditional ARP versus hybrid ARP as well as participation levels in the new hybrid plan, savings estimates cannot be determined.	*Please describe the hybrid retirement plan offered for those in ARP.* *What will the new state contribution be under Hybrid plan?* *What is the assumed participation rate between hybrid and traditional ARP?*
Pension Total	**$ 236,991**	**$ 248,252**	**$ 8,271,000**		

SEBAC Agreement Summary

	FY 2012	FY 2013 (in 000's)	20-Year Projection	OFA Notes	OFA Questions***
Health Care Changes					*Please provide or confirm updated health savings figures (were told revised version was still incorrect).*
Provision 9: Plan Changes value and non value based**:** $35 Emergency Room copay; Certain cost savings changes wherein individuals would have to get preauthorization before a second MRI would be paid for, etc.	$ 1,200	$ 3,700	$ 75,000	The plan (health and pharmacy) will no longer be recognized as grandfathered plans under federal health care reform. As such, there are certain services for which the plan would not be allowed to charge a co-pay or have annual maximums. It is unclear if the savings are adjusted for any changes as a result of loosing its grandfathered status. The savings would depend on the number of emergency room visits which would qualify as requiring a copay and the extent to which the prior authorization provisions decreases unnecessary services. The data on current utilization is unknown.	*What does jump between FY 12 and FY 13 attributed to? What are the assumptions the savings are based on?* *Do the emergency room co-pays and the $350 deductible impact our grandfathered status under federal health care reform?* *Please describe the preauthorization process requirement.*
Provision 10: Value based health and dental **-** Provide a Value based health and dental care plan under which individuals and their families could chose to participate and agree to follow all plan and physician recommended physicals, disease management protocols and diagnostic testing. Failure to comply would result in the individual and their families being placed in the Nonvalue added plan with the concomitant cost increase. The cost for this plan would the same as the current plan plus any scheduled experience determined increases. Value Added for Retirees – Voluntary for current Retirees; Mandatory for individuals who retire on and after 9/2/11. If new retirees elect nonvalue added, cost is $100 per month.	$ 102,500	$ 102,500	$ 2,378,000	The savings assumes 50% of those eligible to participate in the value based plan will enroll. However there is no back-up to assess how that percentage was reached. The savings may or may not be offset by assumptions about changes in utilization as a result of the value based participation requirements. Additional information was provided which states the savings assumes a 10% reduction in claims costs for health, but no corresponding back up on how that assumption was reached has been provided. Further, there is some suggestion that utilization will increased in dental, as 2 cleanings are required a year by the value based plan, however no corresponding adjustment was made. The increased utilization costs in dental services are not factored into their savings estimates. **Per OPM**- this figure may include other health savings, but the savings primarily reflect additional premium costs for those individuals who do not participate in the value based plans. (A breakout of the components of this figure have not been provided, additional information would be required to assess the validity of the figures.)	*Were any of estimated savings based on models in other states, private industry, etc.?* *Are savings being offset by increased utilization costs?* *According to the Milliman memo, please explain why claims will not increase in FY 12 and FY 13 as participants in the value based plan increase their utilization of services to meet the conditions of the plan.* *It has been reported that employees who are complaint with their chronic disease management for one year will be paid $100. How does this work?* *Are these costs factored into savings estimates?* *For those individuals who are found non-compliant with disease management criteria, are they switched to the standard plan the following plan year? How will that work?*
Provision 11: Nonvalue based health and dental - If the employee chose not to participate their cost for health care would be the same as calculated in the first year for Value based, plus $100.00 per month additional. Institute a $350 Medical Deductible per year per individual.	$ 18,000	$ 18,000	$ 249,000	**Per OPM** - figure reflects the savings associated with the $350 deductible only. The savings appears to assume 50% of those who would be required to enroll in either the standard or the value based plan, end up paying the deductible. It is unclear if the $350 deductible provision would be able to be implemented at the start of the fiscal year by the carriers. The savings would depend on the extent to which employees choose to participate in the value based plan and how the $350 deductible and increased premium provisions are implemented and managed.	*What is the assumed non-participation rate in the value based plan?* *Please identify those services that would count towards the $350 deductible.*

SEBAC Agreement Summary	FY 2012	FY 2013 (in 000's)	20-Year Projection	OFA Notes	OFA Questions***
Provision 12: Reduce Costs with Generics - drugs coming off patent	$ 1,500	$ 12,000	$ 380,000	**Per OPM** - negotiated number. Savings would be achieved without the agreement.	*What generics are coming off patent?* *These savings were not included in the current services budget?*
Provision 13: Tobacco and Obesity - reduce costs through voluntary referral Program	$ 1,000	$ 2,000	$ 85,000	These programs already exist, for which information is currently unavailable. The savings could be achieved without the agreemend, however the agreement provides a monetary incentive which could increase voluntary participation. The savings would be achieved to the extent participation in the programs result in decreased health care costs. It is unclear if the savings have been offset by any assumptions about how many individuals would be eligible for the $100 incentive payment. **Per OPM** - negotiated number.	*What is the assumed participation rate for these volunteer programs?*
Provision 14: Other Health Cost Containment Initiatives - the Healthcare Cost Containment Committee will identify additional cost savings through renegotiation of contracts and improved service delivery	$ 40,000	$ 35,000	$ 420,000	No information has been provided. The HCCC does discuss/implement provisions to reduce health care costs. (e.g. Patient Centered Medical Homes, High-Flier ER users, etc) **Per OPM** - negotiated number.	
Provision 15: Pharmacy Copays and Mandatory Mail Order for Active Employees and New Retirees: Increase to $5, $20 and $35 for non maintenance drugs. Additional drugs coming off patent which will now be available as generics. Mandatory Mail Order - maintenance drugs for active employees, future retirees and current retirees under 65 must be ordered through the mail. Voluntary for current retirees over 65 (mandatory once enrolled).	$ 19,876	$ 20,500	$ 698,000	Mail order and retail pharmacy drugs have two separate price points. In general, mail order drugs are cheaper because of sheer volume. In addition, the state would save on the dispensing fee by requiring mandatory mail order. Additional prescription plan specific information would be needed in order to access the figures and provide analysis.	*For those groups not required to participate, what is the assumed participation rate for the mail-order program?*
Provision 16: Minimum Service for Retiree Medical – Increase to 15 years of actual state service for Normal, early retirement and HD retirement with continuation of Rule of 75 for Deferred Vested.	$ 3,822	$ 9,705	$ 987,000	This provision should result in a savings as it requires individuals to have 15 years of actual state service in order to be eligible for retiree health. Currently, individuals with 10 years of state service are eligible for retiree health. The amount of savings cannot be determined as the relevant data is not available.	*Please describe the phase in of the change in the minimum age to be eligible for retiree health.* *Please explain the nature of the savings in the first year of the biennium.*
Health Care Total	**$ 187,898**	**$ 203,405**	**$ 5,272,000**		

SEBAC Agreement Summary

Other Changes and Cost Savings

	FY 2012	FY 2013 (in 000's)	20-Year Projection	OFA Notes	OFA Questions***
Provision 17: Hard Wage Freeze – FY 2012 and FY 2013 No state employee would receive any increase in salary for either of the next two fiscal years, including no payment for individuals who were at their top step as a bonus.	$ 138,852	$ 309,550	$ 6,330,000	Savings figures for FY 12 and FY 13 are in-line with independent analysis and deemed reasonable.	*Please provide a breakout of the wage freeze for FY 12 - FY13 by bargaining unit and by fund. Please indicate if this includes limited scope agencies (and for constituent units, please indicate if General Fund or All Funds are included).*
Provision 18: Adjust break point in 2, Tier 2A and Tier 3	$ -	$ -	$ (458,000)		*Please describe the current problem with the break point and how the adjustment being made will reduce or eliminate this problem.*
Provision 19: Salary Increases - FY2013-14, FY 2014-15 and FY2015-16 - provide Three Percent plus step increases or their equivalent in those units with them			$ (600,000)		*Please provide a breakout of the salary increases for FY 14-FY16 by bargaining unit and by fund. Please indicate if this includes limited scope agencies (and for constituent units, please indicate if General Fund or All Funds are included).*
Provision 20: Technology Initiatives - utilize new technologies and reduced licensing procurement and consulting costs	$ 40,000	$ 50,000	$ 1,000,000	Achievability of savings cannot be determined; information as to how savings were estimated has not been provided.	
Provision 21: SEBAC Budget Savings Initiative - implement savings ideas proposed by employees to reduce costs in agencies through reduced procurement costs, more efficient agency operations and other initiatives.	$ 90,000	$ 90,000	$ 1,800,000	Achievability of savings cannot be determined; information as to how savings were estimated has not been provided.	
Provision 22: Longevity – No longevity payment would be made in October, 2011 to those units with capped longevity and an equivalent savings amount would be negotiated from those with uncapped longevity. No one during the biennium will have those years count for that period. Individuals first hired on or after 7/1/11 (military service counts) would never receive a longevity payment.	$ 7,000	$ -	$ 53,000	**Per OPM** - most Executive units are capped; Higher Ed and Judicial units uncapped; all non-union are uncapped. **Per OFA** - As each semi-annual longevity payment equals approximately $18 million for all state employees for all appropriated funds, savings of $7 million is certainly achievable, however it will depend on how the savings is rolled out for non-union employees' longevity payments in particular as a methodology has yet to be determined.	*Please describe what capped vs. non-capped longevity payments. How will the savings be achieved and how will it be determined who is impacted for those individuals with non-capped longevity? Please indicate if this includes limited scope agencies (and for constituent units, please indicate if General Fund or All Funds are included). Identify the amount of savings anticipated from the freezing of longevity over the two years.*
Other Changes and Cost Savings Total	**$ 275,852**	**$ 449,550**	**$ 8,125,000**		
Grand Total	**$ 700,741**	**$ 901,207**	**$ 21,668,000**		

Agreement also includes the following:

Extension of SEBAC through 2022

Extension of Job Security through FY 2015, with increased flexibility on geographic limits for reassignment

New Retirement rules effective 9/2/2011

Comparable provisions for managers

Beginning July 1, 2017, the state will match employee contributions to the Retiree Health Care Trust Fund

****OFA Questions reflect areas for which additional information is required/has been requested in order to provide further analysis.*