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...
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.

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**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.

**IMPORTANT DATES:**

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For more details, click on the events calendar at www.ACSS.org
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- Attack on Employee Compensation: Prefunding Retiree Healthcare
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- Important Dates

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

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