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Analysis of Senate Bill 2718

The Legislative Attack on Health Benefits for Public Employees

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Introduction: A special message from Dominick Marino:

The bill was finally released on February 23d. We are working tirelessly to oppose this attack on all fire fighters, upon our health benefits and upon our collective bargaining rights. This analysis is only the first step.

**We will be presenting you with progress reports and will be asking that all of us do our part to oppose this unprecedented attack upon all of our rights and upon our profession. In solidarity,
Dominick.**

The Analysis: Senate Bill No. 2718 proposed by Senate Democratic leader Steve Sweeney and Senator Beck, Republican, incorporates the Governor's attack on bargaining of health benefits and mounts a direct attack upon the cost-effective

health plans currently offered by the State Health Benefits Plan. The bill will undermine collective bargaining on all economic issues because health benefits are a key part of bargaining, and parties often save money by finding cost-effective ways to deliver health benefits that enable us to negotiate or preserve fair wages and jobs. By taking health benefits out of bargaining and legislating them in a destructive and dangerous way, the bill will, in the end, be more costly to employees **and** to the local governments and school districts that are being misled.

Destroying the ability to bargain and imposing controls on what a town can do with regard to health benefits does nothing to restrain the rising cost of health care that is the source of the problem **and will result in higher-cost health benefits for many towns**. This impact is illustrated by recent events. Many towns and school districts have shifted to the State plans **in the last few years to save money and deliver quality health benefits**. In many cases, the savings obtained per year have been huge and have helped to reduce or eliminate property tax increases and or to avoid layoffs. **This is achievable in bargaining** because many high-cost private insurer plans with their broker fees and commissions, higher administrative costs, and very high rates cost at least \$5,000 more per year for each covered member than the comparable State plan. As a result, unions bargained effectively to change to the State plan, saving money, preserving jobs and wages, and helping reduce taxes.

The proposed bill eliminates the ability to bargain on health benefits and forbids towns and school districts from joining into the State plans and getting those savings. In a nutshell the bill proposes to:

- (1) **Legislate that each employee pay up to 30% of the premium cost of health benefits by the end of a phase-in period;**
- (2) **Require that current employees with less than 25 years of service pay up to 30% of the premium cost of health benefits in retirement directly from their monthly pension check by the end of a phase-in period;**
- (3) **Force an immediate increase in the cost of health benefits for all public employees' who are not covered by a current collective negotiations agreement.**
- (4) **Bar a local government or school district from joining the State Health Benefits Plan or educators plan and obtaining those cost savings for its residents so that they can avoid further property tax increases and further damage to public services.**
- (5) **Specify** the types of health plans that can be offered to employees;
- (6) **Restrict access to prescription drugs** by mandating generic use increases and directing that there be a pharmacy benefits manager, which is short for a company that develops a list of drugs that are covered and those that are not. If your drug is not covered, you may well have to switch to another one, even if it is not as effective for you, causing other health costs to increase.
- (7) **Mandate** unspecified wellness initiatives and personal health appraisals for employees, which include financial incentives for you and your dependents to follow certain programs or wellness requirements. This type of reach into your life is mandated, not done as part of a bargained, cooperative approach.
- (8) **As to costs of premium sharing**, they will be substantial, and the best guide is that an employee with a Family plan paying 30% of the premium would currently pay more than \$5,000 per year; and health benefit costs will not be decreasing.

The specific proposed premium shares and the phase-in process are described below. The phase-in period for all current employees starts when your current contract expires, and if you are in negotiations because your contract has expired, it will go into effect IMMEDIATELY. There is no delay on the effective date other than your current contract.

FOR ALL THOSE WITH LESS THAN 25 YEARS OF SERVICE ON THE EFFECTIVE DATE OF THIS BILL:

The bill proposes that you will pay the same share of premium costs as employees on the same phase-in period from your pension payment. There is proposed to be a DEDUCTION from your pension for retiree health coverage phased in the same way as employee contributions.

Two Phase In Periods:

The bill sets up two separate phase-in periods in which the cost of premium contributions increase:

- ◆ 4-year period for Single, or employee-only coverage; and
- ◆ 7-year period for Family coverage, Parent child coverage; and Employee/spouse or qualified partner coverage.

Each of the phase-in periods is income tiered with five categories:

- Under \$30,000 in salary;
- Between \$30,000 and \$49,999;
- Between \$50,000 and 74,999;
- Between \$75,000 and 99,999; and
- Above \$100,000 in salary per year;

Group 1: Under \$30,000

Single coverage:

6 percent of coverage cost, or premium during the first year,
8 percent of premium during the second year,
10 percent of premium during the third year

12 percent of premium during the fourth year and thereafter;

Family or Parent/child or Employee/spouse or partner:

2 percent of coverage cost or premium during the first year;

3 percent of premium during the second year

4 percent of premium during the third year

6 percent of premium during the fourth year

8 percent of premium during the fifth year

10 percent of premium during the sixth year

12 percent of premium during the seventh year and thereafter;

Group 2: Between \$30,000 and 49,999:

Single coverage:

10 percent of coverage cost, or premium during the first year,

12 percent of premium during the second year,

14 percent of premium during the third year

16 percent of premium during the fourth year and thereafter;

Family or Parent/child or Employee/spouse or partner:

4 percent of coverage cost or premium during the first year;

6 percent of premium during the second year

8 percent of premium during the third year

10 percent of premium during the fourth year

12 percent of premium during the fifth year

14 percent of premium during the sixth year

16 percent of premium during the seventh year and thereafter;

Group 3: Between \$50,000 and 74,999

Single coverage:

13 percent of coverage cost, or premium during the first year,

15 percent of premium during the second year,

17 percent of premium during the third year

19 percent of premium during the fourth year and thereafter;

Family or Parent/child or Employee/spouse or partner:

- 7 percent of coverage cost or premium during the first year;
- 9 percent of premium during the second year
- 11 percent of premium during the third year
- 13 percent of premium during the fourth year
- 15 percent of premium during the fifth year
- 17 percent of premium during the sixth year
- 19 percent of premium during the seventh year and thereafter;

Group 4: Between \$75,000 and 99,999:

Single coverage:

- 18 percent of coverage cost, or premium during the first year,
- 21 percent of premium during the second year,
- 24 percent of premium during the third year
- 27 percent of premium during the fourth year and thereafter;

Family or Parent/child or Employee/spouse or partner:

- 9 percent of coverage cost or premium during the first year;
- 12 percent of premium during the second year
- 15 percent of premium during the third year
- 18 percent of premium during the fourth year
- 21 percent of premium during the fifth year
- 24 percent of premium during the sixth year
- 27 percent of premium during the seventh year and thereafter;

Group 5: Above \$100,000:

Single coverage:

- 21 percent of coverage cost, or premium during the first year,
- 24 percent of premium during the second year,
- 27 percent of premium during the third year
- 30 percent of premium during the fourth year and thereafter;

Family or Parent/child or Employee/spouse or partner:

- 12 percent of coverage cost or premium during the first year;
- 15 percent of premium during the second year
- 18 percent of premium during the third year
- 21 percent of premium during the fourth year
- 24 percent of premium during the fifth year
- 27 percent of premium during the sixth year
- 30 percent of premium during the seventh year and thereafter;

Note: All new hires pay the maximum from the first day of employment.

Eliminating Choice and Competition:

The premium sharing is not the only destructive part of this bill. Included in the bill is a provision that will undermine the strength of the State's self-insured health plans that are generally cost-effective and strong health plans. The bill does this by stopping local governments from being able to obtain coverage from a State health plan if they are not already enrolled. This will eliminate competition and choice, increasing the power of private insurers and brokers who now have to compete against the State plans. The bill favors these private insurers and brokers, which will cause increasing costs for taxpayers. The specific part of the bill is Section 3.

Section 3 of the bill prohibits any local government or school district from enrolling in the SHBP or SEHBP, as applicable. This will lead to substantial increases in costs to locals over the short-term and the long term because the SHBP and SEHBP plans are generally substantially cheaper than comparable private broker/insurer's plans, **have substantially reduced administrative and premium costs for comparable products are lower as the SEHBP and SHBP are self-insured** plans with huge risk pools, and because there are no broker fees or commissions. *The private insurers will no longer face serious competition from these public plans and they will be able to increase costs and fees, all of which hurts taxpayers, public employers, and public employees who will have to pay these higher premiums.*

The Imposition of Generics and Pharmacy Benefits Managers:

The unspecified directions in the bill that mandate employers and the State Health Benefits Commission to develop plans to force the use of more generics coupled with the requirement of a pharmacy benefits manager will inevitably lead to favoritism and restrictions on access. The bill proposes to unilaterally restrict access to drugs by way of generic mandates or by way of a pharmacy benefits manager, which makes money by favoring one drug over another and limiting prescription use. It can do this by screening or by creating lists where some drugs are not approved and so cannot be used, or by having specialists in their organization get involved in your care and "check in" to try and help you with your prescriptions. The goal however is clear; cut costs and this can be at your expense or at the expense of a loved one. Many times, the lower-cost alternative drug will

not work as well for a specific person, and in those cases such restrictions can easily lead to higher costs and more important, worse outcomes for you and your dependents.

This provision lacks any specifics but the goal appears clear: limit choice on drugs and force people to take generics. This is typically a benefit that is negotiated, and again this bill removes that crucial check and mandates changes.

Mandating Wellness Programs and Interventions:

These are programs that can work to cut costs and improve health, but they need employee buy-in and participation. The bill instead creates a mandate for such programs and totally ignores the crucial role that bargaining should have in the development of a program that will have broad buy-in. It appears to also place a requirement of an annual health assessment that could be another cost being imposed as well as creating additional legal issues. Finally, it describes generally that there shall be financial incentives for wellness programs, which is an undefined term that again shows the problem in imposing a solution as opposed to bargaining and jointly developing solutions and approaches.

Final Thoughts:

This bill ignores the long-standing record of labor and management working together to find common-sense solutions to health benefit cost increases. In fact, the 1.5% salary contribution that started cost sharing for public employees was negotiated, as was the elimination of a very costly traditional plan in the State Health Benefits program and its replacement with a lower cost managed care plan, now known as Direct 10 or Direct 15. A review of the reports to the State Health

Benefits Plan shows dramatic reductions in rates as compared to traditional plan. Because the change was done cooperatively, it was also extended to retirees and the post-retirement unfunded health care liability was reduced. These innovative and cooperative approaches are totally absent because there is no room left for such bargaining, or even such discussions. Instead, we receive a top-down approach that adds costs by favoring private insurers, by eliminating competition from the SHBP and SEHBP for local governments and school districts respectively, and that “saves” dollars by taking them from employees’ and retirees’ pockets and using them to fund tax breaks and other favorites of legislators and the Governor. This is not reform; it is part of the same old pattern of false promises and phony claims.