CORRECTED MINUTES

(Approved by the committee)

CHANGE IN EMPLOYEE COMPENSATION (CEC) COMMITTEE

January 4, 2008
Idaho Supreme Court Basement Conference Room
Boise, Idaho

The meeting was called to order at 8:30 a.m. by Co-chairman Representative Bob Schaefer. Other committee members in attendance were Co-chairman Senator John Andreason; Senators Chuck Coiner, John McGee, Russ Fulcher, Jim Hammond and Kate Kelly; and Representatives Larry Bradford, Ken Roberts, Darrell Bolz, and Anne Pasley-Stuart. Representative Janice McGeachin was absent and excused. Legislative Services Office staff present were Amy Castro and Charmi Arregui.

There were over 75 attendees at this meeting; that list is available in the Legislative Services Office.

Amy Castro, Sr. Budget and Policy Analyst, reviewed the statutory requirements of the CEC Committee, as outlined below.

Compensation Philosophy:

> Idaho Code §67-5309A (1) – It is hereby declared to be the intent of the legislature of the state of Idaho that the goal of the total compensation system for state employees shall be to fund a competitive employee compensation and benefit package that will attract qualified applicants to the work force; retain employees who have a commitment to public service excellence; motivate employees to maintain high standards of productivity; and reward employees for outstanding performance.

Compensation Standards:

> Idaho Code §67-5309A (2) –
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> a) 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.
> b) Advancement in pay shall be based on job performance and market changes.
> c) Pay for performance shall provide faster salary advancement for higher performers based on a merit increase matrix developed by the division of human resources.
> d) All employees below the state's midpoint market average in a salary range who

are meeting expectations in the performance of their jobs shall move through the pay range toward the midpoint market average.

Budgetary Conditions:

Idaho Code §67-5309A (3) –

It is hereby declared to be legislative intent that regardless of specific budgetary conditions from year to year, it is vital to fund necessary compensation adjustments each year to maintain market competitiveness in the compensation system. In order to provide this funding commitment in difficult fiscal conditions, it may be necessary to increase revenues, or to prioritize and eliminate certain functions or programs in state government, or to reduce the overall number of state employees in a given year, or any combination of such methods.

CEC Recommendation Inclusions:

Idaho Code § 67-5309C (2) –

a) A recommendation for market-related changes necessary to address system wide structure adjustments to stay competitive with relevant labor markets. Such recommendation may include a market-related payline adjustment for all eligible employees, as well as the structure, to avoid compression in the salary system.
b) A recommendation for market related changes necessary to address specific occupational inequities.
c) A recommendation for a merit increase component to recognize and reward state employees in the performance of public service to the citizens of Idaho.
d) A recommendation for any changes to the employee benefit package, including any adjustments to the overall design of the benefit package and/or employee contributions.

Mike Gwartney, Director of the Department of Administration, described for the committee the work he and others had done at the request of the Governor early in his administration to review statutes concerning employee compensation. In summary, the group verified: that the state is behind market on employee salaries; that the state, in design, has a very competitive health care plan, for which employees are paying less than those in the competitive market; that the state has a tremendous retirement plan, well funded, well managed, but well beyond what is found in the private sector. Regarding retiree medical issues, the group found a growing unfunded liability in the plan that, in the Governor's opinion, has to be addressed.

Mr. Gwartney went on to say the state is underpaying salaries in the amount of $100 million to $110 million annually and overpaying in the health care package by $35 million to $40 million annually. The Governor is not recommending any changes to the pension plan, which costs $40 million more than is found in the private sector. The Governor is concerned about the growing liability found in the retiree health care plan. **Mr. Gwartney** said these are the main concerns, adding that they have also come up with solutions or suggestions for this committee's deliberation concerning these issues, and he said that the Governor said: "I don't want a state employee to have to leave here because they can get a better deal on the benefits side somewhere else. This is a package deal. We have to have a *competitive package*; don't balance one side with the other side."

Judie Wright, Acting Administrator of the Division of Human Resources (DHR), and Budget Bureau Chief of the Division of Financial Management (DFM), told the committee the Human Resources Division had been working all summer to prepare recommendations and thanked everyone who had assisted in the review of employee classifications. **Neville Kenning** of the Hays Group, a consultant to the state of Idaho since 1992, then presented information concerning the Governor's salary and benefit recommendations.

Mr. Kenning noted that the FY 2009 Executive Branch recommendations were based on the following objectives:

- Reestablish the credibility, quality and defensibility of the internal alignment of classifications by reviewing the job factoring of each classification; and simplify the grade and salary structure;
- Consider the creation of multiple salary structures and/or create salary ranges for classifications for which there is a market premium relative to other jobs of the same job content; and
- Develop a communication and implementation plan through partnership with the agencies that will optimize the understanding and acceptance of the outcomes of the above objectives.

Mr. Kenning said two critical factors must be considered when looking at what should be done in terms of pay. The external factor is the *rate of unemployment*. The overall rate of unemployment in Idaho in October 2007 was 2.5%, down from 3.3% in October 2006. In the City of Boise, the unemployment rate is 0.9%. It is generally accepted by most labor economists that an unemployment rate of approximately 5% is full employment. The remaining 5% represents those who are unemployable with their current skill sets. In the current labor market in Idaho, there are more positions available than there are qualified applicants to fill them. It is recommended that funding decisions starting in FY 2009 be the beginning of a trend to place more emphasis on increased funding of salaries and less emphasis on increased funding for benefits.

The internal factor is *work force demographics*. Based on data provided by the Idaho Public Employee Retirement System (PERSI), the average age at which employees retire from state employment is 62. Currently, 36% of state classified and nonclassified employees who are members of PERSI are 52 years old and above. The average age of state employees is 47; the average age of those hired into the state in the past year has been 36-40. "Putting it quite simply," **Mr. Kenning** said, "we are not attracting the work force of tomorrow." In addition, 49% of all classified employees and 52% of all nonclassified employees (excluding higher education) are 46-60. Only 4.6% of the current classified work force and 2.2% of the nonclassified work force is under 26. Another element of work force demographics is state employee turnover. The rate of turnover is currently 15.9% for the classified work force. The most recent survey of the Society of Human Resource Management shows that the number one indicator of job satisfaction is pay. In response to a question from **Representative Schaefer** regarding those who are hired at a relatively older age by the state, **Representative Pasley-Stuart** said she had both Idaho and national work force demographic reports, which were given to the committee members, a copy of which is available in the Legislative Services Office.

Senator Kelly asked if the age of hire was trending higher over the years. **Mr. Kenning** said that while the average age information was available, the trend data had not been captured. He went on to say that in trying to attract a younger work force, the younger people say "give me a salary that's attractive." **Representative Schaefer** said that the only reason the Hay Plan had never been 100% successful in Idaho is that it had never been funded appropriately. "It appears that we may have an administrator who would like to do that, but in the past we made up for what we were not given in salary by giving benefits." **Mr. Kenning** responded that it had been a financial miscalculation, that increasing benefits to make up for lack of funding for salaries had actually cost more than if salaries had been adequately funded.

Senator Coiner asked if the 15.9% turnover rate for classified employees had been trending upward. The Division of Human Resources will get back to the committee with more information. **Senator Kelly** said that national data has shown that turnover of younger members of the work force is higher than turnover of older workers. **Mr. Kenning** said that compensation really has to be designed around the nature of our work force.

In order to attract the work force of tomorrow and to retain current employees it is vital that compensation decisions consider:

- ♦ a competitive total compensation package;
- ♦ retention of employees in critical leadership and service roles; and
- ♦ retention of employees who will succeed those retiring in the next 10 years.

Based on data gathered from multiple sources, the comparison of the current average actual salary and the pay range midpoints for the state as compared to the market, the average actual salary for state classified employees is 15% behind the market. The salary range midpoint (salary structure) is 8%-10% behind the market average. A significant reason for the pay structure losing competitiveness is that the pay ranges were not adjusted for FY 2008. In response to market related changes necessary for specific occupational inequities, the Governor's recommendation for FY 2009 includes additional personnel cost funding for selected agencies.

Mr. Kenning then briefed the committee on a proposed FY 2009 salary structure that detailed pay grades, Hay points, hourly pay and annual pay in columns of minimum policy and maximum compensation amounts. The Executive Branch recommends that 5% funding for the salary component of state employee compensation (excluding public schools) be provided in accordance with the state's merit-based pay philosophy. The total fiscal impact of this recommendation is approximately $32.2 million to the General Fund and $23.6 million to dedicated and federal funds combined.

In response to a question from **Representative Pasley-Stuart**, **Mr. Kenning** said that one way to deal with the issue of salary compression that could result from the recommended salary structure would be to give a one-time equity adjustment formula, where X% is given for Y years of service up to a maximum of Z just to give some spread to a classification. He went on to say that the employment consultant side of him doesn't see the point of having a minimum that's 75% of the pay range in today's low unemployment environment.

Senator Fulcher asked if those who may be paid over policy were taken into consideration when calculating the $30 million figure of getting salaries to 85% of minimum. **Mr. Kenning** answered no, there may be an employee here or there over the average, but not all in the one classification.

Representative Pasley-Stuart questioned the survey sources used to arrive at the salary recommendation. "Did you go beyond the sources mentioned here? Washington Group isn't even headquartered in Boise anymore, Albertsons is gone, and no public agencies were included." **Mr. Kenning** said there were a number of salary sources that were used for the basis of the salary recommendation, including data from the Department of Labor and from traditional sources such as the Western Management Group; there were multiple sources used. "We knew that this was a transition year in terms of the salary survey process. Do we believe we have accurate enough data to propose a defensible salary structure? The answer is yes. Do we think there will be changes in the salary survey process going forward given that this was a transition year? The answer is yes." **Mr. Kenning** said that we are in the process of working out which positions will need to be paid at a higher rate, nurses for example. Such positions may be ranked in a certain grade, but paid in a higher grade or in the original grade with a premium added.

Representative Pasley-Stuart reiterated her concern that all companies surveyed were private firms; no other public entities were surveyed. "We're comparing kiwis with bananas." **Mr. Kenning** responded that the salary side was based on hundreds of employers and multiple data sources, that **Representative Pasley-Stuart** must be referring to the benefit survey, which is completely different. **Mr. Gwartney** said that was indeed the case, that the survey of major firms was related only to benefits, not to salaries, which were based on a very broad survey.

Regarding the recommended salary structure, **Senator Hammond** asked if moving the minimum to 85% of policy would have the same result as moving the whole matrix in terms of getting the minimums up. **Mr. Kenning** said only the minimum column would be moved, that policy would still be policy and maximum would still be maximum. "On the proposed structure, 81% of employees will be between minimum and policy on the proposed structure." **Senator Hammond** then asked about getting the range to current market. **Mr. Kenning** said the ranges on the recommended salary structure get to within 4% of today's market. **Senator Hammond** noted that while the proposal moves the salary structure, the employees don't move with it. **Mr. Kenning** affirmed that, saying, "Not as much as we would want them to."

In response to a question from **Representative Roberts**, **Mr. Kenning** said that moving minimum salaries up substantially does take away the ability of departments to give the employee increases as they move along. **Senator Coiner** asked what percentage change other private or municipal groups are making due to the low unemployment. "Maybe at 5% we're just treading water." **Mr. Kenning** answered that nationally each year the average salary structure move is 3% and the average merit funding was 3.9%. He said, however, they're not starting at a basis that's 10% to 15% behind because, as **Senator Coiner** rightly pointed out, they've been doing something each year. Within state governments, 4% to 5% is pretty common. In terms of other significant employers in the public sector within Idaho at the county or city level, these numbers hold fast. The other thing being done in some counties is setting a minimum pay. One of the larger counties in Idaho has said that if McDonald's is paying $8.00 per hour, they're not paying their employees anything less than $10.00 per hour – a social wage responsibility. Relative to the national average, **Senator Coiner** said that 5% will catch up a bit, adding that we are trying to get started and sow seeds for next year as well.

Mike Gwartney, Director of the Department of Administration, then presented the committee with information about state employee benefits. The state's current health benefits plan is competitive with the private market, with the state paying approximately 92% of premiums for both employees and their dependents. The private sector pays a smaller share, typically 90% of employee premium and 80% of dependent premium.

Currently the state pays about 78% of total covered medical charges, while the private sector employers are at or are targeting 70% of covered charges. Total covered medical charges are defined as deductible, co-insurance percentages, co-payment amounts, and required premiums paid to the plan by employees. The Executive Branch proposal is to move over the next five years to a 70/30% partnership between the state and state employees. The proposal recommends the following changes to the plan:

- ♦ Implement a 70/30% cost share target for the state and its employees, using total covered charges. This implementation would take place over a four-year to five-year period.
- ♦ Increase the employee costs for dependents to a level consistent with private sector employees.
- ♦ Allocate future employee premium cost as a percentage of compensation, starting in FY 2009.
- ♦ Charge premiums for part-time employees enjoying full-time benefits at the full-time rate.

The change to a 70/30% plan will save the state nearly $40 million over the next five years. If the state continues with the current health benefit plan, per employee costs will increase by $2,000 to a total of $9,200 per year. If recommended changes are accepted, per employee costs would be approximately $8,900 per year.

In response to a question from **Senator Kelly**, **Mr. Gwartney** said that the federal government was excluded from salary and benefit survey data used to arrive at the Executive Branch recommendation because federal salaries and benefits were so much higher that they skewed the results. **Senator Kelly** noted that the state must compete with the federal government for employees. **Mr. Gwartney** said most federal positions in this area are high-level executive positions for which the state cannot compete. While federal health programs are extremely good, he said that employees pay about $1,000 per month for such coverage. He went on to note that survey results from areas throughout Idaho show that the state has a very good benefit package, including paid sick leave, vacation and holidays, in addition to health and retirement plans.

Under the executive proposal, 82% of the recommended 5% salary increase will end up in employees' pockets; it ends up being about a 4:1 ratio. "We are not giving it with one hand and taking it away with the other," **Mr. Gwartney** said. "Sixty-five percent of employees benefit under this scheme."

To moderate the impact on state employees on increasing their share of health insurance costs, the following options are being considered:

- ♦ Alternate benefit plan that employees could select to keep their contributions "as is."
- ♦ Charge all employees roughly the same percentage 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% less of their increase in plan contributions.
- ♦ Charge a greater share of premiums to those with dependent coverage.
- ♦ Continue to develop wellness initiatives.

Mr. Gwartney shared the current health care plan with a $250 deductible for an individual and $750 for a family, comparing that to a high deductible alternative plan with a $1,000 individual deductible and $3,000 for a family. Co-insurance (in network) at 85% would move down to 80%; office visit co-pays would move from the current $20 to $30, and the prescription coverage would remain about the same. The current plan, he said, would require an *approximate* annual average employee contribution of $1,050 in FY 2009; the alternate plan would require the *existing* approximate annual average employee contribution of $650 in FY 2009.

The state's 2,000 part-time employees currently working 20 hours weekly cost the state $9,000. Changes proposed are as follows: 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; e.g., 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 health insurance costs increase about 17% per year. Health insurance costs for active state employees raise approximately 9% to 10% annually. Retirees participating in the state retiree medical benefits plan pay about 78% of the total cost of claims, with the state and state employees are subsidizing the balance. Following are the recommendations for change in the retiree medical plan:

- ♦ 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 upon 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.

Mr. Gwartney said that a single retiree w/o Medicare in FY 2008 would pay $393 and the projected FY 2009 amount would be $515. A retiree/spouse w/o Medicare in FY 2008 would pay $697 and FY 2009 projected would be $913. A single retiree w/Medicare in FY 2008 would pay $190; FY 2009 projected would be $249. A retiree/spouse w/Medicare in FY 2008 would pay $368; FY 2009 projected would be $482. **Mr. Gwartney** said the dramatic increases for retirees is the result of the delay in doing this.

In response to a question from **Senator Coiner**, **Mr. Gwartney** said the state's retiree health insurance plan *does* include coverage of prescription drugs. **Senator Coiner** noted that if a retiree got a supplemental policy, it would not include drugs, thus saving some on that, but added that they would have to get not only a supplemental but also a Part D, which he said could be substantial. **Mr. Gwartney** said he himself had a supplemental plan for $96 per month and was on Medicare Part D, adding that between the two he has excellent coverage and adding that, "If I wanted to spend $200 monthly on a supplemental, I could get a heck of a drug plan." He said that retirees are already paying $200, and said: "I would venture to say that you could have comparable coverage for less cost in at least 90% of cases."

Representative Pasley-Stuart voiced her concern regarding retiree benefits, as well as her disappointment at the lack of time to have employee testimony presented, since only written testimony was invited, which adds a layer of complication. "The state is having a great deal of difficulty recruiting and retaining employees, and you now want to cut the retiree benefits. Those employees came in with implied faith, believing benefits would be there when they retired, and now we're jerking the rug out from under them. We know that retention is cheaper than recruitment, and yet we're cutting our benefit package at the worst possible time. We can't even get applicants for some jobs."

Mr. Gwartney responded that the recruitment and retention issues tend to be at the lower salary levels and younger ages. "We have trouble attracting young people into the state. That's why we're trying to get the balance up with the 5%, to get salaries up faster, because they don't care about pension plan benefits. It's not the best pension plan in the state, but it nears the best and has a COLA [cost of living allowance], which is highly unusual in pension plans, so retirees have cash flow coming in to pay increased costs. I don't like it either, but what I really don't like is the $450 million of liability that we keep pushing into the future. They're still going to have the best deal in the state, and we're going to get at what taxpayers should be concerned about, and that is a burgeoning liability."

Representative Pasley-Stuart commented that when she and **Senator McGee** had met with him previously, **Mr. Gwartney** was not certain at that time that a "GASB 45 regulation" would even be something that we would need to adhere to. **Mr. Gwartney** answered that there is a $450 million liability and if there was a debate at the time whether or not that had to be reported, the fact remains that the liability is still there. **Representative Bolz** commented that raises in the past had been based on merit, and he asked if the figures reflected the assumption that everyone was getting 5% in terms of *cost,* wondering about those only getting 2%, and with the cost for their benefits being higher, they might actually be getting a *decrease* rather than an increase. **Mr. Gwartney** said that the statute says precisely that; they are going to allocate salary increases based on placement, range and merit and said, "Yes, there will be some people who will get nothing and be stuck with the same $400 increase (in medical costs)."

Senator Kelly asked about proposed changes for retirees, especially the changes affecting existing employees in the system, asking if anyone had looked at the legal implications of taking away a potential right that an employee had. **Mr. Gwartney** answered that that was an excellent point, adding that the Attorney General's office had been contacted for an opinion, and *"preliminarily,* we think we're okay . . . but we're not going to make a move before we're more sure than we are today, since we need to have that opinion and to review that." **Senator Kelly** said she hoped that **Mr.**

Gwartney would share whatever they learned with this committee, and **Mr. Gwartney** said he works at the pleasure of this committee and that he would share that information.

Representative Pasley-Stuart referred to page 8 of **Mr. Gwartney's** PowerPoint and the approximate effect of pay and medical increases at $20k salary intervals across the board being 23% of pay increase, and she said she believes it to be grossly unfair to raise the cost of the benefit package at all and that we would expect employees at the lower end of the pay scale to pay the same as those at the high end of the pay scale. **Mr. Gwartney** answered that 23% of $2,000 is a lot less than 23% of $6,000; if we went to a $400 flat rate increase, the person in the low salary range would pay much more of a percentage than the higher-paid employees. **Mr. Gwartney** said he was going to suggest to JFAC that they take the 5% off the top and he thinks it is time for the chairman to say: "Don't balance the budget on my back." **Mr. Gwartney** said he thinks the state will get a big bang for the buck if they do this, acknowledging that it will be difficult, and he said he also wants to talk to JFAC about history and what has happened with regard to reserves and liabilities.

Senator Kelly asked about the medical benefits for dependents and the market study done and the recommendation to shift ongoing health care to employees, expressing concern for "cherry picking the market" and not including the federal government. She referred to the private sector and how they handle health care benefits and retiree benefits, asking **Mr. Gwartney** if he thought that was a financially maintainable way to do business. **Mr. Gwartney** answered that costs have gone crazy and he believes that employees coming into state employment from other employers will think we have a great plan, emphasizing that liabilities can be reduced to half. He said the 3,200 retirees are not going to like this, but he believes that retirees still have a great fund.

Representative Schaefer referred to a past huge surplus with PERSI and said that in the past he had inquired about using that as a bridge for earlier retirees; he said others didn't find that to be a viable application of that money. He mentioned that there is a surplus at this point and suggested a discussion with PERSI to determine whether or not that surplus may be better applied than gain sharing. **Mr Gwartney** said he would hesitate to get into that surplus, and he commented on sick leave. **Ms. Castro** explained that the sick leave benefit that retirees get is capped at 600 hours and that is the maximum amount, but if there are fewer years of service, that cap can go down; that cap allows a retiree to pay toward his or her medical premium up to that 600 hours. She referred to a handout from PERSI done by Milliman Consultants and Actuaries showing what the liability in the sick leave fund would increase too if the cap were removed; that handout is available in the Legislative Services Office. **Representative Schaefer** said he was talking about the gain sharing and surplus in PERSI, being paid up and having no liability at this point.

Mr. Alan Winkle, PERSI, responded that as far as unused sick leave was concerned, it was a plan formulated many years ago and that PERSI agreed to provide prefunding of retiree medical insurance, and there is a section of code that allows sick leave to be used in this way, seeming the best way to provide some support and prefunding of the medical plan. He said it is actuarially funded at 100% and the cap was installed when it was a pay-as-you-go system. The cap today, he said, does not perform the function for which it was originally put into place. As far as the funding of the PERSI system, as of July 1, 2007, the actuary shows PERSI funded at 105%, adding that this has been a good year and then cautioning that the market can also take away. He said that with a reserve at 113%, PERSI would be better insulated for volatility, and they are not even close to that.

Senator Coiner asked about turnover rates and what the expected turnover might be, how it has evolved and also about "churn," asking for statistics on those two facts**,** and the committee was assured that would be forthcoming by January 7, 2008. **Representative Pasley-Stuart** further requested specifics on where employees are going, after they leave state employment, wondering if we are losing them to the private sector; she assumed that DHR would have that information, possibly from exit interviews, and she was assured that information would also be included, but would take longer to compile.

Eric Milstead, Legislative Research Analyst, was unable to attend this meeting to address "Human Resource Proposed Rule Changes Review," and the committee was given a copy of his presentation, a copy of which is available in the Legislative Services Office. This left more time on the agenda, and **Representative Schaefer** then invited public testimony from audience participants.

The first to address the committee was **Mr. Andrew Hanhardt**, Local 687, (IAGE) and he said questions were circulating regarding the possible new health care plan and whether it would include prescription coverage, emphasizing the impact that could potentially have on state employees. **Mr. Gwartney** said the prescription coverage would stay the same.

Ms. Donna VanTrease, Idaho Public Employees Association (IPEA)**,** said the committee will be reading a letter from her listing questions that employees have been asking, one of which she said resounds continually, being that benefits are far more important to them than a salary increase, stating that to be one of the reasons these employees sought state employment, including the retirement benefits, wondering why anyone would want to completely devastate that plan, emphasizing state employees at the lower end of the pay scale who are vitally important to the well being of this state, hoping the committee will keep this in mind as they make decisions.

Ms. Barbara Kramer, Idaho Public Employees (IPEA)**,** Lewiston, said she is retired and she asked about the original recommendation to rate current employees separately from retirees. **Mr. Gwartney** said they were recommending that each segment be costed out on its own: retirees, active, PPO and Traditional Plans. **Ms. Kramer** commented that she had not seen that in the presentation at this meeting, and **Mr. Gwartney** said it may not have been on the slide. **Ms. Kramer** asked if other entities, AARP or whomever, who provide insurance to retirees, could provide it at less cost, wondering why the state couldn't negotiate better rates that include retirees. **Mr. Gwartney** said there are 3,200 retirees, adding that that is a small number in insurance jargon, and companies spread risk over a broader base. He said that some companies actually did federal subsidies back in supplemental times. He said that for $150-$200 a retiree could get a super supplemental package and that cost would still be under what is being paid today, so that was the way it was addressed.

Mr. Jim Keating, retiree, spoke next and he also had submitted written comments to the committee; he said that the Governor *may* give merit salary increases for the next 5-8 years, posing the question "When is that going to happen, since he can't promise that?" He asked if employees are going to accept a promise of a possible 5% increase but a *certainty* of increased premium payments; he also asked if the Legislature is going to tell employees this is the way the benefit package is going to be for the next 5-10 years, adding that he didn't think so. He said he thought, as a retiree, that his supplemental was pretty good and expressed his appreciation for that. He asked if the Legislature was into fairness, believing this to be a fairness issue, and he said that Blue Cross actuarial tables should be examined to see exactly what is going on so retirees can decide which option is best, especially in comparison to active employees. He, as a retiree, believes he is currently subsidizing the active employee with six children, and that person doesn't pay any more whether he has two or six children, and he doesn't think this is fair.

Mr. Dale Tankersley, IPEA, said he was a retiree of the state of Idaho after over 38 years of service and he said he wanted to impress upon this committee that the only thing the state government has to offer is service, and that service is no better than the quality of employees who are going to deliver those services, adding that the state will not be able to hire and retain employees if the state treats them like Wal-Mart treats their employees. (The audience members clapped at this remark.) He said that many presenters at this meeting had referred to comparisons to the "private sector" and he wondered which private company they were using as a model for the state, saying: "Maybe Enron, maybe Morrison Knudsen and Bill Agee and what was done there. The point is that just because the private sector does it, doesn't mean that it is right or good." He said that one of the main reasons that the private sector changed from applying the benefit retirements to the prime contributions is because back in the early 70's when many were retiring from the private sector, it was discovered that some CEOs had absconded with those retirement funds, as well as some labor unions, when the Employee Retirement Income Security Act was passed to make people become more accountable and responsible about what companies said they were going to do for their employees. He said he hoped that this Legislature, our Governor and this administration will honor and abide by what was put in place during the last 40 years and do the right thing, asking for better clarification where this large unfunded liability comes from. As a retiree, he is paying $525 monthly for his medical insurance through PERSI, adding that he did not see that figure on any slide, so he wanted to impress upon the committee to look at all issues to be sure that what is needed to ensure a good quality work force is kept, because he is still personally interested in his state government.

Senator Andreason said that he is concerned about the pay plan that proposes to provide a 5% merit salary increase over 5-10 years to reach market, stating that last year considerable time and effort was spent arriving at a number where the state could reach market, and that number he remembered as being 5.8% over a period of ten years, and that was net. He said a 5% salary increase was given last year, with no increase in health care costs, and the state borrowed to make that possible. He said that now it is being proposed to have a 5% merit increase and to also impact the current health plan; his math tells him that this is treading water, rather than advancing to market. He asked for someone to explain to him how a 5% merit increase, with a 3.5% increase in health care costs and a 2-3% increase in cost of living, will get state employees to market at *any* point in time. The committee then adjourned for lunch.

Mr. Wayne Hammon, Administrator for the Division of Financial Management (DFM), was the first speaker after the lunch break, saying that he had been in this position since July 2007, adding that he was the Governor's Chief Budget Advisor and Chief Budget Officer for the state of Idaho.

He said that the Governor's recommendation was developed in cooperation with DFM and the Governor's personal office, the Division of Human Resources (DHR), the Department of Administration, and other stakeholders as well. He focused on the four items in statute on which the Governor is required to report to this Change in Employee Compensation (CEC) Committee. He said the first item to be addressed is a system-wide structure adjustment necessary for the state system to remain competitive, adding that he had spent the summer of 2007 with experts on that exact question, their task being to find out: "Is the state of Idaho competitive? How do we define competitiveness, and what does it take for the state to remain competitive?" He said they spent a great deal of time laboring over exactly what that term means and assessing what the state's position was in the market. He learned that in order to be competitive, they must address not only salary, but the entire state employees' benefit package. He said that while the Governor is making specific salary recommendations, he is also recommending changes in other benefits that state employees enjoy to remain competitive. He said that it is important to Governor Otter that everyone understands the direct link between the CEC recommendation, as outlined in the budget, and the recommended changes in other areas of the compensation package. Simply put, he said that the state cannot afford one without the other and that the state cannot continue to subsidize the benefit package in the manner everyone has grown accustomed to and provide a CEC increase. Likewise, he said it would be improper to ask state employees to assume a larger responsibility for their benefits without dramatically improving their direct compensation, seeing the two being on opposite sides of the same coin.

Mr. Hammon said that the second item identified in code addresses specific occupational inequities, adding that according to their research, occupational inequities do exist in the current pay structure. He gave an example of attorneys in the State Appellate Public Defender's Office who are compensated at a rate significantly lower than those in the Attorney General's office and both are paid significantly less than their counterparts in private practice. **Mr. Hammon** said that the Governor's FY 2009 budget recommendation includes a salary parity line item in addition to the CEC adjustment to address inequities in the Public Defender's Office. He said there are other areas that the state must also take action on as well, and he listed firefighters within the Department of Lands, technical reviewers at the Public Utilities Commission (PUC) and referees at the Industrial Commission. He said that firefighters working next to federal firefighters may be getting paid half what their federal counterparts are being paid. Each occupation listed has been addressed in the Governor's FY 2009 budget recommendation with a specific line item in addition to the CEC recommendation. **Mr. Hammon** said there are still other inequities in almost every department; some can and should be addressed through the CEC merit process, adding that others require more study to identify why the inequity exists.

Mr. Hammon said that a third category requires new occupational-specific paylines on the state salary structure; DFM is working with DHR to identify those needing a specific line item to finalize those issues and make a recommendation. The third area, he said, is to address the merit CEC increase, saying that the Governor feels very strongly the need to dramatically increase the salaries of state employees. Studies conducted by the Department of Labor, DHR and others consistently demonstrate that the state's pay scale is approximately 15% below market across the board. The Governor's FY 2009 budget recommendation, he said, includes a 5% CEC increase to be distributed on merit, believing that we need to commit ourselves to a series of such CEC increases over the next

3-5 years, and only then will the gap be closed between the marketplace and state employment. He said that one thing is very clear; doing this will be very expensive, saying that a 5% CEC increase impacts all funds and totals over $78 million in the General Fund alone. Despite these costs, he said the Governor has made the CEC increase one of his highest priorities for this legislative session.

The Governor's commitment to this issue runs in tandem with his equally strong belief that we must make other adjustments to the employee benefit package. **Mr. Hammon** said that this is the final area required by statute for the update from the Governor. He deferred to **Mr. Gwartney**'s morning presentation on the Governor's efforts on that front. **Mr. Hammon** expressed his appreciation for the opportunity to address this CEC committee, saying that he looks forward to working with the committee as they address these issues, stating that the Governor's position is quite clear, expressing excitement to find a way to make this work for everyone in state government and the citizens of Idaho served daily.

Senator Coiner asked about the words "remain competitive," saying that he does not believe the state is competitive right now and **Mr. Hammon** agreed, adding that the statute referred to uses the term "remain competitive," even though the state is not competitive and has not been for some time. **Senator Coiner** noted that **Mr. Hammon** had not referred to water resources and their need for hydrologists, engineers and other specialists, asking if that did not get attention. **Mr. Hammon** said that it did get attention, adding that the Governor's recommendations include addressing those issues through other savings in the Department of Water Resources; for example, as the Snake River Aquifer work comes to an end, the Department has a need for fewer employees in that section. By removing the FTP and allowing them to keep the funding in personnel costs, the Department can then use that money elsewhere, adding that that is explained in greater detail in the Governor's budget recommendations. He said he thought there were four specific salary parity lines, none of them receiving additional money, but each addressed through savings within the department. **Senator Coiner** said he kept hearing about the fact that the state cannot bear the cost of doing this, asking if anyone has looked at the cost of **not** being competitive, losing employees, rehiring, retraining, lost work product due to lack of continuity and a reliable work force. **Mr. Hammon** answered that they have and that **Ms. Wright** may have hard data on that, explaining that it would be easier to assess that cost with regard to say, a state trooper, than other positions. He said that across the board the cost is about $2,100, but is much higher in other cases, such as at the forensic lab in Meridian since there is a 3-4 year training process to become certified to testify in court. **Mr. Hammon** admitted that the cost of losing employees far outweighs the cost of the CEC increase the Governor is proposing. **Senator Coiner** suggested that instead of hearing that we can't afford to continue the same benefit package, he thinks we need to be more competitive in other areas so that savings will be reaped in ways that do affect the budget, such as spending money on consultants. **Mr. Hammon** emphasized that most people, he believes, leave because of salaries and not benefits, adding that he worked personally for the federal government and, for the exact same health insurance, he said he paid ten times the amount of money per month than he does with the state, adding that the vision and dental are both better with the state.

Senator Hammond said he was struggling with reconciling what **Mr. Hammon** said about the state not being competitive and yet they are considering pulling back some benefits. **Mr. Hammon**

explained that is why the Governor sees these two issues inseparably linked; they cannot change the benefit structure without raising salaries because it would then have exactly the opposite effect of what they want to accomplish. He said if the state can get salaries up to where they are competitive, then the benefits ought to be competitive as well, adding that the state benefit package for the average employee is significantly better than say Micron, or even the federal government, the state's biggest competitor, explaining that a change to bring the total package into competitiveness is what the Governor is striving for. **Senator Hammond** said he was confused since they heard all morning about the federal benefit package being substantially better than anything the state could offer, citing the fact that the morning presentations had left out any federal comparisons. **Mr. Hammon** again confirmed personally that his state benefits are almost identical except better vision and dental at 1/10 the cost.

Senator Kelly asked about the importance of being competitive with regard to salaries, mentioning **Mr. Hammon**'s remark that he doesn't believe employees are as concerned about benefits as they are salaries, saying that since the salary increases will be merit based, some employees will move closer to market, emphasizing that it will take a long time (perhaps 15-20 years) under that theory, especially if benefits keep being pulled away year after year, asking what **Mr. Hammon**'s response to her concern was. **Mr. Hammon** agreed that this is a long-term problem that requires a long-term solution; unfortunately, he said, the Governor's term is only four years, so they are looking down the road three years, hoping to be at a point by his term's end to be more competitive than the state is today. **Senator Kelly** said that when you take into account general inflation and cost of living, which is in that 5% merit increase recommendation, she said it seemed like we are almost treading water when considering taking away some benefits. **Mr. Hammon** disagreed, stating that he believes the state is making progress with small steps each year, but all this talk of peeling away benefits he said is **not** what the Governor's recommendation does; he clarified that the Governor's recommendation makes the **entire** benefit package more competitive in the marketplace. He thinks his possible small increase for health insurance which could go from $8.26 to $24 per pay period he does not see as "peeling off a benefit," in his opinion. He agreed that this problem will not be solved in the next three years.

Representative Schaefer commented about the time frame for the state benefit package being brought more competitive for 4-5 years versus salaries brought up in the next 10 or more years, asking for a comparison in writing and how that would play out annually. **Mr. Hammon** agreed to get that written information to **Ms. Castro**.

Senator Andreason said that last year, and the year before, they worked for months and months on what it would take to get to market and the experts in the state said that it would take 5.8% to reach market in 10 years; he asked what the Governor's plan does to reach market. **Mr. Hammon** deferred to the morning presenters, saying they have all those facts and figures. **Senator Andreason** said that a 5% merit increase in salary was proposed last year with no consideration for increases in health care, which was adjusted to prevent there being an increase in health care cost, certainly not equal to 5.8%, adding that it seemed to him that the plan has not changed from last year, proposing a 5% merit increase in salary with an increase in health care costs, and he doesn't see how this can get employees closer to market. **Mr. Hammon** said that with the $78 million in the General Fund, 5%

is all that can be done this year.

Ms. Castro commented on **Senator Andreason's** question about how much farther the 5% merit increase would move employees toward market and she suggested that DHR answer that question, since their compensation plan study speaks to how much closer that gets state employees to market in one year. **Mr. Neville Kenning**, National Director, State Government Consulting, the Hay Group, answered that the costs referred to in the morning revolved around the cost of bringing employees to the minimum in the new structure, adding that they mold the answer to their question working off the assumption of an average increase of 5% and what that would do against new salary ranges, keeping in mind there may be a new salary structure so they can't compare the old to the new, so the answer would be much easier if the salary structures were the same, but **Mr. Kenning** agreed to do some modeling to better answer **Senator Andreason's** question. He said that the more salaries are increased, benefits do also increase, rather than trading off by decreasing, because many benefits are expressed as a percentage of salary so, when salaries increase, you increase the value of say retirement benefits, holiday and vacation, so the benefit package does increase in value. **Senator Andreason** said that he would agree with that, except for the cost of health insurance. **Mr. Kenning** said that if you pay for health insurance, clearly the net cost of that item has an impact on salary, but in terms of the overall benefits package, the total value is increased. **Senator Andreason** referred to past testimony of employees such as groundskeepers and janitors, saying that they refer to salary in terms of what they take home, and this is where he has a problem with those employees' take-home pay with regard to the Governor's proposed salary structure. He believes that these employees will view this proposal as a reduction in their salary, and he has a problem with that, he said. **Mr. Kenning** answered that the challenge is when you do a balance between an increase in salaries and increasing the cost of some benefits, which could result in less take-home pay, family circumstances vary from employee to employee. He said that some people make pay decisions based on disposable income issues rather than on pay structure, using the example of a groundskeeper who has ten children versus one who has two children, the single parent versus married, and these variables impact disposable income, and thus becomes the challenge.

Representative Bradford said that everyone in attendance was there for the purpose of looking out for state employees, adding that he didn't know where the high caliber of state employees could be matched. He said his constituents always say they know they will never get top pay as state employees, but they express appreciation for benefits and retirement; this year they may get a merit increase, but they believe that someone is "double-talking," giving on one hand, and taking benefits away elsewhere. His constituents are gravely concerned and would prefer to keep things as they are, since at least they know what they have now, and they don't want to worry about what may be taken away. **Mr. Kenning** disagreed with the statement that "nothing has been done the past few years," saying that the requirement had not been changed in terms of the premium employees pay, which cannot be said in any part of the private sector. He believes that when you don't do something you know you should do, when it is finally done, it looks startling, and if something isn't done now, the state will get further behind. **Mr. Kenning** said that there is a fine balancing act between investment and retention versus cost of replacement.

Mr. Hammon said that they can afford to give a 5% merit increase this year because the state can afford $78 million, adding that if there is a downturn, they will have to change the benefit package anyway, without any merit increases, because he said the state would have no choice because the state will not be able to continue subsidizing the health care package the way it has, if there is a downturn. **Mr. Hammon** said that the Governor believes that now is the time to try to bring some balance to this system to restore competitiveness so that if there is a problem, the state would at least be in a better position. **Senator Schaefer** asked: "Did I understand that you will be going ahead with this no matter what?" asking him if that is what he said. **Mr. Hammon** said that the Governor's recommendation is to do this, adding that the Legislature makes the laws in this state. **Senator Schaefer** added: "Not with regard to human resources, it seems." **Senator Schaefer** asked DHR to provide information to the committee on employees who might get 1% to 2% at varying levels and base it on real situations, without personal information, commenting that some employees will get no merit raise, wondering what the impact would be on such employees, taking into consideration the higher cost of the benefits package so that the committee can make an informed decision. **Mr. Hammon** said that DHR will provide that to the committee.

Senator Kelly responded about the economy today and a possible downturn in the future, pointing out that for years the CEC committee has wanted to codify the concept that we should not be measuring dedication to employees with the economy; she pointed out that in the private sector there is clearly that connection. She posed the argument that perhaps in economic downturns the need for public services increase, and she said that the CEC has codified the concept keeping their eyes on competitiveness, and she begged to differ with **Mr. Hammon's** way of thinking about this. **Mr. Hammon** said he agreed with that great philosophy, adding that when he is asked about funding drug treatment, building a prison, or paying a state employee, those decisions are left to the legislators. **Senator McGee** said he had just reread that Code section that states: "It also may be necessary to increase revenues or prioritize or eliminate certain functions or programs in state government or reduce the overall number of state employees in a given year," or any combination of such, so he pointed out there are many factors in Code to be considered. **Mr. Hammon** added that there are often tough decisions to be made; he added that if there are 100 employees who could be given no raise or 90 employees, all of whom could be provided a raise, then 10 may end up without a job, adding that he hoped it didn't come to such a decision, confirming that DFM's model does not reflect that scenario.

Senator Andreason reiterated his request for a plan showing what it will look like as a result of providing a 5% merit salary increase and the increases in other benefits, stating that his concern is that some employees would actually experience a loss in their total state compensation. **Mr. Hammon** said that a merit increase is the best way to award salary increases, emphasizing that if an employee doesn't deserve a raise, then they shouldn't get one, thus they think merit is the most effective way. **Mr. Kenning** said they would prepare specific models, taking employees at different grade levels, different assumptions in terms of performance ratings, at different salary ranges and how these potential CEC changes would affect employees in various scenarios. **Senator Andreason** asked if the models could also show how that would relate to reaching the state's policy goal, and **Mr. Kenning** said that could be included.

Ms. Castro thanked **Mr. Hammon** for volunteering to address this committee prior to the Governor's speech on January 7, 2008, helping to speed up CEC's process.

Ms. Cathy Holland-Smith, Manager, Legislative Budget and Policy Office, presented a PowerPoint presentation, a copy of which is available in the Legislative Services Office. She began by emphasizing her appreciation for the cooperation existing between the Director and staff at the Department of Administration, as well as at DFM, admitting that parts of the Governor's recommendations may present challenges for everyone since the system does not support changes right away. She thanked **Ms. Castro** for her work on this committee as well. She addressed issues that Budget and Policy sees as challenges as they look at health insurance costs, from a fiscal, budgeting perspective, in order to make decisions, and her page 2 & 3 slides showed the following:

Employer Funded Health Insurance Costs (Per Employee per FTP)

	Funded	Actuarial
FY 2006	$7,125	$7,125
FY 2007	$6,531	$7,336 Premium holiday
FY 2008	$7,125	$8,345 Reserves
FY 2009	$9,200	$9,200 Increase $2,075

FY 2008	Monthly	Annually
Medical	$576	$6,910
Dental	18	215
Total	$594	$7,125

Appropriation & Premiums for Medical PPO

	Employer	Employee	Total
EE Only	$576	$23	$599
EE/Spouse	$576	$59	$635
EE/Child	$576	$38	$614
EE/Children	$576	$53	$629
EE/SP/Child	$576	$72	$648
Family	$576	$80	$656

Ms. Holland-Smith pointed out that they began to examine the $576 per employee and they more clearly recognize that not each employee was getting that same benefit because they are not all the same type of user, and the cost for each of the different groups has become skewed. She said that even though a single employee was being paid by the state for $576 worth of benefit, that employee was **not** necessarily enjoying that amount of benefit, the cost for them being $371, saying that there are groups of individuals that cost more and some less, adding that it happens, but the goal of insurance also is to readjust to make that playing field more level. Employees with children, or spouse and children, have been somewhat subsidized from the employer's perspective compared to single employees or a single employee with a child; clearly all employees do not experience the same benefits equally, as shown below on her page 4 slide.

Appropriation vs. True Costs for Employer

	Funded	Costs	Difference
EE	$576	$371	$205
EE/Spouse	$576	$730	($154)
EE/Child	$576	$514	$ 62
EE/Children	$576	$730	($154)
EE/SP/Child	$576	$873	($297)
Family	$576	$1,088	($512)

Ms. Holland-Smith said that when they looked at 29% increases they were looking at budgeting, their traditional approach was to say that whatever percentage increase was necessary to fund, they would request that amount of percentage increase in state agency budgets and then pass on that percentage increase in premiums to the employee, adding that premiums represent about 1/4 the total cost that we as employees pay for our health care through the insurance plan. The page 5 & 6 slides showed the following:

Traditional Approach to Cost Increases
Share Proportionally in 29% Increase

	Employer	Employee	Total	% Ratio
EE Only	$743	$30	$773	97/3
EE/Spouse	$743	$77	$820	91/9
EE/Child	$743	$49	$792	94/6
EE/Children	$743	$68	$675	90/10
EE/SP/Child	$743	$93	$836	89/11
Family	$743	$103	$846	88/12

Ms. Holland-Smith pointed out that until they had the retiree subsidy, employees didn't pay anything for their health insurance, it was only an employee with dependents who paid for health insurance. She pointed out the above varying percentages, adding that this is **only** the premium, and she said that when looking at this approach, because we lack the basic understanding of the health care plan from a budgeting perspective, not policy perspective, they were at somewhat of a loss to figure out the net fiscal impact on changes recommended, explaining that they incrementally budget. What happens if true cost is examined, if 29% increase is applied, and is that shared proportionally. If this approach is taken, it looks like the employer pays a larger portion of the increased premium cost, so a true cost subsidy would be higher, and this would occur if the above traditional approach was chosen, being a challenge in itself to make sure all costs that actually needed to be covered were covered. **Ms. Holland-Smith** said the issue had to be raised about whether the retiree subsidy of health care cost to the employee and employer should be a totally separate issue, especially since the retiree subsidy has been coming out of reserves. The contribution strategy shown below from page

6 of her presentation recognizes all the costs to policymakers to choose how costs should be categorized, and that requires a discussion about retiree subsidy, changing the plan, and having knowledge of that in advance to meet certain goals, and also causes the question to be asked what kind of employee the state is trying to attract in order to judge contribution strategy accordingly. She said that the private sector adjusts their contribution strategy based on the behavior they want to encourage, focusing on certain types of health plans and costs, recognizing age and other factors when contribution strategy changes are made.

Apply Increases to Actual Costs & EE Premiums
Share Proportionally in 29% Increase

	Employer	Employee	Total	% Ratio
EE Only	$479	$30	$509	95/5
EE/Spouse	$942	$77	$1,019	93/7
EE/Child	$663	$49	$712	94/6
EE/Children	$942	$68	$1,010	94/6
EE/SP/Child	$1,126	$93	$1,219	93/7
Family	$1,404	$103	$1,507	94/6

Ms. Holland-Smith said she believes if the state continues on down this path, this is the point that numbers need to be attached to see the changes that could occur over time, adding that the figures are only the recognition of what the plan costs. She said there are other issues and that legislators need to understand reserves and the relationship in changes to the reserve balances, as well as budgeting. She said that currently state agency personnel budgets are set by positions, considering all costs and, if approved, that total amount goes into the budget; she said that within six months of an employee's hire, that information gets substituted by the information on the incumbent, so the filled position is what drives future budget numbers, giving the example of the agency being given $20,000 to hire an employee and the agency actually hires that employee for $25,000 and that person did *not* need health insurance, thus being able to pay them a higher salary; she said that now, in the budgeting system, the employee information system which feeds the budgeting system, new information about what the agency *actually did* overrides anything done from a funding perspective. She pointed out that at this time benefits are budgeted and not tracked once they go to the agency's appropriation. That is especially important when you talk about an area where the gain in cost has grown faster than inflation, trying to manage more intensely and make choices about providing incentives to people. She thinks it is key that perhaps budgeting can somehow be done differently for benefits, especially in the health insurance arena, adding that it may be time to do that, one of the reasons being that it is real money. She gave the example of about 2,000 state employees who choose *not* to use the state's health insurance at a cost of $4 million; budgeting does *not* account for that, and she told the committee this is something they may want to consider, along with other changes that may be appropriate, to make sure that the money funded follows the health insurance pool.

Ms. Holland-Smith next addressed employees who are part-time and some who are temporary, adding that the state does *not* budget for temporary benefitted employees. If an agency relies on temporary employees and pays them benefits, each year that these health insurance costs go up and the agency doesn't receive that money, the agency is "cannibalizing" the rest of their personnel budget to pay for their health insurance benefit. She said this means the current pool of FTP is not getting the full amount of their CEC, or the full value of salary savings generated by turnover, which can be substantial, so when the work force is defined, they do not include temporary employees, regardless of whether they are benefitted or not. Agencies have discretion; they can be given a full-time FTP and they can split that in half, giving two individuals benefits, adding that DFM has been looking at that much more closely. She commented that it really does drive up that budget, therefore being a practice that may not be in the best interest of the state. She said that another issue to examine is employees who leave who had chosen *not* to use their health insurance benefit, and the incoming employee *does* want to use that benefit; some agencies can come up with that difference in cost and some cannot, adding that perhaps funded benefits also present challenges.

Ms. Holland-Smith next addressed budgeting practices for employer-paid insurance costs, stating that:

- All fund sources support benefit costs including the retiree subsidy.
- Budget increases are based upon projections made in May before the budgeting process begins, with instructions in the Budget Development Manual.
- Governor's recommendation is formulated in December and presented in January.
- Changes in benefit mix and premiums occur months after the budget process is completed.

Ms. Holland-Smith listed possible consideration for budgeting changes as:

- Have agencies pay what is actually budgeted for health insurance.
- Require employees to enroll in health insurance plan or provide evidence that they have alternative coverage.
- Offer the employee health insurance coverage with zero premium.
- Create a path for employees to contribute to future health insurance costs in retirement through payroll deductions similar to PERSI Choice (401-k).

Senator Kelly inquired about temporary employees getting health care and retirement benefits and **Ms. Holland-Smith** said that most large employers do *not* provide benefits to temporary employees, adding that the state *does*, an approach taken when they didn't like FTP to increase the full-time work force, so they were hired as temporary, but if they work over 21 hours weekly, they became eligible for full benefits. She said that over time, that work force has gotten much larger, and some of these employees will retire with the state as a temporary employee. She said that part of the challenge, looking at methodology, is how the work force is measured and who could be impacted by changes. She used an example of an agency having 100 FTP on their books, plus 100 temporary people working 3/4 time compared to another agency having 100 FTP; those are very different budgets, but if one examined budget documents, one might think the agencies were budgeted the same, one having greater responsibility with regard to increased costs in health care, which is not recognized from a budget standpoint.

Senator Kelly asked for clarification as to whether the numbers being shown at this meeting included the temporary work force or not. **Ms. Holland-Smith** answered that most are classified employees who are not temporary. **Senator Kelly** said that if we are paying benefits to them and effectively treating them, understanding they might not have due process rights, it seems like they should be reflected in the data being shown to this committee. **Ms. Holland-Smith** responded that they know DHR is primarily responsible for cost by employee and that is where that responsibility comes for many of the reports, adding that temporary employees are nonclassified employees and not competitive. She said they are a resource managed at the agency level, not by DHR, but said that would be an extremely important consideration if any benefit changes are considered for temporary employees, pointing out there are permanent, part-time employees and temporary, part-time employees and asking if it is the state's intention to treat both the same or differently.

Representative Schaefer said that he believes the committee needs as much information on temporary employees as possible to make informed decisions on any recommendations. **Ms. Castro** suggested that the State Controller's Office might be asked to provide information on temporary employees by agency and any benefits they receive, and **Ms. Holland-Smith** said LSO would work with SCO to get that information for the committee. **Senator Hammond** asked also to include clarification on differentiating between temporary and part-time employees, and it was agreed that would be included.

Representative Pasley-Stuart asked for an example of how temporary positions are used, asking if the temporaries were employed by NIFC, adjunct faculty or nurses, and **Ms. Holland-Smith** answered that the state begins with a classification called casual or seasonal employees such as employees hired by the Department of Agriculture that brings in inspectors, hired for *less than 5 months*; even though full-time, the state does not pay those employees benefits, nor attaches. She said a temporary employee is categorized as a group employee, adding that those employees are lumped into one personal control number (PCN); a full time employee (FTP) has ownership in his or her job with a unique number, and if a temporary employee, that person is grouped together in a PCN called temporary, such as a record specialist, a nurse, a doctor, and many other professions. Sometimes employees are hired as temporary, giving options for key positions to see if that person is the right individual for that particular job. **Ms. Holland-Smith** said responsibility has increased for state agencies by expanding a temporary work force without recognizing them in their FTP count, adding that there is still the financial obligation, but that they are not being treated as part of the full-time work force.

Ms. Amy Castro next addressed some categories for the committee to consider with regard to policy as decisions are being made with regard to the benefit and compensation structure as follows:

- ♦ Recruitment & retention goals
- ♦ Employer/employee health insurance contribution strategy
- ♦ How Idaho should charge for that increased cost in benefits
- ♦ Subsidies
- ♦ Retiree plan options (shortfall in 2007 was $5.1 million, projected to be $8 million in 2008)

Ms. Castro showed a slide on page 12 of the PowerPoint presentation with regard to:

<u>Compensation/Recruitment Strategies</u>

- ♦ What is the mix of work force that Idaho wants to recruit and maintain?
  - Entry Level
  - Mid Level
  - Senior Level
  - Education
  - Specialty Staff
- ♦ What changes to Idaho's compensation package would encourage recruitment of the identified

work forces?

- ♦ What changes to the pay structure would encourage recruitment of the identified work force mix?

<u>What should Idaho's contribution strategy be for insurance benefits?</u> (Page 13)

- ♦ What is Idaho's policy for premium allocation between employer & employee?
    Should the employee split be different than the dependent split?
        i.e. 90/10 for the employee and 80/20 for dependents?
- ♦ What should the total mix of premiums & cash contributions be between the employer and the employee?

Ms. Castro again pointed out the subsidy between different benefit elections. Right now, single employees and the employee/child are subsidizing the other benefit elections. The single employee subsidizes about $205 per month to the other categories and the employee/child subsidizes about $62 monthly, asking if that policy should continue or adjustments be made.

On page 14 of her presentation it asked the question:

<u>How does the Legislature want to handle the subsidies within the current insurance plan?</u>

- ♦ Active employees' subsidy of retirees
- ♦ PPO subsidy of traditional insurance plan for active employees
- ♦ Subsidy within the different benefit coverage elections (single employee & employee plus a child subsidy of other benefit election categories)

On page 15 of her presentation, the retiree package was addressed.

<u>What kind of retiree insurance package should the state offer</u>?

- ♦ Should the combined rating for retiree and active employees continue?
- ♦ Offer a Medicare supplemental for those over 65
- ♦ Change or lift the sick leave cap to assist retirees under 65 with medical premiums

Senator Kelly asked about subsidies between or among groups, saying that the flip side sounded to her like pooling, which is done often in insurance to spread out risk, the implication usually being that it is not a good thing, adding that from a risk standpoint, it is not necessarily a bad thing, asking if that was correct. **Ms. Castro** said it depended on what subsidy one is talking about, adding that the state is not risk pooling with retirees versus active since they are two separate plans. She said they are subsidizing in the rating structure when they rate the two plans together, because the cost increases get merged, but they are not pooling those two groups together. The state is pooling the PPO plan and the Traditional Plan for active employees, so they are spreading risk across active employees. The state is subsidizing the retirees plan by transferring the money in the current active plan to the retiree plan for costs not covered by premiums. **Senator Kelly** asked if we *did* pool these plans, having not even talked about Medicaid and how the state is a consumer of health care, but if consolidation were done she wondered if they would have more to negotiate with, asking if that might not be an advantage. **Ms. Castro** said that on the active plan there are 43,000 employees and on the retiree plan there were 4,300 in 2007, who were Medicare eligible, so when talking about pooling retirees into the active employees plan, the count would not be that many more individuals, but emphasized that it is important to note that age increases costs, even though it is an option. She said one of the biggest issues between retirees and actives is PPO versus traditional, since retirees tend to travel and many choose the Traditional Plan, although about 75%-80% state employees in the active plan choose PPO, so there would remain that issue in pooling between PPO and traditional.

Senator Hammond said he needed to understand when a department receives a budget and a certain amount for health benefits and they hire an employee who does *not* use those benefits, if the department could use that money for other purposes. **Ms. Castro** answered that currently they can. **Senator Hammond** said that it seemed to him that they needed to be looking at managing those situations so that the money budgeted for benefits goes strictly for that purpose and that money be pooled, not simply employees who opt not to use benefits or when vacancies occur and no premium is being paid on that vacant position. He believes that money should also roll back in, asking how much difference might result, commenting that at least it would be easier to identify exactly what is really being spent, instead of using cost savings within departments. **Ms. Castro** said that was exactly what **Ms. Holland-Smith** was pointing out earlier in this meeting; they know that right now there are 2,000 employees who elect *not* to take benefits so they still fund at the rate in the budget this year $9,200 totaling $18.4 million that they are *not* seeing put into the insurance pool.

Senator Coiner focused on the retired employee over age 65, and asked about the health care benefit that retirees get, what that plan looks like, if it is a supplemental plan, is Medicare the first provider and whether it includes drug coverage. **Ms. Castro** said that retirees under 65 and over 65 are both within the same plan right now; retirees over 65 may or may not have elected Medicare, adding that statute requires PERSI to offer a plan substantially similar to active employees for the retiree, although there is a slightly different drug election coverage, but still covers the same basic principal that active employees have. If Medicare were offered as a supplemental, those retirees may now be paying $525 per month for their state insurance plan and also have Medicare coverage, adding that some are not even getting $525 worth of benefits based on that person's usage because Medicare pays a certain portion, so some are paying a lot more for that insurance premium and *not* getting the benefit. If that retiree had the option of paying for a supplemental that simply covered the cost difference, that would allow the same benefit coverage with much lower out-of-pocket premium cost, pointing out that it is different for different individuals. She said that whatever change is made will affect 47,000 people.

Mr. Gwartney added that retirees, over age 65, with Medicare coverage, are subject to the provisions of active employees and that Medicare pays first; what Medicare doesn't pay, up to the limits of active employees, is picked up, saying that is the way it works, Medicare being primary and other coverage secondary.

Ms. Castro said that in the PPO plan, they negotiate a rate, where Medicare has a specific flat rate, saying that they have heard from multiple providers that Medicare does *not* cover the total cost, adding that she personally did not know if that was correct. What Medicare doesn't provide is essentially what is being billed to the retiree plan, adding that there is no negotiated rate on that Traditional Plan that you would get on the PPO plan, confirming that most retirees choose

Traditional Plan coverage.

Ms. Castro suggested that after the Governor's budget recommendation is presented, and after JFAC hears that, she suggested that the co-chairs could then set the date for the next meeting of this committee. **Senator Schaefer** added that the committee had requested further data from DHR that would also be forthcoming.

Senator Andreason invited audience testimony or questions, based on the afternoon's presentations, and no one came forward, so the meeting was adjourned at 3:12 p.m.