MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Wednesday, January 13, 2016
TIME:	2:00 P.M.
PLACE:	Idaho State Capitol, East Wing 20
MEMBERS PRESENT:	Senators Co-Chairman Patrick, Martin, Lakey, Guthrie, Heider, Rice, Thayn, Schmidt and Ward-Engelking Representatives Co-Chairman Anderson, Hartgen, Anderst, Romrell, Holtzclaw, Loertscher, Mendive, King and Rudolph
ABSENT/ EXCUSED:	None
NOTE:	The Sign-in Sheet, testimonies and other related materials will be retained with the minutes in the Senate Commerce and Human Resources Committee office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.
CONVENED:	The meeting was called to order by **Co-Chairman Patrick** at 2:00 p.m.
PRESENTATION:	**Jani Revier**, Administrator, Division of Financial Management (DFM), presented the Governor's Change in Employee Compensation (CEC) recommendation as required by Idaho Code § 67-5309C. She started by expounding on the role of the DFM as the body that carries out duties on behalf of the Governor. She further explained that she was there to extend the Governor's recommendations for CEC in fiscal year (FY) 2017. **Jani Revier** explained that the Governor supported the Division of Human Resources (DHR) and their recommendation that the current salary structure be maintained. She explained that one of the issues agency directors face regarding pay is wage compression. She advised that the Legislature should be cautious when making changes to the salary structure. Adjusting the bottom of the structure only compounds the issue of salary compression. She explained that moving the entire structure, rather than just the bottom, would be the recommendation if the Legislature decided that adjustments needed to be made to salaries. She reiterated that the Governor was not supportive of a bottom adjustment of the pay grade without providing funding beyond the CEC because it forces agencies to direct funds to new hires at the bottom of the pay structure at the expense of high-performing long-term employees. She said that the Governor recommends maintaining current payline exceptions in order to compete with the outside job market or other entities for certain skilled employee positions.

Jani Revier stated that the Governor also recommends for the FY 2017 that there be a 3 percent increase to employee compensation for permanent positions based on merit. These are targeted at meeting agency-specific needs through agency-specific plans, and no change in employee compensation is meant for group plans. She stated that there are differences between agencies, such as their emphasis on longevity, increasing starting salaries or the types of employees (i.e. all non-classified or all recently reorganized). There are also inherent differences between small and large agencies that prevent complete equity across the agency spectrum, such as lack of flexibility in the budgets for small agencies or careful management of staffing for large agencies. She remarked that the Governor is supportive of flexibility for directors to administer to their agencies. She commented that Idaho Code § 67-5309b required directors to submit a plan that is consistent with the merit-based philosophy of the State. She explained that these plans allow for faster advancement through the pay structure for high performers. Also, these plans are approved by the DHR as required by Idaho Code § 67-5309b. These plans and matrices are then forwarded to DFM for review. This process is the same for all agencies.

Jani Revier continued to the Governor's next recommendation, which is that the current benefit package should be maintained, with the exception of the thriveidaho program. The Governor recommends eliminating the thriveidaho program. The Governor has fully funded the health benefit cost increase to avoid an increase in employee premiums. The State was notified in December that the increase in health insurance costs was higher than anticipated. The State is experiencing a spike in health insurance claims, particularly in prescription drug costs. Employer costs are being increased $12,240 per employee, which is $1,040 more than FY 2016. This is $700 per full-time position (FTP) higher than anticipated in June 2015. She explained that by eliminating thriveidaho, there will be a savings of $100 per FTP. Another reason for the proposed elimination of this program is that it is not the program the Governor approved. She stated that the Governor wants a program that encourages healthy habits, thus driving down health care costs. The current program encourages employees to take advantage of a benefit that is already free under the current health care plan, with no incentive to address the health issues.

Jani Revier talked about the escalating costs of health care as one of the main challenges the State faces. She cautioned the Change in Employee Compensation Committee (Committee) to take care when considering different methods for reducing health care costs to ensure that the total compensation for employees was not jeopardized in the process. In other words, reduce costs without harming employees. She reminded the Committee that State employee wages lagged behind the private sector by 22 percent and that the 2013 analysis by the Hay Group stated that benefits make up some of the difference. She stated that though a clear alternative would be to pass costs onto employees or cut benefits, this would negatively affect Idaho's ability to retain and attract workers.

Jani Revier told the Committee that agency struggles in retention and attraction have led to specific budget requests targeting compensation adjustments. This practice is neither encouraged nor discouraged but rather has allowed agencies to share their needs with the Governor and the Legislature. This posed the problem of how to address these issues without creating inequities between agencies. She stated that the Governor is requesting a few line items beyond the CEC. These are specific agencies that are experiencing higher turnover than average for Idaho agencies and are having trouble filling open positions. **Jani Revier** expounded on those specific agencies and their needs. Specifically, the Governor recommends that Department of Correction Security Personnel Retention Plan be funded in the second of a five-year plan. Also, it is recommended that the Idaho State Police (ISP) Regional Communication Center Retention Plan be funded for the regional communication officer positions. The annual turnover for these positions averaged 21.6 percent over the last five fiscal years. She stated that it takes about eight months and $37,400 to train a new regional communication officer, and ISP has a starting hourly rate far below the average competing agency rate. The last agency line item recommendation from the Governor is of concern to the Department of Health and Welfare (DHW) since the chief of psychology position at State Hospital North has been vacant for more than a year. Consultation with psychologists has led to the recommendation that a salary increase is needed to fill this vacancy. Additionally, a salary raise is recommended for the psychologist position at State Hospital South in order to address the disparity between psychologist positions and those of mid-level practitioners employed at the DHW.

Jani Revier reiterated the challenges to the CEC that have been heard and discussed. These are: escalating health insurance costs, salary compression, and recruitment and retention. She reminded the Committee that many agencies are struggling to keep up with the increased costs due to the amount of overall general funds, static or declining federal funds and the budgeting concerns at the end of the fiscal year. Since the premiums are paid a month in advance, some agencies are having to use salary savings in June to pay for July's benefit. She stated that agencies run into trouble for failing to take this into account if they have incurred some unforeseen expense or simply do not have adequate salary savings. She restated the concern agencies have with entry salaries increasing and salary compression for existing staff. Most of the funding has been targeted for new staff, while existing staff have not seen salary increases.

Jani Revier reviewed the final area of concern regarding recruitment and retention. Market increases have forced agencies to focus on new hires at the expense of long standing employees. This in turn tempts longstanding employees to seek other employment in the private sector. She restated the Governor's overall recommendations to curb these problems:

- A 3 percent CEC.
- Fully funding the health benefit cost increase.
- Maintaining the current benefits.

Jani Revier concluded by reminding the Committee that they should have all received a letter from the Governor with links to the report of the DFM as statutorily required. She stated that she also sent an email to all the Legislature with links to the report. She invited members of the Committee to contact her with any questions.

Co-Chairman Patrick thanked Jani Revier for her report. He then spoke of the remodeling of the health insurance plans. He stated that there is another committee working on this so that there probably was not much the Committee could do. He also stated that there is an obvious need to do some health care savings. He then opened the discussion for any questions other Ccommittee members might have.

Senator Schmidt asked about salary plans and the statute regarding those. He asked if there was a relationship between the salary plans and the policy rate. **Jani Revier** replied that it depended on the agency. She elaborated that some agencies develop a plan that is based on policy and others do not. **Senator Schmidt** observed that salary is below policy and policy rates themselves have fallen farther away from market. He asked if agency directors are supposed to look at market rates when considering their plans. **Jani Revier** stated that matrices and plans that are received from different agencies vary widely depending on their needs. While some are complete merit, some are merit and longevity. Others still addressed comp-ratio or target-specific classes. She stated that the DFM tries to work with each agency to accomplish their goals as long as they are in line with the Governor's outline of policies for the State. **Senator Schmidt** asked if that was done annually. **Jani Revier** responded in the affirmative. She stated that every time there is an update to the CEC the agency is required to update their plans. If agencies are going to do a distribution, they are required to update their plans if there is no CEC.

Representative King remarked that in the previous meeting the Committee heard testimony that colleges and universities wanted to give the 3 percent to their employees instead of splitting it up. She asked if the Governor agreed. **Jani Revier** stated that the Governor is not recommending a fund shift to cover the entire cost of the CEC for colleges and universities. The Governor is supportive of having the State Board of Education (Board) review the appropriate role for the State when it comes to funding higher education, including the appropriate way to fund the CEC. She then asserted that universities are different than agencies. Universities do not have an FTP cap. **Representative King** asked if the $13 million increase in pharmaceutical costs was a one-year fluctuation or ongoing. **Jani Revier** answered the increase appears to be ongoing in two ways:

- $13 million are needed to keep State reserves where they need to be.
- A $1,040 increase per FTP is due mostly to the rise in the cost of prescription drugs .

Senator Guthrie questioned if State health benefits are better in making up some of the deficits between salary and market. He wanted to know if those benefits are 15 percent, 18 percent or some other percent below market. He explained that having an attractive benefit package is good, but having wages below market means that the State is not putting its best foot forward. He also asked if there had been any discussion of increasing salary rather than the 3 percent increase the Governor is recommending. **Jani Revier** replied that the DHR is working with the Hay Group on an upcoming report that will give better insight into just how the State's total compensation compares to total compensation in the private market. She talked about anecdotal evidence regarding private companies shifting the increase of health care costs onto employees while compensating for that shift with increased salaries. She stated that the State has covered these increased costs. Further, she stated that the benefits package is being used currently as a recruitment tool. It works for some jobs, but not for others, such as the lower paying jobs. The benefits package means a lot more to mid-level employees.

Senator Guthrie asked a question about salary savings and the inequity across departments; he specifically wanted to know if there had been discussion on addressing this issue. **Jani Revier** stated that the salary savings is a tool and that it depends on the size of the agency in regard to use of that tool. Larger agencies can generate some salary savings annually because in their large workforce only a few tend to move on each fiscal year. Small agencies tend to have spikes in their savings as people move on and then things tend to settle down to the stable level again as people are hired. She stated that agencies use salary savings in different ways, which is part of the reason for the inequity. For example, some agencies use salary savings to cover health increases. Others use savings for retiring individuals with a vacation payout. Salary savings can be used to implement the CEC early. Some agencies do not have a salary savings, but they experience the upside to being fully funded and fully staffed. She stated that she would not recommend sweeping salary savings changes as it takes away a tool that can be used. Salary savings are created sometimes because there are gaps in the time it takes to hire someone for a vacant position. **Co-Chairman Anderson** responded to Senator Guthrie's question. He reaffirmed the fact that it was stated earlier that there was a report being generated by the Hay Group and it may be available as soon as the Committee's break. This report will give the Committee a better view of the total compensation that the State provides.

Co-Chairman Patrick mentioned that as far as increasing salaries to compensate for employees covering increased health costs, this could be a real problem when it comes to the taxes an employee has to pay. He asked Jani Revier if that was the case. **Jani Revier** replied that this issue is one of the points the Governor took into consideration when issuing his recommendations.

Representative Anderst asked three questions about the elimination of thriveidaho:

- How many people were participating in thriveidaho?
- What does elimination of the program do to those participating?
- How much is expected to be saved by eliminating this program?

Jani Revier responded that the State was looking at saving $100 per FTP.

Representative Rudolph noted that the 3 percent the Governor was asking for does not include a fund transfer in higher education. He asked how the Governor could lock tuition if the CEC does not include a fund transfer. He noted that this appeared to place all the costs on incoming freshmen. **Jani Revier** responded by defining the tuition lock program the Governor is proposing. She said that all incoming freshmen would pay the current rate of tuition for that year, regardless of tuition increases over the following years, if they met the conditions for tuition lock, such as a certain GPA retention, continuation of enrollment from previous years and graduating within four years time. The State makes up the difference between what the student pays and the rise in tuition cost. She stated that for the first year of tuition lock implementation, there would be no cost to the State. In the second year of this program, the estimated cost is $1.5 to $2 million. Full implementation of tuition lock will cost $8 million. Students can transfer from one public university in the State to another and still receive the benefits of tuition lock. Junior college transfers to a public university can also enjoy the tuition lock. They would transfer in as juniors and would pay the same rate as the other junior class members from when they were freshmen.

Co-Chairman Anderson asked for clarification about Jani Revier's example of turnover regarding the ISP Regional Communication Center and the turnover rate there. He cited a report furnished by DHR, stating that voluntary separation for the ISP was 27 people, or 5.7 percent. He asked specifically why the turnover rate overall for ISP was relatively low, yet for this one category it was high. **Jani Revier** answered that there were pockets in many departments where turnover was high, similar to the ISP example. In that specific example, the Regional Communication Center has 911 operators who get trained by the State at great expense. These operators then leave their positions with the State for better paying opportunities at the county level or with other states. She stated that management does play a part in this process, but it also comes down to the fact that the State had not been giving a CEC for several years and it is hard to retain employees with no new money to do so. She added that this is why the recommendation is for additional compensation above the CEC in this area. **Co-Chairman Anderson** asked about the significance of policy rate in regard to overall compensation, its relevance to compensation and how that is determined year to year. **Jani Revier** remarked that DHR would be better suited to answer questions about policy rate. She stated that policy rate does not represent market. It is an arbitrary number.

Representative Hartgen inquired about whether or not any thought had been given to adding the 911 operators to the salary enhancement program that was passed a few years back for retaining ISP officers. He also asked if it had been discussed or if there has been any research done on what it would cost to add the dispatchers to that program. **Jani Revier** clarified that Representative Hartgen was speaking specifically about the Choice Plan. **Representative Hartgen** stated that he was. **Jani Revier** stated that she knew others in her office have looked into that topic, but she has not. She stated she would be happy to look into that and get back the Committee and Representative Hartgen. **Representative Hartgen** asked about the Governor's intent in regard to the university fund shift. **Jani Revier** answered that the Governor does not oppose a fund shift, but he did not recommend one. She stated that she would check with the Governor if it was the intent of the Legislature, but all she knew at that moment was that a fund shift was not currently recommended.

Co-Chairman Anderson asked again about policy rate. He asked if David Fulkerson would respond to his inquiry on the subject. **David Fulkerson**, Interim Administrator, DHR, responded that many years ago, the State had a system with steps and lanes, which mirrored the federal system. When the system was changed by the State, policy line equated a percent from the market. The structure has been moved a few times, but neither the structure nor the policy rate was moved with what was happening in the market. He stated that at this point it still has the term policy, but it is probably not a meaningful number anymore. Under the old system of steps and lanes the State had an unwritten goal of moving people towards policy within five years, but that was never a set policy statement in code. **Co-Chairman Anderson** asked David Fulkerson if changes were appropriate to restructure or review the policy rate and who would bear the responsibility of that or take charge of that effort. **David Fulkerson** responded that a joint effort would be reasonable for review or restructure. DHR is in the best position to make some recommendations, but it would need the will of the Legislature to move forward on that. After receiving approval, it would be prudent to look at what other states were doing. He stated that based on the all the factors, the State possibly could go to the minimum, midpoint and maximum philosophy or keep the policy and decide when that policy should always be compared to market. If the State decided to go with a policy in relation to market, it would be free to bounce up or down without having to set a new structure. This still may not be as beneficial as knowing where the State is with complete salaries and the benefits package in relationship to the market. **Co-Chairman Anderson** inquired if DHR is in a position to make recommendations and if this information regarding policy rate would be realistic to put on the books for the Committee to discuss next year. **David Fulkerson** responded that it would be reasonable to talk about it next year.

Co-Chairman Anderson asked Jani Revier if 3 percent did not extend to group or part-time employees, what was the Governor's rationale for that? **Jani Revier** explained the Governor was not recommending a CEC for group positions because of their temporary nature. Group positions are different than the part-time positions. She expounded that the State tried to clean up their part-time positions. They are part of an FTP and are eligible for the CEC. Group positions are individuals that work for the State for part of the year and then break service and may or may not come back. The Governor has urged agencies to recommend increases in group dollars if they need more money to hire part-time employees. **Co-Chairman Anderson** asked about the 4.9 percent increase that the Governor has proposed for this year's budget and the idea of not growing government more than the economy. **Jani Revier** replied that the Governor has recommended a budget that is around 7.3 percent. The Governor does not want to grow government more than the economy. She reminded the Committee that in FY 2017, the State had a growth in government of just over 5 percent and a growth in the General Fund receipts of 8.6 percent. In other words, the State has extra money that has been carried forward. The Governor is proposing spending ongoing money in a one time nature as opposed to the economic downturn where one-time money was spent on the ongoing needs. She remarked that by spending ongoing money on one-time needs, it assures that there will be an income stream next year.

Senator Rice questioned comments on the fund shift and its relationship to tuition lock. He wanted to know if there were limits placed on the tuition lock, would there be some certainty on what the total amount would be from one year to the next or would there be a way of doing a fund shift on a CEC? **Jani Revier** stated that tuition lock would only apply to the State covering the increases in tuition for an individual who started as a freshman and went all the way through college, maintained a minimum grade point average and graduated within four years. There are a few exceptions. Therefore, it depends on what the Board approves for increases. The institutions still have to cover the student. Other states that have done tuition locks by increasing the first two years of tuition so the last two years are not as much. She commented that this has not been very successful. Asking institutions to cover tuition lock on their own causes harm because it is asking the institutions to do more with less. This is more of a benefit to the students in that they are guaranteed that the tuition stays the same for four years. The State covers the difference. **Senator Rice** asked how tuition lock affects budgeting and a CEC. He specified if there was some mechanism for the Legislature to know that there is something for certainty in budgeting from their standpoint. **Jani Revier** responded that certainty for the Legislature on budgeting would mean uncertainty for students and other consumers of the tuition lock. The program would have to be cut or become more of a tuition cushion rather than a tuition lock. She stated that there was no way to provide certainty without placing parameters on the program that may make it unworkable. She commented that when the history of fund shifts is examined, half of the time the State covered fund shifts and half the time it did not. There are years when the State did a fund shift and there was still a tuition increase. She stated that she did not believe it could be said that tuition increases are only due to CECs. There are many other factors. The Governor has great faith in the current Board in that they are going to closely scrutinize requests from institutions and keep tuition costs as low as possible. She stated that they are not going to put this in statute but are rather asking the Board to make sure that only justified and reasonable increases are approved.

Representative Anderst asked how are the agency-specific plans of the Governor's recommendations reviewed and who reviews them? **Jani Revier** explained that the agency-specific plans are line items within each agency budget and that the Committee will be briefed on those items, just as they were last year. **Representative Anderst** asked if they will have the briefs in time to make a recommendation for a 3 percent increase in the CEC. **Jani Revier** stated that when the Governor looked at these individual plans, they were separate from the CEC. She reiterated that they recommended the CEC because of the current conditions statewide. She stated that they identified three areas where the State is really behind; even further behind than the state average. She stated that is why they are recommending an increase for those three areas. For the rest of the requests, the Governor has recommended through his budget that the agencies address those issues within the CEC. **Representative Anderst** asked, according to Idaho Code § 67-5309B, if the Committee is supposed to be reviewing agency-specific plans annually prior to recommendations or is this a process better left for the Joint Finance-Appropriations Committee (JFAC). He noted that the Governor's request for 3 percent is not going to be distributed equally. He reaffirmed his support for merit. He clarified that he does not want to be doubling up on the appropriation process to determine whether or not the dollars are being spent in the most effective way. **Jani Revier** explained it is part of DFM's responsibility, as delegated by the Governor, to review all plans that are prepared. She stated that she did not know, but that a lawyer would, whether the Legislature was bound by the Idaho Code to review those plans as well. It has always been treated as an executive branch function. She reiterated that the only plans with recommendations for additional funds were those that are really below market or had high turnover. She stated that there is a doubling of efforts, but it is for a reason.

Representative Hartgen inquired about a merit increase and whether or not the Governor would see it outside of his suggestion to take the total percentage, split it between a base amount and merit amount and then distribute it between different agencies or departments, while leaving them to decide how to move that money around based on their perception of performance. **Jani Revier** reaffirmed the Governor's support of the merit system and that there should be nothing across the board as it limits the ability of the director to target resources. **Representative Hartgen** asked how the Governor would view putting part of the increase on the base side and part on the merit side, as had been done in the past. **Jani Revier** asked for clarification about which split in particular Representative Hartgen was referring to, in that the State had done three or four different things in the past three or four years. **Representative Hartgen** asked if the Legislature used another approach other than the 3 percent merit, what would the Governor's Response be? **Jani Revier**

reiterated the Governor's recommendations. He does not support the across the board approach. If the Legislature uses that approach, the Governor would have to determine what action he would take.

Co-Chairman Anderson introduced the next presentation about the generation gap. He referred to page 10 of the spiral-bound book from the last Committee meeting, noting the total new hires by generation. He also referred to a Kiplinger mailing he personally received that spoke about the Generation Z population, which is 70 million children born after 1998. They will start making a mark on the world by challenging employers with their desire for workplaces with the most up-to-date Informational Technology (IT) systems. He stated that there is a recognized generational gap nationally. He then spoke about an exercise the Legislative Services Offices (LSO) participated in, where a mock survey was given to them to rank their preferences for things of value in a job position. He stated that a little more than half voted for a 3 percent raise, with flexible hours coming in second.

PRESENTATION:

Ashleigh Jensen, Training Specialist, DHR, presented "Understanding the Generations: Introducing the Different Generations that Currently Coexist in Today's Workplace." She said her presentation was a modified version of eight courses offered by DHR's Supervisory Academy. She started by showing a video regarding the different members of a team reflecting on when they were the new generation in the workplace. It showed that despite differences in age, it is helpful to remember that everyone has been in the new position. She introduced the different generations. They are as follows:

- Traditionalists identify with the Mickey Mouse Club and were born between 1933-1946.
- Baby Boomers identify with Mighty Mouse and were born between 1947-1964.
- Generation X identify with Scooby Doo and were born between 1965-1979.
- Millenials identify with Teenage Mutant Ninja Turtles and were born between 1980-2000.

She outlined some of the generalizations for each category to display the events that happened in the formative years of that generation and the effect it had on the qualities and characteristics of that group. For the Traditionalist generation, the events of the Great Depression, the Dust Bowl and World War II, shaped these people to be respectful, loyal and hardworking. All work was put ahead of play.

For the Baby Boomer generation, the civil rights and human rights movements shaped them to be more independent and more focused on individual choices and the freedom to live freely. Technology becomes important in this generation, in that they feel comfortable with technology.

Generation X were known as the first day-care kids. These people had both parents usually working and they came home to an empty home after school. They had to take care of themselves, as well as younger siblings. As such, they were forced to grow up quickly, become independent and self-reliant. They are seen to be independent and materialistic. They are also considered more educated due to the fact that about half of them completed or enrolled in more than one year of college.

Millennials experienced such things as school shootings, the September 11, 2001, terrorist attacks and the Oklahoma City bombing. They are a "live in the moment" generation with technology and instant gratification expectations. This generation tends to expect awards for minimal efforts. This is related to the workplace in the behaviors exhibited by the different generations. The first two generation types live to work, whereas the later generations work to live. Each group has their own challenges.

Ashleigh Jensen spoke about retention ideas for each group and the communication preferences of each. She then introduced the 2020 workforce, known as Generation Z. She stated that in five years most of the Traditionalists and Baby Boomers will either have retired or be on their way out of the workforce. Millennials will then account for about 50 percent of the workforce instead of the current 30 percent. She stated that there is not much known about Generation Z, except that they have never known a time without a handheld device, they have constantly been plugged into the world and they will not understand the concept of Saturday morning cartoons. The question for the State becomes how to attract and retain this group.

Co-Chairman Anderson asked how this information would effect the State of Idaho and what connections Ashleigh Jensen has made with those who will make decisions based on this information. **Ashleigh Jensen** replied that this affects the State in terms of recruiting. She stated that the CEC shows about 48 percent of new hires are part of the Millennial generation. She stated that she is still relatively new to DHR and is working on building those relationships. **Co-Chairman Patrick** commented that this information is used by those in the private sector and on the political front.

Senator Schmidt commented that after they were given the LSO survey, he tried to go through the list by generation. He thought the older generation would have wanted different things than what the younger generation would have wanted. He then asked if the State was serving the coming generations by continuing to invest in benefits when those surveyed appeared to desire a 3 percent salary increase the most. **Ashleigh Jensen** replied that the Society for Human Resource Management did a study in 2014 that states that overall benefits take the number three spot in the top five motivators for employees across the nation. She elaborated that for Baby Boomers, overall benefits are in the top-three factors. Generation X rates overall benefits as their number-two motivator and they are the number-four motivator for Millennials.

RECESS: 3:33 p.m. - 3:43 p.m.

RECONVENED: **Co-Chairman Patrick** called the Committee meeting back to order at 3:43 p.m. He remarked that enclosed in the packet for members were emails from individual employees of the State regarding a CEC and also a memo from the Department of Commerce, which he encouraged members to read.

PRESENTATION: **Jennifer Pike**, Administrator of the State's Office of Group Insurance (OGI), presented Policies that Drive the group Health Insurance Program Structure. She gave a brief description of the OGI. She explained they assist employees and human resource staff with benefits enrollment, reconciliation of premiums and miscellaneous training. They also conduct overviews of benefits to large groups of employees. She then spoke about the structure of the medical plan. She said close to 80 percent of active employees are enrolled in the Preferred Provider Organization (PPO) plan. She then spoke to the demographics of those covered by the medical and dental plans. She reviewed eligibility based on Idaho Administration Procedures Act (IDAPA) 38.03.01. Eligibility is broken down into two tiers. Tier I referes to full-time employees. Tier II refers to part-time employees. **Jennifer Pike** addressed Idaho's grandfather status. This covers medical and dental plans that existed before March 23, 2010. This status means the State accepted certain limitations on the cost sharing that can be passed on to employees. In exchange, the State was exempted from implementing all the required elements of the Affordable Care Act (ACA). The disparity between plans with grandfather status and those without has narrowed because many of the mandatory changes have applied to all plans. She elaborated on the different mandatory changes and what the loss of the grandfather status would mean for the State.

Jennifer Pike continued her presentation with an examination of the funding model for the State's health plan. She explained this was developed as an alternative to self-insuring. The State is removed from ultimate liability for claims and from defending claim decisions. The funding model also removes necessity to implement all of the Health Insurance Portability and Accountability Act (HIPAA) requirements. The State maintains a contractual reserve to meet financial obligations with a plan carrier. Public and private entities in Idaho use a unique funding model with plan carriers that is similar to what the State does. She then elaborated what the State has spent on cost sharing. Total plan costs include premiums, co-pays, deductibles and any cost sharing paid by the employees. The State's plan is trending similar to other surrounding states.

Co-Chairman Anderson asked if health care costs are going up, why would the State' plan costs drop from 10 percent to 6 percent during the past year? **Jennifer Pike** responded that changes in ACA fees have made up a large part of the State's planned increase; yet in December the Congressional Omnibus Budget included a one-year moratorium on the health insurer fee. This fee makes up about 80 percent of the fees that the State is paying in the current year. She stated that the State will save $4 million in 2017 and 2018. **Co-Chairman Patrick** asked how much the State paid for the ACA before the moratorium. **Jennifer Pike** answered that in the current year the State expects to pay $9.2 million in ACA fees. She proceeded to talk about contractual reserve. This is negotiated as part of annual renewal. If the claims and expenses exceed 100 percent of annualized premiums, the carrier will be compensated by the State from these reserves. It is predicted that 10 percent of reserves should be sufficient to cover costs, however increased uncertainty in health care costs are being seen this year like never before. She then went on to talk about the balance of reserves since FY 2011 through projections for FY 2017. The State has seen a decreasing reserve balance.

Co-Chairman Anderson asked who the State paid the $700,000 risk charge to and why. **Jennifer Pike** responded that Blue Cross of Idaho assessed this charge when the State took the contractual reserve down from a 10 percent confidence level to 5 percent. The risk charge was assessed in case the State went over the assessed $700,000 risk charge. **Co-Chairman Anderson** asked whether the risk charge was essentially Blue Cross questioning the State of Idaho's ability to pay the bills. **Jennifer Pike** answered yes.

Senator Schmidt asked if the State was still at the 10 percent confidence requirement in FY 2011, noting that the balance was quite high. **Jennifer Pike** stated that the State was at the 10 percent requirement at that time. The State actually had $48 million in its cash reserves, which was above and beyond the 10 percent.

Co-Chairman Patrick recalled that there were holidays in 2011 and the State did not charge extra to the employees until the reserves went down. **Jennifer Pike** replied in the affirmative. The State did premium holidays, one in FY 2011 and one in FY 2012, to draw down on reserve funds.

Senator Schmidt asked what was contributing to plan volatility? . Was it the ACA fees or health care costs? **Jennifer Pike** answered that the ACA has been a significant factor in increasing plan costs. The State is seeing higher than expected trends in medical claims and prescription claims. The medical trends had about an 8 percent increase; the prescription drug trends peaked at approximately an 11 percent increase for active employees and a 16 percent increase for retirees. This is why the State's plan continues to increase even with the ACA fees reduced.

Representative Hartgen noted the estimate of $26.9 million for FY 2016 contained half from a transfer. He asked if that was a direct payment from the State or where did it actually come from? **Jennifer Pike** answered that the Governor's recommended transfer for $13 million came from the General Fund to shore up the reserve going into FY 2017. **Representative Hartgen** asked if the transfer was a one-time thing or ongoing. **Jennifer Pike** stated that it was a supplemental transfer. The OGI is not projecting a deficit in the future, but they will continue to monitor as closely possible.

Jennifer Pike stated that this is the first time in recent history of at least more than a decade that the reserve is expected to end at a deficit in the year. She restated the Governor's recommendation to transfer $13 million into the reserve account during FY 2016. To mitigate this circumstance, the State established an actuarial recommended reserve in addition to the 10 percent contractual reserve. The actuarial reserve is to ensure the State had the ability to reestablish the 10 percent contractual reserve, rather than needing to seek additional funds or pay a risk charge with a plan carrier. When the State had an actuarial reserve, it was set at a 90 percent or 95 percent confidence level. Current reserve levels are closer to an 85 percent confidence level. She stated that the final component for the group insurance picture was the Governor's recommendation for full funding of the larger than expected increases in plan costs so the employees do not have an increased cost. The recommended appropriation for FY 2017 is $12,240 per eligible employee. This is a 9.3 percent increase over the FY 2016 appropriation. **Jennifer Pike** talked about options to address the unpredictable plan costs for the near future. These include:

- The State could get a third FY 2017 actuarial projection.
- The State could also return to the 90 percentile actuarial reserve level. This could absorb fluctuations.
- The State could increase the minimum number of hours requirement for eligibility, i.e. elimination of Tier II.
- The State could drop the grandfather status. There are benefits and drawbacks to this option.

Representative Hartgen asked if the additional $7 million or $8 million is in addition to the estimated $28.9 million for FY 2017. **Jennifer Pike** responded that this statement is correct. **Representative Hartgen** asked if it was more correct to say that the actual number for FY 2017 is actually $36 million if the State returns to the 90 percent standard in actuarial reserve. **Jennifer Pike** stated that Representative Hartgen was correct. She clarified that the CEC was looking at the FY 2016 ending, so there would be an additional $10 million.

Jennifer Pike stated that in 2013 the OGI commissioned a study to explore the advantages and disadvantages of self-funding. She stated that changing to a self-funded plan would not necessarily cause the State to lose its grandfather status. However, numerous changes in complex administration would have to be considered. She stated that at the request of the Legislature, in prior years, the OGI conducted studies into incentivizing employees to enroll in Health Savings Accounts (HSA); combining the HSAs with the current high-deductible plan; or implementing an HSA in combination with a Voluntary Employee Benefit Association (VEBA) plan. She stated that both options (the HSA and the VEBA) suggest the possibility of savings, but it would require the State to change the way it currently provides benefits and would require most, if not all, employees to participate in such a plan.

Representative Hartgen asked what the impact of cancelling Tier II plans would be on the 160 people that the State plan currently insures. **Jennifer Pike** replied that the average cost to insure an employee is approximately $12,000 a year, which would be a $2.1 million cost avoidance for the State. **Representative Hartgen** inquired if there had been any discussion about what the impact would be on part-time employees if the Tier II option was eliminated. **Jennifer Pike** answered there has not been significant discussion on this point, but she would be happy to continue this discussion.

Representative Anderst asked about the dependent eligibility audit and what impacts it had. He also asked about any additional follow up. **Jennifer Pike** responded that the audit identified about 1,800 as not being eligible. About half of that number were simply those who did not complete the documentation. The results showed about $5 million in cost avoidance. The OGI has implemented a point of enrollment verification, where additions of dependents are verified by Health Management Systems (HMS).

Senator Thayn asked what the State could do to maintain quality health care and reduce costs. He asked what others in private industry or other states are doing. **Jennifer Pike** responded that someone who is more of an expert in this area would be better to respond. She offered to set up a meeting with Senator Thayn. **Senator Thayn** said he would like a meeting. **Jennifer Pike** stated that she could have some of the experts follow up with him on the way out of the Committee. **Senator Thayn** asked what the cost was for an actuarial report. **Jennifer Pike** responded that it was approximately $50,000.

Senator Schmidt asked what role the Group Insurance Advisory Committee (GIAC) played. He asked if GIAC recommended the adoption of thriveidaho. **Jennifer Pike** responded that a member of that committee would be better able to answer that question. **Senator Martin** stated that he and Representative King served on that committee and he did not recall thriveidaho being discussed in the GIAC. **Senator Schmidt** asked Senator Martin or Representative King if the decision to move away from thriveidaho was discussed by GIAC. **Representative King** responded that she remembers talking about it in GIAC and deciding to participate in thriveidaho. She then stated she would like to hear from Amanda Visosky, member of the OGI. **Co-Chairman Patrick** asked Amanda Visosky to speak on thriveidaho.

Amanda Visosky, Health Promotion Program Coordinator, OGI, talked about thriveidaho. She said it is participatory and voluntary. This is the second year with a $250 reward for participants. In FY 2015, 3,500 employees received the reward. She stated that they expect the same numbers this year, with 860 participants in the first quarter and 830 participants for the second quarter of FY 2016. She then talked about the requirements to earn the $250 reward. **Representative King** asked how much the State has saved by having healthier employees. **Amanda Visosky** replied that they do not have an estimate and that data is just starting to come in.

Co-Chairman Anderson asked if the implementation and subsequent removal of thriveidaho had changed the risk factor for the amount of money the State needed to accumulate and if the plan providers view the State's risk to have changed by eliminating the thriveidaho program. **Jennifer Pike** responded that the two things are not tied together. The risk charge was part of the reduced contractual reserve.

Co-Chairman Anderson asked about the Cadillac Plan, which he understood exposed the State to certain fees under the ACA. Specifically, he wanted to know what it was about the State's plan that caused it to fall into the Cadillac category. **Jennifer Pike** responded that the State's plan is not a Cadillac Plan. She stated that the State's insurance consultants and actuaries were watching this very closely because of the different factors that play into that calculation. **Co-Chairman Anderson** asked why the State has not done away with a medical plan for the employees and given them a voucher or stipend and let them buy a plan over the exchange. **Jennifer Pike** answered that it would be a policy consideration for the Governor to review. **Co-Chairman Anderson** stated that the State is paying around $40 million for the Blue Cross plan that covers approximately 20,000 employees. He asked if the plan was put out to bid on occasion or if the State ever shopped that plan on the market to see if they were getting a competitive rate. **Jennifer Pike** stated that the State did shop the plan on the market four or five years ago. The State does not have a set schedule as to when they do that. **Co-Chairman Anderson** asked for clarification of the administration costs that Blue Cross was charging. He thought it was approximately 20 percent in costs that the State pays out for employees. **Jennifer Pike** stated that the administrative fee is actually closer to 6 percent. **Jennifer Pike** stated that administrative costs were approximately $9.1 million. **Representative King** stated that she remembered about a year ago the State looked into plans. She stated that the Blue Cross was by far the best plan.

PRESENTATION: **Robyn Lockett**, Budget Policy Analyst with Legislative Services, presented Appropriation Considerations. She reviewed the State's compensation schedule, which is the basis for how the State funds its classified employees. She answered a question Senator Schmidt posed at the previous Committee meeting regarding how the State's 50/50 split between classified and non-classified employees compared to other states. She stated that she communicated with the State of Utah and that they are very similar to Idaho in numbers of total State employees. In Utah, 67 percent of their employees are classified and 33 percent are non-classified. She remarked she will continue to work on it if the Committee desires. She mentioned that the policy rate is between the minimum and maximum pay rate in each classification, which the Committee talked about previously. She defined policy rate and talked about how it compared to surrounding state governments' policy rates by being 6 percent below. In each of the pay grades there is a 55 percent difference between the minimum and maximum policy rate. **Representative Hartgen** asked for clarification about surrounding states' average hourly pay rate. He stated that it appeared to be $52 an hour. **Robyn Lockett** stated that it would be $23 an hour.

Representative King asked how compression would affect the higher end of the employee scale. **Robyn Lockett** answered that the graph depicts only 13 of the 19 pay grades, but 99.99 percent of all employees fall within these pay grades. She stated that the majority of employees fall in grades F through O and that is where the State is lagging the most. **Representative King** asked if the State brought the lower end of the pay grades up, how would that affect the statistics?**Robyn Lockett** replied that she would have to defer that question to the DHR. She stated that in general there is less compression when the entire pay scale is moved. **Representative Anderst** clarified that the discussion was about hourly wages and not benefits. **Robyn Lockett** replied in the affirmative that they were speaking only about hourly wages.

Senator Martin asked what effect a 3 percent change would have on the hourly wages chart that was referenced. **Robyn Lockett** responded that until the State knows what other states and the private sector do, the projection for salary and benefits would not be that accurate.

Robyn Lockett stated the policy rate is a metric that is only changed when action is taken by the Legislature. She read Idaho Code § 67-5309C in regard to DHR requirements to include recommendations in the December report on salary structure. She stated that DHR and the Governor have recommended no change to the salary structure. The Legislature can either accept the Governor's recommendation or can make their own recommendation. She stated that changes to policy rate were made in FY 2015, FY 2010, FY 2002, FY 2001, FY 1999, and FY 1996. Since the policy rate has been changed several times in the last 20 years, it averages a 1 percent increase annually. She stated that there are costs associated with any changes in funding rates. Moving policy rate only on the pay structure technically does not cost any money during the beginning of the fiscal year. It does move employees around in relationship to the policy number. She gave an example of moving policy upwards 3 percent in pay grade D. The costs then would come over time as the State adds new employees. In JFAC, a new position is usually funded at 80 percent of policy. **Senator Schmidt** wanted to know whether the policy applied to only classified employees in terms of budgeting for a new employee through JFAC. **Robyn Lockett** replied that all positions are budgeted at 80 percent of policy for appropriations; however, an agency can pay less than that.

Robyn Lockett stated that if the State adjusted the minimum pay rates at the same time the State moves the policy rate, there is a cost. The cost is incurred to move the policies that are at the current minimum rates to a new minimum. Alternatively, the State could target its decisions by moving employers closer to policy rate, which costs a set amount of money at a set time. She stated that two years prior, the State had asked for research to be done on the amount it would cost to move all employees to policy rate. She stated that the total was about $40 million from the General Fund. She stated that this was the backlog in State employee costs. She also reviewed estimates for moving 90 percent, 80 percent and 75 percent of employees to policy. She stated that the DHR has provided more recent and actual figures for costs instead of just estimates. She stated that the actual number for moving 80 percent of employees to policy is about $3.8 million. She stated that the cost to move current employees on the pay structure to 75 percent of policy is approximately $600,000 from the General Fund. She stated that the Legislature could look at the pay schedule and increase the minimum rate to 75 percent of policy on the compensation schedule. This would cost $1.1 million. **Robyn Lockett** repeated the costs to move the minimum pay rates to 75 percent of policy.

Robyn Lockett talked about wage comparisons and how Idaho compared to other sectors. She reiterated that she was now talking about compensation only and not benefits. She stated that all of what she has spoken of will assist the Committee in making their recommendation to JFAC. She described a few different scenarios. The first one revolves around shifting the entire pay schedule up 3 percent; the cost to all funds would be about $250,000. The second scenario is shifting the whole pay schedule up and increasing the policy rate. This would cost about $780,000 to all funds. She reiterated that in regards to employee pay, DHR and the Governor recommend a 3 percent salary increase for permanent employees. This would cost $18 million in General Funds, $13 million dedicated funds and approximately $6.1 million in federal funds. **Co-Chairman Anderson** questioned the idea about increasing minimums from 70 percent to 72 percent and how many people this would affect. **Robyn Lockett** answered that she would answer this question at the end of the meeting.

Robyn Lockett stated that although the Governor has not recommended an increase of 3 percent for temporary and group employees, but for the sake of information, the cost to do this would be $550,000 from General Funds and about $1 million in other funds for a total of about $1.57 million. She stated that the figures include the cost of a one time CEC that is wrapped up in the one-time 27th payroll period obligation. She stated that the State will experience a 27th payroll period in FY 2017. This obligation is incurred every 11 years. This cost includes salary and variable benefits, but does not include health insurance costs. The impact is about $600,000. **Representative Rudolph** expressed surprise at the extra payroll period that occurred every 11 years. He asked how the State could have the semi-monthly pay period and not have the extra pay period. **Robyn Locket** answered that years ago, the Legislature had a monthly payroll. They went to bi-weekly to save money. She stated that it had been at least 22 years since this had happened and the Legislature was still talking about this extra pay period. She stated that the State Controller's Office did a cost benefit analysis to return to a monthly payroll period last year and found that it was mostly beneficial to stay with the current pay period. **Representative Rudolph** clarified that he meant semi-monthly. **Robyn Lockett** responded that she meant semi-monthly as well.

Robyn Lockett stated that there are almost 25 items related to personnel cost changes in the FY 2017 agency budget requests. She read the different fund shift requests. She stated that there were many requests by State agencies for the Committee to be aware of when making decisions. She summarized that the Committee now has the chance to make its appropriation recommendation. The Committee has many choices and scenarios to discuss and consider. She posed some hypothetical questions for the Committee to contemplate. She stated that in past years, the Committee has made its recommendations to JFAC through a formal letter. The other means for providing recommendations are to propose a concurrent resolution, make changes to Idaho Code and other unnamed methods. **Co-Chairman Patrick** asked if simply adjusting the CEC with a 3 percent increase would miss the salaries of specific agencies, such as the ISP. **Robyn Lockett** answered that JFAC can either go with the Committee recommendation and fund it, or they could pick and choose which agencies they want to fund, or somewhere in between.

David Fulkerson, Interim Director, DHR, pointed to the results of the total compensation analysis done by the Hay Group. He spoke of the base salary numbers and how the Hay Group had a more robust set of data. He stated that the State picks up 14 percent from the private sector with the benefits package it offers. He reiterated that the State's health plan is in good shape because the employees are required to participate in it. He stated that the bottom line is that the 24 percent shown versus the private sector gets reduced to 8 percent when total compensation is factored in. He spoke to the Hay Group's key findings (January 2016 State of Idaho Benefits Analysis and Total Compensation Review, Executive Summary) and stated that the analysis reported that the State has picked up some steam with respect to being only 24 percent behind salary market position. He stated that the benefit package has really helped the State.

Co-Chairman Patrick stated it was time for the discussion portion of the meeting. **Co-Chairman Anderson** suggested that the Committee take time to assimilate the information they had received.

ADJOURNED: There being no further business, **Co-Chairman Patrick** adjourned the meeting at 5:12 p.m.

___________________________	___________________________
Senator Jim Patrick	Linda Kambeitz
Co-Chairman	Secretary
___________________________	___________________________
Representative Neil Anderson	Michael Jeppson
Co-Chairman	Assistant Secretary