

Summary of the New Pension and Health Benefits Law

CWA DISTRICT 1

The pension and health benefits bill (S-2937) was signed into law on June 28, 2011 and became effective immediately.

Pension Changes (for Employees in PERS)

- **Employee pension contributions** will increase from 5.5% to 6.5% as of July 1, 2011, then will increase to 7.5% over a period of seven years
- **Cost-of-living adjustments (COLAs)** for all current and future retirees will be suspended until the pension fund reaches 80% of the full funding level (which could take an estimated 30 years).
- The normal **retirement age** for new members of the pension system will be age 65 (vs. 60 or 62 currently). New members will be able to retire early if they have 30 years of credited service (vs. 25 currently). Current employees will remain subject to the retirement age and years-of-service requirements that previously applied to them.
- There will be no change in the **formula** for calculating retirement benefits.
- Once the fund reaches a funded ratio of 80%, a joint **employer-employee committee** will decide on future changes to the benefit and contribution levels.
- If the state or any other employer fails to make its required contribution, employees may sue to enforce their **contractual right to have contributions made**. Nonetheless, the state will be allowed to continue underfunding the system for the next seven years while the full contribution level is phased in.

Health Benefit Changes

- All active employees will be required to pay a **contribution toward their health benefit costs, based on a percentage of the premium**. The rate will depend on each employee's base salary and coverage tier (single, member with child or spouse, and family). Contributions will be made by payroll deduction on a pre-tax basis.
- If a union contract is in force when the law goes into effect, **covered employees will begin the new premium-sharing the first year after the contract expires**. All others will begin right away.
- Employees who are already on the payroll when the new premium-sharing begins will **gradually increase their contribution rates over a four-year period**. In Year 4 they will pay the full rate, ranging from 3% of the premium for the lowest-paid employees to 35% for the highest-paid employees (see chart). Employees who are hired after the premium-sharing has begun will pay the **full contribution rates for Year 4 right away**.
- Notwithstanding the above rates, **no employee will pay less than 1.5% of base salary**.
- If an employee is already paying a contribution which is less than the new law requires, **the new contribution amount will replace the old amount**.
- On June 28, 2015 the premium-sharing provisions will **sunset**. Despite this, employees must continue to pay the contributions **until the full Year 4 rates are in effect** for the affected group.
- **Negotiations** over premium-sharing will be pre-empted until the full Year 4 rates are implemented, at which point these rates will constitute the status quo for future negotiations. Notwithstanding the above, additional contributions not required by law may be negotiated in the interim. In addition, local governments that are not in the SHBP may negotiate employee contributions that differ from the statutory rates, provided there is an overall cost savings (including savings from other plan changes) that equals or exceeds what would have been saved by using the statutory contribution rates plus any other design changes made by the SHBP.

- For purposes of calculating contributions, the **premium** for employees in the SHBP will include the cost of medical and prescription benefits only. For employees outside the SHBP, the premium will include the cost of medical, prescription, dental, vision care, and any other health benefits.
- Unless exempted by law, all **employees who retire after the effective date of the law and who receive employer-paid health benefits will have contributions deducted from their pension payments** using the same rates that are required for active employees. Deductions will start as soon as the state is administratively able to implement them, and the amounts will be remitted to the former employers. **Employees who already have 20 years or more** in PERS when the law goes into effect and subsequently retire with 25 years of service will be exempt from the new premium-sharing requirements. **Current retirees** are not affected.
- A joint **labor-management committee** will redesign the medical and prescription plans offered through the SHBP in order to provide different options for co-pays and other employee costs, including a high-deductible plan. These changes are expected to shift more costs onto employees.
- A provision in the original bill that would restrict coverage for out-of-state specialists was removed.

Health Benefit Contribution Rates*

| Salary Threshold | Single | | | | Employee +1 | | | | Family | | | |
|------------------|--------|--------|--------|--------|-------------|--------|--------|--------|--------|--------|--------|--------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 1 | Year 2 | Year 3 | Year 4 | Year 1 | Year 2 | Year 3 | Year 4 |
| \$1 | 1.1% | 2.3% | 3.4% | 4.5% | 0.9% | 1.8% | 2.6% | 3.5% | 0.8% | 1.5% | 2.3% | 3.0% |
| \$20,000 | 1.4% | 2.8% | 4.1% | 5.5% | 0.9% | 1.8% | 2.6% | 3.5% | 0.8% | 1.5% | 2.3% | 3.0% |
| \$25,000 | 1.9% | 3.8% | 5.6% | 7.5% | 1.1% | 2.3% | 3.4% | 4.5% | 1.0% | 2.0% | 3.0% | 4.0% |
| \$30,000 | 2.5% | 5.0% | 7.5% | 10.0% | 1.5% | 3.0% | 4.5% | 6.0% | 1.3% | 2.5% | 3.8% | 5.0% |
| \$35,000 | 2.8% | 5.5% | 8.3% | 11.0% | 1.8% | 3.5% | 5.3% | 7.0% | 1.5% | 3.0% | 4.5% | 6.0% |
| \$40,000 | 3.0% | 6.0% | 9.0% | 12.0% | 2.0% | 4.0% | 6.0% | 8.0% | 1.8% | 3.5% | 5.3% | 7.0% |
| \$45,000 | 3.5% | 7.0% | 10.5% | 14.0% | 2.5% | 5.0% | 7.5% | 10.0% | 2.3% | 4.5% | 6.8% | 9.0% |
| \$50,000 | 5.0% | 10.0% | 15.0% | 20.0% | 3.8% | 7.5% | 11.3% | 15.0% | 3.0% | 6.0% | 9.0% | 12.0% |
| \$55,000 | 5.8% | 11.5% | 17.3% | 23.0% | 4.3% | 8.5% | 12.8% | 17.0% | 3.5% | 7.0% | 10.5% | 14.0% |
| \$60,000 | 6.8% | 13.5% | 20.3% | 27.0% | 5.3% | 10.5% | 15.8% | 21.0% | 4.3% | 8.5% | 12.8% | 17.0% |
| \$65,000 | 7.3% | 14.5% | 21.8% | 29.0% | 5.8% | 11.5% | 17.3% | 23.0% | 4.8% | 9.5% | 14.3% | 19.0% |
| \$70,000 | 8.0% | 16.0% | 24.0% | 32.0% | 6.5% | 13.0% | 19.5% | 26.0% | 5.5% | 11.0% | 16.5% | 22.0% |
| \$75,000 | 8.3% | 16.5% | 24.8% | 33.0% | 6.8% | 13.5% | 20.3% | 27.0% | 5.8% | 11.5% | 17.3% | 23.0% |
| \$80,000 | 8.5% | 17.0% | 25.5% | 34.0% | 7.0% | 14.0% | 21.0% | 28.0% | 6.0% | 12.0% | 18.0% | 24.0% |
| \$85,000 | 8.5% | 17.0% | 25.5% | 34.0% | 7.5% | 15.0% | 22.5% | 30.0% | 6.5% | 13.0% | 19.5% | 26.0% |
| \$90,000 | 8.5% | 17.0% | 25.5% | 34.0% | 7.5% | 15.0% | 22.5% | 30.0% | 7.0% | 14.0% | 21.0% | 28.0% |
| \$95,000 | 8.8% | 17.5% | 26.3% | 35.0% | 7.5% | 15.0% | 22.5% | 30.0% | 7.3% | 14.5% | 21.8% | 29.0% |
| \$100,000 | 8.8% | 17.5% | 26.3% | 35.0% | 8.8% | 17.5% | 26.3% | 35.0% | 8.0% | 16.0% | 24.0% | 32.0% |
| \$105,000 | 8.8% | 17.5% | 26.3% | 35.0% | 8.8% | 17.5% | 26.3% | 35.0% | 8.0% | 16.0% | 24.0% | 32.0% |
| \$110,000 | 8.8% | 17.5% | 26.3% | 35.0% | 8.8% | 17.5% | 26.3% | 35.0% | 8.8% | 17.5% | 26.3% | 35.0% |

*Contributions will be calculated by applying the above rates to the premium cost, provided the result is at least 1.5% of the employee's base salary. For state employees in the SHBP, premiums currently range from \$7,623 per year for Single coverage to \$19,057 per year for Family coverage. Based on the above chart, an employee with Single coverage who earns \$55,000 would theoretically pay \$442 in Year 1 (5.8% x \$7,623). However, the actual contribution would be 1.5% of salary, since this amount is greater (1.5% x \$55,000 = \$825). The full Year 4 contributions will of course be higher yet—in some cases \$6,000 or more for Family coverage. **Note:** premiums are subject to change and normally increase each year. Health benefits outside the SHBP may have significantly higher premiums.