ACSS QUARTERLY

Q2 2015

ANOTHER ATTACK ON EMPLOYEE COMPENSATION:

PREFUNDING RETIREE HEALTHCARE

It seems as if state workers' compensation packages are being attacked on multiple fronts: salary compaction, threatened pension reductions, and now state workers may have to fork over a slice of their hard-earned paychecks to prefund their own retirement healthcare, which has always been a fully funded state benefit...

PREFUNDING HEALTHCARE

ACSS is on your side and opposes the unilateral implementation of the Administration's healthcare proposals in the 2015-2016 state budget. Prefunding retiree healthcare is the latest slash to excluded employees' benefits, fraught with vague assumptions and serious questions about its implementation or effectiveness. ACSS believes that healthcare is a promised benefit provided to state employees as part of the comprehensive state employee compensation package and reductions in healthcare benefits should not be included in the state budget at all. In this article, ACSS provides some clarification on the issue and sheds light on how we plan to help supervisors and managers in the fight to protect your total compensation package for the future.

Prefunding Retiree Healthcare

To curb escalating healthcare costs, Governor Brown proposed three healthcare modifications: 1) to have employees pay significant amounts to prefund retiree healthcare, 2) reduce retiree healthcare for new hires, and 3) implement a high deductible health plan (HSA). These changes to the current scope of health benefits affect existing and future state employees, but not former employees who have already retired. According to the Governor, the state employee retiree health benefit is currently underfunded by $72 billion. This unfunded liability is certain to rise in the coming years. In the Governor's proposal, employers and employees would share half the costs of prefunding retiree health benefits – which, at today's valuation, is an estimated non-refundable 3% of an employee's pay. A few state worker groups (highway patrol officers, doctors, and maintenance workers) have already started partially prefunding retiree health benefits. This money would be put into a preexisting CalPERS trust fund, invested, and allowed to grow for the next 30 years. It then becomes the state's asset and an employee would not be entitled to withdraw money from the fund until 2046. Instead, all payments for retiree health benefits would continue to be funded on a "pay-as-you-go" basis, meaning benefits are paid out as costs incur since the state has set aside virtually no money to pay for future costs. In addition, the proposed 2015-16 budget does not identify the sources where the state's share of the prefunding will come from. The amount of the employer/employee contributions will purportedly be established through collective bargaining for rank and file first, and discussions in regards to implementation for excluded employees will occur secondarily.

More Healthcare Modifications

The proposal also contains other modifications to how the state manages retiree healthcare benefits. One example is that all new employees hired after January 1, 2016, would need to work 15 years to receive 50 percent of the maximum contribution and 25 years to receive 100 percent of the maximum contribution. Meaning, new hires would have to put in more time to receive the same benefit. For current employees, the respective thresholds would remain at 10 and 20 years. Another modification is the implementation of a high deductible Health Savings Account plan (HSA). On this plan, the state deposits a contribution into a savings account owned by the employee. The employee can then use those funds for qualified medical expenses at any time without tax liability or penalty, similar to an IRA account. Since the plan is high-deductible, many of the healthcare costs are charged at full price, until a maximum out-of-pocket ceiling is met. After which, all expenses are then covered at 100 percent by the plan.

Opponents of HSA plans, argue that costs will shift as plan subscribers put off preventive care and other important services to avoid out-of-pocket costs, resulting in more expensive care later on. In addition, if not enough subscribers join into the plan, the pool of employees would be too small and the costs of treating plan subscribers would have to be spread out to others in the pool via higher premiums. Nick Schroeder, a state-employee compensation expert with the Legislative Analyst's Office, warns that the impact of high-deductible plans are impossible to predict without more specifics. Schroeder comments, "Any savings or added costs really depend on the structure of the program. In general if we think the goal is to achieve savings, that might not occur." Prefunding retiree healthcare, changes in new hire policies, and HSA plans are three ways that the state intends to solve the growing unfunded budget liability and reduce state costs going forward.

The Growing Healthcare Liability

How did we get to this point? What problems do the proposed healthcare modifications attempt to fix? According to the Governor, the 2015-16 budget reports the state employee healthcare liability at $72 billion. Additionally, the state's premiums doubled between 2001-02 and in the last 15 years average premium costs have increased by more than 10 percent, outpacing inflation. By proposing these new healthcare changes, the Brown Administration intends to band-aid the state's bleeding healthcare costs caused by increased physician and hospital charges, rise in use of health care services, new technologies, prescription drugs, aging populations, unhealthy lifestyles, and other factors. Similar to corporations, the state has likewise been affected by the onslaught of painful rising healthcare costs felt by the entire healthcare industry. These healthcare issues have been present in California's history for a while, and have quickly snowballed into a much larger problem. Halting momentum on the $72 billion healthcare liability is critical. However, with so many factors involved in creating the unfunded healthcare liability, is shifting cost to state employees by reducing their compensation and benefit package a solution?

ACSS Fights For Your Compensation

ACSS feels your pain and sympathizes with state workers under attack. We oppose these proposals and plan to fight for your complete compensation package. Even though the Administration claims that these proposals are steps to address the healthcare liability costs, ACSS believes reductions in employee healthcare benefits should not be included in a state budget at all. They don't belong there. Healthcare (including healthcare in retirement) is currently a promised benefit provided to state employees as part of a comprehensive compensation package. Compensation reductions should not be unilaterally imposed through the budget process. And, requiring state employees to pre-fund retiree health is a reduction in total compensation and takes money out of your paychecks, similar to a salary cut. State employees will be hit hard economically by these proposals with no guarantee that the institutional causes can be cured by the Administration. Without first addressing the causes of increased healthcare, merely shifting the cost onto state employees is a slippery slope. What is a 3% "cost share" today can become a 5%, 7% or 10% "share" tomorrow if we start down this path.

Further Assessment Identifies Serious Problems

In order to play fair, ACSS intends to discuss the details of these policies extensively with the Administration before the policies actually roll out. The proposals correctly identify and attempt to rectify severe problems in the state's unfunded budget liabilities, however they also raise serious questions about the complexity and longevity of the proposed plan over time. Some of the concerns not addressed in the proposal are:

- May negatively affect recruitment and retention of quality employees
- Pushes costs onto future generations
- An unknown amount of flexibility needed to respond to unpredictably escalating health care costs in the future
- New hires may not see the value in prefunding compared to the costs, may see more value in alternative forms of compensation
- Since prefunding will cause an estimated 3% out of paychecks, employers will have more pressure to offset with pay increases
- Determining the sources for the state's contribution without cutting other programs

It is critical that these concerns are properly addressed and ironed out before implementation. ACSS plans to fight on behalf of the interests of managers, supervisors, and confidential state employees.

Get the Plan Right, No Matter How Long it Takes

Policies addressing the state's retiree health liabilities are far too important to rush into by the proposed January 1, 2016 date. ACSS plans to work closely with the Administration through every step of the process, making sure that all aspects and options are assessed thoroughly with actuaries, policy experts, other employee groups, and the public. We acknowledge that putting the proposals through rigorous deliberation could take a significant amount of time, however we firmly believe that getting the plan right is more important than rushing into it. With ACSS on your side, we are hopeful that fair policies protecting your promised employee compensation package will be agreed upon and that all excluded state employees end up winners in this fight.

IMPORTANT DATES:

July 17-19	ACSS Delegate Assembly
Oct. 11	CSEA General Council

For more details, click on the events calendar at **www.ACSS.org**

NEW 503 & 502 LABOR REP

Meet your new Chapter 502 & 503 Labor Relations Representative:

WENDY M. LOONEY

Wendy joined ACSS's staff in March 2015 to represent the members of the Sacramento area in Chapter 503 and the northern and eastern California counties of Chapter 502. A skilled lawyer since 2008, Wendy brings a wealth of experience and knowledge to the ACSS LRR team specializing in plaintiff law, handling employment discrimination and advocating for victims rights. She recently moved to California from Mississippi and is an avid cyclist and outdoor enthusiast. If you are in need of representation in the workplace or have a difficult job-related issue, contact Wendy at **(916) 326-4302** or email **wlooney@acss.org**.

ACSSQUARTERLY

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FIRST CLASS PERMIT

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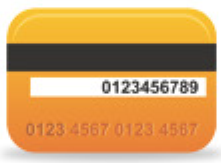

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ACSS ELECTIONS:

VOTE APRIL 20th through **MAY 20th!**

Don't forget to mail your ballot. Ballots MUST be received at ACSS HQ by 5pm, May 20 2015!

For more info, visit www.ACSS.org/ACSSelections

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