OLR RESEARCH REPORT

February 8, 2012 2012-R-0032

OLR BACKGROUNDER: THE 2011 SEBAC AGREEMENT

By: Lee R. Hansen, Legislative Analyst II

This report describes the provisions of the 2011 agreement between the state and the State Employees' Bargaining Agent Coalition (SEBAC). For purposes of brevity and ease of reference, it contains only the major provisions of the agreement. For further details, see the full agreement, as submitted to the General Assembly on August 22, 2011. For further discussion of the agreement's fiscal impact, see Office of Fiscal Analysis report 2011OFA-0944.

BACKGROUND

The law requires the state to collectively bargain over state employee retirement and health benefits with a coalition representing all unionized state employees (CGS § 5-278). The coalition, known as SEBAC, consists of a representative from each of the 15 unions that represent the approximately 45,000 unionized state employees. The coalition's 15 unions further consist of 34 collective bargaining units that individually negotiate issues such as wages and working conditions for their members. The coalition bargaining arrangement allows the state to negotiate one contract for retirement and health benefits that applies to all unionized state employees. State law also provides most non-unionized state employees with these same benefits (CGS § 5-200(p)(q)).

In 1997 Governor Rowland negotiated a 20-year contract with SEBAC. Since then, the state and SEBAC have agreed to open and alter that contract in 2009 and, most recently, in 2011. The revised SEBAC 2011

Sandra Norman-Eady, Director
Phone (860) 240-8400
FAX (860) 240-8881
http://www.cga.ct.gov/olr

Connecticut General Assembly
Office of Legislative Research

Room 5300
Legislative Office Building
Hartford, CT 06106-1591
Olr@cga.ct.gov

agreement states that, except as specifically stated in the 2011 agreement, all provisions of the previous agreements apply. The 2011 agreement extends the 1997 agreement until 2022 and makes numerous changes to the State Employee Retirement System (SERS), retiree health insurance, and the health benefits offered to active state employees. None of the benefit levels, access requirements, including to doctors and hospitals, or basic plan structures are modified by it.

The agreement also includes job security provisions that individually apply to each bargaining unit that accepted certain compensation concessions.

STATE EMPLOYEE PENSIONS

The agreement makes numerous changes to SERS which affect current and future state employees. In general, these changes seek to reduce costs by requiring those employed past October 2011 to work longer before reaching regular retirement age and increasing the early retirement penalty. The agreement also:

1. imposes new caps on certain salary amounts used to calculate pensions;

2. changes minimum and maximum cost of living adjustments (COLA);

3. requires a recalculation of the "breakpoint" used to determine pension amounts; and

4. creates a new hybrid pension plan for employees eligible to join the state's Alternative Retirement Plan (ARP).

In general, SERS retirement benefits are determined by multiplying an employee's years of state service by a certain percentage, then multiplying the product by the employee's final average salary (FAS). Thus, a higher salary and more years of service lead to a higher pension benefit. Additional details on SERS can be found at the Office of the State Comptroller's website.

Increased Normal Retirement Age

The agreement increases the normal retirement age for non-hazardous duty employees who were employed prior to July 1, 2011 and retire after July 1, 2022. Prior to July 1, 2022 they will be eligible for normal retirement if they have at least 25 years of service and have reached age 60, but after that date they must be at least 63 with 25 years of service to avoid paying an early retirement penalty. Employees with between 10 and 25 years of service will be eligible for normal retirement at age 62 prior to July 1, 2022, and at age 65 after that date.

Employees hired before July 1, 2011, who anticipate retiring after July 1, 2022, have the option to maintain the current age and service qualifications. The agreement allows them, by July 1, 2013, to make a one-time irrevocable decision to make additional payments into the pension system to cover the extra actuarial pension costs for maintaining the current qualifications. These costs are to be determined by SERS actuaries.

Early Retirement Penalty

For employees who retire after October 1, 2011, the agreement increases the early retirement penalty from 3% to 6% of the pension benefit for each year the employee is retiring before his or her normal retirement age. This, in effect, works as an incentive not to retire early.

Tier III

Prior to the 2011 agreement, SERS contained three retirement tiers: Tier I, Tier II, and Tier IIA. Membership in each tier depends on when an employee began state service (Tier IIA employees are those hired after July 1, 1997). The new agreement establishes a Tier III retirement class for employees hired after July 1, 2011. The new tier has the same employee contributions as Tier IIA, but increases the number of highest paid years, from three to five, used to determine the employee's FAS for pension purposes.

Compared to Tier IIA, Tier III also increases:

1. the normal retirement age from 60 to 63 with 25 years service, and from 62 to 65 with 10 years of service;

2. the early retirement age from 55 to 58; and

3. the hazardous duty retirement requirement from 20 years of service regardless of age, to 20 years of service and age 50, or 25 years regardless of age.

Salary Cap

The agreement uses Section 415 of the Internal Revenue Code to cap the amount of salary that can used to determine an employee's pension benefit. In 2011, Section 415 prohibited any base salary exceeding $245,000 from being used to determine a pension plan members' contributions or benefits. Previously, the state had not limited the amount of salary that could be used in an employee's pension calculation.

Overtime

By law, when calculating an employee's FAS for pension purposes, no single year's earnings used to calculate the FAS can be more than 130% greater than the average of the two proceeding years (CGS §§ 5-162, 5-192f (c)). The 1989 arbitration decision, commonly known as SEBAC I, exempted any earnings made during mandatory overtime from counting against this 130% cap.

As of July 1, 2014, the 2011 agreement imposes a new 150% cap for employees earning mandatory overtime. It also requires the state to continue considering all overtime worked in certain bargaining units (e.g. units in the Department of Corrections) as "mandatory" for pension calculation purposes, but does not specify which bargaining units fall under this category.

Cost of Living Adjustments

For employees who retire after October 1, 2011, the agreement lowers the minimum COLA from 2.5% to 2.0%, and raises the maximum COLA from 6.0% to 7.5%. In years when an increase in the consumer price index is below 2.5% the affected retirees will receive a lower COLA increase than they would have under previous rules. Conversely, in years of inflation above 6.0% they will receive a larger increase than previously possible.

Adjust Breakpoints

The pension "breakpoint" provides a benefit boost to certain Tier II, IIA, and III employees. In these tiers, retiree benefits are calculated by using a formula that takes into account (1) the employee's FAS, (2) FAS that exceeds the breakpoint, and (3) years of service. The breakpoint, which by law automatically increases 6% annually, was $58,100 in 2011. In effect, employees whose FAS exceeds the breakpoint have their pension benefit increased by 0.05% of the FAS amount that exceeded the breakpoint, while employees with a FAS beneath the breakpoint do not receive any increase.

The 2011 agreement requires the breakpoint to be redesigned to increase pension amounts for those earning less than the current breakpoint. It requires the parties to negotiate a new breakpoint that will be effective for service earned on and after July 1, 2013. The new calculation cannot increase the state's employer normal costs more than 0.5% of payroll in any year.

Hybrid Pension Plan

The agreement creates a new "hybrid plan" option for employees who are otherwise eligible for the state's Alternate Retirement Plan (employees in Higher Education). Eligible employees hired after July 1, 2011 can join the new plan at their time of hire and current ARP members will have one-time option to join at full actuarial cost. The agreement requires the hybrid plan to offer defined benefits equal to those in SERS Tier II, IIA, or III, with the employee contributing 3% more than required under the applicable Tier II, IIA, or III plan. Upon leaving state service, the employee can accept the defined benefit amount or opt for a payout of his or her contributions, plus a 5% employer match, plus 4% interest. Employees taking the payout must waive their entitlement to retiree health insurance unless the cash out is converted to periodic payment as required under current ARP provisions.

RETIREE HEALTHCARE

The agreement makes several changes intended to reduce state expenditures for retiree healthcare coverage by increasing service and age eligibility requirements, increasing contributions by employees and the state to the retiree healthcare trust fund, and by increasing retiree premiums under certain circumstances.

Eligibility

The 2009 SEBAC agreement allowed state employees to receive retiree healthcare coverage if (1) they had at least 10 years of service as of July 1, 2009, (2) their age plus years of service equaled at least 75 ("rule of 75"), or (3) they had at least 10 years of state service and transitioned directly into normal or early retirement.

Under the 2011 agreement, new hires must have 15 years of service and meet the rule of 75 to qualify for retiree healthcare coverage, unless they transition directly to normal or early retirement, in which case they will only need 15 years of service to qualify. The agreement allows "current" employees to remain under SEBAC 2009 qualifications, but does not designate a specific hiring date after which the 15 year requirement begins (presumably, current employees are those who were employed when the agreement was approved by the General Assembly on August 22, 2012).

Contributions to Retiree Healthcare Trust Fund

To help cover the costs of providing retiree healthcare, SEBAC 2009 required employees hired after July 1, 2009 to contribute 3% of their salary for the first 10 years of their employment to the Retiree Healthcare Trust Fund. Employees with less than 5 years of service before July 1, 2010 also had to pay 3% until they reached 10 years of service.

The 2011 agreement expands the 3% payments so that as of July 1, 2013, all state employees must contribute to the fund for 10 years, or until their retirement, whichever is sooner. This means that:

1. Employees who were previously exempt must contribute to the fund for 10 years, or until retirement (their payments are phased in: starting July 2013 they contribute 0.5%, in July 2014 they begin paying 2.0%, and from July 2015 onward they pay 3.0%).

2. Employees with less than 5 years as of July 1, 2010, who were previously required to contribute 3% until they reached 10 years of service (but not necessarily for 10 years), must now contribute 3% for 10 years, or until retirement.

3. Employees hired after July 1, 2009 continue making 3% contributions for a total of ten years or until retirement (as required by SEBAC 2009).

4. New Employees make 3% contributions for 10 years, or until retirement.

Beginning July 1, 2017, the agreement also requires the state to match annual employee contributions to the fund.

The agreement states that the fund cannot be used to pay the retiree health care costs for any former employees who were retired as of August 22, 2011. It requires the state treasurer to administer the fund and states that the state must use it "solely to pay retiree health care costs of contributors to the fund." The agreement specifies that this requirement is permanent and irrevocable beyond the agreement's expiration in 2022.

Premiums

The agreement maintains the current premium structure for employees who retired prior to October 1, 2011 (for most plans, there is no premium payment once a retiree joins Medicare). For additional details on retiree healthcare benefits see: http://www.osc.ct.gov/empret/retirees/indxhlth.htm

Those who retire after October 1, 2011 can maintain the current premiums by participating in the Health Enhancement Program created by the agreement (see healthcare provisions below). Future retirees, or their covered dependents, who decline to participate in the program will have their premiums increased by $100 per month and be subject to an annual $350 per person deductible.

Early Retirement Premiums

The agreement increases health care premiums for most early retirees based on how early they retire and their years of service (employees with at least 25 years of service as of July 1, 2011 can avoid the increased premiums if they begin an early retirement before July 1, 2013). In general, employees with more years of service retiring closer to their normal retirement age pay a lower percentage of their health insurance premiums. Thus an employee with 15 years of service retiring five years early will pay 40% of his or premium, while an employee with 25 years of service retiring one year early will only pay 2% (see Attachment C in the Agreement for a full schedule of early retirement premiums). Early retirees pay the additional premium until they reach their normal retirement age or age 65, whichever is sooner. The agreement also caps a early retiree's premium at 25% of his or her actual pension benefit.

HEALTHCARE

The 2011 agreement creates a new Health Enhancement Program (HEP) in the hope that increasing disease prevention and early intervention services will decrease long term expenses. It also makes several changes to prescription drug copayments and increases participation in a mail-order pharmacy program. In addition, the agreement creates a new emergency room visit copay to discourage unnecessary ER visits.

Health Enhancement Program

The agreement creates the new HEP that requires participants to maintain a prescribed schedule of checkups and screenings. Participation in HEP is voluntary, however employees who do not participate are subject to a $100 a month increase in their premiums and an annual $350 per participant deductible with a maximum deductible of $1,400 per family. The agreement prohibits any financial incentive for an insurance vendor to admit or remove members from HEP. The agreement specifies that (1) all benefits and requirements in HEP are the same as those previously available to state employees, retirees, and dependents (except as detailed below), and (2) any medical decisions remain in the control of the patient and his or physician.

Employees who participate in HEP must sign a written consent which states that they and their covered dependents will comply with a minimum schedule of physical exams and preventative screenings. The copays for these prescribed exams and screenings are to be either waived or rebated to HEP participants. Regardless of the schedule's requirements, no participant is required to get an exam or screening contrary to the recommendation of his or her physician or health care provider. Table 1 shows the schedule of required exams and screenings.

Table 1: Schedule of Required Exams & Screenings

Exam or Screening	***Age Range***	***Requirement***
Well child visits	Birth to 1 1 – 17	Months 1, 2, 4, 6, 9, and 12 Once per year
Adult wellness physicals	18 – 39 40 – 49 50+	Every three years Every two years Every year
Cholesterol screening	20 – 29 40 – 50 50+	Once every five years Once every two years Every year
Clinical breast exam by health care provider	All women	Once every three years
Mammograms	All women 35 – 39	As recommended by physician Once between ages 35-39
Cervical cancer screening	All women age 21+	Once every three years

Exam or Screening	*Age Range*	*Requirement*
Colorectal screening	50+	Options to be decided by physician; can include annual fecal occult blood test, colonoscopy every ten years, and/or CT colonoscopy
Vision exam	All participants	Once every two years
Dental cleanings	All participants with dental coverage	Twice per year

Disease Counseling. Participants in HEP must also agree to participate in disease counseling and education programs if they are diagnosed with (1) diabetes, (2) chronic obstructive pulmonary disorder (COPD) or asthma, (3) hypertension (high blood pressure), (4) hyperlipidemia (high cholesterol), or (5) coronary artery disease. Participants will be contacted by a health care counselor who will provide information about the particular illness and strategies to control the disease. Under the agreement, a patient diagnosed with any of the five conditions must participate in the counseling and education programs, but is not required to follow their suggestions. The patient, and his or her physician, is free to decide whether to follow them.

HEP participants diagnosed with any of the five conditions have their office visit copayments waived for treating and monitoring their condition. Copayments for diabetes medications are waived while co-payments for medications treating the other four diseases are reduced by 50%. Table 2 shows prescription drug copayments for the named conditions under the new plan. The agreement also provides patients in one of the five disease categories with a $100 cash payment for complying with HEP requirements during a given year.

Table 2: Prescription drug copayments for named diseases

Disease	*Drug*	*Previous Agreement*	*SEBAC 2011*
Diabetes	Generic	$5	Waived for all
	Preferred Brand Name	$10	
	Non-preferred Brand name	$25	
COPD and asthma, Hypertension, Hyperlipidemia, or Coronary artery disease	Generic	$5	$0
	Preferred Brand Name	$10	$5
	Non-preferred Brand name	$25	$12.50

Removal from HEP. Regardless of his or her health condition, a participant's failure to comply with HEP requirements can lead to removal from the program and a subsequent $100 per month premium increase, $350 per participant per year deductible, and ineligibility for the HEP copay reductions. However, under the agreement, none of these penalties can occur if the patient failing to comply is a covered dependent not in a participant's custody, due to legal decree or divorce. The agreement also specifies that removal from the program will be based only on a patient's refusal to get the required tests and screenings, or to participate in the counseling and treatment programs. The agreement explicitly states that removal from HEP cannot be based on a patient's treatment decisions or on the progress, or lack of progress, in the treatment of an illness.

Before removal from the program, a participant must receive prior notice and review by the Health Care Cost Containment Committee (HCCCC), which resolves all compliance disputes. The agreement also allows a participant to be reinstated in HEP after demonstrating compliance.

Medication Copays & Mail Order Pharmacy

The 2009 SEBAC agreement created a three-tiered medication copay system, with employees paying $5 for generic medications, $10 for preferred name brands, and $25 for non-preferred name brands. For active employees and those who retire after October 2, 2011, the 2011 agreement maintains the $5/ $10/ $25 system for maintenance drugs and $5 copays for all generic non-maintenance drugs. However for non-maintenance drugs, it increases copays for preferred name brand and non-preferred name brand drugs to $20 and $35, respectively. Employees who retire before October 2, 2011 maintain the $5/ $10/ $25 copays for all medications. As discussed above, the agreement also offers reduced copays for HEP participants with particular diagnoses.

For patients on maintenance medications, the agreement also requires increased participation in a mail-order pharmacy program. Participation becomes mandatory for: (1) active employees and current retirees under 65 after the first prescription for a new maintenance medication, and (2) all new retirees after October 2, 2011. The agreement specifies that one copayment covers a 90-day supply of medication. Participation for current retirees over 65 is voluntary, but those who opt in do not have to make copayments. However, once they opt in their continuing participation is mandatory. The agreement also allows those participating in the mail-order pharmacy to choose to receive their mail-order at any local pharmacy that participates in the maintenance drug network.

New ER Copayment

The agreement institutes a new $35 copayment for visits to an emergency room when there is a reasonable medical alternative and the individual is not admitted to the hospital.

Other Programs

The agreement requires the creation of voluntary tobacco cessation and obesity reduction programs.

COMPENSATION & JOB SECURITY

By law, SEBAC negotiates with the state over pension and health care benefits, while issues regarding compensation and working conditions are negotiated separately between the state and each of the 34 individual bargaining units. Thus, unionized employees are subject to two separate contracts, (1) the SEBAC agreement governing pension and health care benefits and (2) their bargaining unit's contract governing compensation and working conditions. In the past however, the state has included compensation and job security as part of the larger negotiations with SEBAC, with an agreement's compensation and job security provisions ultimately decided through separate votes by each individual bargaining unit.

The 2011 agreement continues this practice, with most employees extending their current individual collective bargaining agreements through 2016, accepting a two-year wage freeze followed by three years of raises, and changing longevity payments in return for job security through FY 15. Because each individual bargaining unit had to agree to the compensation provisions in order to receive the job security provided by the agreement, they apply only to employees in the 32 (of 34) bargaining units that accepted them. Two bargaining units rejected the compensation concessions.

Wages

The 2011 agreement calls for a hard wage freeze in FY 12 and FY 13, followed by 3% increases in each of the next three fiscal years. The wage freeze includes general wage increases, step increases, annual increments, top-step bonuses, and merit increases, although employees who receive promotions during this time will receive any corresponding wage increases. The 3% increases in FY 14, FY 15, and FY 16 include step increases, annual increments or their equivalents. (The agreement also requires correctional supervisors (NP-8) to receive a 3.5% increase in FY 14, however this increase will not occur because NP-8 rejected the compensation concessions and therefore continues to operate under the compensation provisions of its current contract, which expires on June 30, 2012.)

Because ratification of the agreement occurred after many employees received wage increases at the start of FY 12, the agreement requires these increases to cease on the first day of the first pay period following ratification. At that point, wages revert to their pre-increase levels. Employees who received lump-sum payments will have to re-pay the amount through paycheck deductions over the course of the next 23 pay periods.

To make up for the FY 12 wage increases paid out prior to ratification, the agreement requires implementation of the FY 14 increases to be delayed by the same number of pay periods that employees received increases in FY 12. Employees who received less than a 3% increase in FY 12 will paid the difference between the increase they received in FY 12 and the amount they lose by the delay in implementing the 3% increase in FY 14.

Longevity Payments

Under the agreement, longevity payments will no longer be available for any employees hired after July 1, 2011. For current employees, it imposes a two-year freeze, from July 1, 2011 through June 30, 2013, on the accumulation of service time used to determine longevity payment amounts and eligibility. After June 30, 2013, the accumulation of service time resumes as if the two-year freeze had not occurred (i.e. an employee with 10 years of service in June 2011 will be counted as having 10 years of service in June 2012, and June 2013, but then have 13 years of service in June 2014).

The agreement also requires bargaining units with capped longevity payments to lose the payment scheduled for October 2011. Units that are not capped must agree on a procedure to give up an amount equal to what the capped units gave up.

Job Security

In return for the changes in compensation and the pension and health insurance systems, the agreement provides unionized state employees with job security through FY 15. It promises no loss of employment for any bargaining unit employee hired before July 1, 2011, except for employees:

1. in an initial working test period;
2. who leave at the natural expiration of a fixed appointment term;
3. employed as temporary, durational, or special appointments;
4. who are non-tenured and not renewed;
5. who lose grants or other outside funding that was specified for a particular position; or
6. are part-time employees ineligible for health insurance benefits.

The agreement does not prevent the state from restructuring or eliminating positions as long as an affected employee can bump or transfer to a comparable position through the same procedures established in previous agreements.

OTHER PROVISIONS

In addition to the changes in state employee pensions, health care insurance, and compensation, the 2011 agreement requires the creation of a Labor Management Information Technology Committee, headed by the state's chief information officer, to consider using new technologies and reducing licensing and procurement costs.

It also requires the creation of a Joint Labor Management Committee to consider ways to:

1. improve efficiency and effectiveness;
2. streamline and flatten organizational structures;
3. redress barriers to the most efficient use of in-house resources;
4. discourage use of outside consultants when internal capacity exists or can be reasonably developed; and

5. ensure that vendors and service providers are paid reasonable rates that reflect “shared sacrifice.”

The agreement requires the governor to issue an executive order or similarly appropriate directive ordering state agencies to make best efforts to ensure that the state’s vendors and service providers are paid reasonable rates of return “under terms that reflect the shared sacrifice being asked from all sectors of Connecticut society.” (Executive Order No. 5, issued by Governor Malloy on May 31, 2011, requires all agency commissioners to determine if their existing contracts reflect the best available prices for good and services.)

The agreement requires the HCCCC and the Pension Commission to prepare quarterly reports on the progress toward fully funding retiree healthcare and the pension system. The costs for preparing the reports cannot be passed on to either SEBAC or the state.

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