

# TEXAS PUBLIC EMPLOYEES ASSOCIATION

512 EAST ELEVENTH STREET

SUITE 100

AUSTIN, TEXAS 78701

January 7, 2010

The Honorable Rick Perry  
Governor of Texas  
State Capitol  
PO Box 12428  
Austin, TX 78711

Dear Governor Perry:

Texas Public Employees Association is concerned about the possibility of significant health benefit reductions for state employees and retirees. On behalf of the approximately one half million ERS Group Benefits Program (GBP) members, TPEA is requesting your leadership to work with the Employees Retirement System and us to prevent excessive cuts in our health benefits or other unreasonable increases in participants' health care costs.

As you know, ERS has recently informed state leaders that an increase in its healthcare cost trend, coupled with a budgetary decision requiring ERS to "spend down" its reserve fund as a method of finance, could result in a deficit as large as \$150 million for the GBP by the end of this biennium. It is our understanding that unless ERS receives other direction from state leadership, it will likely be necessary to reduce benefits in order to avoid running a deficit in FY2011. TPEA believes that the benefit reductions necessary to close a budget deficit of this size will greatly increase costs for state employees, retirees and other plan participants during an already difficult economic time.

In addition to the potential deficit in the GBP, TPEA has followed press reports indicating that state leaders believe across the board budget reductions for most state agencies and programs will be necessary this year to allow the state to deal with future fiscal problems. Unfortunately, from TPEA's perspective, adding more budget reductions to the GBP, on top of the previously discussed reductions to balance the GBP, would be excessive and financially damaging to plan participants, as well as being grossly inequitable.

TPEA is asking for your leadership and direction to enable ERS to either avoid GBP benefit reductions entirely, or to significantly mitigate or buffer any changes.

We have reviewed the intent and efforts of budget writers during the 2009 session, compared ERS' situation with other state funded health plans, and looked at historical precedent. TPEA believes there are several compelling reasons to support our position

and provide state and higher education employees and retirees all due consideration. These include the following:

- Key legislative decision makers fully intended to preserve current ERS health benefits for the 2010-2011 biennium. However, in order to stretch limited state funds, budget writers assumed the use of all ERS' fund balance as a method of finance, leaving no margin of error if cost trends changed.
- Other state supported health plans had significant fund balances but were not required to spend them down as a method of finance to maintain current benefits.
- Based on current information, members of other state supported health plans at the University of Texas, Texas A&M University, TRS ActiveCare and TRS-Care will not be subject to changes or reductions in health care benefits this biennium that are comparable to those anticipated at ERS.
- Most state employees did not receive any ongoing pay increases this biennium to help offset increased health care costs, unlike teachers and some other targeted groups of public employees. Similarly, state retirees have not received any type of retirement enhancement since January of 2002, while TRS retirees received a 13<sup>th</sup> check in January of 2008.
- State employees are already experiencing reduced take home pay as the result of recently increased employee retirement contributions. While TPEA and DPSOA supported the need to increase retirement contributions, we did so with the explicit understanding and agreement that ERS health benefits would be maintained over the biennium.
- The ERS health plan has a number of significant cost saving features that some other state supported health plans have not implemented. These include a 90 day waiting period for health benefit eligibility, a drug deductible, and higher out of pocket costs for maintenance drugs at retail pharmacies, among other features.
- Many of the cost savings efforts imposed on the ERS health plan in 2003 have resulted in significant ongoing savings to the state, probably in excess of \$1 billion. By contrast, other plans utilized one-time or temporary cost saving mechanisms that did not generate ongoing cost savings.
- There is precedent for allowing a health plan to run a deficit and use the appropriations process to subsequently provide necessary funding. TRS- Care, the health plan for TRS retirees, ran program deficits prior to the 2001 and 2003 legislative sessions and these shortfalls were later funded through appropriations.

TPEA would be happy to provide additional supporting detail on any of the issues listed above, and we would appreciate an opportunity to work with you and your staff to explore ways to deal with the GBP's budgetary issues.

Finally, after looking at how this current problem developed, TPEA believes that in the future funding for the GBP should be sufficient to maintain a reasonable reserve fund balance in compliance with §1551.211, Tex. Ins. Code, or ERS be given authority to

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adjust the insurance contribution levels in the second year of a biennium to an amount necessary to maintain benefits.

Thank you for your attention to this matter. We will follow up this letter with your senior staff to explore ways to equitably resolve the problems we face. Please feel free to contact me or my staff at 476-2691.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Anderson", with a large, stylized initial "G" and "A".

Gary W. Anderson  
Executive Director

CC: Mike Morrissey, Lisa Kaufman, Blaine Brunson, John O'Brien, Ann Fuelberg,  
DPSOA, RSEA