



Department of Transformation and Shared Services

Governor Asa Hutchinson
Secretary Amy Fecher
Director Jake Bleed

September 16, 2021

The Honorable Terry Rice, Co-Chair
The Honorable Jeff Wardlaw, Co-Chair
Arkansas Legislative Council
Room 315, State Capitol Building
Little Rock, AR 72201

Dear Sirs:

The purpose of this letter is to discuss potential options for the future governance of the state life and health insurance program under the Employee Benefits Division of the Department of Transformation and Shared Services. It is being submitted to the Arkansas Legislative Council at your request.

The intent of this proposal is to create an entity which is integrated into the state budgeting system, can ensure timely and actuarially adequate funding for state and public-school employee insurance programs, and includes representation of state and public school active and retired employees.

The board could be structured around 9 appointed members, including:

- The Secretary of TSS or her designee;
- The Secretary of ADE or his designee;
- The Secretary of DFA or his designee;
- An appointee with experience in the financial or insurance industry to be appointed by the President Pro Tempore of the Senate;
- An appointee with experience in the financial or insurance industry to be appointed by the Speaker of the House;
- A current state employee, to be appointed by the Governor;
- A current public-school employee, to be appointed by the Governor;
- A retired state employee, to be appointed by the Governor;
- A retired public-school employee, to be appointed by the Governor.

Supporting the board, would be three subcommittees:

- The finance subcommittee, made up of the designees of the secretaries of TSS, ADE and DFA. This subcommittee will be tasked with making recommendations to the full board which ensure the plans managed by EBD remain actuarially sound.
- The Benefits Review Subcommittee, made up of three members of the full board as well as well as appointees from UAMS and UALR College of Business. The intent of this subcommittee is to oversee defined "pilot programs" or reviews of existing policies to ensure they meet the goals of EBD, as established under law. This review is intended to be rigorous and goal-oriented and will help make sure EBD makes smart decisions with taxpayer dollars.

Employee Benefits Division

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- The Drug Utilization and Evaluation Committee. This committee will be carried forward from the existing EBD board.

We would also propose integrating the financing of EBD into the state budgeting process by ensuring that the finance subcommittee stick to statutorily defined deadlines built around the budgeting process. This would include developing actuarially sound plans for the coming calendar year in time for Fall agency budget hearings, with deadlines for the full board to approve the recommendations of the subcommittee. These deadlines would be early enough that, if the board were unable to arrive at a decision, it would by default delegate its rate-making authority to the Department of Transformation and Shared Services Secretary and the Director of EBD to propose a recommendation to the legislature for approval.

In addition, we may also consider adopting the following changes:

- Require that all bills affecting the Employee Benefits Division receive a fiscal impact analysis prior to consideration by the General Assembly. We may also look at treating EBD-specific bills on a similar footing as those dealing with retirement, which have specific deadlines to file relevant bills so that actuaries can review and give input on their effect.
- Institute mandatory rate increases for employees and employers which would be limited to specific ranges of increases. For example: Rates could be increased statutorily between 2% and 4% annually. The new board would be delegated the responsibility of recommending where in that range rate increases should fall. These recommendations could be done in advance of budget hearings to ensure increased funding is adequately accounted for in the state budget.
- Institute rate increases for employees within the context of salary increases. We have established processes for increasing salaries for state employees, but it currently exists without regard to the cost of health insurance. The intent would be to view the two simultaneously within the context of the state budget.
- Review requirements for receiving state health insurance, particularly for retirees. Current state law extends health insurance to retirees and their spouses for the remainder of their lives if they are vested in a state retirement plan and enrolled in the insurance plan on their last day of service. Unlike retirement plans, which have mandatory contributions from an employee's first day on the job, the health insurance benefit requires no contributions until an employee's last days.
- Establish key points within the process where legislative approval is required pertaining to rate-making functions, ensuring that legislators are involved in the decisions associated with increased funding.

Thank you for your consideration of these proposals. I look forward to working with the members of the General Assembly to ensure that our state health insurance program remains a strong and viable benefit for our employees.

Sincerely,



Jake Bleed