



State of Arkansas
Bureau of
Legislative Research

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Memorandum

TO: Representative Mike Kenney, Chairman, House Education Committee
Senator Jim Argue, Chairman, Senate Education Committee

FROM: Bureau of Legislative Research (BLR) Staff
Employee Benefits Division (EBD)

DATE: September 22, 2008

SUBJECT: Requested Health Insurance and Retirement Information for Arkansas Public School and State Employees

The purpose of this memo is to provide the House and Senate Education committees with the information that has been requested pertaining to Arkansas Public School (PSE) and State Employee (ASE) health insurance and retirement benefits. We have restated some of the questions from committee members in the list below, along with the information and additional reports that are listed and found in the attached exhibits:

1. **(Exhibit A)** What would the cost be to close the funding disparity between employee contribution rates for ASE and PSE assuming they are still two separate groups? (EBD)
 - a. Cost if we use the same percentage of employee contribution for PSE and ASE?
 - b. Cost if we fund the PSE based on eligibles, not participants (using the same contribution rate?)
2. **(Exhibit A)** Under 1.a and 1.b, what would the cost be if the two groups are pooled together? (EBD)
3. **(Exhibit A)** What would be the cost associated with converting the public school employees' insurance program to a High Deductible Health Plan (HDHP) + Health Savings Account if: (EBD)
 - a. We required every eligible to participate and it is funded accordingly; or
 - b. It is the only option and is based on current participation rates?
4. **(Exhibit B & C)** Comparison of ASE and PSE active and retiree benefits (BLR).

5. **(Exhibit D)** Comparison of basic insurance and retirement benefits of an active Arkansas Teacher and an Arkansas State Employee (BLR).
6. **(Exhibit E)** Comparison of Arkansas' surrounding states PSE and ASE health insurance plans (BLR).
7. **(Exhibit F)** Sources of funding for health insurance benefit expenditures (BLR).
8. **(Exhibit G)** Memo regarding the impact of combining the ASE and PSE insurance pools (EBD).

**Arkansas Employee Benefits Program
Arkansas State Employees (ASE) Actives
2009 Rates and Contributions
Baseline Funding Approach**

<u>Subscribers¹</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Total</u>
Health Advantage	12,513	3,495	3,422	2,924	22,354
NovaSys	2,064	437	674	448	3,623
NovaSys HD PPO	390	63	75	92	620
Total	14,967	3,995	4,171	3,464	26,597

<u>2009 Rates</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$420.16	\$994.94	\$619.06	\$1,097.48	\$168,746,272	\$629.07
NovaSys	450.64	1,068.11	664.77	1,178.25	\$28,473,480	\$654.92
NovaSys HD PPO	350.30	827.31	514.27	912.38	\$3,734,978	\$502.01
Total	\$422.54	\$1,000.30	\$624.56	\$1,103.01	\$200,954,730	\$629.63

<u>Employer Contribution²</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$315.12	\$602.50	\$414.56	\$653.78	\$112,549,333	\$419.57
NovaSys	315.12	602.50	414.56	653.78	\$17,832,085	\$410.16
NovaSys HD PPO	315.12	602.50	414.56	653.78	\$3,025,129	\$406.60
Total	\$315.12	\$602.50	\$414.56	\$653.78	\$133,406,547	\$417.99

<u>Employee Contribution³</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$105.04	\$392.44	\$204.50	\$443.70	\$56,196,939	\$209.50
NovaSys	135.52	465.61	250.21	524.47	\$10,641,395	\$244.76
NovaSys HD PPO	35.18	224.81	99.71	258.60	\$709,849	\$95.41
Total	\$107.42	\$397.80	\$210.00	\$449.23	\$67,548,183	\$211.64

[1] ASE Subscribers as of May 15, 2008

[2] 2009 ASE employer contribution includes \$6.5M allocated from reserves

[3] Employee contributions have not been reduced to reflect Lifestyle credit (\$20/40 for employees/spouses)

**Arkansas Employee Benefits Program
Public School Employees (PSE) Actives
2009 Rates and Contributions
Baseline Funding Approach**

<u>Subscribers¹</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Total</u>
Health Advantage	27,844	1,733	5,105	1,999	36,681
NovaSys	4,163	196	835	374	5,568
NovaSys HD PPO	1,305	116	183	253	1,857
Total	33,312	2,045	6,123	2,626	44,106

<u>2009 Rates</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$387.01	\$1,036.13	\$688.63	\$1,043.59	\$216,852,147	\$492.65
NovaSys	391.95	1,049.93	677.53	1,057.43	\$33,584,286	\$502.64
NovaSys HD PPO	306.49	811.49	523.71	818.15	\$9,563,198	\$429.15
Total	\$384.47	\$1,024.71	\$665.51	\$1,023.84	\$259,999,632	\$491.24

<u>Employer Contribution²</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$206.65	\$265.51	\$234.05	\$270.29	\$95,390,717	\$216.71
NovaSys	206.65	265.51	234.05	270.29	\$14,506,129	\$217.11
NovaSys HD PPO	206.65	265.51	234.05	270.29	\$4,940,303	\$221.70
Total	\$206.65	\$265.51	\$234.05	\$270.29	\$114,837,149	\$216.97

<u>Employee Contribution³</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$180.36	\$770.62	\$434.58	\$773.30	\$121,461,431	\$275.94
NovaSys	185.30	784.42	443.48	787.14	\$19,076,157	\$285.53
NovaSys HD PPO	99.84	545.98	289.66	547.86	\$4,622,895	\$207.45
Total	\$177.82	\$759.20	\$431.46	\$753.55	\$145,162,482	\$274.27

[1] PSE Subscribers as of December 15, 2007

[2] 2009 PSE employer contribution includes \$35M from Act 1842, \$8M allocated from reserves, and \$2.5M from interest income

[3] Employee contributions have not been reduced to reflect Lifestyle credit (\$20/40 for employees/spouses) or supplemental district contributions

Exhibit 1
Arkansas Employee Benefits Program
Public School Employees (PSE) Actives
2009 Rates and Contributions
Scenario 1A: Same Funding Percentage as ASE

<u>Subscribers¹</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Total</u>	<u>PEPM</u>
Health Advantage	31,325	1,950	5,743	2,249	41,266	\$492.65
NovaSys	4,683	221	939	421	6,264	\$502.64
NovaSys HD PPO	1,468	131	206	285	2,089	\$429.15
Total	37,476	2,301	6,888	2,954	49,619	\$491.24
<u>2009 Rates</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$387.01	\$1,036.13	\$668.63	\$1,043.59	\$243,958,666	\$492.65
NovaSys	391.95	1,049.93	677.53	1,057.43	\$37,782,322	\$502.64
NovaSys HD PPO	306.49	811.49	523.71	818.15	\$10,758,598	\$429.15
Total	\$384.47	\$1,024.71	\$665.51	\$1,023.84	\$292,499,585	\$491.24
<u>Employer Contribution²</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$290.26	\$614.81	\$431.06	\$618.55	\$169,890,025	\$343.08
NovaSys	290.26	614.81	431.06	618.55	\$25,921,599	\$344.85
NovaSys HD PPO	290.26	614.81	431.06	618.55	\$9,253,999	\$369.13
Total	\$290.26	\$614.81	\$431.06	\$618.55	\$205,065,623	\$344.40
<u>Employee Contribution³</u>	<u>EE Only</u>	<u>EE + Spouse</u>	<u>Child(ren)</u>	<u>Family</u>	<u>Annual Cost</u>	<u>PEPM</u>
Health Advantage	\$96.75	\$421.32	\$237.57	\$425.04	\$74,068,641	\$149.58
NovaSys	101.69	435.12	246.47	438.88	\$11,860,722	\$157.79
NovaSys HD PPO	16.23	196.68	92.65	199.60	\$1,504,599	\$60.02
Total	\$84.21	\$409.90	\$234.46	\$405.29	\$87,433,962	\$146.84

[1] PSE Subscribers as of December 15, 2007

[2] 2009 PSE employer contribution includes \$35M from Act 1842, \$8M allocated from reserves, and \$2.5M from interest income

[3] Employee contributions have not been reduced to reflect Lifestyle credit (\$20/40 for employees/spouses) or supplemental district contributions

[4] Increased PSE enrollment by 12.5% to show increased participation due to lower employee contribution rates

Exhibit 2

Arkansas Employee Benefits Program Arkansas State and Public School Employees (ASE & PSE) Actives 2009 Rates and Contributions Scenario 2A: Blend ASE and PSE Costs / Same Funding Percentage as ASE

Subscribers ¹	EE Only	EE + Spouse	Child(ren)	Family	Total
Health Advantage	43,838	5,445	9,165	5,173	63,620
NovaSys	6,747	658	1,613	869	9,887
NovaSys HD PPO	1,858	194	281	377	2,709
Total	52,443	6,296	11,059	6,418	76,216
	EE +				
	Child(ren)				
	Family				
	Annual Cost				
	PEPM				
2009 Rates					
Health Advantage	\$396.47	\$1,009.69	\$650.12	\$1,074.05	\$412,704,938
NovaSys	409.90	1,062.01	672.20	1,119.74	\$66,255,801
NovaSys HD PPO	315.69	816.84	521.19	841.17	\$14,493,576
Total	\$395.34	\$1,009.22	\$650.07	\$1,066.57	\$493,454,315
	EE +				
	Child(ren)				
	Family				
	Annual Cost				
	PEPM				
Employer Contribution ²					
Health Advantage	\$297.36	\$606.91	\$424.90	\$638.46	\$282,439,358
NovaSys	297.36	606.91	424.90	638.46	\$43,747,095
NovaSys HD PPO	297.36	606.91	424.90	638.46	\$12,357,166
Total	\$297.36	\$606.91	\$424.90	\$638.46	\$338,543,619
	ASE				
	PSE				
	Annual Cost				
	PEPM				
Employees Contribution					
Health Advantage	\$99.12	\$402.78	\$225.22	\$435.59	\$130,265,580
NovaSys	112.55	455.10	247.30	481.27	\$22,508,706
NovaSys HD PPO	18.33	209.73	96.29	202.70	\$2,136,410
Total	\$97.98	\$402.31	\$225.17	\$428.11	\$154,910,696
	EE +				
	Child(ren)				
	Family				
	Annual Cost				
	PEPM				

[1] PSE Subscribers as of December 15, 2007 and ASE Subscribers as of May 15, 2008

[2] 2009 ASE and PSE blended employer contribution includes \$35M from Act 1842, \$14.5M allocated from reserves, and \$2.5M from interest income

Exhibit 3

Arkansas Employee Benefits Program Public School Employees (PSE) Actives 2009 Rates and Contributions Scenario 3: Convert PSE to HDHP with HSA

<u>A) Based on Participants (75% Ee / 50% Dep)</u> Subscribers ¹		EE Only	EE + Spouse	EE + Child(ren)	Family	Subscribers / Annual Cost	PEPM
2009 HD PPO Rates		33,312	2,045	6,123	2,626	44,106	
Employer Contribution		\$306.49	\$811.49	\$523.71	\$818.15	\$206,693,162	\$390.52
Employee Contributions		229.87	482.37	338.48	485.70	\$143,900,725	\$271.88
		\$76.62	\$329.12	\$185.23	\$332.45	\$62,792,437	\$118.64
<u>B) Based on Eligibles (100% Ee / 50% Dep)</u> Subscribers ²		EE Only	EE + Spouse	EE + Child(ren)	Family	Subscribers / Annual Cost	PEPM
2009 HD PPO Rates		55,206	2,045	6,123	2,626	66,000	
Employer Contribution		\$306.49	\$811.49	\$523.71	\$818.15	\$287,216,667	\$362.65
Employee Contributions		306.49	558.99	415.10	562.32	\$264,978,373	\$334.57
		\$0.00	\$252.50	\$108.61	\$255.83	\$22,238,293	\$28.08

[1] PSE Subscribers as of December 15, 2007

[2] Total PSE Eligibles assumed to be 66,000

Exhibit 4
Arkansas Employee Benefits Program
Public School Employee (PSE)
Summary of Funding Scenarios (Actives) by Fiscal Year

<u>Funding Scenarios</u>	<u>Projected Employer Contribution</u>					
	<u>7/2009 - 6/2010</u>	<u>7/2010 - 6/2011</u>	<u>7/2011 - 6/2012</u>	<u>7/2012 - 6/2013</u>	<u>7/2013 - 6/2014</u>	<u>7/2014 - 6/2015</u>
Baseline Funding Approach (Participants)	109,585,848	104,334,547	104,334,547	104,334,547	104,334,547	104,334,547
Baseline Funding Approach (Eligibles)	140,536,485	135,285,184	135,285,184	135,285,184	135,285,184	135,285,184
Additional Funding Required	\$30,950,636	\$30,950,636	\$30,950,636	\$30,950,636	\$30,950,636	\$30,950,636
Scenario 1A	213,143,255	230,007,992	248,355,395	268,318,760	290,043,664	313,689,122
Additional Funding Required	\$103,557,406	\$125,673,444	\$144,020,847	\$163,984,213	\$185,709,117	\$209,354,574
Scenario 1B	125,451,782	151,382,336	181,353,866	215,930,457	255,750,112	301,534,046
Additional Funding Required	\$15,865,934	\$47,047,788	\$77,019,319	\$111,595,910	\$151,415,565	\$197,199,499
Scenario 2A	216,536,867	233,870,186	252,731,492	273,258,569	295,601,934	319,926,044
Additional Funding Required	\$106,951,018	\$129,535,639	\$148,396,945	\$168,924,022	\$191,267,387	\$215,591,497
Scenario 3A	152,119,474	169,269,992	187,909,699	208,170,618	230,196,749	254,145,186
Additional Funding Required	\$42,533,625	\$64,935,444	\$83,575,152	\$103,836,071	\$125,862,202	\$149,810,639
Scenario 3B	277,730,156	304,340,009	333,260,411	364,696,203	398,870,807	436,027,963
Additional Funding Required	\$168,144,308	\$200,005,461	\$228,925,864	\$260,361,655	\$294,536,259	\$331,693,415

Scenarios:-

Baseline funding approach (participants): PSE funding is based on \$131 per participant plus \$35M from Act 1842
Baseline funding approach (eligibles): PSE funding is based on \$131 per eligible employee plus \$35M from Act 1842
Scenario 1A - Same percentage of employee contribution for PSE as for ASE (75/50%)
Scenario 1B - Fund PSE at 75% employee 50% dependent by 2015
Scenario 2A - Blend ASE & PSE costs and apply the same percentage of employee contribution for PSE as for ASE
Scenario 3A - HDHP Plan with HSA / Current Participants Enrolled / 75/50% Employer Contribution
Scenario 3B - HDHP Plan with HSA / Current Participants Enrolled / 100/50% Employer Contribution

Exhibit 5
Arkansas Employee Benefits Program
Public School Employee (PSE)
 Summary of Funding Scenarios (Actives) by Fiscal Year Biennium

<u>Funding Scenarios</u>	<u>Projected Employer Contribution</u>		
	<u>7/2009 - 6/2011</u>	<u>7/2011 - 6/2013</u>	<u>7/2013 - 6/2015</u>
Baseline Funding Approach (Participants)	213,920,395	208,669,094	208,669,094
Baseline Funding Approach (Eligibles)	275,821,668	270,570,367	270,570,367
Additional Funding Required	\$61,901,273	\$61,901,273	\$61,901,273
Scenario 1A Additional Funding Required	443,151,246 \$229,230,851	516,674,155 \$308,005,060	603,732,786 \$395,063,691
Scenario 1B Additional Funding Required	276,834,118 \$62,913,722	397,284,323 \$188,615,229	557,284,159 \$348,615,064
Scenario 2A Additional Funding Required	450,407,052 \$236,486,657	525,990,061 \$317,320,966	615,527,978 \$406,858,884
Scenario 3A Additional Funding Required	321,389,465 \$107,469,070	396,080,318 \$187,411,223	484,341,935 \$275,672,841
Scenario 3B Additional Funding Required	582,070,165 \$368,149,770	697,956,614 \$489,287,520	834,898,769 \$626,229,675

Scenarios:-

Baseline funding approach (participants): PSE funding is based on \$131 per participant plus \$35M from Act 1842
 Baseline funding approach (eligibles): PSE funding is based on \$131 per eligible employee plus \$35M from Act 1842
 Scenario 1A - Same percentage of employee contribution for PSE as for ASE (75/50%)
 Scenario 1B - Fund PSE at 75% employee 50% dependent by 2015
 Scenario 2A - Blend ASE & PSE costs and apply the same percentage of employee contribution for PSE as for ASE
 Scenario 3A - HDHP Plan with HSA / Current Participants Enrolled / 75/50% Employer Contribution
 Scenario 3B - HDHP Plan with HSA / Current Participants Enrolled / 100/50% Employer Contribution

Exhibit 6
Arkansas Employee Benefits Program
Projected Employer Contribution - Baseline Funding Approach
(Includes Retiree Funding Allocation)

Year	ASE		PSE		Increase Over 2009 (\$)
	Total Employer Contribution	\$ / Budgeted Position	Total Employer Contribution	\$ / Active Enrolled	
2009 ^{1,2}	\$152,974,491	\$375.11	\$104,336,496	\$197.13	
2010	\$177,932,788	\$436.32	\$134,779,517	\$254.65	\$30,443,022
2011	\$192,875,109	\$472.96	\$145,454,002	\$274.82	\$41,117,507
2012	\$209,165,285	\$512.90	\$157,064,693	\$296.76	\$52,728,198
2013	\$226,927,916	\$556.46	\$169,695,533	\$320.62	\$65,359,037
2014	\$246,299,416	\$603.96	\$183,438,175	\$346.59	\$79,101,680
2015	\$267,429,157	\$655.77	\$198,392,712	\$374.84	\$94,056,217
ASE Budgeted Positions / PSE Active Enrolled	33,984		44,106		

[1] 2009 ASE employer contribution does not include \$8M from reserves and \$3.25M from RDS and is net of \$2.50 PEPM for Basic Life Insurance
[2] 2009 PSE employer contribution does not include \$12.2M from reserves, \$2.5M from interest income, and \$11.20 for retiree subsidy

Exhibit 7
Arkansas Employee Benefits Program
Assumptions

- o Assumed Annual Cost Trend:
 - Medical - 8%
 - Rx - 11%
- o Assumed Participation Rate:
 - Current - 66% of Eligible Employees
 - At 75% employee / 50% dependent employer contribution - 75%
 - Baseline Funding based on Eligibles instead of Participants - 70%
- o Employer Contribution:
 - ASE - \$375 per budgeted position
 - PSE - \$131 per active participant plus \$35M from Act 1842
- o Reserve Allocation:
 - ASE - \$8M plus \$3.25M from the retiree drug subsidy
 - PSE - \$12.2M plus \$2.5M from interest income
 - No reserve allocation for 2010 and beyond

Exhibit 8
Arkansas Employee Benefits Program
Report Limitations and Caveats

In performing this analysis, we relied on data and other information provided by the Employee Benefits Division of the Department of Finance and Administration of the State of Arkansas. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

This report has been prepared for the sole use of the State and Public School Employee Health Benefits Program. We understand that a copy of this report may be provided to other interested parties. As a result of releasing this report to these parties, we understand that this report may be considered a public document and, as such, may be subject to disclosure to third parties. However, we do not intend to benefit, and assume no liability to, any third party who receives the report in this fashion.

**COMPARISON OF ACTIVE EMPLOYEE BENEFITS
STATE EMPLOYEES & SCHOOL EMPLOYEES**

WORK HOURS (including periods when school is not in session)

	State Employees	School Employees
Full-time	2,080 hours a year	Teachers – 193 days, 7.5 hours Twelve Month Employees – 250 days, 8 hours
Part-time	1,000 hours a year	Bus Drivers – 179 days, 4 hours Other Various – various times and days

HEALTH INSURANCE

	State Employees	School Employees
Eligibility	Full-time (2,080 hours/yr.)	Full-time (900 hours), Bus Drivers (750 hours)
Cost	\$98/month + \$294 State contribution = \$392 total cost Both groups have same plan design	\$152/month + \$213.43 total contribution = \$365.45 total cost
EAP	All state agency employees and families supported by EBD (non-insured have benefit); offered by several higher education institutions	Both groups have same plan design Insured school employees and families have same EAP benefit as state employees (non-insured have no benefit)
Cafeteria Plan	Pre-tax dollars for day care/medical expenses/medical insurance	Pre-tax dollars for day care/medical insurance/unreimbursed medical expenses
Plan Cost - 2007 (includes retirees)	\$231,441,459 (members - \$76,670,105; State - \$135,984,540; Medicare subsidy - \$3,664,205)	\$252,136,519 (members - \$138,736,830; schools - \$66,237,006; State - \$32,888,629)

LIFE INSURANCE

	State Employees	School Employees
	\$10,000 paid for by State	\$5,000 - \$.56/month employee cost

CLASSIFICATION & COMPENSATION

	State Employees	School Employees
Classification	assigned by DFA-Office of Personnel Management	Certified and Non Certified; various classifications assigned based on employee group, education, training, licensure and experience Placement determined by local LEA
Compensation	Quadraflex plan	District Salary Schedules or hourly rates
COLA	2% on 7/1/07 and 7/1/08; additional 2% each year if funds become available	dependent on funds available on annual basis
Merit Adjustments	satisfactory (1.5%); above average (3%); exceeds standards (4.5%) - employed at least 12 months or completed 2,080 part-time hours	none
Career Service Recognition	\$600 (10-14 years of service); \$700 (15-19 years); \$800 (20-24); \$900 (25+ years)	Annual service increments determined by state minimum requirements and additional increments may be provided at each LEA
Severance Pay	lump sum payment if laid off due to budget cuts/program elimination - \$800 (1-5 years); \$1,200 (5-15 years); \$1,600 (15+ years)	none
Meals/Lodging	not to exceed Federal Travel Directory maximum; reimbursement of tip for meal not to exceed 15%; meals and tips cannot exceed allowable maximum rate	Various based on policy of LEA. Hotel and travel reimbursements based on actual cost within LEA policy. Meals vary from actual to per diem based on LEA policies.
Mileage	set by Chief Fiscal Officer (\$.43/mile as of 6/21/07)	currently .47 per mile at FT. Smith; varies by LEA policy
Bilingual require.	additional 10% of annual salary if requirement of position	none
Employee Suggestion Award	receive 10% of net savings (up to \$5,000) or \$100 if net savings is less than \$100 or idea improves a process/program, public relations, safety, or process effectiveness	none

LEAVE POLICIES

	State Employees	School Employees
Annual/Personal	12 days (1-3 yrs); 15 days (4-5 yrs); 18 days (6-12 yrs); 21 days (13-20 yrs); 22.5 days (20+ yrs) - 30 day maximum carry over temporary/provisional employees - one day per month part-time employees must work 1,000 hours/year	Personal Business - 2 days per school year (teachers and 12 month employees) Vacation - 12 month employee: 1-10 years - 2 weeks 11+ years - 3 weeks
Sick	1 day per month - 120 day maximum carry over up to 30 days/year for organ donors up to 7 days/year for bone marrow donors	1 day per contracted month cumulative to 120 days
Maternity	may be taken before sick/annual leave is exhausted	must use sick leave; remainder unpaid
Educational	out-service training is at the discretion of the agency up to 8 hours leave/year for child's educational activities	continuing education required 60 hours for certified staff, all above and other employees at discretion of supervisors
Court/Jury	normal and full compensation	school related court time at full pay, personal court time must use some sort of annual leave or at full pay deduction. Jury duty at full pay
Military	15 days/year with pay; 30 day maximum per year	15 days per year with cost of sub deduction; all other in accordance with state and federal law.
without Pay	no more than 6 consecutive months	
Catastrophic	after all sick and annual leave is exhausted	30 days at full pay and 120 days at cost of sub qualification requires 4 days hospitalization maximum of 45 per lifetime
Disaster	paid leave for certified disaster service volunteers	none
Holidays	11 days, including employee's birthday	unpaid holidays; no Holidays included in contracts
FMLA	up to 12 weeks unpaid leave	up to 12 weeks running concurrently with paid leave

DEFERRED COMPENSATION

	State Employees	School Employees
Benefit	may contribute up to 25% of annual income ARDiamond Plan (457b) agency employees may participate	TSA 403b and 403b(7) and Section 457 deferred compensation plans. Arkansas Teacher Retirement contributions done with pre-tax dollars

PURCHASE OF GOODS

	State Employees	School Employees
Benefit	may purchase goods produced by Department of Correction; for personal use only and not for resale	same as Public Employees

COMPARISON OF RETIREMENT BENEFITS PUBLIC EMPLOYEES & TEACHERS RETIREMENT SYSTEMS

VESTING

	APERS	ATRS
Eligibility:	5 years of service	5 years of service

FULL RETIREMENT

	APERS	ATRS
Eligibility:	<u>Noncontributory:</u> Age 65 with 5 years of service; age 55 with 35 credited years of service; or any age with 28 years of service <u>Contributory:</u> Before 7/1/05 - Age 65 with 5 years; age 60 with 20 years service; or any age with 28 years service After 7/1/05: same as non-contributory	Age 60 with 5 years of service or any age with 28 years of service.
Benefit:	<u>Noncontributory</u> - 1.75% of final average salary (FAS) times years of service thru 6/30/07; 1.72% on 7/1/07 <u>Contributory</u> - 2.03% of final average salary times years of service thru 6/30/07; 2.0% on 7/1/07 (3 year final average salary) Career Service Payments/Lump Sum Payments used to determine retirement benefits - Act 799 of 2007 Temporary Annuity available to members who retire before age 62 until age 62 (0.33% x FAS x yrs of svc) Average benefit - \$12,262/year (\$1,022/month)	2.15% of final average salary times years of contributory service; 1.39% of final average salary times years of non-contributory service. Certain minimum benefit provisions apply. [+ \$75 monthly supplement with ten actual years of service] effective 7/1/2008 (3 year final average salary) Average benefit - \$21,557/year (\$1,588/month)

REDUCED RETIREMENT

	APERS	ATRS
Eligibility:	Age 55 with 5 years of service or any age with 25 years of service	Any age with 25 years of service.
Benefit:	Full benefit reduced by 1/2 of 1% for each month retirement precedes normal retirement age or 1% if reduced from 28 years	Full benefit reduced by 5/12% times months by which early retirement precedes the earlier of attainment of age 60 or completion of 28 years of service.

OTHER RETIREMENT OPTIONS

	APERS	ATRS
	Straight Life - monthly lifetime benefits Option A120 - 94% of straight life annuity; beneficiary receives annuity for balance of 120 months Option A60 - 98% of straight life annuity; beneficiary receives balance of the 60 months Option B50 - 88% - 1/2 of monthly benefit paid to beneficiary Option B75 - 83% - 3/4 of monthly benefit paid to beneficiary	Joint and 100% Survivor Joint and 50% Survivor 10 Years Certain and Life

COST OF LIVING RAISES FOR RETIREES

	APERS	ATRS
	3% per year compounded 1% ad hoc increase for retirement on or before 6/1/07 - Act 1568 of 2007	3% simple per year.

DISABILITY

	APERS	ATRS
Eligibility:	5 years of service	5 years of actual and reciprocal service
Benefit:	Accrued benefit at disability	Accrued benefit at disability.

DEATH BENEFITS

	APERS	ATRS
Eligibility:	5 years of service	10 years of actual service

DEATH-in-Service

	APERS	ATRS
Eligibility:	5 years of service	5 years of actual and reciprocal service
Benefit:	Greater of option B-75 or 10% of covered compensation. Must have been married to spouse for one year preceding death. Each child - annuity of the greater of 10% of covered compensation or equal share of monthly minimum; 25% maximum for all children.	Amount as if member retired and took joint and 100% survivor annuity, or the greater of joint and 100% survivor or child's benefit if there are dependent children. Payable immediately with 20 yrs. of svc. or eligible for retirement, at spouse's age 50 if 15 years of service, or at spouse's age 62 if less than 15.

PARTIAL ANNUITY WITHDRAWAL

	APERS	ATRS
Eligibility:	Meets age and service requirements and NOT participating in DROP	none
Benefit	lump sum of up to 60 months of benefits for each month beyond eligibility for unreduced benefit. Annuity actuarially reduced, depending on age	none

DEFERRED RETIREMENT OPTION PLANS (DROP)

	APERS	ATRS
Eligibility:	30 years; 28 yrs reduced	30 years; 28 yrs reduced
Monthly Annuity:	75%; reduced 6% each year under 30 years	Reduced 1% each contributory year of service. 6/10% each non-contributory year service; additional reduction of 6% each year under 30 yrs
Duration	7 years	10 years
Interest	6% compounded	Variable: 2% - 6% compounded

CONTRIBUTIONS

	APERS	ATRS
Employee:	5% of pay for contributory member	6% of pay for contributory member
Employer:	12.54% State 12.54% Local 4% School State/Local Employers to pay 11.01% as of 7/1/08	14% employer rate of pay for all regular employees 14% employer rate of pay for T-DROP members entering plan 9/1/2003 or later 6% employer rate of pay for T-DROP members entering plan prior to 9/1/2003 20% employer rate of pay for retired members working under Waivers. 20% employer rate of pay for retired members returning to work for Department of Education

RETURN TO WORK PROVISIONS

	APERS	ATRS
Retirees Returning to Work	Regular APERS-covered employees must terminate employment (be off the payroll) for a minimum of one calendar month before returning to a position otherwise covered by the system. No further credit can be accrued in APERS. Elected officials must terminate employment for a minimum of 90 calendar days. No further credit available. EXCEPT: Elected officials moving from one form of government to another (eg: mayor to legislator) need no such break in service. No further credit in the system.	A position of employment with DOE is exempt from the earnings limitation (EL) but must have been separated from covered employment for a minimum of 30 days prior to returning to work. ATRS collects 20% of covered pay from the employer for the retirees hired under this statute (Act 698 of 2007).
Rescinding Retirement		May rescind the decision to retire and become an active member of the system; benefits will be redetermined if the members works for a minimum of 3 years.
Earnings Limitation		Under age 65 must sever from covered employment for a minimum of 30 days after the effective date of retirement and then may return to covered employment and work under the ATRS earnings limitation. Retirees who earn less than twice the Social Security EL continue to draw full retirement benefits in addition to salary. If the covered earnings exceed twice the Social Security EL, ATRS will reduce the member's retirement benefit \$1 for each \$2 earned in covered salary above the ATRS EL amount. Age 65 or older may return to covered employment without being subject to the earnings limitation.
Waiver of Earnings Limitation		AR DOE may request an earnings limitation waiver for retirees hired by a public school due to a shortage of certified teachers in a critical academic area or superintendents hired due to a reconstitution or reorganization of a public school

		district. ATRS collects 20% of covered pay from the employer for the retirees hired under the waiver statutes, and retirees must have been separated from covered employment for a minimum of 30 days prior to returning to work.
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PURCHASE OF SERVICE

	APERS	ATRS
	May purchase up to 5 years out-of-state service credit if age 65 with two years service and seven years out-of-state service	May purchase military service (5 years), overseas (10 years) and out-of-state service (15 years), sabbatical leave, private school service (15 years) prior state service, domestic federal service (10 years), federal retirement (10 years) and national guard service (5 years)
	May purchase educational leave time; time lost due to Worker's Compensation injury; service where the person was paid by a federal grant; service with a non-participating municipality; out-of-state public employment and federal public employment	
Military Service	May purchase anywhere from one month to 5 years of active duty military service with at least 5 years of actual service in the System, received an honorable discharge; and are not receiving federal military service retirement based upon 19 or more years of active duty. May purchase three years of credited service for Arkansas National Guard or Armed Forces Reserve service after separation from Guard/Reserve service.	May establish up to 5 years of military service free with at least 5 years of actual service in the System, received an honorable discharge; and are not receiving any federal military service retirement. May purchase up to 5 years of active duty military service with at least 5 years of actual service in the System, received an honorable discharge; and are not receiving federal military service retirement based upon 19 or more years of active duty. May purchase up to 5 years of credited service for Arkansas National Guard service.

BOARD COMPOSITION

APERS (9 PERSONS)	ATRS (15 PERSONS)
State Auditor, ex officio State Treasurer, ex officio DFA Director, ex officio three (3) state employee members, appointed by the Governor (6-year term of office) three nonstate employees appointed by Governor (6-yr term)	State Bank Commissioner, ex officio State Treasurer, ex officio State Auditor, ex officio Education Commissioner, ex officio eight members elected by system members (6-yr term of office) three (3) retirants elected by TRS retirants (6-year term of office)

Benefit Comparison for School District Employees and State Employees

	Teacher	Non Certified Employee	State Employee
Days per contract year	9 mos contract = 190 days	9 mos contract = 178 days	12 mos = 260 days
Annual Leave / Sick Leave	N/A: School districts vary on the number of personal days or paid days off for teachers. However, each teacher is guaranteed 1 day off per contract month per A.C.A 6-17-1204 Min PDO 1 day X 9 mos = 9 days 190 Days - 9 PDO = 181 Days	N/A: School districts vary on the number of personal days or paid days off for employees. However, each employee is guaranteed 1 day off per contract month per A.C.A 6-17-1204 Min PDO 1 day X 9 mos = 9 days 178 Days - 9 PDO = 169 Days	Sick Leave = 8 hours per month Annual Leave = Minimum of 8 hours per month and a Maximum of 15 hours based on years of service Max Sick + Annual Total = 34.5 Days Holidays = 12 per Sec of State 260 Days - (34.5+12) = 213.5
Salary per Contract Day	\$30,000 salary / 181 days = \$165.75 per day		\$30,000 salary / 213.5 days = \$140.52 per day

Maximum Insurance Costs to employee per month	Effective 10/1/2007 to 9/30/2008	Effective 10/1/2007 to 9/30/2008	Effective 1/1/2008 to 12/31/2008
Employee Only	\$ 152.02	\$ 152.02	\$ 98.00
Employee and Spouse	\$ 700.06	\$ 700.06	\$ 367.20
Employee and Children	\$ 391.98	\$ 391.98	\$ 195.66
Employee and Family	\$ 701.10	\$ 701.10	\$ 416.84

Entry Level Salary 07 - 08	Teacher Entry Level	Non Certified Employee	State Employee Entry Level I
Bachelor's State Min 0 yrs exp	\$ 28,897.00	NA	Grade 19 = \$28,182.00
Bachelor's State Min 15 yrs exp	\$ 35,647.00	NA	Grade 22 = \$34,021.00
Masters State Min 0 yrs exp	\$ 33,231.00	NA	Grade 21 = \$31,966.00
Masters State Min 15 yrs exp	\$ 40,731.00	NA	Grade 24 = \$38,597.00
Maximum Salary Paid 07 - 08	* Teacher Max Salary Paid		State Employee Level IV
Bachelor's	\$ 63,008.00	NA	Grade 21 = \$61,209.00
Masters	\$ 69,632.00	NA	Grade 23 = \$69,296.00

* Source for Teachers Max Salary Paid is the ADE Teacher Salary Schedule Analysis updated April 2008.

Notes: Salary ranges for teachers differ from district to district. ACA 6-17-2403 establishes minimum salaries paid to teachers, however, it does not establish maximum limits. ACA 21-5-209 establishes both minimums and maximums for classified state employee salaries.

Average Salary 06 - 07	Average Teacher	Average School Employee	Average State Employee
	\$ 44,493.00	\$ 34,601.00	\$ 34,139.00

Note: Average teacher salary provided from the 06-07 Annual Statistical Report per ADE. Average School Employee provided by ADE includes, teachers, non certified employees and administrators salaries for 06 - 07. The average salary for Non Certified employees for 06 - 07 was \$18,307. State Employee salary includes all full time employees in the AASIS system as of June 30, 2007.

Retirement Benefits	ATRS Yearly Annuity		APERS Yearly Annuity
Final Avg Sal of \$30,000	\$ 18,060.00		\$ 14,700.00
Final Avg Sal of \$40,000	\$ 24,080.00		\$ 19,600.00
Final Avg Sal of \$60,000	\$ 37,020.00		\$ 29,400.00

Note: As of July 1, 2005 (per ACA 24-4-401) all new members of the Arkansas Public Employee Retirement System have a mandatory 5% deducted from their salary for retirement contribution. As of July 1, 2007 (per ACA 24-7-06) all new members of the Arkansas Teacher Retirement System contracted for 181 or more days have a mandatory 6% deducted from their salary for retirement contribution. All new members contracted for 180 days or less have the option of contributory or non contributory. Estimates were generated based on data available in June 2008.

****DRAFT****

Health Insurance Benefits for State and Public School Employees in Arkansas and its Surrounding States: A Comparative Report

The purpose of this report is to take a detailed look at a Arkansas's surrounding states to see how they fund for state and public school employees' health insurance, what plans they offer to their employees, and compare these to Arkansas's state plans. With the rising cost of health insurance, employers are constantly monitoring health insurance options to find to best coverage for the best price. In the public sector, elected officials are continuously questioned about what can be done to decrease the price of healthcare and make health benefits available to everyone. For example, "despite the efforts of the Texas Employment Retirement System (ERS) to control the cost of state employee health insurance, they have projected increases of six percent a year in each year of the 2008-09 biennium. As a result, the monthly premium for an employee, which is covered entirely by the state, will reach approximately \$400/month by the time the Texas Legislature reconvenes in 2009" (Stout, p.1, 2007). This report reviews the health insurance options in Arkansas's surrounding states to see how they compare to our own, and to see if their methods of funding state and public school employees health insurance exhibit some information or system that might benefit Arkansas employees' as they battle the rising cost of health insurance.

Arkansas is one of the many states in the nation having to address the high cost of health care. Specifically, there is the need to look at insurance costs for our public school employees. Over the past years, the rates have increased and made it increasingly difficult for school employees to afford the benefit. Like many other states, including Texas and Oklahoma, state employees and public school employees have the same policies offered to them, but they are funded differently. In Arkansas, there are two health plans and one high deductible health plan (HDHP) that are offered to both state and school employees. As in several states, state and school employees are offered the same plans, but school employees are financially separate from the state employees in that the amount of money that is funded from the state and the way it is distributed is different. The Department of Finance and Administration Employee Benefits Division (EBD) is the governing body for the state employee health insurance plan. EBD, along with Milliman and Associates and the State and Public School Employees Life and Health Insurance Board make all the decisions and plan evaluations concerning state and public school employee health insurance options.

The are two health plans offered, they are Health Advantage and NovaSys. Both of these plans are Point of Sale (POS) plans. There are currently no Health Maintenance Organization (HMO) plans available. NovaSys does offer an additional high deductible Preferred Provider Organizatioin (PPO) plan and a

DRAFT**Sources of Funding for Health Insurance Benefit Expenditures**

The Bureau of Legislative Research in cooperation with the Arkansas Public School Computer Network (APSCN) has identified the sources of funding used by school districts to pay the employer contribution for health insurance benefits provided to district employees. According to data retrieved from the APSCN Data Warehouse, \$82,481,585.34 was expended by school districts on health benefits. The table below illustrates the source of funding for this \$82.5 million expenditure.

2007-08 Health Benefit Expenditures		
Source of Funding	Amount of Expenditure	Percentage of Total
Unrestricted State & Local Funds	\$ 66,183,015	80.2 %
Categorical Funds	4,162,391	5.1 %
Other Restricted Funds	897,692	1.1 %
Federal Grants Fund	6,127,435	7.4 %
Activity Fund	31,034	.04%
Food Service Fund	<u>5,080,018</u>	<u>6.2 %</u>
Total	<u>\$82,481,585</u>	<u>100.0 %</u>
Note: The expenditure amounts shown above are not inclusive of the \$35 million in State funding allocated each year beginning with FY2005-06 to the Public School Fund for Public School Employees' health insurance costs. This funding is distributed by the Department of Education directly to the Department of Finance and Administration's Employee Benefits Division.		

According to APSCN, the category "Unrestricted State and Local Funds" includes the state foundation funding school districts receive, which includes state foundation funding aid distributed by the Department of Education and state foundation funding from the uniform rate of tax. "Categorical funds" include the four additional education categories of alternative learning environment, English language learners, professional development, and national school lunch students.

As the House and Senate Education Committees consider proposals for allocating additional state funds for health insurance benefits, and specifically increasing the per ADM state foundation funding amount allocated to health insurance, it is important for the Committees to consider that almost 20% of the most recent total expenditures for health insurance was funded by sources other than state foundation funding. As changes in funding for health insurance benefits are evaluated and projected for the future, an important consideration is the amount the Categorical Funds, Other Restricted Funds, Federal Grants Fund, Activity Fund, and the Food Service Fund should contribute to the increase.



STATE OF ARKANSAS
**Department of Finance
and Administration**

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September 17, 2008

Senator Argue
Representative Kenny
Education Committee
State Capitol
Little Rock, AR 72201

Senator Argue and Representative Kenny:

I have been asked to give my opinion regarding merging the state employee insurance group with the public school employee insurance group. In my opinion this would not benefit the school employee group as the state employee group is a higher utilizing group and a little older group. If the groups were merged the cost would not be divided evenly. The school group would bear the brunt of taking some of the risk that at this time is borne by the state employees.

In the Legislative Committee on Education held in August 2008, John Bauerlein, Actuary for the Arkansas State and Public Employees Insurance Group, stated that he would not recommend merging the two groups, specifically due to the state employees higher utilization and the age difference. The state employee total premium rates, for each benefit plan option, are higher than corresponding school employee total premium rates. By combining the groups and creating pooled premium rates, the school employees will incur an increase to their current rates, thereby creating a hidden subsidy from the school employees to state employees. Mr. Bauerlein stated that until the funding is the same for each group the school group is better off remaining separate from the state group.

Sincerely,

A handwritten signature in cursive script that reads "Sharon Dickerson".

Sharon Dickerson, RN, BS, CCM, FAHM, Executive Director
Employee Benefits Division – DF&A



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September 18, 2008

Ms. Sharon Dickerson
Executive Director
Employee Benefits Division
Department of Finance & Administration
501 Woodlane, Suite 500
Little Rock, AR 72201

Re: High Deductible Plan Savings for the State of Arkansas Public School Employees

Dear Sharon:

We were asked to analyze the impact of eliminating all health benefit plans except the High Deductible ("HD") PPO Plan for the State of Arkansas Public School Employees ("PSE"). This letter outlines the results of our analysis and the methodology and assumptions used to determine the impact of such a migration.

Results

Employees currently have a choice of 3 plan options. The lowest cost option is a high deductible plan with a health savings account feature. The current employer contribution is the same regardless of plan option selected. Premium savings under the HD PPO Plan are fully passed on to employees.

If all employees migrated to the HD PPO Plan, there would be significant overall program cost savings. Assuming current enrollment remains constant, Milliman estimates that a migration of all PSE contracts to the HD PPO Plan will result in the following decreases in annual cost and employee contributions through 2015.

Annual Program Savings (\$ millions)

Year	Projected Savings
2009	\$53,306,470
2010	\$58,054,077
2011	\$63,234,632
2012	\$68,888,618
2013	\$75,060,395
2014	\$81,798,591
2015	\$89,156,513

You should be aware that although a portion of the savings is due to reduced utilization of services, the majority of savings are achieved through greater employee out-of-pocket costs when medical services are provided.

Exhibit 1 shows 2009 expected PSE rates and contributions based on enrollment in the existing plan options. Exhibit 2 shows 2009 expected PSE rates and contributions assuming all PSE contracts migrate to the HD PPO plan.

Methodology and Assumptions

- Calculate annual cost for PSE contracts enrolled in Health Advantage POS, NovaSys POS, and NovaSys HD PPO
- Calculate annual cost for PSE contracts assuming all contracts migrate to NovaSys HD PPO
- Assume annual cost trend:
 - Medical - 8%
 - Rx - 11%
- Assume employer contributions are based on 2009 PSE approved funding of \$131 per budgeted position plus \$35M from Act 1842, \$8M allocated from reserves, and \$2.5M from interest income
- Assume no changes to current funding
- Assume Employee contributions are not reduced to reflect Lifestyle credit (\$20/40 for employees/spouses) or supplemental district contributions

Limitations and Caveats

In performing this analysis, we relied on data and other information provided by the Employee Benefits Division of the Department of Finance and Administration of the State of Arkansas. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.



Ms. Sharon Dickerson
September 18, 2008
Page 3

This report has been prepared for the sole use of the State and Public School Employee Health Benefits Program. We understand that a copy of this report may be provided to other interested parties. As a result of releasing this report to these parties, we understand that this report may be considered a public document and, as such, may be subject to disclosure to third parties. However, we do not intend to benefit, and assume no liability to, any third party who receives the report in this fashion.

Feel free to call Liz or myself if you have any questions regarding the information contained herein.

Sincerely,

A handwritten signature in cursive script that reads 'John W. Bauerlein'.

John W. Bauerlein, FSA, MAAA
Consulting Actuary

cc: Liz Myers

[illegible]

[2] 2009 PSE employer contribution includes \$35M from Act 1842, \$8M allocated from reserves, and \$2.5M from interest

[3] Employee contributions have not been reduced to reflect Lifestyle credit (\$20/40 for employees/spouses) or supplemental district contributions

Exhibit 2
Arkansas Employee Benefits Program
Public School Employees (PSE) Actives
2009 Rates and Contributions
Baseline Funding Approach / HD PPO Only

Subscribers ¹	EE Only		EE + Spouse		EE + Child(ren)		Family		Subscribers / Annual Cost		PEPM
	33,312	2,045	6,123	2,626	44,106						
2009 HD PPO Rates	\$306.49	\$811.49	\$523.71	\$818.15	\$206,693,162						\$390.52
Employer Contribution	208.65	265.51	234.05	270.29	\$114,837,149						\$216.97
Employee Contributions	\$99.84	\$545.98	\$289.66	\$547.86	\$91,856,013						\$173.55

[1] PSE Subscribers as of December 15, 2007