

Total Compensation Recommendation

Mike Gwartney

Director, Department of Administration



Comparison of Appropriation and Resulting Reserve Drawdown

| Actual Appropriation | FY 2006 | FY 2007 | FY 2008 | |
|------------------------------------|----------------|----------------|----------------|--|
| Medical | \$ 6,920.16 | \$ 6,920.16 | \$ 6,920.16 | |
| Dental | \$ 204.96 | \$ 204.96 | \$ 204.96 | |
| Total Appropriation | \$ 7,125.12 | \$ 7,125.12 | \$ 7,125.12 | |
| # of Active Employees | 18,400 | 19,035 | 19,347 | |
| Total Appropriation (Medical Only) | \$ 127,330,944 | \$ 131,725,246 | \$ 133,884,336 | |

| Needed Appropriation | FY 2006 | FY 2007 | FY 2008 | Budget FY 2009 |
|-----------------------------|----------------|----------------|----------------|-----------------------|
| Medical | \$ 6,920.12 | \$ 7,131.25 | \$ 8,126.18 | \$ 8,960.88 |
| Dental | \$ 204.96 | \$ 204.96 | \$ 219.31 | \$ 239.00 |
| Total Needed Appropriation | \$ 7,125.12 | \$ 7,336.21 | \$ 8,345.49 | \$ 9,199.88 |
| # of Active Employees | 18,400 | 19,035 | 19,347 | 19,347 |

| | | | | |
|---|----------------|----------------|----------------|--|
| Difference Actual to Needed | | \$ 211.09 | \$ 1,220.37 | |
| Total Needed Appropriation (Medical Only) | \$ 127,330,944 | \$ 135,743,289 | \$ 157,217,206 | |
| Reserve Depletion – Retirees | | \$ 5,810,000 | \$ 8,240,000 | |
| Reserve Depletion – Actives | | \$ 2,260,000 | \$ 22,780,000 | |
| Total Approximate Reserve Drawdown | | \$ 8,070,000 | \$ 31,020,000 | |



Medical Reserve Summary

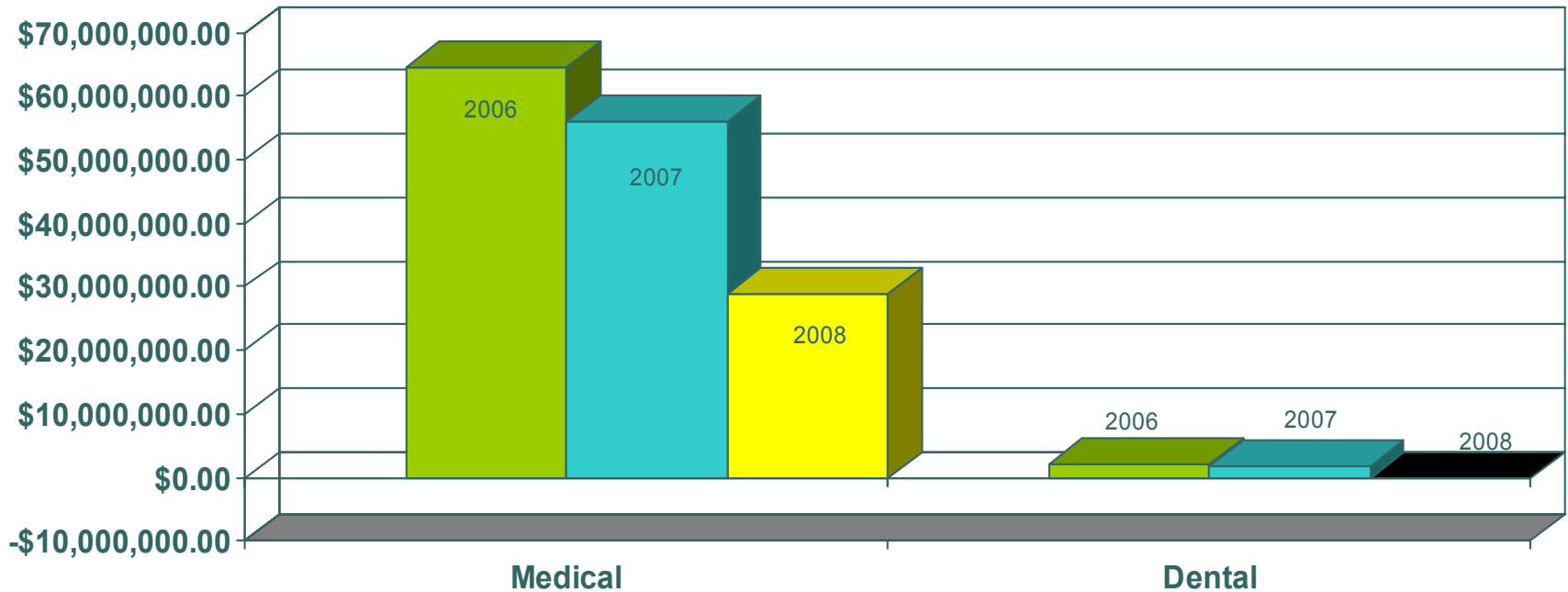
| | |
|--------------------------------|----------------------|
| Beginning 2008 Balance | \$ 55,866,801 |
| Premium Shortfall | \$ (31,020,000) |
| 2008 Reserve Build-up | <u>\$ 3,548,311</u> |
| Expected Ending Balance | \$ 28,395,679 |

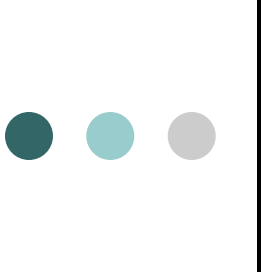
2009 Required Reserves

| | |
|------------------------------------|----------------------|
| Blue Cross PSR | \$ 18,800,000 |
| Actuarial Reserve | <u>\$ 22,000,000</u> |
| Total 2009 Medical Reserves | \$ 40,800,000 |
| Less Expected '08 Ending Balance | \$ (28,395,697) |
| Reserve Deficit | \$ 12,404,303 |

Change in Medical and Dental Reserve Balances

| | 2006 | 2007 | 2008 |
|----------------|--------------|--------------|--------------|
| Medical | \$64,617,690 | \$55,866,801 | \$28,999,311 |
| Dental | \$ 2,155,492 | \$ 1,921,844 | (\$ 27,165) |





If Changes to the Active and Retiree Plans are Implemented

Reconciliation of FY 2009 Appropriation Request

| | |
|------------------------------|--------------------|
| Active Employee Base Medical | \$ 8,344.45 |
| Reserve Funding | \$ 297.72 |
| Dental | <u>\$ 239.31</u> |
| Total | \$ 8,881.48 |
| Retiree Subsidy | <u>\$ 318.40</u> |
| Total | \$ 9,199.88 |



Total Compensation Philosophy

- The State's overall compensation system, which includes both a salary and a benefit component, when taken as a whole shall be competitive with relevant labor market averages.
 - Idaho State Statute 67-5309A



Total Compensation

- **Salary** – Cash compensation is significantly behind the market.
- **Health and Insurance Benefits** – State employees benefit from a generous insurance plan with the state spending \$172 million annually on behalf of employees.
- **Retiree Benefits** – Retiree medical benefit is a pay as you go system with no recognition of the State's liability. The state's current liability for OPEB is \$442 million.
- **Pension** – The PERSI benefit was found to be significantly richer than the retirement plans in the private sector.



Surveyed Companies

- Albertsons
- Blue Cross
- Boise Company
- Idaho Power
- Micron
- Regence Blue Shield
- Simplot
- WGI



Comparing Against Other Employers

- A simple comparison of plan design elements does not give an accurate comparison of plan costs.
- Comparing the percentage of premiums paid by the employer and by the employee does not take into account deductibles, co-insurance, co-payments or other possible plan design elements.
- Most major employers are targeting paying 70% of covered charges.
 - When compared to premiums, a broad generalization is that premium sharing of 80% employer paid and 20% employee paid is roughly equal to 70% / 30% sharing of covered charges.
- The state is currently paying about 92% of premiums and 78% of covered charges.



Department of Labor Survey

- The Idaho Dept. of Labor surveyed over 1100 Idaho employers. Of those surveyed:
 - Only 63% offer medical benefits to full time employees
 - Only 9% offer benefits to part-time employees
- Employers pay a higher portion of the premium for full time employees
- Over 50% of employers do not offer any kind of retirement benefit
- 80% of private firms and 72% of local government firms offer NO retirement benefits to part time employees



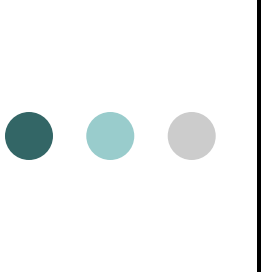
Dept. of Labor Survey Summary

| Benefit | Full Time | Part Time |
|-------------------------|------------------|------------------|
| Insurance | | |
| Single Medical | 63% | 9% |
| Single Dental | 45% | 9% |
| Family Medical | 57% | 8% |
| Family Dental | 43% | 8% |
| Leave | | |
| Paid Undesignated Leave | 22% | 8% |
| Paid Vacation Leave | 70% | 21% |
| Paid Sick Leave | 48% | 13% |
| Paid Holiday Leave | 67% | 24% |
| Retirement | | |
| Defined Contribution | 43% | 17% |
| Defined Benefit | 16% | 7% |
| None Offered | 51% | 79% |



Comparison of Aggregate Salary Increases to Aggregate Employee Medical Contribution Increases

| Fiscal Year | 5% Aggregate Salary Increase | Current Employee Medical Contributions | Projected Medical Premium Increase | Aggregate Net Salary Increase | Net Increase by Percent |
|--------------------|-------------------------------------|---|---|--------------------------------------|--------------------------------|
| 2007 | - | \$ 10,803,000 | - | - | |
| 2008 | \$ 34,608,380 | \$ 10,803,000 | - | \$ 34,608,380 | 100% |
| 2009 | \$ 36,338,799 | \$ 17,451,000 | \$ 6,648,000 | \$ 29,690,799 | 82% |
| 2010 | \$ 38,155,739 | \$ 22,370,520 | \$ 4,919,520 | \$ 33,236,219 | 87% |
| 2011 | \$ 40,063,526 | \$ 28,735,980 | \$ 6,365,460 | \$ 33,698,066 | 84% |
| 2012 | \$ 42,066,702 | \$ 35,350,740 | \$ 6,614,760 | \$ 35,451,942 | 84% |
| 2013 | \$ 44,170,037 | \$ 42,597,060 | \$ 7,246,320 | \$ 36,923,717 | 84% |
| Totals | \$235,403,183 | | \$ 31,794,060 | \$203,609,123 | 86% |



Comparison of the Average Employees Pay and Medical Share Increases

| Fiscal Year | Average Employee Pay Increase | Employee Medical Contributions | Medical Premium Increase | Net Salary Increase | Net Increase Percent |
|---------------|-------------------------------|--------------------------------|--------------------------|---------------------|----------------------|
| 2007 | | \$ 650 | | | |
| 2008 | \$ 2,186 | \$ 650 | | \$ 2,186 | 100% |
| 2009 | \$ 2,296 | \$ 1,050 | \$ 400 | \$ 1,896 | 77% |
| 2010 | \$ 2,411 | \$ 1,346 | \$ 296 | \$ 2,115 | 88% |
| 2011 | \$ 2,531 | \$ 1,729 | \$ 383 | \$ 2,148 | 85% |
| 2012 | \$ 2,658 | \$ 2,127 | \$ 398 | \$ 2,260 | 85% |
| 2013 | \$ 2,791 | \$ 2,563 | \$ 436 | \$ 2,355 | 84% |
| Totals | \$ 14,872 | | \$ 1,913 | \$ 12,960 | 87% |

Average Salary as of 9/30/07 \$ 43,729

of Full-Time Benefits Eligible Employees 16,620

Gross Annual Salaries for FY 2008 \$726,775,980

Est. FY 2007 Average Salary (5% less than 06) \$ 41,647



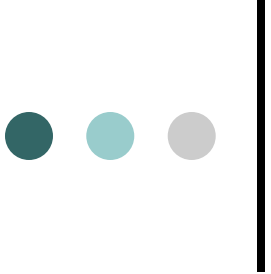
Example of Measuring Premiums and Total Covered Charges

| Claims Submitted and Eligible for Payment | |
|---|-----------------------|
| Submitted Eligible Charges | \$ 156,000,000 |
| Administration and Premium Tax | \$ 9,010,000 |
| Total Covered Charges | \$ 165,010,000 |

| Plan Receipts | |
|--|-----------------------|
| Employee Deductibles, Co-Pays, Etc. | \$ 25,000,000 |
| Employee Premiums | \$ 11,500,000 |
| State Premiums | \$ 128,510,000 |
| Total Contributions to the Plan | \$ 165,010,000 |

| | |
|--------------------|----------------|
| Total Premiums | \$ 140,010,000 |
| State Share | 92% |

| | |
|-----------------------|---------------|
| Total Covered Charges | \$165,010,000 |
| State Share | 78% |



Approximate Effect of Pay and Medical Increases at \$20k Salary Intervals

Costs Allocated as the Same Dollar Amount to Each Employee

| FY 2009 Average Salary | Pay Increase from 2008 | Medical Increase from 2008 | FY 2008 Average Employee Plan Contribution | FY 2009 Average Employee Plan Contribution | Medical Increase as % of Pay Increase |
|------------------------|------------------------|----------------------------|--|--|---------------------------------------|
| 20K | \$ 952 | \$ 400 | \$ 650 | \$ 1,050 | 42% |
| 40K | \$ 1,905 | \$ 400 | \$ 650 | \$ 1,050 | 21% |
| 60K | \$ 2,857 | \$ 400 | \$ 650 | \$ 1,050 | 14% |
| 80K | \$ 3,810 | \$ 400 | \$ 650 | \$ 1,050 | 11% |

Alternate Plan Allocating the Costs as a Uniform % to Employees of the Average Pay Increase

| FY 2009 Average Salary | Pay Increase from 2008 | Medical Increase from 2008 | FY 2008 Average Employee Plan Contribution | FY 2009 Average Employee Plan Contribution | Medical Increase as % of Pay Increase |
|------------------------|------------------------|----------------------------|--|--|---------------------------------------|
| 20K | \$ 952 | \$ 209 | \$ 650 | \$ 859 | 23% |
| 40K | \$ 1,905 | \$ 419 | \$ 650 | \$ 1,069 | 23% |
| 60K | \$ 2,857 | \$ 629 | \$ 650 | \$ 1,279 | 23% |
| 80K | \$ 3,810 | \$ 838 | \$ 650 | \$ 1,488 | 23% |



Moderating the Impact on Employees

- Alternative benefit plan that employees could select to keep their contributions “as is”.
- Charge all employees roughly the same % of salary INCREASE.
 - Otherwise the lowest paid employees will pay about 42% of their pay increase to the plan while higher paid employees will pay about 11% or less of their increase in plan contributions.
- Charge a greater share of premiums to those with dependent coverage
- Continue to develop wellness initiatives.



High Deductible Alternative Plan

| Current Plan | |
|---|--|
| Deductibles | |
| ○ Individual | \$ 250 |
| ○ Family | \$ 750 |
| Co-Insurance | 85% (in network) |
| Office Visit Co-Pays | \$ 20 |
| Prescription | \$10 / \$18 / \$40 1 Co-Pay 30 Days 2 Co-Pays 31-90 Days |
| This plan will require an approximate annual average employee contribution of \$1,050 in FY 2009 | |

| Alternate Plan | |
|--|---------------------|
| Deductibles | |
| ○ Individual | \$1,000 |
| ○ Family | \$3,000 |
| Co-Insurance | 80% (in network) |
| Office Visit Co-Pays | \$ 30 |
| Prescription | \$10 / \$18 / \$40 |
| This plan would require the existing approximate annual average employee contribution of \$650 in FY 2009 | |



Comparison of University of Idaho and State of Idaho Prospective Rates

| | Employee Only | Employee and Spouse | Employee and Child | Employee and Children | Family |
|--|------------------|------------------------|-----------------------|--------------------------|--------|
| U of I Medical Plan A (Calendar Year 2008 Rates) | \$ 52 | \$136 | \$191 | \$278 | \$507 |
| U of I Medical Plan B (Calendar Year 2008 Rates) | \$ 179 | \$195 | \$362 | \$514 | \$854 |
| U of I High Deduction Plan* (Calendar Year 2008 Rates) | \$ (10) | \$121 | \$ 76 | \$111 | \$169 |
| State of Idaho PPO** | \$ 53 | \$105 | \$ 67 | \$93 | \$149 |

* Plan had \$1,500 deductible with a contribution to Health Savings Account, based on matching

** Rate estimates for fiscal year 2009



Part-Time Employees

- Change the eligibility requirements and State subsidy for part-time employees
 - Employees working 87.5% of a 2080 hour work year would be considered full time.
 - Employees working 75% to 87.5% would be charged the full proportionate cost of coverage.
 - If single coverage cost is \$500 per month, a 75% employee would pay \$375.
 - Employees working less than 75% of full time (30 hours per week) would be ineligible for benefits.



Retiree Plan Issues

- Currently retiree paid premiums only cover about 78% of the retiree plan costs. Active employees and the state pay the remaining 22%.
- Beginning with FY 2008, the state will be required by the Governmental Accounting Standards Board (GASB) to disclose any unfunded liabilities resulting from retiree benefit plans other than pensions.
- The State of Idaho commissioned Milliman, Inc. to estimate this liability. The results are as follows:



GASB 45 Projected Liabilities and Cash Contributions

GASB 45 Projected Liabilities and Cash Contributions
(In Millions of Dollars)

| | Following Current Practices | | With Recommended Changes | |
|------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| FY Ending | Accrued Unfunded Liability | Total Annual Cash Expense | Accrued Unfunded Liability | Total Annual Cash Expense |
| 6/30/2007 | \$ 408.6 | \$ 8.9 | \$ 188.5 | \$ 8.9 |
| 6/30/2008 | \$ 442.3 | \$ 11.3 | \$ 196.5 | \$ 11.3 |
| 6/30/2009 | \$ 477.5 | \$ 13.3 | \$ 202.4 | \$ 11.8 |
| 6/30/2010 | \$ 514.9 | \$ 15.0 | \$ 208.1 | \$ 12.2 |
| 6/30/2011 | \$ 555.1 | \$ 17.0 | \$ 213.7 | \$ 12.9 |
| 6/30/2012 | \$ 598.0 | \$ 19.0 | \$ 218.8 | \$ 13.5 |
| 6/30/2013 | \$ 643.8 | \$ 20.9 | \$ 223.6 | \$ 14.0 |
| 6/30/2014 | \$ 692.8 | \$ 22.9 | \$ 228.1 | \$ 14.6 |
| 6/30/2015 | \$ 745.0 | \$ 24.7 | \$ 232.2 | \$ 14.9 |
| 6/30/2016 | \$ 800.8 | \$ 26.6 | \$ 236.2 | \$ 15.3 |



Retiree Medical Plan Recommendations

- Freeze the current subsidy at the level it would have risen to in FY 2009 had contributions by retirees, employees and the state continued in accordance with past practice.
 - This would be done on a per retiree basis, not based on a specified amount per active employee.
- The plan will not cover Medicare eligible retirees
- To be eligible for coverage under the plan the non-Medicare eligible retiree must retire directly from State service.
- Employees hired after 7/1/2008 would not be eligible for any retiree medical benefit.



State and Active Employee Subsidy to the Retiree Medical Plan

| | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|--|---------------------|---------------------|---------------------|---------------------|
| Number of Active State Employees | 18,400 | 19,305 | 19,347 | 19,347 |
| Approximate Retiree Subsidies Resulting from Rate Freeze (per month) | \$ 18.00 | \$ 25.44 | \$ 35.49 | \$ 37.22 |
| Annual Retiree Subsidy (per retiree) | \$ 1,233 | \$ 1,788 | \$ 2,505 | \$ 2,626 |
| Total Subsidy (# of employees x annual subsidy) | \$ 3,974,400 | \$ 5,810,000 | \$ 8,240,000 | \$ 8,640,000 |
| Approximate Outcome if Retiree Rates Had Not Been Frozen | \$ 18.00 | \$ 21.00 | \$ 24.00 | \$ 26.53 |
| Annual Retiree Subsidy (per retiree) | \$ 1,223 | \$ 1,476 | \$ 1,694 | \$ 1,872 |
| Total Subsidy (# of employees x annual subsidy) | \$ 3,974,400 | \$ 4,796,820 | \$ 5,571,936 | \$ 6,160,000 |

The existence and amount of the retiree medical subsidy creates an ongoing liability under GASB 45.



Comparison of Retiree Rates and Subsidies

| | FY 2008* | State Subsidy FY 2008** | FY 2009 Projected*** | State Subsidy FY 2009 |
|---------------------------------|-----------------|------------------------------------|---------------------------------|----------------------------------|
| Single Retiree w/o Medicare | \$ 393 | \$ 209 | \$ 515 | \$ 156 |
| Retiree and Spouse w/o Medicare | \$ 697 | \$ 209 | \$ 913 | \$ 156 |
| Single Retiree w/ Medicare | \$ 190 | \$ 209 | \$ 249 | \$ 156 |
| Retiree and Spouse w/ Medicare | \$ 368 | \$ 209 | \$ 482 | \$ 156 |

* Rates frozen at FY 2006 levels

** Higher FY 2008 Subsidy is due to retiree premium freeze.

*** Assumes needed 31% rate increase



Questions





Support Slides



State and Active Employee Subsidy To The Retiree Medical Plan

| | Fiscal Years | | | |
|--|--------------|-------|-------|-------|
| | 2006 | 2007 | 2008 | 2009 |
| Approximate Retiree Subsidies Resulting from Rate Freeze | \$ 18 | \$ 25 | \$ 35 | \$ 37 |
| Approximate Outcome if Retiree Rates Had Not Been Frozen | \$ 18 | \$ 21 | \$ 24 | \$ 27 |
| <p>Note: The existence and amount of the retiree medical subsidy creates a liability under GASB 45</p> | | | | |



Summary of Surveyed Employer Medical Contributions

| Employer | Summary of Contributions |
|-----------------------|---|
| State of Idaho | Employer pays 90% for employees and dependents |
| A | Employer pays 80% |
| B | Employer pays 90% |
| C | Employer pays 85 or 90% depending on Tier |
| D | Employer pays 85 or 90% depending on Tier |
| E | Employer pays 80% for employees and 75% for dependents *long term target of 70% of covered charges |
| F | Employer pays 90% for employees and 80% for dependents |
| G | Employer pays 80% of premium for employees and dependents |
| H | Sliding scale based on annual salary in 10K increments |

Surveyed Companies

Albertsons

Blue Cross

Boise Company

Idaho Power

Micron

Idaho

Simplot

WGI