



Department of Transformation and Shared Services

Governor Asa Hutchinson

Secretary Amy Fecher

Director Jake Bleed

Sept. 7, 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

RE: Recommendations of the Segal Group, Inc. on the governance and operations of the Employee Benefits Division (EBD) of the Department of Transformation and Shared Services (TSS)

Sen. Rice and Rep. Wardlaw:

Thank you for your interest and that of the 93rd General Assembly in improving the operations of EBD. The purpose of this letter is to share some of our thoughts and ideas on how those operations could be improved and a potential governance structure put in place.

The largest issue contributing to the projected deficit at EBD is a lack of consistent and increasing funding. It is our hope that the General Assembly considers the adoption of funding formulas that provide ongoing or automatic funding increases for the division. Specifically, we support the adoption of measures that contemplate regular, scheduled, and affordable increases in rates paid by employers and employees covered by EBD.

A review of EBD operations might also consider the terms under which the State provides coverage to employees and retirees. Unlike many states, Arkansas does not require that employees pay into the State's insurance pool prior to receiving coverage as a retiree. Instead, current law provides coverage to retirees who are vested in a state retirement program and are enrolled on their last day of work—not over the life of their career. This practice extends a rich benefit to retirees and their spouses who have not necessarily paid into the plan during their careers.

As we move forward to find the appropriate governance of EBD, we recommend the legislature consider the following items to be addressed within the legislation:

1. Require the EBD Board to make timely, decisive decisions for the health plans each year on a schedule established by the TSS EBD Director.
2. Provide a mechanism to integrate the cost of the health plans within the State's budgeting process to ensure adequate financing and oversight.

**Employee Benefits Division**

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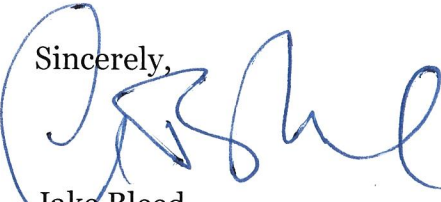
3. Provide a rigorous and ruthless review by an actuarial firm of new programs, practices, or future legislation to ensure adequate return on the State's investment.
4. Require legislative review and oversight of the financial decisions supporting the health plans.
5. Require a fiscal impact statement and ALC approval of any potential legislation prior to filing that pertains to or impacts the state or public school employee plans.

Additionally, based on lessons learned from the previous governance structure, we propose the following governance structure for the EBD Board. The Board could be structured around nine (9) appointed members, including:

- The Secretary of TSS or his or her designee;
- The Secretary of The Arkansas Department of Education or his or her designee;
- The Secretary of The Department of Finance and Administration or his or her 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.

In support of these ideas, the Department of Transformation and Shared Services has developed more-detailed proposals—including the structure of three subcommittees that would support the Board—that we hope will be considered prior to the adoption of legislation specific to improving the operations of EBD.

Improving these operations will benefit thousands of state and public school employees and their families. It will also benefit the State and lessen a substantial burden on taxpayers. This is in the best interests of our State, and I look forward to achieving these goals together.

Sincerely,  
  
Jake Bleed