

MEETING SUMMARY
STATE AND PUBLIC SCHOOL
LIFE AND HEALTH INSURANCE PROGRAM
LEGISLATIVE TASK FORCE

Tuesday, August 26, 2014
10:00 A.M.
Committee Room A, MAC Building
Little Rock, Arkansas

Senator Jim Hendren, the Chair of the State and Public School Life and Health Insurance Program Legislative Task Force, called the meeting to order at 10:00 a.m.

MEMBERS OF THE STATE AND PUBLIC SCHOOL LIFE AND HEALTH INSURANCE PROGRAM LEGISLATIVE TASK FORCE IN ATTENDANCE: Senator Jim Hendren, Chair; Representative Harold Copenhagen, Vice Chair; Senator Cecile Bledsoe; Senator Linda Chesterfield; Senator Jason Rapert; Senator David Sanders; Representative Bill Gossage; Representative Allen Kerr; Representative George McGill; and Representative Tommy Wren.

OTHER MEMBERS OF THE GENERAL ASSEMBLY IN ATTENDANCE: Senator John Cooper; Senator Jonathan Dismang; Senator Joyce Elliott; Senator Stephanie Flowers; Senator Jimmy Hickey; Senator Bruce Holland; Senator Eddie Joe Williams; Representative Nate Bell; Representative Ken Bragg; Representative Ann Clemmer; Representative Bruce Cozart; Representative Andy Davis; Representative Gary Deffenbaugh; Representative Joe Farrer; Representative Jeremy Gillam; Representative Kim Hammer; Representative Mary P. Hickerson; Representative David Hillman; Representative Mike Holcomb; Representative Douglas House; Representative John K. Hutchison; Representative Joe Jett; Representative David Kizzia; Representative Sheilla Lampkin; Representative Homer Lenderman; Representative Kelley Linck; Representative Mark McElroy; Representative David Meeks; Representative Jim Nickels; Representative Betty Overbey; Representative James Ratliff; Representative Chris Richey; Representative John Vines; and Representative Marshall Wright.

Remarks by the Chair

Senator Hendren stated the purpose of today's meeting is to discuss combining the Arkansas Public School Employee (PSE) Plan and the Arkansas State Employee (ASE) Plan into a single system. He said the impact of consolidating the retirement benefits of public school employees and state employees would also be discussed. He stated that once all cost analyses and data are collected over the next several months, the Task Force will meet to individually review each recommendation. He said the Task Force will not take action on any recommendation until all the facts have been collected. Senator Hendren noted that the option of returning the responsibility for providing health insurance to employees to local school districts would be discussed at the September meeting. He said issues including improvements to wellness programs for state and public school employees, management of health savings accounts (HSAs), and delivering the best product at the most affordable price would be discussed at the Task Force's October meeting.

Minutes:

Without objection, the minutes of July 15, 2014, were approved as written.

Exhibit:

Exhibit C – 07/15/14 Minutes

Preliminary Discussion of Long-Term Options for Ensuring the Fiscal and Programmatic Stability of the Arkansas State Employee (ASE) Health Insurance Plan and the Public School Employee (PSE) Health Insurance Plan

Option 1 – Combining Both Plans into a Single Plan

Overview and Background

Presenter:

Mr. Tony Robinson, Administrator, Personnel Review Section, Fiscal Division, Bureau of Legislative Research, was recognized. Mr. Robinson reviewed a chart in which benefits available to state employees and those available to certified public school employees were compared.

The Honorable Jim Nickels, State Representative, District 41, was recognized. Representative Nickels requested that the Bureau of Legislative Research (BLR) staff include benefits for the Arkansas Highway and Transportation Department, the Arkansas State Police, institutions of higher education, and the judicial retirement system in the chart.

Discussion of Legal Issues

Presenter:

Ms. Alix Stephens, Staff Attorney, Bureau of Legislative Research, was recognized. Ms. Stephens said the ASE and PSE plans are self-funded, government-sponsored, health insurance plans that offer distinctly different plan options. Consequently, she said, the plans are exempt from the Employee Retirement Income Securities Act of 1974 (ERISA). Ms. Stephens advised the Task Force that there were no state or federal laws that would prevent a merger of the two plans. She noted that eighteen (18) states allow public school employees to participate in their states' health benefit plans, and some allowed local government employees to be part of their risk pools. Ms. Stephens cautioned legislators to carefully consider any potential impact on the public school funding matrix.

Senator Hendren directed BLR staff to contact benefits managers from Oklahoma and other surrounding states and request them to make presentations, either in person or via written testimony, on the impact of combining their state employee and public school employee plans.

The Honorable David Sanders, State Senator, District 15, was recognized. Senator Sanders suggested looking at the plan structure, minimum benefits, participation, and contribution rates of combined healthcare plans in other states.

Discussion of Financial Issues

Presenter:

Mr. Bob Alexander, Executive Director, Employee Benefits Division (EBD), Department of Finance and Administration (DF&A), was recognized. Mr. Alexander responded to the following:

What is the total amount of taxpayer support for ASE and PSE plans?

Response: \$171 million for the ASE Plan and \$187.5 million for the PSE Plan for Plan Year 2015.

What would it cost to equalize plan funding, either by reducing support for the ASE Plan or by providing new support for the PSE Plan?

Response: For every active state employee, funding is equal to \$427 per participant in the ASE Plan. For an active public school employee, funding is equal to \$310.95 per participating employee. There is a difference of \$116.05. Calculations to reduce ASE funding to the PSE level would result in a

reduction of funding for the ASE plan of approximately \$39.1 million for active employees. Increasing PSE funding to the ASE level would result in a need for an additional \$59.4 million in new funds to equalize the contributions between the two plans.

With respect to funding for retired employee health insurance, \$39 million in state contributions is used to subsidize state retirees, or \$234 per retiree per month. For retired public school employees, \$11.20 from a state minimum contribution of \$153 is used to subsidize retirees' health insurance for a total expenditure of \$5.7 million. The PSE Medicare-eligible retirees do not have drug benefits. We spend \$30 million for state employees and \$5.7 million for public school retirees. If we were to reduce overall ASE funding for retirees to match the PSE level of retiree funding, we would reduce another \$30 million, for a total of \$69.8 million for ASE. To equalize PSE active funding and the subsidy to PSE retirees, we would need an additional \$95 million per year on the PSE Plan.

What would it cost to equalize benefits structure, and does it make sense to equalize since these are different types of risk pools?

Response: They are different pools. State employees are older and have higher risk. Public school employees are mostly female and also have a higher risk. Overall, in an active population of employees, there are no differences in claim costs. The only difference in the risk pool is PSE spouses have a considerably higher cost than ASE spouses.

The Honorable Kim Hammer, State Representative, District 28, was recognized, and suggested that the Task Force undertake a comprehensive assessment on cost comparisons between hiring out-of-state contractors and creating a state agency to process health insurance claims. Mr. Alexander responded that EBD had not looked into the cost for processing all claims within EBD.

What would be the effect of combining the overall rates?

Response: Looking at a handout, Sample Blended ASE & PSE Active Rates for 2015, DRAFT, if the plans were combined, we would go with ASE plan levels. According to the chart, for the employee-only premium plan, state employee cost would increase \$35.34 a month while PSE employee cost would decrease \$39.26 a month. The general percentage increase for the state employee would be 33% and the PSE employee-only would decrease by 22%. If PSE contributions increased \$60 million, PSE and ASE contributions would be equal.

Mr. Alexander's second handout compared 2014 ASE and PSE financial reports for the month of July. The net revenues for the ASE Plan totaled \$8 million. The net revenues for the PSE Plan totaled \$11.6 million. PSE projections are for a surplus of \$9 million at the end of 2014 as compared to ASE projections for a surplus of \$16 million for the same time period.

Handouts:

ASE & PSE Financials – January 1, 2014 through July 31, 2014
Sample Blended ASE & PSE Active Rates for 2015, DRAFT

Discussion of Potential Combination of Retirement Systems

Presenter:

Mr. George Hopkins, Executive Director, Arkansas Teacher Retirement System (ATRS), was recognized. Mr. Hopkins said the annual employer contribution for teacher retirement is approximately \$400 million. Employee contribution is approximately \$105 million. Mr. Hopkins said the goal of ATRS is to ensure that highly qualified teachers and staff receive a benefits package that enables them to continue working in their profession. He said ATRS benefits are a deciding factor in the recruitment of teachers and school staff. Mr. Hopkins discussed various operational issues, consultants, outside legal counsel, investment policies, and strategies pertinent to ATRS.

The Honorable Jason Rapert, State Senator, District 35, was recognized, and requested that he be provided with information concerning one of the outside law firms on retainer to ATRS.

Presenter:

Ms. Gail Stone, Executive Director, Arkansas Public Employee Retirement System (APERS), was recognized. Ms. Stone reviewed the financial situation of APERS and discussed various aspects of its operations, including employer and employee contribution rates, investment strategies, and rates of return on investments. Ms. Stone also discussed issues associated with combining the ASE and PSE retirement systems. Ms. Stone noted that such a combination would have little short-term or long-term financial benefit. She raised a number of policy and legal issues that would take months, if not years, to resolve.

Representative Hammer was recognized, and discussed the need to have continued legislative oversight to ensure both retirement systems would remain financially sound.

Discussion of Employee Benefits Division (EBD) Correspondence with School Districts

In response to a question from Senator Hendren regarding EBD's correspondence with school districts, Mr. Alexander said that EBD does not have email addresses for all school superintendents. He said that EBD sends an email to the health insurance representative at each school district who then distributes the health insurance information to its members. He noted that every month EBD travels around the five regions of the state to meet with school districts' health insurance representatives.

Senator Hendren requested that EBD send its PowerPoint presentation to the Arkansas Department of Education (ADE) to review and to forward to all superintendents.

Next Scheduled Meeting:

Thursday, September 18, 2014, at 1:30 p.m. in Room 171 of the State Capitol in Little Rock

Adjournment:

The meeting adjourned at 12:35 p.m.

Approved: 09/23/14