STATE EMPLOYEES BARGAINING AGENT COALITION SAVINGS

Fiscal Years 2018 & 2019

Submitted to Governor Ned Lamont and the Connecticut General Assembly

December 10, 2019

SEBAC AGREEMENT SAVINGS FOR FY 2018 and FY 2019

Executive Summary

In 2017 the State Employees Bargaining Agent Coalition (SEBAC) and the state negotiated an agreement to assist in resolving the financial issues of the State of Connecticut while preserving public services. Under the agreement, changes were made to employee pension and health care benefits and agreements on employee compensation. Through these negotiations, the state projected a savings of $700.9 million in Fiscal Year 2018 and $868.6 million in Fiscal Year 2019 or $1.57 billion over the biennium.

The following report is a breakdown of the actual savings associated with the 2017 SEBAC contract amendment.

As the analysis demonstrates, programs and initiatives established pursuant to the 2017 SEBAC agreement have collectively resulted in a **net savings of $1.7 billion over Fiscal Years 2018 and 2019** – exceeding the total initial projected savings by approximately $128.8 million. Many of these programs are ongoing and expected to continue to produce savings in future fiscal years.

Report submitted to Governor Ned Lamont and the Connecticut General Assembly on 12/10/2019

Report generated by the Office of the State Comptroller

Authority

Pursuant to Sec. 326 of Public Act 17-1 the Comptroller "shall determine the amount of labor-management savings realized by the State of Connecticut for each fiscal year ending June 30, 2018, to June 30, 2027, inclusive, pursuant to the operation of the agreement between the state and the State Employees Bargaining Agent Coalition (SEBAC) with all attachments and agreements appended thereto, filed with the General Assembly on July 21, 2017, including any agreement reached through negotiations between the state and SEBAC concerning wages, hours and other conditions of employment and any other agreement between the state and individual collective bargaining units representing state employees to achieve the labor-management savings specified in the state budget act for the biennium commencing on July 1, 2017, and for adjustments or revisions made to said act for the fiscal year commencing on July 1, 2018, and for each successive state budget act thereafter and any even-numbered year adjustments or revisions made thereto, until and including for the biennium commencing July 1, 2025. (b) Not later than December 1, 2018, and each December first thereafter, until and including December 1, 2027, the Comptroller shall report the amount of labor-management savings realized for the previous fiscal year pursuant to the operation of the agreements described in subsection (a) of this section to the Governor and the General Assembly in accordance with the provisions of section 11-4a of the general statutes. (c) If the amount of savings reported by the Comptroller in accordance with subsection (b) of this section is less than the labor management savings specified in the state budget act or any even numbered year adjustments thereto, for the previous fiscal year, the Governor shall take immediate action to recover any such unrealized House Bill No. 7501 June Sp. Sess., Public Act No. 17-1 505 of 1117 savings for the previous fiscal year and to ensure that for the second year of the biennium, if applicable, such savings specified in the state budget act for the even-numbered year of the biennium are realized. (d) Not later than January first annually, the Governor shall report in accordance with section 11-4a of the general statutes to the joint standing committee of the General Assembly having cognizance of matters relating to appropriations any action taken or to be implemented in accordance with subsection (c) of this section.

Initial projections by the Gov. Dannel P. Malloy administration forecast a savings to the state of **$1.57 billion over Fiscal Years 2018 and 2019** ($700.9 million in Fiscal Year 2018 and $868.6 million in Fiscal Year 2019), $4.8 billion over the first five years of the agreement, and more than $24 billion over the next 20 years. The savings are projected to accumulate from a combination of wage concessions, changes to employee and retiree health care benefits and adjustments to pension calculations. For each component of the SEBAC 2017 agreement a short summary of the policy modification is provided below along with the initial savings projection and the realized savings for Fiscal Year 2018 and 2019. For consistency the report includes each provision of the agreement, including those that do not have associated savings in Fiscal Year 2018 and 2019. The report will be updated annually as required by law. This initial report includes both Fiscal Year 2018 and Fiscal Year 2019 savings. All future reports will update the analysis with savings estimates from the most recently completed fiscal year.

Projected and Actual Savings

Results

Wage Concessions and Attrition

- *Wage Freeze*[i]
    - For Fiscal Years 2018 and 2019, the agreement provided no wage increases for union employees which were mirrored for non-union employees. Employees who were promoted were exempt from this and were allowed wage increases commensurate with their promotion.

	FY 2017 & 2018	FY 2019	Total
Projected Savings	$300.6 million	$468.2 million	$768.8 million
Actual Savings	$392.8 million	$404.8 million	$797.6 million

- *Furlough Days*[ii]
    - In Fiscal Year 2018, the agreement required three furloughed days (non-paid days off from work) for union employees. Implementation of this provision varied by union.

	FY 2018	FY 2019	Total
Projected Savings	$36 million	N/A	$36 million
Actual Savings	$29.6 million	$0.1 million	$29.7 million

**A contributing factor to the $6.4 million missing from the FY 2018 savings is that there were fewer employees in 2018 than when the savings number was projected. Additionally, some employees chose to take their furlough days in FY 2019, which decreases the savings in FY 2018 but creates an unexpected savings in FY 2019.*

- *Delay in longevity payments*
    - Longevity payments are those given to state employees based on seniority and time spent working for the state. These payments are normally given in April of the fiscal year, but were withheld until July, the beginning of the following fiscal year, resulting in a one-time Fiscal Year 2018 savings and offsetting cost in Fiscal Year 2019.

	FY 2018	FY 2019	Total
Projected Savings	$11 million	($11 million)	$0
Actual Savings	$9.1 million	($9.1 million)	$0

- *One time lump-sum payments*
    - As a partial offset to the negotiated wage freeze and furlough days the agreement included a one time lump-sum payment to all union employees of $2,000 or the top step lump sum payment plus $1,000, which ever was greater, to be paid in Fiscal Year 2019.

	FY 2018	FY 2019	Total
Projected Savings	N/A	($88.4 million)	($88.4 million)
Actual Savings	N/A	($65.4 million)	($65.4 million)

Employee Health Care

Note that Fiscal Year 2018 health care savings projections related to benefit design changes anticipated a September 1, 2017 implementation date. The benefit design changes were implemented as soon as administratively feasible but not until October 1, 2017 in most cases and March 1, 2018 in others. Actual implementation dates of each provision related to health care benefits is identified below. The delayed implementation impacted the savings achieved.

- *Financial incentive to utilize urgent care (implemented October 1, 2017)*
    - The agreement increased Emergency Room copays from $35 to $250, with the goal of decreasing unnecessary ER visits and encouraging the use of Urgent Care.

	FY 2018	FY 2019	Total
Projected Savings	$13.3 million	$15.9 million	$29.2 million
Actual Savings	$6.6 million	$13.0 million	$19.6 million

- *Utilization management on physical and occupational therapy services (implemented October 1, 2017)*
    - The agreement requires the state employee health plan's consistent application of utilization management requirements for physical and occupational therapy.

	FY 2018	FY 2019	Total
Projected Savings	$2.7 million	$3.2 million	$5.9 million
Actual Savings	$1.5 million	$2.0 million	$3.5 million

- *PCP and specialist tiering based on quality and cost for primary care providers (implemented October 1, 2017)*
    - The agreement waives copays for certain primary care providers who commit to shared savings agreements with the state's medical carriers which encourage improvements in quality metrics and improvements in the efficiency with which care is provided.

	FY 2018	FY 2019	Total
Projected Savings	($1.1 million)	($1.3 million)	($2.4 million)
Actual Savings	Data Not Available		

Data is currently not available. *There have been challenges in getting an accurate data field from the carriers (Anthem and United) that includes the tiered status of providers. The Office continues to work with the carriers on getting this information.* ***The cost impact of this program will be included in future reports.***

- *PCP and specialist tiering based on quality and cost for specialists (implemented October 1, 2017)*
    - The agreement waived copays for certain specialists who have demonstrated better than average quality metrics and better than average efficiency in the care they provide to patients.

	FY 2018	FY 2019	Total
Projected Savings	$0.20 million	$0.20 million	$0.40 million
Actual Savings	Data Not Available		

Data is currently not available. *There have been challenges in getting an accurate data field from the carriers (Anthem and United) that include the tiered status of providers. The Office continues to work with the carriers on getting this information.* ***The cost impact of this program will be included in future reports.***

- *Incentives to utilize lower cost imaging, and lab providers (implemented March 1, 2018)*
    - The agreement created a new tiered benefit design for imaging and lab services in which the $0 copay for lab and imaging services would continue for certain preferred low cost lab and imaging providers, a 20% co-insurance would apply to in-network non-preferred higher cost

providers, and a 40% co-insurance would apply to out of network providers for plans that include an out of network benefit.

	FY 2018	FY 2019	Total
Projected Savings	$6.3 million	$7.5 million	$13.8 million
Actual Savings	$3.2 million	$3.6 million	$6.8 million

The original savings estimates assumed that all lab and radiology services would be covered by the program. However, in order to ensure appropriate patient care, certain labs and radiology services were exempted including services associated with pregnancy, cancer treatment and pediatrics.

- *Member incentive based program (SmartShopper) (implemented March 1, 2018)*
    - The agreement allows for a new financial incentive program to encourage plan participants to seek care from high quality, low cost providers in order to improve patient outcomes while reducing overall plan costs.

	FY 2018	FY 2019	Total
Projected Savings	$2.8 million	$3.7 million	$6.5 million
Actual Savings	$0.47 million	$0.97 million	$1.4 million

- *Increased co-pays for certain prescription drugs (implemented October 1, 2017)*
    - The agreement creates a 4-tier co-pay schedule. $5 and $10 co-pays will be assigned to clinically equivalent generic drugs, with $5 co-pays corresponding to the lower cost generics within the therapeutic class. Preferred brand drug copays increased from $10 to $25 and non-preferred drugs copays increased from $25 to $40. Any drug indicated to treat one the five chronic diseases covered by the state's Health Enhancement Program are exempt from the copay adjustments.

	FY 2018	FY 2019	Total
Projected Savings	$7.5 million	$4.5 million	$12 million
Actual Savings	$1.4 million	$1.3 million	$2.7 million

- *Adopting the CVS standard formulary (implemented October 1, 2017)*
    - The agreement requires the adoption of a standard drug formulary offered through the state's contracted pharmacy benefit manger to encourage utilization of lower cost and more effective prescriptions.

	FY 2018	FY 2019	Total
Projected Savings	$25.4 million	$27 million	$52.4 million
Actual Savings	$16.0 million	$21.7 million	$37.7 million

- *Improved drug pricing through the state's pharmacy benefit manager (implemented July 1, 2017)*
    - The implementation of the various provisions of the SEBAC 2017 agreement required an extension of the state's pharmacy benefit manager contract. The Comptroller was able to negotiate improved pricing associated with the one-year extension of the contract.

	FY 2018	FY 2019	Total
Projected Savings	No projection	No projection	
Actual Savings	$5.3 million	$17.9 million	$23.2 million

There was no projection for the savings associated with the State contracting with a PBM and this is not included in the calculation for total savings

- *Implementation cost*
    - Certain aspects of the changes to health benefits required by the agreement resulted in implementation costs for the state plan health carriers, which was charged back to the plan.

	FY 2018	FY 2019	Total
Projected Savings	($0.10 million)	N/A	($0.10 million)
Actual Savings	($0.30 million)	N/A	($0.30 million)

- *Premium Cost Sharing Increases*
    - The agreement requires employee premiums to increase by 1% each year until 2021, beginning 7/1/2019, except that in FY 2019 and FY 2020, premium share will not exceed 15% and in 2021, it will not exceed 16%.
        - No expected savings till FY 2020

<u>*Retiree Health Care*</u>

- *Medicare Advantage (implemented January 1, 2018)*
    - The agreement requires, beginning on 1/1/18, the state employee plan for retired employees to be transferred to a Medicare Advantage plan with a passive-PPO network design and other benefits enhancements.

	FY 2018	FY 2019	Total
Projected Savings	$63.3 million	$130.5 million	$193.8 million
Actual Savings	$84.0 million	$235.4 million	$319.4 million

- *Medicare Part B changes*
    - The agreement required, effective 7/1/22, the state to continue to reimburse the full standard premium of the Medicare part B, but reduce reimbursement to half for any additional Medicare charges outside of the standard premium
        - No projected savings until FY22

- *Retiree cost sharing changes*
    - The agreement requires a premium contribution for retiree health care coverage of 1.5% for non-hazardous duty employees retiring before 7/1/22 and 3% for Hazardous duty employees retiring after 7/1/22. The required premium contribution will increase to 5% for Non-Hazardous duty employees retiring after 7/1/22.

	FY 2018	FY 2019	Total
Projected Savings	$0.3 million	$0.6 million	$0.9 million
Actual Savings	$0.026 million	$ 0.15million	$0.20 million

The savings for retiree cost sharing was lower than expected due to the fact that a majority of recent retirees have been hazardous duty or have served the state for more than 25 years. These individuals were not affected by the changes to retiree share contributions.

<u>*Pensions*</u>

- *The agreement requires several adjustments to retiree pension calculations including:*
    - COLA Holiday – The first COLA payment for new retirees will be distributed 30 months after retirement instead of 9-15 months. Employees who retire after July 1, 2022 will not see COLA increases for the first 18 months after they retire, but will see changes in payments with inflation after that point.
    - New COLA Formula - For retirements occurring after July 1, 2022, COLA payments will match the Social Security COLA index up to 2% and will be adjusted for inflation.

- Contributions – Starting 7/1/17, employees in all tiers contributed an additional 1.5% of their salary to their pension.
- Creation of Tier IV hybrid pension/defined contribution plan – a new pension plan was created with a defined employee/employer contribution. If employees choose to have a separate retirement account, the state will contribute a small portion to it.

	FY 2018	FY 2019	Total
Projected Savings	$205.3 million	$233.5 million	$438.8 million
Actual Savings	$205.3 million	$245.4 million	$450.7 million

An additional $12.1 million was saved in Fiscal Year 2019. The additional savings is the result of greater levels of attrition than initially projected. This led to fewer active employees than initially projected, resulting in a reduction in normal pension costs and reduced pension contribution than projected.

- *Alternative Retirement Program (ARP) changes*[iii]
  - Beginning 7/1/2017 Employer ARP contribution decreased by .75% from 8% to 7.25% of salary. Beginning 7/1/2019 Employer ARP contribution decreased .25% from 7.25% to 7% of salary. For new employees, employer ARP contributions will be 6.5% of salary.

	FY 2018	FY 2019	Total
Projected Savings	$5.0 million	$5.0 million	$10 million
Actual Savings	$3.9 million	$5.1 million	$9.02 million

Additional Items

- *Tuition and reimbursement*
  - The agreement provides ½ the normal amount of funds for all other funds (e.g. tuition reimbursement). Other wage payments e.g. shift differentials, allowances, etc. for Fiscal Year 2017 for units that did not receive funds in that year and any additional amount needed to pay off obligations for that fiscal year while reducing the funds available in the subsequent fiscal year.

	FY 2018	FY 2019	Total
Projected Savings	($2.0 million)	N/A	($2.0 million)
Actual Savings	($1.8 million)	N/A	($1.8 million)

- *Attrition*[iv, v]
  - Attrition savings are based on retirement projections assuming that one-third of Fiscal Year 2018 retirements and one-tenth of Fiscal Year 2019 retirements will remain permanently unfilled.

	FY 2018	FY 2019	Total
Projected Savings	$23.1 million	$53.6 million	$76.7 million
Actual Savings	$24.3 million	$63.2 million	$87.5 million

Conclusion

The SEBAC negotiations from 2017 resulted in a total savings of $776.1 million in Fiscal Year 2018 and $922.2 million in Fiscal Year 2019, for a total savings of $1.7 billion.

Negotiated items in the 2017 SEBAC agreement varied in the level to which they reached or surpassed the savings targets. Savings from certain health care items, like incentives to utilize urgent care, SmartShoppoer, and implementation of the CVS formulary, were short of targets in part due to the legislative approval occurring after the start of the 2017 fiscal year resulting in delayed implementation. Greater than expected attrition resulted in increased savings in wages and pension contributions than initially projected. The savings associated with the state switching retirees to Medicare Advantage plans yielded the highest savings in the report, surpassing the combined Fiscal Year 2018 and 2019 savings projections by a total of $125.6 million.

Data was not available for the savings achieved through PCP and Specialist tiering, but the projected cost impact of these programs were small compared to the total savings targets, less than 1 percent.

The negotiations also lead an unanticipated savings of improved drug pricing that was negotiated in conjunction with a one year extension of the CVS PBM contract which was required in order to quickly and efficiently implement the required SEBAC changes to the state employee pharmacy benefit. The contract extension yielded an additional $23.2 million in savings.

In total, this analysis finds that SEBAC 2017 exceeded savings projection for the Fiscal Year 2018 and 2019 biennium by $128.8 million.

[i] The CT_OSC_OPM_SEBAC2017_WAGES (Wages Calculations) report includes the following payroll information

- The total of all wages paid under Account 50110, 50120, 50130, 50150, 50170, & 50180 (defined by OSC State Accounting Manual) in FY 2017, 2018 & 2019 (Account 50140 Student Labor and 50160 Longevity are excluded).
- The total amount of furlough taken (EarnCode FRL) by **ALL** state employees starting 7/1/2017. (Initial query criteria captured union employees impacted by SEBAC 2017)
- The total sum of $5 adjustment (EarnCode NRQ) to $2K/$1K starting pay end date 9/14/2018; results need to be incorporated into OPM Lump Sum report. (OPM kept accurate records of $2K/$1K lump sum & top step paid/reimbursed to agencies as well as the deferred longevity amount. OSC will use the information provided by OPM.)

[ii] Includes out of scope labor groups (MP, etc.)

[iii] The CT_OSC_OPM_SEBAC2017_ARPER_CHG (ARP Calculations) report is based on the payroll data from Account #50472 (employer share of contribution to the Higher Education Alternative Retirement System) in FY 2018 & 2019, to calculate the possible savings using

- The actual total of ARP employer share contributions (RARRER – Employer Alternative Retirement Prudential, and, RARER4 – Employer Alternative Retirement 2017); removed Transaction Code 'RALTER'.
- The actual percent used to calculated ARP employer share;
- The estimate amount of ARP employer share if remained at 8%

[iv] The CT_OSC_OPM_SEBAC2017_ATTRI_CNT (Attrition) report uses the following criteria –

- EFFDT between 7/1/2017 and 6/30/2019
- Action reason including DRN - Dis Retirement Non Service, DRS - Disability Retirement Service, HWB - Hazardous Duty Retirement, ORB - Other Retirement, PDR - Term Pending Disability Retirement, SRR - Service Retirement, VRE - Voluntary Retirement

[v] The CT_OSC_OPM_SEBAC2017_ATTRI_EST (Attrition) report retrieves payroll data to –

- Sum up wages paid in Account between 50100 and 50200
- Pay end date greater than 7/1/2016

Only on the retiree positions that –

- EFFDT between 7/1/2017 and 6/30/2019
- Action reason including DRN - Dis Retirement Non Service, DRS - Disability Retirement Service, HWB - Hazardous Duty Retirement, ORB - Other Retirement, PDR - Term Pending Disability Retirement, SRR - Service Retirement, VRE - Voluntary Retirement
- Positions remaining vacant at the time the report executed