

**TESTIMONY OF ROBYN KAPLAN-CHO, RETIREMENT SPECIALIST,
THE CONNECTICUT EDUCATION ASSOCIATION (CEA)
CONCERNING THE GOVERNOR'S PROPOSED BUDGET RELATED TO
THE STATE TEACHERS' RETIREMENT BOARD (STRB)**

**BEFORE THE APPROPRIATIONS COMMITTEE
FEBRUARY 21, 2012**

Good evening Senator Harp, Representative Walker, and members of the Appropriations Committee. My name is Robyn Kaplan-Cho and I am the retirement specialist for the CEA, representing over 41,000 active teachers and over 4,000 retired teachers who are members of the State Teachers' Retirement System.

Frankly, I was stunned to read that Governor Malloy is proposing shifting a portion of the State's financial obligation to our oldest retired teachers. When the health fund was created in 1989, it was understood that active teachers would contribute the lion's share to this fund, followed by retired teachers. This has in fact been the reality – you have my attached Fact Sheet which clearly illustrates that the contributions from active and retired teachers account for over 75% of the total contributions to the Health Fund. State dollars account for approximately 25% of the total dollars in the Health Fund - the State has never paid an equal share compared to active and retired teachers in terms of actual dollars. Nonetheless, the Health Fund has been very stable and able to sustain a very well-managed Medicare supplement plan. In short, the system has been working well.

I am dumbfounded as to why the Governor would, in light of this, propose reducing its contribution by over \$16 million and shifting much of that cost over to retirees on the Medicare supplement plan. The average age of a retiree on that plan is 75 and many of these individuals retired before the Enhancement Act and thus are living on modest pensions. They are in the worst position to assume a portion of the cost previously borne by the State.

OPM Secretary Barnes has stated that this proposed change will encourage retired teachers to remain on their local board of education health plans and thus lessen the burden on the State. This is simply untrue. First, most local school districts do not even offer a Medicare supplement plan for their retirees who are age 65 and older. Second, the cost of local board of education plans is significantly higher than the cost of the Medicare supplement plan. Most retirees could not afford it and it would be imprudent

to force the oldest retired teachers to remain in more costly plans intended for active and retirees who are not yet Medicare-eligible.

The Governor's proposed overall reduction in the State's contribution to the health fund will send an otherwise stable, well-functioning fund down a path toward instability – again, why do this to a plan that has operated extremely efficiently and has been satisfactory to its participants?

I also question the propriety of the Governor's proposal to claim the federal Medicare Part D reimbursement funds as "State contribution" dollars. For the past several years, these reimbursement dollars have been going directly into the Health Fund, above and beyond the State's required contribution. Claiming it as part of the State's contribution is nothing more than a shell game that results in a net loss and thus further harm to the Health Fund.

I would also like to address the Governor's proposal to consolidate the STRB under the Office of the State Comptroller (OSC). I fail to understand how this will save the State any real money given what a lean agency the STRB is – a study done several years ago concluded that Connecticut's STRB provides services to active and retired members at a cost of \$27 per member. This was the lowest number of any teacher retirement system in the country – a tribute to the hardworking and dedicated staff of the STRB that administers a complicated pension system on a daily basis with minimal staffing and resources. Moreover, the OSC itself is facing agency cuts so would seem ill-positioned to assume the work of STRB, especially given that the two systems have entirely separate technology and pension payment structures.

Even more concerning to CEA is the fact that the proposed legislation essentially strips STRB of the autonomy that it has had since its inception. The Board is comprised of a diverse constituency - elected active and retired teachers, gubernatorial appointments, and agency heads. Under the Governor's proposal, most of the authority currently vested in the STRB would be transferred to the State Comptroller, an elected official. CEA strongly opposes any change that will remove the STRB's longstanding independence.

Thank you for your time and consideration.

RETIRED TEACHERS' LEGISLATIVE FACT SHEET FEBRUARY, 2012

Prepared by Robyn Kaplan-Cho, CEA Retirement Specialist

BACKGROUND ON RETIRED TEACHERS' HEALTH INSURANCE:

Who Contributes to the Retired Teachers' Health Insurance Fund:

- The Retired Teachers' Health Insurance Fund ("Health Fund") was created in 1991 and is administered by the State Teachers' Retirement Board (STRB).
- Active teachers contribute 1.25% of salary annually into Health Fund – this represents the largest contribution to the Health Fund. In 2010-11, active teachers' salary contributions of over \$45 million were deposited into the Health Fund.
- Retired teachers participating in the STRB's Medicare supplement plan also contribute a premium share to the Fund. In 2010-11, retirees' contributions amounted to over \$30 million.
- The State contributes 33% of the cost of the STRB's Medicare supplement plan and the under-65 municipal health subsidy paid to retirees participating in their local board of education health insurance plans.
- The STRB has been receiving a federal reimbursement based on its non-participation in the Medicare Part D prescription drug program. Since the reimbursement began, these funds have been deposited directly into the Health Fund.
- Since its inception, active teachers' contributions have been the primary source of income to the Fund. Teachers', retirees' and State contributions over the past five years have been as follows:

Year	Active Teachers' Contributions	Retired Teachers' Contributions	State Contribution	Federal Medicare Part D Reimbursement
2006 – 07	38,473,730.56	22,949,731.79	20,749,537.36	0
2007 – 08	41,296,730.32	23,192,258.75	20,769,667.02	0
2008 – 09	46,219,152.61	24,635,463.30	22,433,384.06	7,061,829.98
2009 – 10	44,635,744.87	27,400,912	0	8,049,189.94
2010 – 11	45,410,154.03	30,039,157.79	0	5,312,118.90

What Retired Teachers Pay for Health Insurance:

- Retired teachers and spouses under age 65 and over-65 retirees who are not Medicare eligible obtain insurance through their last employing board of education and typically pay the full cost of insurance, minus a \$110 per month subsidy paid from the Health Fund. Monthly costs currently range from around \$400 to over \$900 per person, depending on local plans.
- Because Connecticut teachers do not participate in social security, they have no Medicare eligibility through teaching but have earned the necessary credit through part-time jobs or eligible spouses. Some will never have Medicare eligibility. Teachers hired after 1986 have begun paying the Medicare tax of 1.45% of salary. Moreover, under the Windfall Elimination Provision, teachers who do earn social security credits from other employment will receive a reduction in social security benefits of approximately 40 – 50%. The Government Pension Offset also results in most teachers receiving no spousal benefit from social security.
- Retired teachers and spouses over age 65 who are Medicare-eligible pay the Medicare Part B premium (currently \$99.90/month) plus one-third of the cost of the Medicare supplement plan offered by STRB. The current retiree cost for the base supplemental plan is \$124 per month per person.
- Many retired teachers received a \$0 Cost of Living Adjustment (COLA) in 2010 and 2011.

- The average age of a retired teacher on the STRB's Medicare Supplement Plan is 75 years old.

GOVERNOR MALLOY'S RETIREE HEALTH INSURANCE PROPOSAL:

- The Governor's budget proposal will reduce the State's contribution to the Health Fund resulting in savings to the State of over \$15 million.
- However, the Governor proposes shifting a portion of the State's financial obligation to retirees by increasing the premium share paid by retirees on the STRB's Medicare supplement plan from 33% to 42%, a 9% increase. Based on current 2012 rates, that would amount to a monthly increase of \$32 per person.
- The reduction in the State's contribution to the Health Fund will negatively affect its long-term solvency. Active and retired teachers have been paying into the Health Fund with the understanding that it will be there for them when they retire.
- This proposed 9% increase in the premium share financially harms the oldest retirees, many of whom are unable to pay a significant increase in their medical premium. Over 2,000 of these individuals retired before the Enhancement Act of 1986 and thus are receiving pensions based on minimal teaching salaries.

GOVERNOR MALLOY'S PROPOSED MERGER OF STRB INTO THE STATE COMPTROLLER'S OFFICE

- Governor Malloy proposes consolidating STRB into the Office of the State Comptroller.
- This proposal would eliminate the autonomy of the STRB by having its operations and management performed by the Comptroller's Office.
- The proposal eliminates the STRB's long-held authority to hire its own Director/Secretary, a power which has allowed the hiring decision to be made by a diverse group of constituents comprising the STRB, including gubernatorial appointments, active teachers, retired teachers, agency heads. The proposal also transfers the right to recommend and certify all expenses paid by TRB, enter into contracts, and offer the STRB's health plan from the STRB itself to the Comptroller.
- Given the significant difference in technology utilized by the STRB and the Comptroller's Office, presumably it would increase costs to consolidate their computer systems and processes.

- STRB provides services for its active and retired members at a cost of \$27 per member. No other teacher or state employee system in the country comes close to matching this cost-efficient number.