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STATE EMPLOYEE BENEFITS IN NORTHEASTERN STATES

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You asked for a comparison of state employee benefits in northeastern states regarding (1) employee pension contribution rates, (2) the number of years used to determine pension benefits, (3) whether overtime pay is included in pension benefit calculations, and (4) prescription drug co-payments.

SUMMARY

All of the nine northeastern states' governments provide their employees with pension and health benefits, although the states vary widely in how they administer these benefits. Regarding state employee pension systems, required employee contributions range from 0% for Connecticut's Tier II and New York's Tiers I and II employees, to 12% of employee salaries for Massachusetts employees hired after July 1, 1996. (This report does not examine state pension benefit rates, which may reflect differences in employee contribution rates, or the relative fiscal health of each state's respective pension fund.)

Until recently, all of the northeastern states used an employee's three highest paid years to determine the final average salary (FAS) used to calculate an employee's retirement benefits. Over the past three years, six of the nine states, including Connecticut, began requiring that the FAS for newer employees be determined using the employee's five highest paid years. In general, lengthening the FAS time frame could lower an employee's FAS and subsequent benefit amount, by helping to mitigate the effects of a salary spike at the end of an employee's career.

Three of the nine states (Massachusetts, New Jersey, and Rhode Island) do not include overtime earnings as part of the salary used to calculate an employee's FAS, which can also mitigate the effects of "salary spiking" at the end of an employee's career. The six states that include overtime in FAS calculations all have additional "anti-spiking" provisions to prevent salary increases or overtime earnings beyond certain limits from being used in FAS calculations.

All nine of the states provide three-tiered prescription drug benefit plans for their employees. These provide three levels of co-pays for different types of medications (generic, preferred, and non-preferred). For a 30-day supply of medication, the co-payments range from \$3 for generics under one of New Jersey's available plans to \$60 for non-preferred drugs under one of New York's plans. Co-pays for a 90-day supply of medication range from \$1 for generics in New Hampshire to \$125 for non-preferred drugs in New York.

STATE EMPLOYEE PENSION CONTRIBUTIONS

Eight of the nine northeastern states have defined benefit pension systems for their state employees. These guarantee eligible retirees a set benefit amount, generally based on an employee's final average salary and years of service. The systems are funded through a combination of employee and employer contributions and the pension fund's investment returns.

One state, Rhode Island, provides state employees with a hybrid plan that combines a defined benefit system and a defined contribution system. In a defined contribution system (e.g. a 401K), the retiree's benefit amount ultimately depends on the amount in his or her retirement account. The employer typically contributes to that account, but does not assume the risk of increased costs or investment losses.

How employee contribution rates are determined varies by state. In some, like Connecticut, they are collectively bargained, while in others, (e.g. Massachusetts, New York, and Rhode Island) retirement benefits are explicitly prohibited from state employee collective bargaining.

Table 1 shows state employee contributions in the nine northeastern states. The contributions listed are for "general" state employees and do not include specialized employees (e.g. "hazardous duty") who typically pay higher contribution rates or have separate retirement systems from other state employees. Several states, like Connecticut, have different classifications of employees based on the employees' hiring date.

Table 1: Employee Pension Contributions

State	Employees	Employee Contribution as Percent of Salary
CT	Tier I (hired before July 2, 1984) Tier II (hired July 2, 1984 - June 30, 1997) Tier IIA (hired July 1, 1997 - June 30, 2011) Tier III (hired after June 30, 2011)	2% 0% 2% 2%
ME	General employees	7.65%
MA	Hired before January 1, 1975 Hired January 1, 1975 – December 31, 1983 Hired January 1, 1984 – June 30, 1996 Hired after July 1, 1996	5% 7% 8% 12%
		(All employees hired after January 1, 1979 pay an additional 2% of compensation that exceeds \$30,000)
NH	General employees	7%
NJ	General employees	6.64%*
NY	Tier 1 (joined before July 1, 1973) Tier 2 (joined July 1, 1973 – July 26, 1976) Tier 3 (joined July 27, 1976 – August 31, 1983) Tier 4 (joined September 1, 1983 – December 31, 2009) Tier 5 (joined January 1, 2010 – May 31, 2012) Tier 6 (joined after June 1, 2012) (contribution varies depending on title and annual wage)	0% 0% 3% for 10 years 3% for 10 years 3% 3% - 6%
PA	General employees	6.25%**
RI	General employees Defined benefit plan Defined contribution plan	 3.75% 5%
VT	General employees	6.4%

* Contribution will increase 0.14% annually until it is 7.5% in 2018.

** Employees hired after January 1, 2011 pay an additional actuarially determined “shared risk contribution” if the retirement fund’s actual rate of investment return falls below the assumed rate of return over a three-year period.

FINAL AVERAGE SALARY CALCULATIONS

Defined benefit plans typically base a retiree’s benefit amount on the retiree’s final average salary (FAS) and number of years worked. Until recently, all of the northeastern states determined FAS by averaging a retiree’s three highest paid years. Over the past three years, however, six

of the nine states, including Connecticut, have increased this time frame to the five highest paid years for newly hired employees. The change can limit the effect a spike in an employee’s annual earnings has on his or her benefit amount.

Defining what compensation will be included when determining a retiree’s FAS also affects the retiree’s benefit amount. Six of the nine northeastern states, including Connecticut, include an employee’s overtime earnings; Massachusetts, New Jersey, and Rhode Island do not. All of the states that include overtime earnings as part of a retiree’s FAS also have “anti-spiking” provisions that generally seek to limit drastic increases in an employee’s earnings from being considered in the FAS.

Table 2 shows the number of years used to calculate state employees’ FAS and if overtime earnings are included in the calculation.

Table 2: Final Average Salary Calculations

State	Employees	FAS Years	Includes Overtime
CT	Tier I (hired before July 2, 1984)	3	Yes
	Tier II (hired July 2, 1984 - June 30, 1997)	3	Yes
	Tier IIA (hired July 1, 1997 - June 30, 2011)	3	Yes
	Tier III (hired after June 30, 2011)	5	Yes
	Anti-spiking provision: no one year’s salary used to determine FAS can be more than 30% greater than the average of the two preceding years. Mandatory overtime earnings are not currently subject to this cap, however, starting in 2014, they will be subject to a similar 50% cap.		
ME	General employees	3	Yes
	Anti-spiking provision: increases in compensation greater than 5% per year or 10% over the three highest years are not included in FAS calculations.		
MA	Hired before April 2, 2012	3	No
	Hired after April 2, 2012	5	No
NH	Vested before January 1, 2012	3	Yes
	Vested on or after January 1, 2012	5	Yes
	Hired after June 30, 2011	5	Yes
	Anti-spiking provision: final FAS year is limited to a 50% increase over the next highest paid year.		
NJ	Eligible to enroll in system before May 21, 2010	3	No
	Eligible to enroll after May 21, 2010	5	No

Table 2 (continued)

State	Employees	FAS Years	Includes Overtime
NY	Tier 1 (joined before July 1, 1973)	3	Yes
	Tier 2 (joined July 1, 1973 – July 26, 1976)	3	Yes
	Tier 3 (joined July 27, 1976 – August 31, 1983)	3	Yes
	Tier 4 (joined September 1, 1983 – December 31, 2009)	3	Yes
	Tier 5 (joined January 1, 2010 – May 31, 2012)	3	Yes
	Tier 6 (joined after June 1, 2012)	5	Yes
	<p>Anti-spiking provisions:</p> <p>Tiers 1 & 2: none</p> <p>Tiers 3,4,5: no single year's increase can exceed the average of the two previous years by more than 10%</p> <p>Tier 6: no single year's increase can exceed the average of the four previous years by more than 10%</p> <p>Tier 5 overtime included in FAS is limited to \$15,914 in 2012 (limit increases 3% annually).</p> <p>Tier 6 overtime included in FAS is limited to \$15,000 in FY13 (future limit increases are indexed to consumer price index).</p>		
PA	General employees	3	Yes
RI	10 years of service by July 1, 2005 and either age 60 or 28 years of service by October 1, 2009	3	No
	Hired before July 1, 2012, and less than 10 years of service by July 1, 2005	3	No
	All others	5	No
	Not eligible to retire by July 1, 2012, over half of service time was working less than 30 hours per week, and average compensation includes at least three years when the employee worked over 30 hours	10	No
VT	<p>General employees</p> <p>Anti-spiking provision: the hours used to determine FAS are limited to 20% more than the average annual hours worked in the five years preceding the three FAS years</p>	3	Yes

PRESCRIPTION DRUG BENEFITS

All of the northeastern states provide three-tiered systems of prescription drug benefits to their state employees. Under these systems, employees typically pay different co-payments for generic, “preferred,” and “non-preferred” drugs. “Preferred” drugs are generally brand name drugs that the insurance carrier has discounted for various reasons, while “non-preferred” drugs are more expensive brand names. Co-payment amounts in these systems also vary if the prescription is short-term (up to a 30-day supply) or long-term (up to a 90-day supply).

Table 3 shows state employees’ prescription drug co-payments for up to a 30-day supply of medication.

Table 3: Prescription Drug Co-Pays (30-day supply)

State	Generic	Preferred	Non-preferred
CT	\$5	\$20 plus the cost difference between the brand name and the generic, if applicable	\$35 plus the cost difference between the brand name and the generic, if applicable \$20 if physician certifies as medically necessary
ME	\$10	\$30	\$45
MA	\$10	\$25	\$50
NH	\$10	\$25	\$40
NJ*	\$3 - \$7	\$10 - \$18	\$25 - 46
NY*	\$5 - \$10	\$15 - \$30	\$30 - \$60
PA	\$10	\$18 plus the cost difference between the brand name and the generic, if applicable	\$36 plus the cost difference between the brand name and the generic, if applicable
RI	\$5	\$20	\$40
VT	10% of cost	20% of cost	40% of cost

* These states offer different plans and prices vary among them.

Table 4 shows state employees' prescription drug co-payments for up to a 90-day supply of medication.

Table 4: Prescription Drug Co-Pays (90-day supply)

State	Generic	Preferred	Non-preferred
CT	\$5	\$10 plus the cost difference between the brand name and the generic, if applicable	\$25 plus the cost difference between the brand name and the generic, if applicable \$10 if physician certifies as medical necessary
ME	\$15	\$45	\$70
MA	\$20	\$50	\$110
NH	\$1	\$40	\$70
NJ*	\$5 - \$18	\$15 - \$40	\$40 - \$92
NY*	\$7.50 - \$20	\$22.50 - \$75	\$50 - \$125
PA**	\$15 - \$20	\$27 - \$36 plus cost between brand name and generic, if applicable	\$54 - \$72 plus cost between brand name and generic, if applicable
RI	\$10	\$40	\$80
VT	10% of cost	20% of cost	40% of cost

*These states offer different plans and prices vary among them.

** Prices vary by pharmacy in Pennsylvania.

SOURCES

We compiled information for this report from a number of sources. For Connecticut we used the following documents from the comptroller's office:

- <http://www.osc.ct.gov/empret/tier1summ/index.html>;
- <http://www.osc.ct.gov/empret/tier2summ/index.html> ;
- <http://www.osc.ct.gov/empret/tier3spd/tier2asumm/index.html>;
- <http://www.osc.ct.gov/empret/tier3spd/index.html>; and
- <http://www.osc.ct.gov/empret/healthin/2012hcplan/Active%20Employee%20Health%20Care%20Options%20Planner.pdf>.

For Maine we used the following documents from the state's Public Employee Retirement System and Division of Employee Health Benefits:

- http://www.maineopers.org/PDFs/handbooks/State_Booklet_web.pdf;
- <http://www.maineopers.org/PDFs/other%20publications/CAFR12.pdf>; and
- <http://www.maine.gov/deh/docs/pdf/NEO%2007012012%20DRAFT%20without%20CanaRx.pdf>.

For Massachusetts we used the following documents from the state's Public Employee Retirement Administration Commission, treasurer, Executive Office for Administration and Finance:

- <http://www.mass.gov/perac/guide/retirementguide.pdf> ;
- <http://www.mass.gov/treasury/docs/retirement/retguide.pdf>; and
- <http://www.mass.gov/anf/employee-insurance-and-retirement-benefits/employee-health-and-other-insurance-benefits/health-plans/active-state-employees/drugs.html>.

For New Hampshire we used the following documents from the New Hampshire Retirement System and the state's Department of Administrative Services Division of Personnel:

- http://www.nhrs.org/documents/Legislative_Changes_2007_2012.pdf;
- <http://www.nhrs.org/Members/avgFinal.aspx>;
- http://www.nhrs.org/documents/earnable_comp_insert.pdf;
- <http://www.nhrs.org/PlanAdministration/Details.aspx>;

- <https://admin.state.nh.us/hr/documents/Summary%20of%20Benefits%20and%20Coverage%20HMO%20Plan.pdf>; and
- <https://admin.state.nh.us/hr/documents/Summary%20of%20Benefits%20and%20Coverage%20POS%20Plan.pdf>.

For New Jersey, we used the following documents from the state treasurer:

- <http://www.state.nj.us/treasury/pensions/pers1.shtml>;
- <http://www.state.nj.us/treasury/pensions/pdf/handbook/persbook.pdf>;
- <http://www.state.nj.us/treasury/pensions/coltr11.shtml#contribratecp>;
- <http://www.state.nj.us/treasury/pensions/pdf/factsheets/fact54.pdf>; and
- <http://www.state.nj.us/treasury/pensions/pdf/handbook/hb0505.pdf>.

For New York, we used the following documents from state's comptroller and Department of Civil Service Employee Benefits Division:

- <https://www.osc.state.ny.us/retire/publications/vo1878.htm>;
- https://www.osc.state.ny.us/retire/publications/vo1504/final_average_salary/index.php;
- https://www.osc.state.ny.us/retire/publications/vo1509/final_average_salary/index.php;
- https://www.osc.state.ny.us/retire/publications/vo1522/final_average_salary/index.php;
- https://www.osc.state.ny.us/retire/publications/vo1523/final_average_salary/index.php;
- https://www.osc.state.ny.us/retire/publications/vo1530/final_average_salary/index.php;
- <https://www.cs.ny.gov/sbc/settled/index.cfm>; and
- http://www.cs.ny.gov/ebd/ebdonlinecenter/gold/epglance/mc/mc_aag_13.pdf.

For Pennsylvania, we used the following documents from the state's State Employee Retirement System and Employee Benefit Trust Fund:

- <http://www.portal.state.pa.us/portal/server.pt?open=514&objID=594039&mode=2>;
- <http://www.portal.state.pa.us/portal/server.pt?open=514&objID=594046&mode=2>;

- <http://www.portal.state.pa.us/portal/server.pt?open=514&objID=594771&mode=2#RetirementCoveredEarnings>; and
- <https://www.pebtf.org/RxBenefitManager/PEBTF%20Member%20letter%20FINAL%20PRINTER%27S%20PROOF.pdf>.

For Rhode Island, we used the following documents from the state's defined contribution plan administrator (TIAA-CREF), the Employees' Retirement System of Rhode Island, and the state's Department of Administration Office of Employee Benefits:

- http://www1.tiaa-cref.org/ucm/groups/content/@ap_ucm_p_mcr_auth/documents/document/tiaa04044517.pdf;
- <https://www.ersri.org/public/eLearning/StateRetirementBenefitsPresentation.pdf>;
- https://www.ersri.org/public/documentation/ERSRIEmployerHandbook_Sept2010.pdf#Page=1; and
- <http://www.employeebenefits.ri.gov/Documents/2008%20Active%20PPO%20Plan%20H%20%20Ext1%20Ben%20Sum%203-1-13.pdf>

For Vermont, we used the following documents from the state's treasurer and Department of Human Resources Agency of Administration:

- <http://www.vermonttreasurer.gov/retirement/state-group-f>; and
- http://humanresources.vermont.gov/salary/benefits/prescription_drugs

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