

TPEA Position on LBB Performance Review

TPEA supports some of the report's recommendations, but analysis suggests that a number of recommendations don't truly save money but would instead shift potentially hundreds of millions of dollars to state employees and retirees. As a result of the \$10 billion budget shortfall the last legislature faced, state employees and retirees saw increases in copays, deductibles and other costs that, on average, cost every state employee \$900 more in out-of-pocket costs annually. Given the state's improved fiscal condition, TPEA does not believe that it would be appropriate to shift additional costs to employees or retirees and TPEA opposes LBB recommendations that propose to do so.

The recommendations that TPEA believes represent true savings include:

- Creating an incentive for employees who have alternative health coverage to opt out of the state program. In particular, employees who can use federal TRICARE coverage with a supplemental "wrap around" policy paid for by ERS would receive coverage at lower cost to them and save state funds. HB 417 by Rep. Delisi would authorize such a benefit. TPEA supports Re. Delisi's legislation.
- Pursuing potential savings from prescription drug importation and other drug bulk purchasing methods. The introduced budgets fund a \$250,000 study of drug importation by ERS with contributions from the 20 largest state agencies. TPEA supports this recommendation.
- Utilize the new federal subsidy for prescription drug costs for Medicare-eligible retirees under ERS and TRS. ERS retirees already pay for 40 percent of drug costs through out-of-pocket cost sharing. With the approximately 30 percent subsidy Texas would receive for ERS retiree drug costs, the state would only be contributing 30 percent of the total retiree drug costs, a reasonable cost to bear to maintain this benefit that has been promised to retirees. The federal subsidy is included as a method of finance in the introduced versions of the budget. TPEA supports this recommendation, but not the other options listed in the report that would eliminate state drug coverage.

LBB recommendations that TPEA opposes because they do not represent true cost savings but rather inappropriately shift costs to employees and retirees include:

- Eliminating the current 50 percent state contribution for retirees' dependent health insurance premiums. This would shift over \$100 million in premium costs to state retirees and could result in adverse selection in the state plan.
- Reducing state contributions for employee health insurance to 90 percent. This would shift nearly \$120 million in premium costs to active state employees and reduce employees' take-home pay by approximately \$30 a month. Given that state employees have only had 3 pay raises in the past dozen years and have recently absorbed, on average, \$900 a year in increased out-of-pocket healthcare costs, this recommendation would have extremely adverse impacts on the state turnover and the state workforce.
- Eliminating state drug coverage for Medicare-eligible retirees and forcing them to bear additional costs under the new Medicare Part D drug program. Even under the most generous options presented, many retirees would pay significantly more under the new federal drug benefit. Given that retirees already pay for a

significant portion of overall drug costs, the better option is to maintain the state coverage and utilize the federal subsidies available to the state.

- Implementing a tiered coinsurance plan for state employees who have higher than average health care costs. This would effectively remove the current \$1000 annual limit on participants' 20 percent coinsurance contributions and require participants with annual healthcare costs above \$5000 to pay as much as \$5000 in coinsurance contributions. Given that health status is generally not voluntary, this would place considerable financial burdens on participants with chronic health conditions or other costly health episodes.
- Requiring state retirees under the age of 65 to contribute an amount equivalent to Medicare Part B premiums. This would shift nearly \$75 million in costs to state retirees and require an additional monthly \$78.20 monthly contribution for retirees under 65 years of age. Given the low annuity payments many retirees receive, this would retroactively alter the terms under which participants retired.
- Discontinuing Benefit Replacement Pay and Longevity Pay for return-to-work retirees and reducing their accrual for annual leave. While TPEA believes that many agencies need the flexibility to retain experienced and knowledgeable workers by rehiring retirees, in truth this is a stop-gap necessitated by the fact that state pay is too low to allow agencies to replace departing workers with employees who are as skilled and knowledgeable. But again, TPEA believes it is inappropriate to reach back and retroactively change the terms under which employees have retired. If it addresses this issue, the legislature should make it prospective and "grandfather" current return-to-work retirees.
- Freezing longevity pay to free up funds for merit pay awards. TPEA is proposing an increase in longevity and hazardous duty pay. TPEA supports allocating funds to agencies for merit awards and other compensation increases to reward high performers, but this should not be financed by taking increases in longevity pay away from other employees. TPEA believes chronic underfunding of the state's workforce is driving our costly turnover problem, and this proposal may exacerbate the problem.