GOVERNOR'S PROPOSAL FOR STATE EMPLOYEE AND RETIREE HEALTH CARE

Assembly Budget Subcommittee #4

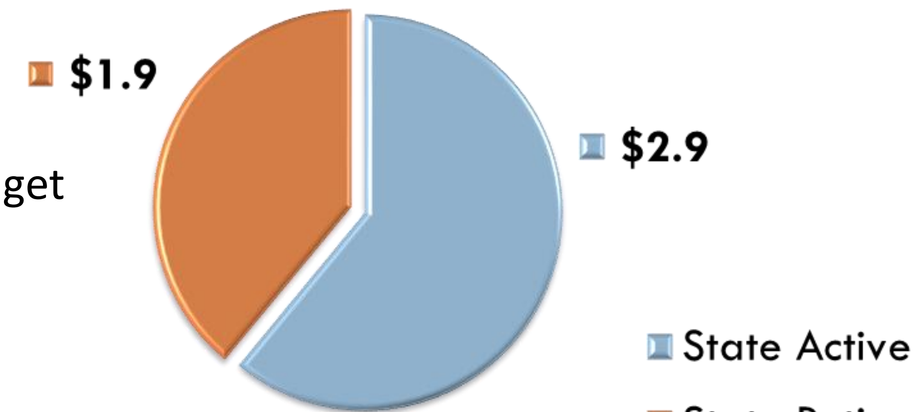
March 24, 2015

Overview

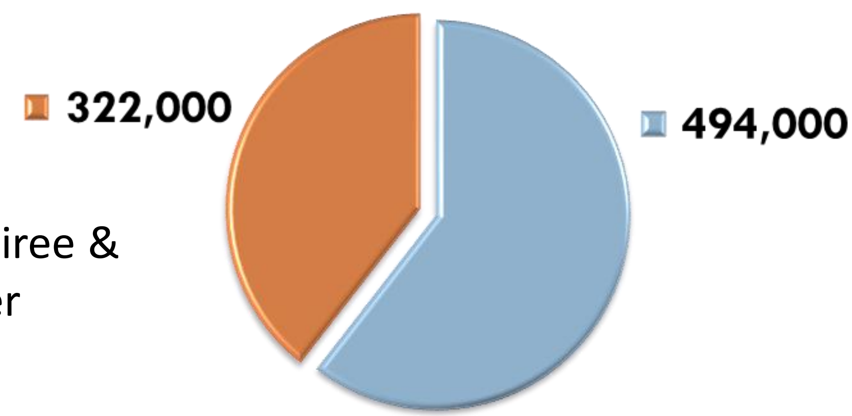
- Goal: Sustain Benefits.
- Recommendations: (1) Prefunding, (2) Control Costs, (3) Transparency.
- Strategy: Bargaining, Legislative Changes, Administrative Efforts, and Increased Oversight.

State Program Background

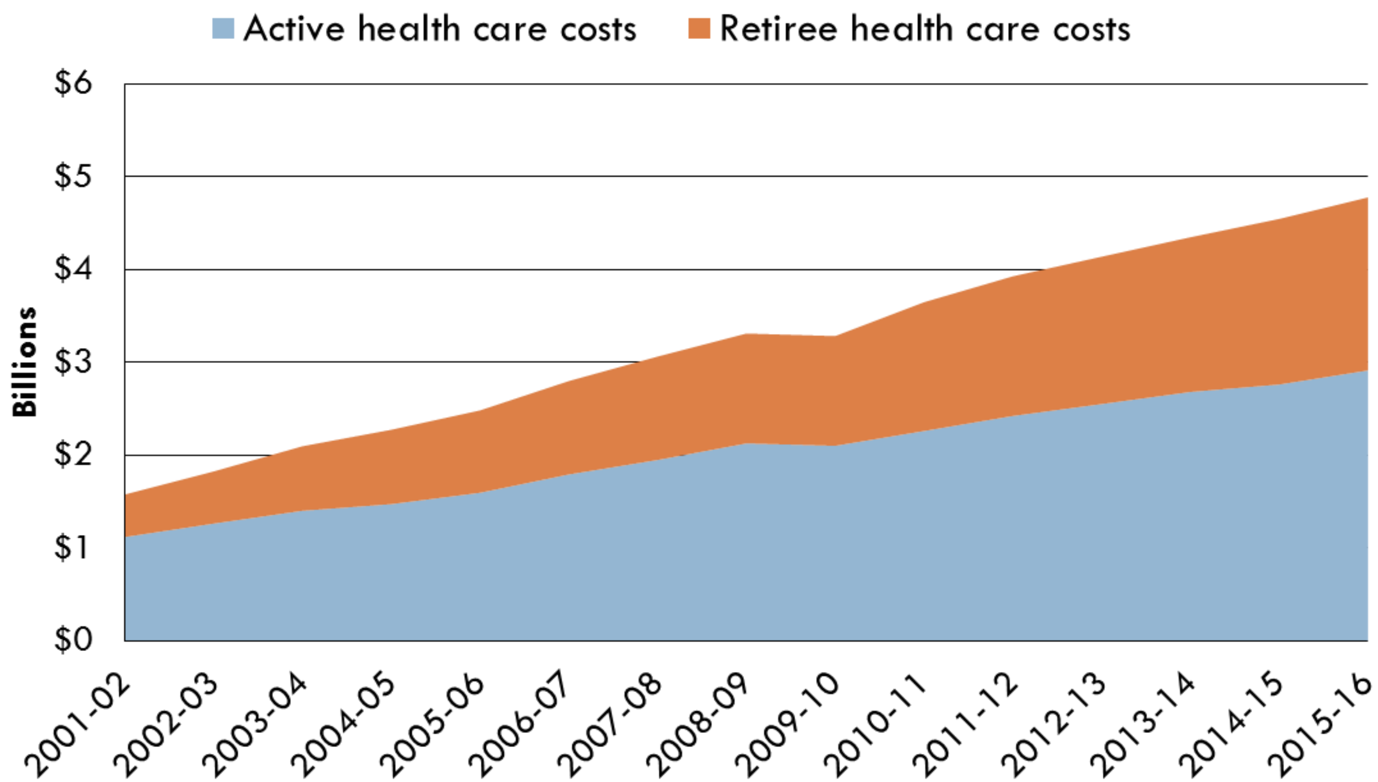
2015-16 Governor's Budget
($ billion)



State Employee/Retiree &
Family Member
Enrollment

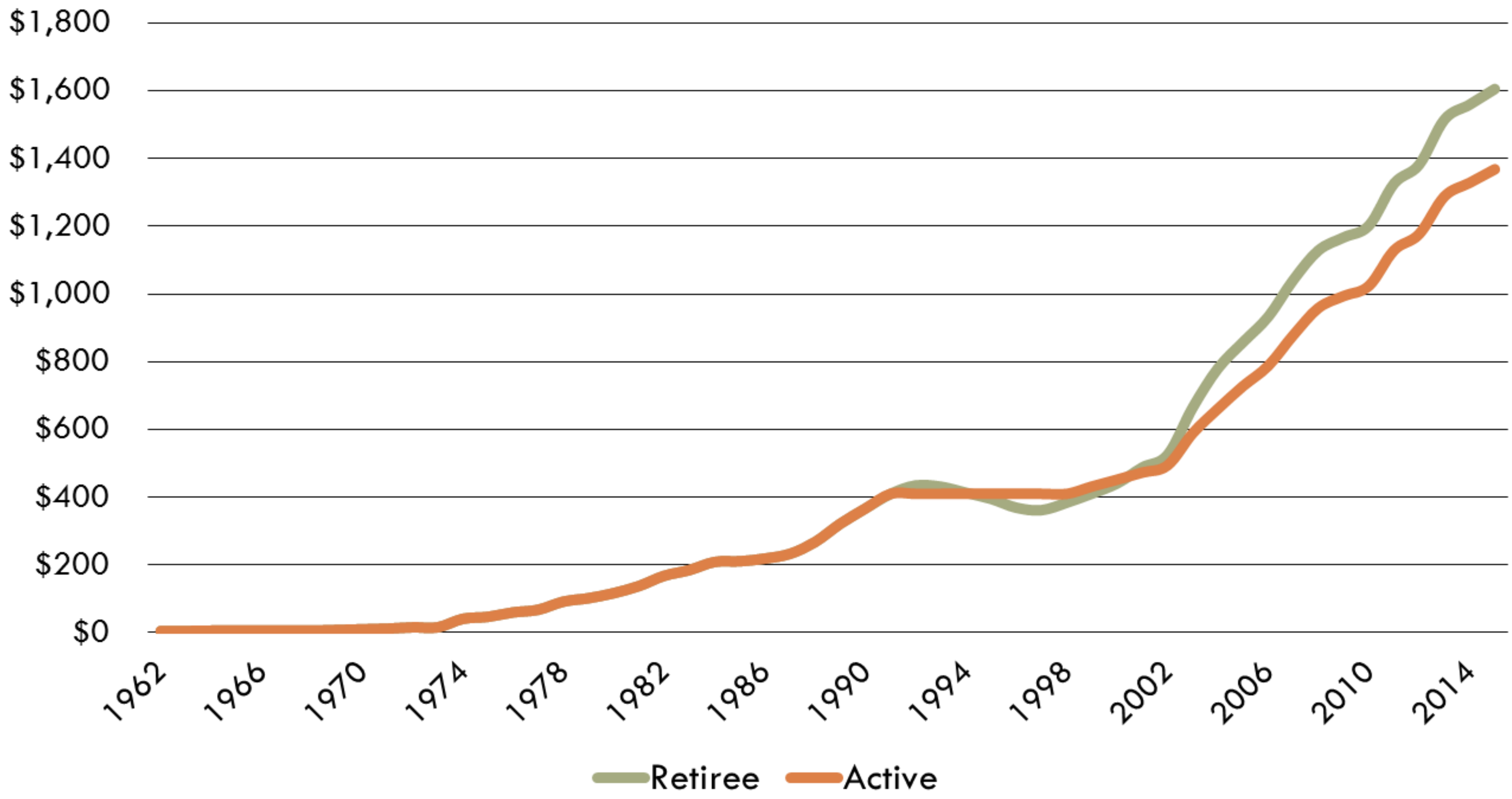


Health Care Costs Growing



Includes all state expenditures for Executive Branch, Legislative, Judicial, and California State University. Does not include University of California. Source: 2015-16 Governor's Budget.

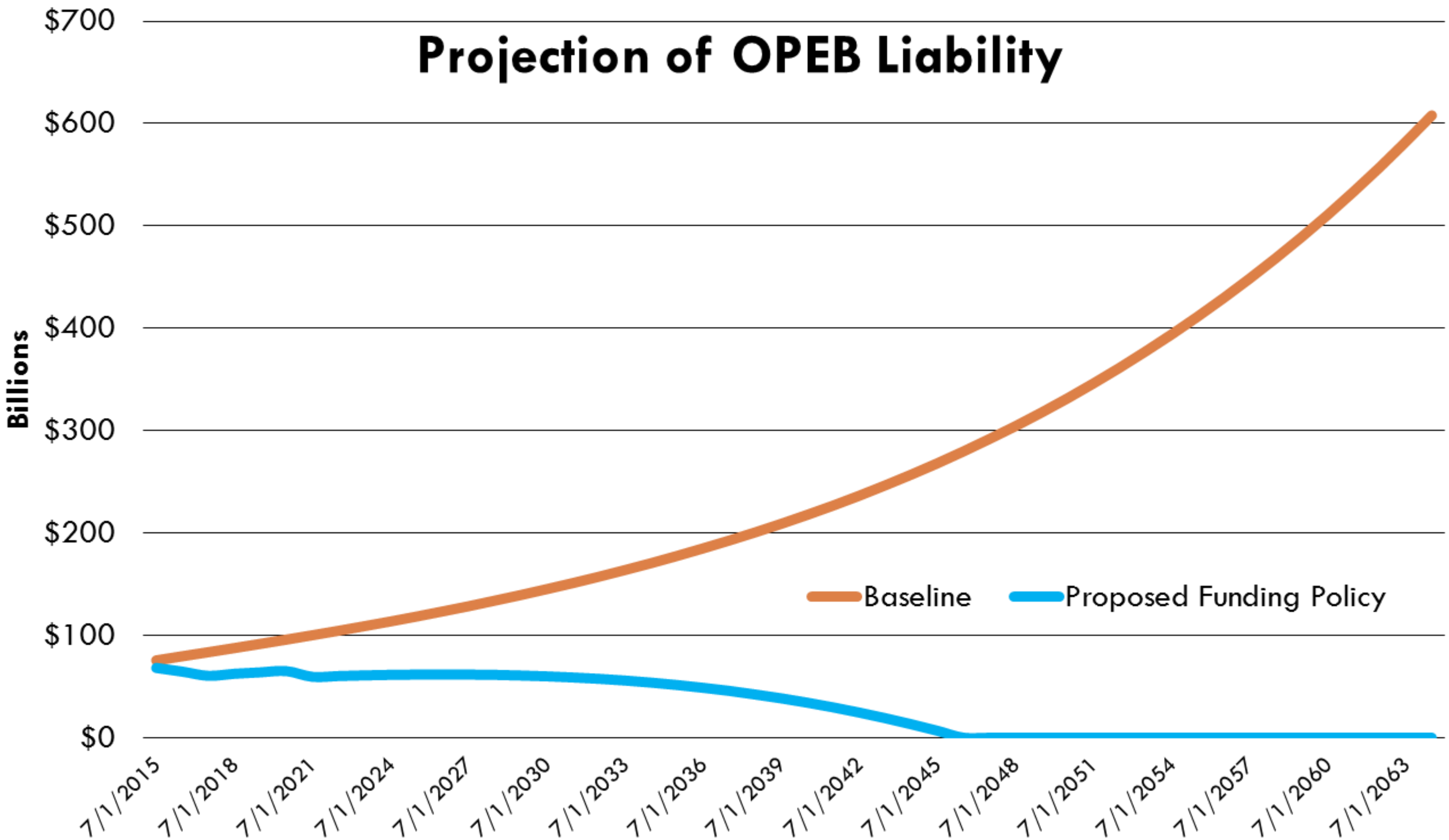
Monthly State Contribution: Family



1. Eliminating Unfunded Liability

- OPEB unfunded liability was **$72 billion,** as of June 30, 2014.
- The state has only **$41 million** in assets for future OPEB costs.
- The state’s funded ratio is effectively **0%**.

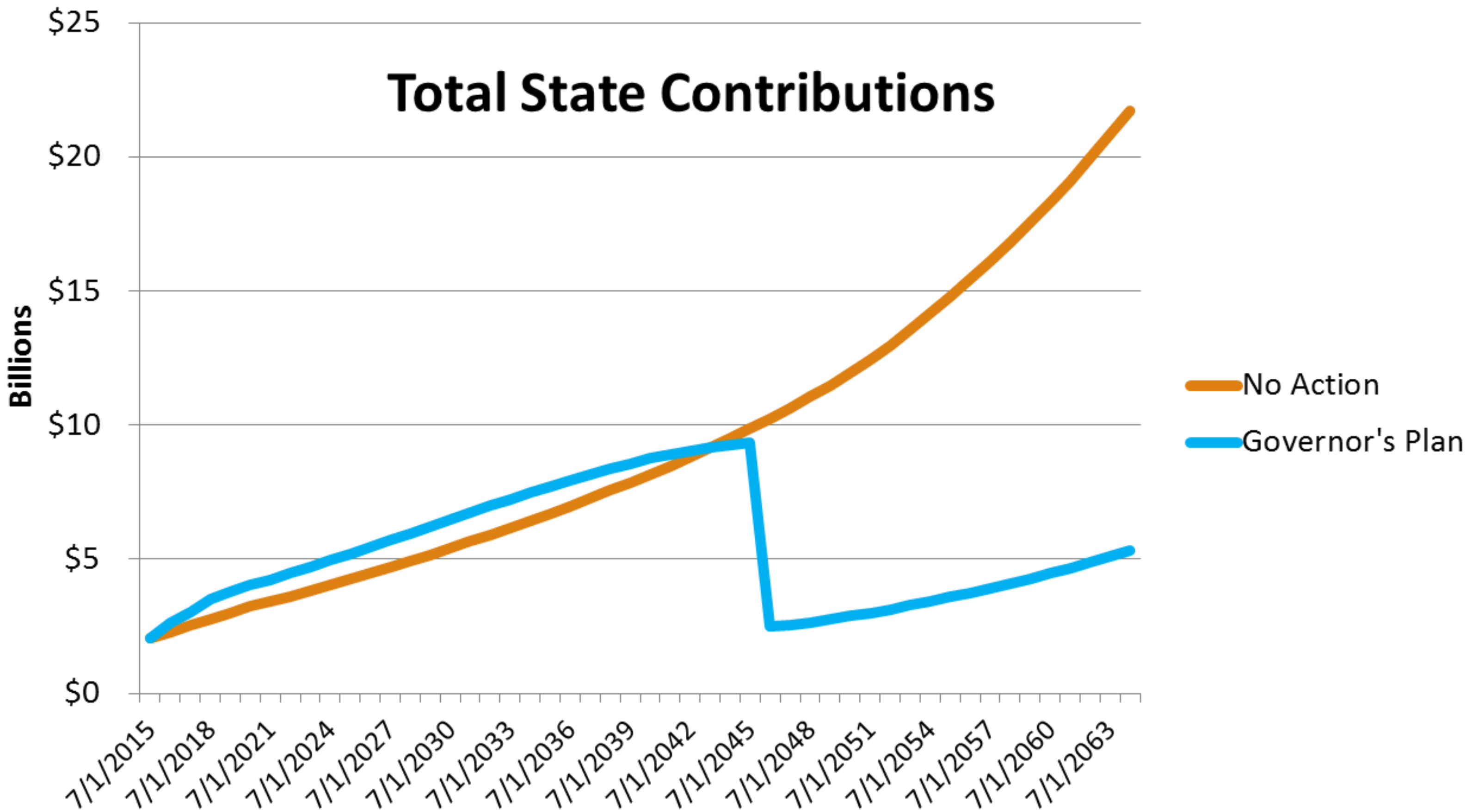
Governor's Prefunding Proposal



Governor’s Prefunding Proposal

- Different than CalSTRS Funding Plan.
- 50-50 employee-employer sharing of “normal costs” going forward.
- Contributions and investment income held in trust fund until assets reach 100% funded status.
- Freezes unfunded liability from growing and gradually eliminates it.
- State continues to make paygo payments until retiree health care plan is fully funded (July 1, 2046).

State Costs Increase in Short Term, Lead to Long-Term Savings



2. Controlling Costs

- New state employees—beginning January 1, 2016.
- Extends the number of years needed to work for state contribution to 15-25 years of service.
- Sets employer contribution for benefits to 80/80 formula for Basic and Medicare plans.
- Eliminates Part B Medicare subsidy.

Increase Competition, Choice

Platinum: 90% Actuarial Value

Gold: 80% Actuarial Value

Silver: 70% Actuarial Value

Bronze: 60% Actuarial Value

- CalPERS offers only Platinum (HMO) and Gold (PPO) plans.
- State of CA plans are richer than most other states (Pew, CalPERS).
- 80% enrolled in Platinum plans with no deductible.

High Deductible Health Plan (HDHP)

- Add High Deductible/Health Savings Account plan for state members—<u>no mandatory enrollment</u>.
- Employer HSA contribution to be negotiated in bargaining.
- Minimum deductible: $1,300 individuals and $2,600 for families.

Advantages

- More money in employee's paycheck.
- State will make an employer contribution to the HSA to offset out-of-pocket costs.
  - Owned by the employee.
  - No use or lose it.
  - Tax-advantages for employees.
- Cushion against Cadillac Tax.

Common Concerns:

- Shifts costs to employees.
- Employees will face financial hardship if they get sick and avoid medical care.
- Younger, healthier employees will join the cheaper plan, leading to increased costs on other plans.

Response:

- Not mandatory.
- Value to employee: Lower monthly premiums.
- HSA contributions from state.
- Annual out-of-pocket max.
- ACA requires preventative care without co-pay.
- Risk is already redistributed every year during open enrollment, when premiums and plans change.
  - Function of competition.
- Fairness. Why force healthier employees to pay for insurance they don't need/want?

3. Increasing Transparency and Accountability

- Update reporting requirements in Budget Bill Language and Trailer Bill.
  - Reconcile premium changes.
  - Annual report.
  - Medicare cost/benefit analysis.
- Increase oversight.
- Engage employees.

Trailer Bill 1: Health Benefit Administration

- High Deductible Health Plan for state employees.
- Regular verification of dependents.
- More transparency on health care program.
- 50-50 standard for prefunding OPEB.
- OPEB “lock box.”

Trailer Bill 2: Retiree Health Benefits

- Replaces the 100/90 contribution with 80/80 formula for Basic and Medicare plans.
- Replaces graduated vesting for retiree health care benefits from 10-20 years to 15-25 years.
- Eliminates Part B reimbursement.
- Applies to all new employees hired after January 1, 2016. Applies to all state entities, including CSU, legislative, and judicial branches.