Public Hearing

before

SENATE STATE GOVERNMENT COMMITTEE

"Discussion on the State's sick leave injury program for State employees; and the increase in State Health Benefits Program (SHBP) expenditures during recent years"

LOCATION: Committee Rom 7
State House Annex
Trenton, New Jersey

DATE: June 12, 2006
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Joseph Coniglio, Chair
Senator Nicholas P. Scutari, Vice Chair
Senator Loretta Weinberg
Senator Nicholas Asselta
Senator Leonard T. Connors Jr.

ALSO PRESENT:

Frank J. Parisi
Office of Legislative Services
Committee Aide

Christian Martin
Senate Majority
Committee Aide

Magregoir Simeon
Senate Republican
Committee Aide

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SENATOR JOSEPH CONIGLIO (Chair): The State Government Committee will hold its public hearing today in two areas: The Sick Leave Injury Program and the increase in the State Health Benefits Program.

First, allow me to thank you for attending this public hearing on two very important issues facing our State. Pension and health benefits fall within the jurisdiction of this Committee and apply to State and local employees. Costs in this area have increased significantly over the past five to 10 years, and they show no signs of leveling off in the foreseeable future. Governor Corzine has recognized this and, as part of the budget, singled out one program for legislators to consider eliminating: the Sick Leave Injury Program. The Sick Leave Injury Program is largely duplicative of Workers' Compensation. It is a benefit that no one in the private sector enjoys, because of Workers' Compensation coverage.

The State auditor has recommended for a number of years that this program be eliminated. We know that it may not be possible to unilaterally eliminate this program because there are contractual provisions that apply to the current State employees contracts. However, the auditor is here to brief us on this program, and his recommendation will be carefully considered.

In addition to the pension and other fringe benefit costs, health-care costs have exploded for all employees, public and private. These obligations drive the cost of local government on both the State and local level, and contribute to the rise of property taxes. As many of you know, we will embark upon an unprecedented special legislative session, that will work throughout the Summer and Fall, with the goal of enacting property tax reforms by the end of this year. Part of this special session will address the containment of benefit costs to the current workers and retirees.

As a prelude to this endeavor, this hearing will hopefully provide the community with valuable insight regarding the State Health Benefits Program, from the head of the Division of Pension and Benefits.

Thank you.

I guess we'll-- We'll take you first. That's fine.

Please state your name.

RICHARD L. FAIR: Good morning, Mr. Chairman. My name is Rick Fair. I'm the State Auditor.

The reason that I was asked to come here today was to testify regarding our recommendations on Sick Leave Injury. In 2003, we conducted an audit of Sick Leave Injury, and we found that, at least the way it's working now, that there needs to be some statewide perspective in terms of how it's administered. Each individual agency administers the SLI program based upon rules within their agency.

The Department of Personnel does, in fact, have ultimate say with regard to that, but they've pretty much delegated the individual administration of SLI to the departments. Then a year later, what we did was, we looked at Workers' Compensation. And when we looked at these two audits and these two programs together, we decided it was probably worthwhile having the Legislature consider eliminating SLI.

SLI was first brought into the state in the 1930s as part of Civil Service. And it's a wage continuation program. And what happens is, somebody gets injured on the job in the State government -- they will continue receiving their wages without any charge to sick time for up to one year. And their benefits and everything else accrues.

In the 1940s, Workers' Comp came into New Jersey. And Workers' Compensation is a wage replacement program. And what would happen, similar -- and this also deals with private industry -- if somebody gets hurt on the job, their Workers' Compensation will come in and start replacing some of the wages that the individual worker earns. When we did an analysis of the two programs, we found out that because of the tax benefits of Workers' Comp, versus SLI, the net pay for most individual workers in the State government wouldn't be significantly reduced. Therefore, when we're looking at the cost of the programs and the fact that it's administered by two different agencies, I had recommended to the Legislature last year that they consider eliminating SLI and forego it, with regard to Workers' Comp. And that's my recommendation to you today.

SENATOR CONIGLIO: Senators, do we have any questions?

Senator Asselta.

SENATOR ASSELTA: What does *significantly reduced* translate into? Give me a common example of the difference of eliminating this program and someone taking Workers' Compensation. Let's say someone with an average salary of $30,000 a year, working at the Vineland Veterans Home, caring for a veteran every day -- how would that significantly reduce that particular compensation?

MR. FAIR: Their net pay wouldn't change at all. Because what happens with Workers' Comp, it's not taxable for Federal income tax purposes. Therefore, when they receive the Workers' Comp, they wouldn't be taking Federal income tax, the State income tax out of it. Therefore, their net pay wouldn't reduce at all.

The only impact it would have on the worker is, in Workers' Comp, they would not be accruing additional sick leave. All right? Where in the case of SLI, it's as though the person is working and they continue to accrue all the benefits as though they were there on the job.

Our initial analysis believes that for people that make less than $60,000, the net impact on their pay is minimal at best, if not no impact at all.

SENATOR ASSELTA: Through the Chair, the philosophy here is that, if you are hurt on the job, you should not continue to accrue sick time because you are actually off. That's the goal here, correct?

MR. FAIR: The goal really is to eliminate a program that we believe is out of date because of Workers' Comp coming in afterwards. And if you decide not to eliminate SLI, then at least we recommend that there would be a central administration of the two programs. What could happen now is, a person will apply for SLI and they may not be granted it initially. But after a certain period of time, they automatically get Workers' Comp. Well, they might start receiving Workers' Comp and then be granted SLI benefits retroactively. And therefore, they will have been receiving benefits from the two programs simultaneously. So at a very minimum, if you decide not to eliminate SLI, we believe that those two programs should be centrally administered.

SENATOR ASSELTA: Thank you.

SENATOR CONIGLIO: Any other questions, Senators?

Senator Weinberg, do you have anything?

SENATOR WEINBERG: Do you have a cost figure on what that would save, if we eliminated the SLI?

MR. FAIR: SLI, when we did the audit, was continuated wages for about $7 million. Last year, that had increased to between $10 and $11 million.

SENATOR WEINBERG: So you predict that would be the savings in the budget?

MR. FAIR: Well, that would be a savings in terms of the impact on the salary budget. Now, Workers' Comp will go up. The cost of Workers' Comp will go up. So we figure there would be at least a $2-, $3-million savings overall.

SENATOR WEINBERG: Okay. And is there a lag time in between -- let's say somebody goes out on SLI. They can do that almost immediately?

MR. FAIR: Yes.

SENATOR WEINBERG: And what happens with Workers' Comp?

UNIDENTIFIED PERSON FROM AUDIENCE: Seven days.

MR. FAIR: How many days?

UNIDENTIFIED PERSON FROM AUDIENCE: Seven.

MR. FAIR: Seven days.

SENATOR WEINBERG: Seven. So that's almost immediate too.

And let me ask another question. I'm not sure, this might be more subjective and less objective for an auditor. But what about the differences in being -- I don't want to want to say *prone* to injury leave -- but you're working in an occupation in which injury is more common: taking care of the veteran in a veterans home, or a law enforcement or firefighter. Is there a reason for the two programs for those specific occupations, or would it not effect them in any way?

MR. FAIR: I don't believe it would effect them at all. It's just where they're receiving their funding from and the nature of the funding. I don't see it having any impact whatsoever, except for that one item where, if they're out on Workers' Comp, they are not accruing sick leave.

SENATOR WEINBERG: Okay. And so you're projecting a net gain of maybe $2 to $3 million?

MR. FAIR: Two to $3 million.

SENATOR WEINBERG: Thank you.

SENATOR CONIGLIO: I guess it's my turn.

You stated that there's about $7 million that can be saved. Can you give me the breakdown on that? Is that in--

MR. FAIR: I would ask Steve.

SENATOR CONIGLIO: Bring him forward.

MR. FAIR: I'm going to ask Steve to come up to--

SENATOR CONIGLIO: What I want to know is, the SLI benefits that are paid, is that only benefits? Does that also include staffing that administers the SLI? What is the makeup of that? I see 5.3 and I see $7 million. What is the exact number also?

MR. PARISI: Please identify yourself.

STEPHEN EELLS: Steve Eells, with the Office of the State Auditor.

SENATOR CONIGLIO: Let me just say something. I understand that the $7 million represents the cost to the State of $7 million for the program. Okay? Now, are our payments, for SLI, 5.3 million a year? What is the makeup?

MR. EELLS: The actual payment-- SLI is as if the person never came off-- So that is the $7 million figure. And currently, that's between $10 and $11 million. That's the actual cost of days lost for that individual. They can be on SLI up to one year before they would move over to Workers' Comp Program. The savings would come in the actual coordination of the program. So there's a cost savings there.

There was a task force that our Workers' Comp report referred to, that was done in 1995, that identify the savings in coordinating the program and actual -- even with elimination -- the cost of paying Workers' Comp, and some of the time lags, and some of the benefits, versus the cost of paying SLI and the individual never coming off the payroll. That's where the $2 to $3 million difference comes in. There's also payroll taxes involved there. Workers' Comp is a nontaxable benefit. The State of New Jersey does have a cost in paying the Social Security and Medicare taxes as an employer for these individuals. You wouldn't pay that under Workers' Comp. So there's about $500,000 of savings there, as well. That's some of the savings factors.

SENATOR CONIGLIO: Would any staff and personnel be eliminated from SLI under this coordination? How would that work?

MR. EELLS: Under the coordination, we identify -- we felt that the best coordinating spot would be the Department of Treasury, the Bureau of Risk Management. They monitor the Workers' Comp Program.

They have the actual database that shows the individuals when they go on these programs. So we felt that they were the best place to coordinate this. Whether there would be a loss -- they will certainly need to draw some of the HR individuals who are looking at this SLI, from the departmental standpoint. They would certainly need to draw some of those resources. But hopefully some of the individuals who weren't needed could be used in the different departments for their HR. They could be reallocated.

Again, the needs that the Department of Treasury, Risk Management would need, I think would be most appropriate with them. I don't want to speak for them to say how many they would need. Certainly they would need some resources from the departments.

SENATOR CONIGLIO: Is there any way that we can get a number to me as to how many employees are in SLI and what the overall costs are?

MR. EELLS: In SLI?

SENATOR CONIGLIO: Yes. As well as what your payouts are, and how many individuals receiving SLI per year, over the last three years.

MR. EELLS: Yes, we can get that for you. They actually track that in the number of days lost. That's where the cost figures come from. The $7 million figure was approximately 45,000 days lost. The current numbers for 2005 were between $10 and $11 million of SLI payments, about 60,000 days lost.

SENATOR CONIGLIO: I'd just like to see it as an outline breakdown, straight and clear. You know what I'm saying?

MR. EELLS: Yes. We can get that for you.

SENATOR CONIGLIO: So, in your estimation, there's no reason why, after the current contact expired, that we couldn't eliminate SLI. Is that correct? Auditor?

MR. FAIR: There's no reason I could think of.

SENATOR CONIGLIO: There's no adverse affect.

MR. FAIR: No adverse affect on most of the State workers. The people who are at the very high end, absolutely. If you're making more than $65,000 a year, you're going to have a decrease in your pay, because Workers' Comp -- the tax benefit of Workers' Comp would not cover the reduction in pay under Workers' Comp, but only the very high-end employees.

SENATOR CONIGLIO: And you stated in you opening remarks that you saw no reason why the Treasurer could not take control over this, is that correct?

MR. FAIR: Well, Treasury has control over Workers' Comp now.

SENATOR CONIGLIO: Okay.

MR. FAIR: And the individual agencies have control over SLI. And what we had recommended in our report -- if you decide not to get rid of SLI, then at a very minimum that these two programs be coordinated.

SENATOR CONIGLIO: Oh, at the least. Okay.

So now, say that we eliminated SLI; and SLI, Workers' Comp, and HR units would all be housed together under the auspices of the Treasurer. Is that correct?

MR. FAIR: The Workers' Comp Program, as it currently exists in New Jersey, all falls under Bureau of Risk Management in Treasury.

SENATOR CONIGLIO: Okay. So now all of those units would come under Risk Management in Treasury, right? You're saying those people that are in SLI would be incorporated because this -- there'll be cases and things that would be handled, the compensation would grow. Is that correct? Is that what you're telling me?

MR. FAIR: That's what I'm saying, yes. For the larger departments where there's a lot -- like Human Services in Corrections -- where there's a lot of folks that get injured, then some of those people in HR that are currently working under SLI would have to be moved to the Bureau of Risk Management.

SENATOR CONIGLIO: The current agency, Human Resources personnel -- be utilized at a centralized unit?

MR. FAIR: I'm sorry.

SENATOR CONIGLIO: In other words, to handle this combined -- we're eliminating SLI, only going to have Workers' Comp -- is the Human Resources staff big enough on its own to handle the Workers' Comp claims or not?

MR. FAIR: No. The people that handle Workers' Comp claims are in Treasury, and right now they don't have enough staff. However, for the large agencies where there's a lot of people out sick, those people who are currently on SLI would be able to move over to the Bureau of Risk Management. What we would have to do is reach out to Treasury to let them do some projections in terms of how the personnel shifts would occur.

SENATOR CONIGLIO: Any other questions, Senators?

Ladies first. Senator Weinberg.

SENATOR WEINBERG: Why, I knew there would be an advantage to this at some time in my life. (laughter)

Sorry.

Thank you, Mr. Chairman.

I just want to get back to my original question -- the net gain to the State budget if we shifted all this or got rid of SLI is $2 to $3 million, correct?

MR. FAIR: Yes. That's our projections. Yes, Ma'am.

SENATOR WEINBERG: Okay.

And there would be no lag time in terms of employees applying for what is justly due.

Now, for the higher-end employees as you said -- the $65,000 and above -- what would this mean to them in terms of reduction in pay?

MR. FAIR: Well, quite frankly, Workers' Comp pays 70 percent of your salary up to a certain dollar amount. In most cases, if you're making less than $65,000, the difference in the 70 percent and the impact of the taxes on that makes your net pay about the same. The higher you go up the chain above $60,000, the greater that difference is going to be. And so it can be, in some cases, pretty significant. It could be 10 percent of their net pay right now.

MR. EELLS: We had indicated, in the 2003 SLI audit that we did, we only found about 14 percent of the people that go on SLI are in that higher tiered salary. So it was a very low figure that was involved in that number.

SENATOR WEINBERG: Okay.

Thank you.

SENATOR CONIGLIO: Senator Asselta.

SENATOR ASSELTA: Yes. I want to be absolutely clear on this, and I want you to help me with this, because obviously you have the insight and input here. If you were a State employee and worked in a very high physical risk position -- let's say like a corrections officer -- and you were involved in a riot -- okay? Twenty-seven officers went to the hospital. Some of them went out on some type of disability. Would that officer, who was injured on the job in a riot, be better off with SLI or workers' compensation?

MR. EELLS: Overall? I mean, SLI is--

SENATOR ASSELTA: Considering there's a high physical risk here? And some jobs in State government have high physical risk. If you're caring for a veteran who is in bed all day, and you have to continually move that veteran and you come up with a back injury, that's a high physical risk State employee job. If you're a corrections officer who has to deal with inmates day in and day out -- and in this case a documented riot happened a year ago, where 27 of these officers went to the hospital and some of them went out and are still out, by the way, on Workers' Comp, I guess.

I just need your professional opinion here. If you were in that particular officer's position, would you be better off on SLI or Workers' Comp?

MR. FAIR: You'd be better off on SLI.

SENATOR ASSELTA: Okay.

MR. FAIR: And the reason you'd be better off in SLI is, even though it doesn't have an impact on your take-home pay, if you're on SLI, that person will continue to accrue sick days as though they were currently on the job.

SENATOR ASSELTA: Because they didn't ask to be involved in a riot.

MR. FAIR: No. And that's -- I said from the outset -- that that is the disadvantage between the two.

SENATOR ASSELTA: I just want to be very clear about that.

Thank you very much.

SENATOR CONIGLIO: Yes, Senator, go ahead.

SENATOR WEINBERG: Well, again, in the interest of clarity, the main difference is that while they are out on sick leave, whether it's SLI or Workers' Comp, they don't continue accruing sick leave. Correct?

MR. FAIR: That's correct.

SENATOR WEINBERG: Okay. Now of course, since all of this is subject to labor negotiations, you could actually negotiate two different kinds of programs, too, for two difference kinds of -- or as many different kinds of employees as--

MR. FAIR: Some of the things you could clearly do if you wanted to keep the essence of SLI, but turn most of the funding over to Workers' Comp, is: for example, you could do SLI for the seven days, or wait period; you could have -- amend the statute to allow certain situations for people to continue to accrue sick time. There's ways to eliminate SLI as we know it today, and prevent the overlapping that really is, quite frankly, the problem that I have. It's not so much with SLI. It's if you have SLI and Workers' Comp, the mere fact that you got two programs that try to administer assistance to the same individual, there's likely to be situations where people receive benefits from the two programs. And we found that, and it's not the individual's fault. It's the fault of the administration and the way that these two programs are being administered.

SENATOR WEINBERG: And two programs that might very well be administered by two different departments -- one, Treasury; and the other by whatever department it's from.

MR. FAIR: Oh, they certainly are. Well, SLI is even worse, because it depends upon the department--

SENATOR WEINBERG: Right.

MR. FAIR: --how fast you get on SLI and what type of injuries occur. It's not centralized at all. It's a very decentralized administration.

SENATOR WEINBERG: So that's probably one of the most important parts of your recommendations, if I understand this?

MR. FAIR: That's the biggest part of my recommendation. And when we were looking at two programs and we said, "Look, for the most part it's not going to hurt anybody. We can simplify this by eliminating SLI." But if the concern is that it does have a minor impact on certain workers, those clearly can be considered when developing new legislation.

SENATOR WEINBERG: Carved out. Okay.

SENATOR CONIGLIO: Any other--

Senator Scutari, go ahead.

SENATOR SCUTARI: Yes. Thank you.

You said there's no difference in the take-home pay, but doesn't Workers' Comp only give 70 percent of their lost weekly wages in SLI? Did you explain that already?

MR. FAIR: It does. It gives 70 percent. But that 70 percent is not taxable for Federal income tax purposes, where the income that they're receiving under SLI is a wage continuation program and it's taxable. So the net impact is zero.

SENATOR SCUTARI: And the State of New Jersey is essentially self-insured for Workers' Comp claims?

MR. FAIR: Yes.

SENATOR SCUTARI: But if there's a third party claim as a result of an injury that occurs to a worker -- meaning if they were in a motor vehicle accident with the negligence of someone else and they instituted a lawsuit against that individual's insurance company -- SLI doesn't have any lien on that money. But through a Workers' Comp claim, we would get that money back as a result of a lawsuit.

MR. FAIR: That's correct.

SENATOR SCUTARI: So there's a significant difference there.

MR. FAIR: There is a significant difference. And that's because Bureau of Risk Management, once again, administers the Workers' Comp, and they're familiar with third party liability and they go out and they pursue those individuals. In a case of Human Services, for example, if one of their employees get hurt, they go under SLI, those folks aren't familiar with the process of trying to get the third party to actually pay for the program.

SENATOR SCUTARI: So if a person goes under SLI benefits and there's a third party claim that's instituted as a result of that injury, if they've gotten SLI benefits, the State gets none of that money back. But under Workers' Compensation, they'd be entitled to a full lien on that money.

MR. FAIR: I do know that they're doing it under Workers' Comp. I don't know the legal aspects of SLI. I would imagine if a third party is involved, that the State would have some sort of claim against the third party.

SENATOR SCUTARI: I don't believe they do.

MR. FAIR: Well, then, that's an additional benefit of eliminating SLI and going to Workers' Comp.

SENATOR SCUTARI: Okay. I just wanted to bring that up.

SENATOR CONIGLIO: Senator Connors.

SENATOR CONNORS: Any other states that have this type of a program?

MR. EELLS: Yes. There are four other programs that we're able to find. The Federal Government offers a 45-day SLI program, and there were three other states -- I don't have the exact -- but we found three other states, 22 days was the highest benefit. I believe it was 22 days, 14, and 7. But they were all very, very much less than the one year that we offer.

SENATOR CONNORS: But not a year? Yes, but not a year?

MR. EELLS: Nothing more than the 45 days that the Federal Government offered.

SENATOR CONIGLIO: How many incidents of overpayment do we have, to your knowledge? Is it significant? Is it minimal?

MR. EELLS: There was a two-year audit that we did with Workers' Comp. We found 47 cases, for about $50,000, where there was a duplicate benefit paid during that time frame. And recovering--

SENATOR CONIGLIO: How many cases do you think each program handles per year?

MR. EELLS: I'd have to get you the actual case numbers.

SENATOR CONIGLIO: If you could, through the Chair, I would appreciate that.

MR. EELLS: Yes.

SENATOR CONIGLIO: Any other questions, Senators?

Senator Scutari.

SENATOR SCUTARI: Thank you, Mr. Chairman.

You may have explained this earlier -- I apologize for--

SENATOR CONIGLIO: It's quite all right. We'll forgive you -- this time.

SENATOR SCUTARI: And that's an unusual occurrence, as you know.

Although the employee garners essentially the same wage from either Workers' Comp or through an SLI benefit, it still costs the State more money to prescribe the SLI benefit, because those taxes then go to the Federal Government, do they not?

MR. FAIR: That's correct.

We pay -- the taxes go to the Federal Government, plus once again, we have to pay the employers' share of Social Security.

SENATOR CONIGLIO: Any other questions, Senators?

Senator Connors.

SENATOR CONNORS: What's your recommendation to handle the -- should there be an elimination of this benefit? You're only dealing now with career, senior executive unclassified services. What's your recommendation with regard to the services that are under contract?

MR. FAIR: I believe that SLI covers everyone in State government.

SENATOR CONNORS: Well, you're talking about, now, you want to eliminate -- the administration wants to eliminate this, the program, but it doesn't apply to the contracted services.

MR. FAIR: Oh, it does, because Workers' Comp impacts every employer in the State of New Jersey. So if you're a contracted service, right now you're covered under the Workers' Compensation laws. You're not covered under SLI, obviously, because you're not a State--

SENATOR CONNORS: You're not -- oh, it doesn't cover contracted service?

MR. FAIR: No, sir. It does not.

SENATOR CONNORS: Oh, okay.

SENATOR CONIGLIO: Any other questions, Senators? (no response)

Hearing none, we will close this portion of this hearing.

Thank you very much, gentlemen.

Does anyone in the public want to speak on behalf, for or against, what's stated today?

SENATOR CONNORS: I have one more question, while the gentleman is here. It might be pertinent to--

SENATOR CONIGLIO: Gentlemen?

SENATOR CONNORS: Can you answer me my question, with regard to why were part-time employees embraced into SLI?

MR. FAIR: I don't believe that they are. SLI is for individuals who are full-time State employees, as far as I know.

SENATOR CONNORS: No. It says here, "For full- and part-time State employees."

MR. FAIR: Unless it's -- there's some sort of rule out there about 844 hours or something. I really don't know. I have to be honest with you, Senator. I don't know, other than the fact that the law says that it covers State employees and was part of the original Civil Service Act in the 1930s. I don't know how part-time got enrolled in it.

SENATOR CONNORS: Let me ask you this question -- and it may be beyond your scope, at least at this point in time. On part-time employees, are they given health benefits?

MR. FAIR: I don't believe so. As far as I know, part-time employees receive no benefits at all. That's why I would find it hard to believe that they would be covered under SLI.

SENATOR CONIGLIO: Well, we could ask the Commissioner when he gets up here.

SENATOR WEINBERG: I think you have to work 35 hours a week to qualify for health benefits.

MR. FAIR: Yes. I know there's some 844 rule out there about something, but I'm not exactly sure how that works.

ASSEBMLYMAN CONNERS: Well, I'm just reading here, "New Jersey's Sick Leave Injury Program, established by the statute and defined in the statute, provides for a continuation of pay up to one year for full- and part-time State employees." That's what -- they're defining the statute. Here, do you want to read it?

MR. FAIR: Oh, no. I'm sure. I just don't have an answer for you, because in our audit we never really came across any part-time individuals who were receiving SLI benefits.

SENATOR CONNORS: Okay. All right.

SENATOR CONIGLIO: You can check it out and get back to the Chair?

MR. FAIR: Absolutely.

SENATOR CONIGLIO: Your guys are getting the second round here. I closed this part of the hearing. You're really stretching it, but go ahead. Would you gentlemen like to stay for another question, or not?

SENATOR SCUTARI: The part-timers receive Workers' Compensation benefits anyway. All workers in the State of New Jersey are statutorily required to be covered under Workers' Compensation.

MR. FAIR: Yes, sir.

SENATOR SCUTARI: Do you have any reasons why the program should continue to exist?

MR. FAIR: No, I don't. That was our recommendation to you, was to--

SENATOR SCUTARI: There's no argument that can be made that it should continue to exist in the form that it's in? What would -- opponents? Let's recognize your weaknesses.

MR. FAIR: If I was to recognize my weaknesses, clearly there's two weaknesses in our recommendation. The first one being the seven-day delay, and the second-- Well, there's three. The second one being the fact that they're not accumulating sick leave when they're out on Workers' Comp, and they currently are, under SLI. And the third, dealing with myself, if your wage reaches a certain threshold, then you actually have a negative financial impact under Workers' Comp.

SENATOR SCUTARI: Well, yes. Because there's a statutory maximum for Workers' Compensation benefits.

MR. FAIR: That's correct. Yes.

SENATOR SCUTARI: And many State workers probably exceed that already.

MR. FAIR: That's correct. But we were looking at it from the perspective that, out of all of the people that were receiving SLI, only about 14 percent of those people would have any sort of impact, at all, financially.

SENATOR SCUTARI: This is something that everyone else in the State of New Jersey, who is not a State employee, deals with -- the benefits of Workers' Compensation, as well as those restrictions.

MR. FAIR: That and almost all the entire country. Yes, sir.

SENATOR SCUTARI: Thank you.

SENATOR CONIGLIO: Thank you, gentlemen, for the last time. We will not call you back, you can rest assured.

Anyone from the public who would like to speak on SLI?

Please step forward and state your name.

CLIFFORD RUMPH: Clifford Rumph, Department of Corrections.

I would like to say that some of the information here, I believe, is misleading. One, with Workers' Compensation, whatever payroll deductions you have stops. So they are telling you that, okay, you're getting 70 percent of your salary and it's not taxed. But then if you have payroll deductions, that's not coming out. And then if a person gets hurt on a job, should he not still be having his money put into his Social Security? So that's what I have.

SENATOR CONIGLIO: Any questions, Senators?

Senator Asselta.

SENATOR ASSELTA: Yes. I think this was where I was going earlier with the -- obviously, the physical risk aspect of what this gentlemen does and his colleagues do. And I think Mr. Fair emphasized -- and I put the question to him -- if you were a New Jersey Corrections officer at risk every day when you go to work, which program would you take if you got hurt. And obviously, I don't know if you were here, Senator Scutari, but there was the answer, "SLI."

SENATOR SCUTARI: I know. I used to work for the State.

SENATOR ASSELTA: I know you did.

So tell us, obviously, if you can share with us a little bit about if you feel if you got hurt on the job, because of the physical nature of your job, why should you lose sick time and why shouldn't sick time be accrued? Why should you lose that benefit simply because of a circumstance at work that was beyond your control?

MR. RUMPH: I shouldn't lose the sick time.

SENATOR ASSELTA: Exactly.

MR. RUMPH: I should be able to still earn my sick time. Because when I come back, I may legitimately get sick and need that time.

SENATOR ASSELTA: Exactly.

Thank you.

MR. RUMPH: But also, when you look at not only just the Department of Corrections, other State workers, yes, you get that 70 percent of your salary that's not taxed; but if you've got, let's say, AFLAC, for instance, now you've got to pay that out to 70 percent, because you're no longer getting the payroll deduction coming out. I mean, pension loan -- all of that comes out of payroll deductions. So when Workers' Comp kicks in, none of those payroll deductions come out. So, yes, you're getting that money back, but you've still got to pay it out.

SENATOR CONIGLIO: Any other questions, Senators?

SENATOR SCUTARI: You'd have to make those deductions anyway, though, out of your regular salary.

MR. RUMPH: This is true. But it makes it seem like you're getting more money coming into you than what you really are.

SENATOR CONIGLIO: Any other questions, Senators? (no response)

Thank you, sir.

Anyone else wishing to speak, please come forward, state your name.

GREGORY KELLEY: Good morning, Senators.

My name is Gregory Kelley. I'm a corrections officer. I'm also the Executive Vice President for PBA Local 105, the Corrections Union.

And listening this morning to testimony about the SLI, I was one of those individuals that was involved -- and I've been involved in approximately three riots and hurt in one of them. The only problem I had with the elimination of the SLI program concerning correction officers is that -- I work out of the Maximum Security Prison, New Jersey State Prison here in Trenton, for 15 years, okay? And as their representative within that building, the SLI claims, a lot of times -- for corrections officers legitimately hurt at some point in time -- they were denied. Okay? And we had to go on and go on. And the biggest thing about it is -- and I guess maybe I had some reservations about Risk Management -- but it has been my experience that Risk Management has made some judgments on whether or not the nature of the officer returning to work is okay. Because in Corrections we don't have light duty. Okay? There is no such thing as light duty. And I've had to defend officers in which State doctors told him, "Okay. You're ready to go back to work." However, physically that officer was not ready, because if it was, like, a broken hand, it's still swelling, it's still a problem, and that makes it very dangerous for us.

And particularly in this present day in the overall Corrections -- and this is including juvenile corrections -- in the State of New Jersey, we have a big problem with gangs right now. Okay? The gangs basically breed in Corrections. They get locked up as juveniles. They start to form their little groups. Then they come to us at State Prison and those groups are still there. Those groups are basically violent groups. Okay? They want to hurt people. We find weapons. We're finding more sophisticated weapons all the time within the Corrections system. And officers do get hurt. And our biggest problem was State doctors rushing these officers back when they weren't--

And also, the biggest thing -- I think that the problem with SLI for us, anyway, is continual denial of those SLI benefits. So I don't know where the cost is -- is coming. But I know that for my officers within the State of New Jersey -- we're fighting tooth and nail to get SLI. Because initially it is denied. That officer is out and now that officer's family-- And this is before Workers' Compensation can be even applied for, kicks in. So now, we as a union, we have to worry about these officers' families and their livelihood while we're waiting for SLI to kick around -- "Well, it's not really inmate related." It's, "Well, you slip and fall. Well, we don't see this." And we have people making decisions on that who are not doctors, and Risk Management, I believe, is one of them. As to, "Well, we don't think that -- you should be able to come back to work." And I think that that's where the problem lies. Nobody wants abuse of the SLI system, not even -- not us. But in our environment, each and every day, each and every minute, we're at risk. Okay? And with the number of inmates getting locked up in New Jersey, it doesn't correlate with the number of officers that's coming into New Jersey.

And if you've read recently, a couple weekends ago at Bordentown we had an incident with gangs and officers getting hurt. This is what we face every day. And we're not trying to, I guess, abuse the system, but it is necessary for our officers who put their lives on the line basically for the whole eight hours they're there. Okay?

So that's all I wanted to say. Any questions?

SENATOR CONIGLIO: Any questions, Senators?

Senator Weinberg.

MR. KELLEY: Yes, Ma'am.

SENATOR WEINBERG: So are you saying you would rather directly access Workers' Comp and just skip over the SLI?

MR. KELLEY: We would rather have the SLI, I think, with the SLI program -- for revamping it as for the approval and the disapproval.

That's our biggest concern. It's not so much how the program is implemented, but the fact is, is that people are making decisions who have no idea what Correction officers do and saying, "Well, you're not that hurt."

SENATOR WEINBERG: So how would that improve if it was centralized under the Department of Treasury?

MR. KELLEY: That, Senator, I couldn't ask (*sic*) you. It was just that -- to look at the program and how the approval and disapprovals are done versus State doctors, because our officers have to go to a State doctor. The State doctor from somewhere -- and I have no idea -- is pressured, like, "Well, come on, we don't want this guy on SLI too long." And our officers are being rushed back -- who have to immediately, almost, go back out. And I've had documented cases where people's fingers were still misaligned when you looked at it. And they're like, "Well, you can go back to work." Well, then, in my profession, you have to be ready all the time -- that other officers depend on you. And sometimes that's life threatening.

And that was evident in a case in which we wear a special badge, right now, for a New Jersey Corrections Officer who was killed, named Officer Baker. Our job is one that is very important, and we think that we serve the citizens of New Jersey quite well. But just within the last year, the violence that happens in prison has escalated. And that's been, directly, an influx of gangs. And we have more to deal with, so there's going to be more injuries.

SENATOR CONIGLIO: Senator Scutari. You have a couple more questions?

SENATOR SCUTARI: Thank you.

You bring up some very valid points, but these are the same complaints that you probably -- at least I've heard, over the years, with respect to Workers' Compensation benefits. I mean, there's a doctor who's paid by the insurance company or for the State, who then makes a decision. And in general terms, it's in the employer's best interest to get that person back to work as quickly as possible, because then they cut them off from benefits. I don't know how we fix that. Obviously, there's a complaint that there are auditors or agents who make decisions on medical care that are not doctors. I'm assuming you would agree with those statements?

MR. KELLEY: Yes, I would.

SENATOR SCUTARI: But the SLI is an overlapping program. If we could change it to Workers' Compensation, but actually get it working independently, that would probably be to your organization's benefit in the long run. And even if we got rid of SLI, if Workers' Compensation was seen as a more fair structure, and that people would have doctors make decisions with respect to people's ability to go back to work, rather than some administrator -- would you think?

MR. KELLEY: It's hard for me to say, Senator. I would say that that's an idea to be looked at. The present system, the way it is right now with State employees -- and I've read the papers quite frequently, I have to -- is that SLI benefits, for themselves, is that it's almost like some State employees are taking advantage of that. That probably is true in every aspect of -- when you do programs like that.

But my main concern -- and being a union representative for these officers and having been in those situations, I see it completely different. I guess it's distressing to me to have an officer call me from home and come in, who's limping and has a brace on his leg, and the doctor says, "Well, you can go back to work." And then having someone, an administrator somewhere, who says, "Well, the officer is cleared to come back to work." That may be true if you have a desk job, nine to five, and that's all you have to do. We deal with the element of society that New Jersey has decided to put away. And for us, a lot of them have nothing to lose by continuously assaulting officers, or assaulting civilian staff, or each other, because they've basically been sentenced and that's it. And they have nothing to lose. They've got years and years and years to do, and our officers want to go home safe to their families each and every night.

SENATOR SCUTARI: You would agree that your particular organization is probably in a unique situation because of the dangerous nature of their job versus what other types of State workers do?

MR. KELLEY: Oh, yes. I would say a lot.

SENATOR CONIGLIO: Senator Connors.

SENATOR CONNORS: Earlier I had asked the auditor if this policy, the SLI policy, embraced contracted services. Am I now to understand that the PBA has a contract for SLI services?

MR. KELLEY: Right now, we're under the contract from the former bargaining agent, the FOP, and that contract does not end until 2007. But the contracts that we have basically had with the State have always included SLI.

SENATOR CONNORS: So the information that's been prepared here is not correct? "For full- or part-time State employees in the career, senior executive and unclassified service." Now we find that it isn't contracted in services, at least in the Corrections end of it.

MR. KELLEY: And our contracts -- generally SLI provisions have been in there, contractually.

SENATOR CONNORS: That's another question. I would have the auditor -- what's the recommendation that they're making? Either to embrace this situation with regard to certain elements of State government that have high health hazard such, as Corrections, or what's their position with disposing of it? They haven't talked about that. That's a very important situation.

SENATOR CONIGLIO: What? About eliminating it from contracts?

SENATOR CONNORS: Yes.

SENATOR CONIGLIO: Well, that's one of the first questions that I asked. I asked if we could eliminate them from current contracts when they expire, and he said, "Yes."

SENATOR CONNORS: So there is contracted services. How about the State Police?

SENATOR CONIGLIO: On the contractual agreements in the State that provide for SLI.

SENATOR CONNORS: Do the State Police have that type of--

MR. KELLEY: I have no idea, Senator.

SENATOR CONIGLIO: 2007, most contracts are up for renegotiation.

SENATOR WEINBERG: I think he thought you meant subcontracted-out services, that's what I thought you were talking about when you asked that question. So I think that's what Mr. Fair thought too.

SENATOR CONIGLIO: Okay.

SENATOR CONNORS: It doesn't say *contracted services*. Contracted services is the PBA, the State Police unions, and so forth. We're talking about State government. We're not talking about--

SENATOR CONIGLIO: They're in those contracts. And the only time you can eliminate them is contract negotiation next year.

SENATOR CONNORS: I think we should have more information on this.

SENATOR CONIGLIO: Any other questions for this gentleman? (no response)

Anyone else from the public wishing to speak?

Please step forward and state your name.

DUDLEY BURDGE: Dudley Burdge, from CWA.

I just wanted to mention a couple of points that are worth mentioning. Certainly affiliate ourselves with the remarks that were just made, and I would point out to you, while certainly Corrections officers have a unique job, it's not unique in the sense of being one of the few that's hazardous. For instance, our Local 195, International Federation of Professionals and Technical Engineers, represent people who work on the road crews, which is also a very hazardous occupation.

I do want to mention just one or two -- well, four things actually. The auditor, when he gave his summary of the kind of downside of doing away with SLI, I think neglected to mention that because you aren't paying taxes that you won't accrue, that year or whatever amount of time, Social Security benefits.

Another thing that occurs to me is kind of on lower-income folks. It seems to me it's probably not likely that many of them are paying a significant Federal income tax. So I'm not sure that the kind of idea of 30 percent taxes being a wash will be true of lower-income folks. I think a couple of people have mentioned the problem -- and this again goes with people at the lower end of the scale -- of the seven-day waiting period, and people and families going paycheck to paycheck.

And finally, I have a little different understanding of how this system works. And it is a very confusing system. Because my understanding is, Workers' Compensation does two things. It pays for medical expenses and for the doctor's treatment for the injury that happened at work; and secondly, it provides income replacement. On the other hand, SLI basically does one thing, income replacement. And it's not a system that is responsible for taking care of the injuries at work. So it would certainly seem logical that a person on SLI, in most cases, would also need to be on Workers' Comp to have their treatment taken care of. And I think that adds to a lot of the confusion.

I do have to tell you, it is a very confusing system because the rules for SLI, in terms of who's eligible, are often different from the rules for Workers' Compensation. Generally, the rules for SLI are more restrictive than Workers' Compensation, although I'm sure that's not true in all situations. Well, this is my personal opinion, but it seems a little crazy. You have two separate sets of rules of determining what's a compensable injury.

SENATOR CONIGLIO: Any questions, Senators?

Go ahead, Senator.

SENATOR SCUTARI: The reason why you have two sets of different rules, determining what's a compensable injury, is Workers' Compensation laws have evolved over the years, and case laws determine what's compensable and what's not. Whereas the SLI program is an almost contractual thing through the State. And the other thing that Workers' Compensation provides besides income replacement and medicals -- it also provides a recovery for the individual, if they choose to bring a Workers' Compensation claim, in order for them to get a lump sum payment for the injury that they sustained. If you broke a finger, not only do you get the time off and the medical benefits, but Workers' Comp also will reward you a certain amount, a percentage based upon the scale for the year that you were injured. So you also get that through Workers' Comp.

MR. BURDGE: I would just say there is a whole body of cases concerning SLI too.

SENATOR CONIGLIO: Any other questions, Senators? (no response)

Thank you.

Anyone else wishing to speak? (no response)

SENATOR CONNORS: I just have one suggestion. I would like to know how many of our governmental departments, agencies, and so forth, are covered by SLI?

SENATOR CONIGLIO: We'll have Christian look into it. Okay? I would think everyone, but we'll check it out.

MR. PARISI: All.

SENATOR CONNORS: All of them.

SENATOR CONIGLIO: Thank you.

SENATOR CONNORS: I'll accept that.

SENATOR CONIGLIO: Next, we'll hear from Commissioner Beaver, and the State Health Benefits Program cost increases.

Good morning, Commissioner (*sic*).

F R E D E R I C K J. B E A V E R: Good morning. Thank you for your promotion. (laughter) It's Director, actually, but I appreciate it.

I will read some notes that we prepared in advance of the testimony. Good morning, I appreciate the opportunity to be here. My name is Fred Beaver. I'm the Director of Division of Pension and Benefits. And I and the Division, as well as the Treasury Department, do appreciate the opportunity to appear before the Committee.

As this Committee is aware, I presented testimony in March of 2004 on how benefit costs were driving the State budget spending. Today, I cannot inform the Committee that the outlook has grown any more optimistic. Our costs continue to increase dramatically, straining the State's ability to meet its funding obligations. As many of you know, the newspapers have been filled with the stories of problems being experienced in both the private and public sector. As you will see, the rapidly increasing costs of the State's Health Benefits Program continue to be a significant cause for concern. And these same concerns arise at the local employer level as well, since any action to change State-level health benefits has a direct impact on those employers participating in State-sponsored programs.

Before we discuss specific costs, I think it's important to review the design of the program from a funding perspective. First of all, the SHBP is not an insured plan. As claims flow into the system, the State, through a self-insured design, pays them. The State contracts with various benefit providers to leverage the advantageous discounts they have negotiated with hospitals and physicians, and for administrative services such as claims payment and claims adjudication. But all risk lies with the State. Given the size of the population and the dollars involved, however, I am not suggesting that the risk is all that great. We are unlikely to see huge swings in claims payments, but as we will report later, we are subject to the rates of growth experienced by most large health benefit plans.

Let's talk about some of the numbers. The State's total cost for SHBP will be approximately $2 billion in Fiscal Year '06; $1 billion for active, and $1 billion for retirees. And with regard to the retiree costs, the State paid more than $650 million in Fiscal '06 to meet the post-retirement medical expenses for retired teachers and local board of education employees. And that's only important because I think it is not just the State employee cost we're dealing with. It's all the other associated costs as well.

We expect the total cost to rise to 2.12 billion in Fiscal '07, which will include 1.04 for active employees and 1.08 billion for retirees. When we look a few years out, we expect total costs, barring any further enhancements, additions, or mandated benefits, to increase to $3.6 billion in Fiscal 2010, including 1.7 for actives and 1.9 billion for retired participants.

By contrast, in Fiscal Year 2000, SHBP costs totaled $798 million, meaning that by '06 costs have risen by 150 percent. By Fiscal '10, based on current projections, total cost will have increased by 351 percent for the decade. There are a variety of contributing factors to the increased costs: An aging population is driving increased utilization of medical services; and improvements in medical technology, exponentially rising costs of prescription drugs, and historical expectation of full payment for medical services all contribute to the growing problem.

Since Fiscal 2000, the number of covered active State employees has risen as well, from 100,808 to 113,720. It means we have an 11.35 percent increase in the employee covered population. At the same time, the number of State paid covered retirees, including retired teachers and other school board employees, has increased by more than 50 percent, from 60,320 to 91,473. So that increased population growth in and of itself will drive our cost ever higher.

In our last appearance before the Committee in '04, we cited a report prepared by Mercer Consulting which found that when compared to other employers, both public and private, the benefit plan designs of the SHBP are comparable to the Cadillac of health plans. Mercer found that our plan designs are, on average, about 10 percent more generous than those of state peers, and that annual, per active employee medical and dental costs in 2002 were the highest among all peers. Nothing has changed to change that picture.

Even with this extremely generous program, the Division, through the State Health Benefits Commission, has been able to keep the normal rate of growth at or below industry norms for trend by implementing disease management programs, effectively monitoring the utilization and quality of care, and implementing cost control measures wherever possible. Even with these efforts, we cannot greatly influence the rate of future growth without significant benefit reduction or redesign.

As a point of reference, it is important that we consider the rate of growth in SHBP costs as compared to regional data on rising health care costs. A number of prestigious consulting firms collect and disseminate data on this subject, and we asked our plan actuary, AON Consulting, to provide their trend data. Over the past three years, reported on a calendar year basis for consistency purposes, the rate of health cost growth regionally was 14 percent, 13 percent, and 10 percent, respectively, for years 2004, 2005, and 2006. For the SHBP, the rates of growth for the same period were 12 percent, 5 percent, and 6 percent, respectively.

Over the three year period, the rate of growth regionally has averaged 13.6 percent, while the SHBP experienced an average rate of growth of 7.5 percent. While it was encouraging that the cost increases experienced by the SHBP over the past few years are less than the regional averages, none of us is satisfied with a growth rate that threatens to render the SHBP unaffordable within a few short years. We will continue to work with our consultants and vendors to implement effective benefit management programs that address both the quality and cost of the care available through the SHBP. At the same time, we will develop recommendations for plan redesign, for consideration by the administration.

We also have, looming before us, the Governmental Accounting Standards Board promulgations, GASB 43 and 45, which will require the

State to recognize the long-term obligations resulting from the provision of post-retirement medical benefits -- OPEB, other post-employment benefits. We have just begun the process of working with our consultant to establish the liabilities associated with these programs. While we do not yet have estimates, we are certain that the liabilities will be significantly higher than the previously reported estimate for more than $20 million. For accounting purposes, these amounts will appear as long-term liabilities of the State and may factor into the State's credit worthiness.

As always, we would encourage all members of the Legislature to carefully consider both the immediate and long-term impact on the taxpaying citizens. I appreciate the opportunity to address the Committee. I'd be happy to answer any questions you might have.

SENATOR CONIGLIO: Before we get to questions, would you be able to provide us with copies of your testimony, which is important?

MR. BEAVER: Certainly. I believe Mr. Vinz (phonetic spelling) may have them here with me. Yes. I thought he had handed them out, I apologize.

SENATOR CONIGLIO: We haven't-- We're at a disadvantage.

MR. BEAVER: I apologize. I apologize.

SENATOR CONIGLIO: It's quite all right.

Just pay me back that money that I gave you in the race. (laughter)

Senators, do we have any questions?

Left to right.

SENATOR WEINBERG: Thank you.

And thank you for your testimony, although it was a little bit fast, with the figures you were throwing around, without having the written information in front of us.

MR. BEAVER: I apologize.

SENATOR WEINBERG: But some weeks ago, in doing some of the research for the legislation that was put in by myself, Senator Buono, and Senator Karcher about the 1.25 surplus that Horizon has, I asked for costs of the overall Health Benefits Program. And I received a set of costs -- I believe from the Department of Banking and Insurance -- but I can't be absolutely sure. I don't think it came from your Department, and I'm not sure how the figures--

Yes, right. Is that DOBI?

MR. BEAVER: That's from our Division.

SENATOR WEINBERG: Oh, it is from your Division. Okay. So then I'm assuming they match pretty much to what your testimony was, since you've provided the figures for both.

MR. BEAVER: Yes.

SENATOR WEINBERG: Okay. I just wanted to point out, just perhaps a little more slowly so people will understand, but Fiscal Year 2001 -- and this is total State claims expense -- it's slightly over $534 million, correct?

MR. BEAVER: Yes.

SENATOR WEINBERG: Fiscal Year '05, it almost doubled to -- well, almost $955 million.

MR. BEAVER: Correct.

SENATOR WEINBERG: We're now not talking about $2 or $3 million, as we were when we spent the time on SLI -- which is questionable anyway. If we look at what's happened to local government in terms of local property taxes, Fiscal Year 2001 was 872 million. This is just local. And Fiscal Year 2005 was 1,446,000,000.

MR. BEAVER: Yes.

SENATOR WEINBERG: Another tremendous growth strictly charged to local property taxes.

So I think we have to really get into these figures. I mean, this is what's really driving a lot of -- certainly the local property tax. You have that and education -- you probably have the whole cost of the increase in local property taxes over the last number of years, I would venture a guess, or 90 percent of it, in any event, is the schools and the health benefits being paid.

Having said that, it is a picture that involves a lot more than the State of New Jersey, but really involves our nation and how we are going to address these things. I even looked at the administrative charges that were charged by Horizon, because I had some questions about that. And actually, the percentages remained pretty stable in what they charged, in percentage claims paid, although that has almost doubled, too, in share dollars, of what we are paying to Horizon for administering this plan with self-insured.

But I certainly don't have the solutions here, but I think we have to highlight that this is the local property tax burden that we are all facing. And again, to look at what the municipalities and the counties are paying themselves for covering all these employees, and whether we as a state should get together and try to influence the nation to stop this kind of insanity and start looking at a more productive way to provide health care. I know it's not -- that this Committee is not going to be doing this in the next couple of hours. But I throw that out there as a consideration. But the management, the design of our plans, perhaps even the copayments are really going to be necessary.

As a firm believer that the health care is a right for everybody, certainly in our state, and I would believe in our nation, I hesitate to say this, but we have got to look at a redesign of plans, and we must look at an increase in copayments, unless somebody has a magic wand and has some other magic solution for this.

And I just think these figures are absolutely overwhelming. I was shocked when I saw them, myself, on this very simple little piece of paper. But here's our property tax problem, ladies and gentlemen, added to the cost of education in the State of New Jersey. And we've got to find a way to at least hold the line on these costs. And I say that believing that everybody is entitled to health care. But if you add into it what we pay for charity care, for all those people who aren't insured, I'm not sure we have enough zeros on the page to cover it.

So it's a tremendous problem. It's the basis, along with education, of local property taxes. And I think we have to do something as a State. We have to look into the Massachusetts plan and see how that operates, since they're doing it first as an experiment -- look at some of the pros and cons of that and get into this ourselves. And it's not going to be solved in time for this year's budget or, I venture to guess, even next year's budget, but we have to start on the road to solving this.

MR. BEAVER: I think they're excellent points, Senator. I think it's important to note that the numbers you're looking at, as well, are Horizon numbers only, and only represent a piece of the puzzle, because we still have the other providers out there. AETNA has a big chunk of the contracts. And also, the numbers that I cited here don't reflect-- You have to remember that only two-thirds of the municipal employers are participating in the State Health Benefits Program. So you have another 500 or 600 employers out there that have elected not to participate and are picking up coverage on their own. So there's additional dollars being spent on health benefits as well.

SENATOR WEINBERG: Perhaps, Mr. Chairman, it might be interesting to compare their costs, if we have some basis of comparison -- those who are not part of -- the localities that are not part of the State Health Benefits plan. How are they doing financially, whether there can be any basis of comparison with that?

SENATOR CONIGLIO: We'll have Christian look into that.

Any other questions, Senators?

Yes, Senator.

SENATOR CONNORS: In the testimony, I, like Senator Weinberg, was kind of shocked with some of this information. We've added 13,000 employees since the year 2000 -- 13,000. Almost 11.5 percent increase in employees. And a 50 percent increase in teachers and administrators, school board members, in the State Health Benefits Program. So it's little wonder that this growing -- carrying this out exponentially will be-- We are in a real bad problem and we've got a very,

very serious problem in the growth of State government. Is that your feeling?

MR. BEAVER: Let me point out, just to correct one -- maybe I made a misstatement. But in the 50 percent growth in the retired population -- included teachers and board of education employees. It's the total population. The point is, here, it's not just the retired State employees, it's other people as well.

SENATOR CONNORS: Sure.

MR. BEAVER: So it doesn't necessarily mean it's all teachers or educators. It's a combination of sources.

SENATOR CONNORS: But it comes out of the same pot though?

MR. BEAVER: Right. But the point is, is that it's grown from about 60,000 to about 90,000 in a few years. But, yes, it's a growing covered population. And coupled with the fact that it's an aging population, and you have the medical technology improvements and the growing demand-- I think what's interesting, if you look at the claims data, that's the cost. We look at the expenses, but the expenses are pretty similar across the plans. They all charge about the same prices, but it's just the rate--

SENATOR CONNORS: This is seven years.

MR. BEAVER: Yes.

SENATOR CONNORS: This has occurred in seven years.

MR. BEAVER: Yes, sir.

SENATOR CONNORS: Thirteen thousand employees in the State and 50 percent -- 31,000 employees in teaching and education.

MR. BEAVER: Well, it's retireds -- 31,000 additional retireds.

SENATOR CONNORS: Retired? They're still coming on.

MR. BEAVER: Right.

SENATOR CONNORS: Do you see any decrease in that?

MR. BEAVER: I wouldn't know how to predict a decrease, sir.

SENATOR CONNORS: Pardon?

MR. BEAVER: I haven't seen a decrease in the past. It would be hard to predict one in the future.

SENATOR CONNORS: Do you see a further increase?

MR. BEAVER: Well, the State has a hiring freeze, so I know there's nothing happening on the State side. But this also -- you've got the local side as well. So it's very difficult to predict what's going on out there.

SENATOR CONIGLIO: Anything else?

SENATOR CONNORS: No.

SENATOR CONIGLIO: Okay.

I want you to correct me if I'm wrong. I understand that in every policy there's about $900 that goes to pay for uninsured people. Is that correct?

MR. BEAVER: Not in our-- I don't believe in the State Health Benefits plan there is. No. We pay only for our own expenses.

SENATOR CONIGLIO: Only for our own expenses.

MR. BEAVER: Yes.

SENATOR CONIGLIO: No matter whether it's the teachers pension, no matter what pension it is? Are any of their policies -- include a fee or a charge for the uninsured?

MR. BEAVER: No, sir.

SENATOR CONIGLIO: That's correct, and unequivocally?

MR. BEAVER: Yes -- no.

SENATOR CONIGLIO: Okay.

Let's go on from there. What is the administrative cost associated with administering the State Health Benefits plan program from the State's side? Not what we pay Horizon to administer it; what is our administrative cost?

MR. BEAVER: I don't have it broken down for the State Health Benefits plan, but I can tell you that the entire Division, for pensions and health benefits, is about $35 million a year.

SENATOR CONIGLIO: Is there any way that we could get--

MR. BEAVER: I can get that number for you.

SENATOR CONIGLIO: Okay.

Additionally to that, in your opinion, is this competitive with the medical plan administrators' costs in other states, in the surrounding area -- I would say Pennsylvania, New York, and Connecticut?

MR. BEAVER: I would say, yes. I could also get that data for you as well.

SENATOR CONIGLIO: I would appreciate that.

The task force recommended establishing a PPO plan. What are your feelings about establishing a PPO for the State and local employees, as well as for the private sector employees?

MR. BEAVER: Well, the private sector employees basically have access to PPO plans. I personally think it's something that should be looked into. I know that the Murphy Report, or the Governor's report -- the Massachusetts Task Force report -- suggested the state consider a PPO as well. We are anticipating that we'll have an opportunity to perhaps bid for a PPO in the coming future that will give us additional opportunities for savings. But at this point in time, we have contracts that are in place through -- at the end of calendar year '07. So within the next four to five months, we expect to have our contracts out for bids.

SENATOR CONIGLIO: How many other states offer PPOs to their employees?

MR. BEAVER: Almost all.

SENATOR CONIGLIO: Almost all.

MR. BEAVER: Yes, sir.

SENATOR CONIGLIO: Are there additional benefits to a PPO over a point of service plan, like the New Jersey PLUS, besides the nationwide versus regional coverage benefits?

MR. BEAVER: Well, the nationwide versus regional is a very big plus, because you've got a retiring population that's moving out of the New Jersey area, in the southern areas in Florida and Texas, etc. It provides more competition I think, because you do, up and up -- there are a number of national PPO plans to bid on this contract.

The designs can be very similar. The designs are not dissimilar to what is offered today in the New Jersey PLUS plan -- almost the same.

SENATOR CONIGLIO: One of the recommendations from the task force was to immediately terminate the traditional plan. What are your feelings on that?

MR. BEAVER: The traditional plan is -- they compared it, I guess, in some scenes as a dinosaur. It's something that's kind of fading out in terms of competitiveness and having the opportunity for providers to bid on the contract; and becoming increasingly difficult, because carriers don't deliver those kinds of services anymore. So you tend to lock yourselves into a very expensive product.

SENATOR CONIGLIO: Now, we have to do this by contractual obligation, or do we just do it by plan offering point of view?

MR. BEAVER: The traditional plan is mandated by statute. So it would require a change in the statute.

SENATOR CONIGLIO: Okay.

How many people are currently members of the traditional plan, in your estimation?

MR. BEAVER: Let me ask the question for a moment. In the State workforce, it's about 7,000. If you include the retirees, which is a large chunk -- a large chunk of them would be what they call the *free teachers*, because they get the free coverage after 25 years. A large number of those are also enrolled in the traditional plan.

SENATOR CONIGLIO: So you're telling me that there are 700 current employees--

MR. BEAVER: Seven thousand.

SENATOR CONIGLIO: Seven thousand current employees that are in the traditional plan, out of how many current employees in the state?

MR. BEAVER: There's well over -- about 100,000. They are required to contribute 25 percent of the premium if they haven't had their 25 years by a certain point.

SENATOR CONIGLIO: Okay.

So it's not a large portion of the 100,000.

What is the estimated time period for terminating traditional plans? You said that it would have to be contractually.

MR. BEAVER: Well, first of all, there would have to be a statutory change to even permit it.

SENATOR CONIGLIO: Okay.

MR. BEAVER: And then I would expect there be discussions. The Governor has indicated any changes would be subject to discussion with the various bargaining units. I would imagine that that might be a topic for discussion next year -- the upcoming contracts.

SENATOR CONIGLIO: Why, in your opinion, do traditional indemnity plans -- are they growing obsolete?

MR. BEAVER: I think it's just the nature of the beast. It's changed over time. The providers were able to develop better discounting programs if they have the PPO networks or the HMO programs in place. They can manage the delivery of the services a little more differently. The traditional plan has absolutely no controls on it whatsoever. You can go to any doctor or demand any service, and it's paid for at will. You have payments outside the traditional arranged fee schedules, so it's a very different beast.

SENATOR CONIGLIO: If we do go to PPOs, per se, will a dental plan be included in the PPO, or there is a dental equivalent to a PPO?

MR. BEAVER: The State has separate arrangements for dental coverage. And there's a dental "equivalent," I guess, of a PPO, and there's a number of smaller arrangements out there. So it's a separate animal.

SENATOR CONIGLIO: How much does the State spend on the average retiree under the State Health Benefits plan?

MR. BEAVER: Don't have that number for you, but I could get it for you.

SENATOR CONIGLIO: I would love to have that number.

MR. BEAVER: Do you want a best guess?

SENATOR CONIGLIO: No. Don't give me best guess. I want a hard number. That's a telling tale.

What is behind the sharp growth in the health-care expenditures in recent years?

MR. BEAVER: Again, I think it's--

SENATOR CONIGLIO: I hear technology. I hear new techniques. I hear everyone wanting to buy the best in the market. What's the real answer?

MR. BEAVER: All the above, plus more of all the above. This is a very expensive marketplace. You're caught between the New Jersey hospitals. You have the Philadelphia hospitals and New York hospitals. And the people use services in all three. It's a very high-priced area. And there's not going to be any change in that. We've got an aging population, let's face it. The baby boomers are coming into prime-time medical utilization, and it's just going to get worse, I think. So I would not expect to see any decrease in the rate of growth.

SENATOR CONIGLIO: You say, in your estimations, you expect these expenditures to ultimately increase continually, going forward?

MR. BEAVER: I've been doing this for about 30 years. And I think, back in the late '70s, early '80s, people started talking about health-cost containment. And we were basically talking about the same kinds of rates of growth, but the bases were smaller. And I haven't seen anything in control. I think there's a much larger problem, as Senator Weinberg suggested. It is a bigger problem than any one individual organization is going to solve.

SENATOR CONIGLIO: Has the State's unfunded retiree health-care liability amount been calculated?

MR. BEAVER: No. We are working now with AON Consulting, our actuaries. We are putting the plans in place. We're required to report, for the first time at the end of Fiscal '07, some estimate of what the liabilities will be. But we have our best guesses. We looked at it about a year and half ago, but we do expect it to be upwards of $20 billion, well upwards.

SENATOR CONIGLIO: At what point in time?

MR. BEAVER: It's going to be a fixed point in time, and it's going to be done like an actuarial evaluation. You'll do it on a periodic basis every two years, and you determine what your liability is at that point.

SENATOR CONIGLIO: Let me ask you the question a different way. You told us that 3.6 billion by 2010. What would it be by the year 2025?

MR. BEAVER: I wouldn't even want to speculate on that number.

SENATOR CONIGLIO: I don't disagree with you.

Prescription drug costs in the State Health Benefits plan have doubled in the last five years, and are projected to be over $900 million in the plan year 2006. Is that correct?

MR. BEAVER: Yes, sir.

SENATOR CONIGLIO: What legislative or administrative action needs to be taken in order to implement the Benefits Review Task Force recommendations to increase the use of generic drugs?

MR. BEAVER: I think it requires some discussions, some negotiations, some education, and possibly some legislation. So I think there's a series of things that would have to happen to just make it work. But again, I think it's all subject to discussion with the various interested parties, including the Legislature, obviously. But it is something that would make sense. Other organizations have done it successfully. It's not done to endanger the health of an individual or to put somebody at risk for receiving a lesser drug. But it is something that can work, but it just requires a variety of parties to sit down and talk about it.

SENATOR CONIGLIO: Also, one other question. Do we anticipate any bulk purchasing, as far as drugs are concerned, in the State of New Jersey from--

MR. BEAVER: We are working with people in the Department of Health and Human Services, the Treasurer's Office, the Governor's Office, to come up with a model that might work for us. I know it's been raised in the budget, so bulk purchases is a definite possibility. We just have to work out all the details for a variety of different agencies to participate in a common way.

SENATOR CONIGLIO: If you had a crystal ball, in your estimation, what would be the fix-all for the State Health Benefits plan?

SENATOR ASSELTA: Don't ask him that question. (laughter)

SENATOR CONIGLIO: I wouldn't have asked you if you didn't have 30 years experience. If you want to pass, I'll understand.

MR. BEAVER: Let me pass on that one.

SENATOR ASSELTA: Smart man.

SENATOR CONIGLIO: Any other questions, Senators?

SENATOR SCUTARI: Let me just follow up on what the Chairman asked you. What would -- forget about a fix-all -- what would your number one priority be in terms of what we could do first to control costs for health benefits plans? What would be the first thing that we could do, or at least one of the biggest things that we could do?

MR. BEAVER: I would seriously like to -- I mean, I think there's issues around what we're offering -- the traditional plan offering, for example, is very costly.

SENATOR SCUTARI: So doing away with the traditional plan would be number one?

MR. BEAVER: And I would tie that with the introduction of a PPO, yes.

SENATOR CONIGLIO: Any other questions, Senators?

Oh, wow. I thought you were finished.

SENATOR SCUTARI: I want to ask you about early retirement programs. Those have to be authorized by the State, do they not?

MR. BEAVER: Yes.

SENATOR SCUTARI: And who is the authorizing authority to allow locals to engage in those?

MR. BEAVER: There is some statutory authority that allows locals to participate. They have to submit, in our office, for a blessing. I know there are a couple underway now, I believe.

SENATOR SCUTARI: Are they ever, long-term, beneficial to our plight here?

MR. BEAVER: I was just citing the numbers of people who were on the active books and who were on the retired books. We did see an upward slope on both sides. Where I've seen them successful is when you've got a permanent reduction in long-term employment. So where you're reducing the headcount, you can realize savings. But to the extent that you're just going to let people retire, incur a big pension cost, and then backfill that job, there's virtually no savings.

SENATOR SCUTARI: So the only time that you would think that an early retirement program would be beneficial, in the long term, is if it was coinciding with a permanent reduction in workforce?

MR. BEAVER: Yes. It's going to be very expensive. The ERI that the State sponsored in the 2002, 2003 time frame was -- it incurred liability of about $600 million in increased pension obligations. By the next year, you basically had the same size workforce. So the savings were negligent.

SENATOR SCUTARI: In fact, it's less than savings. It's probably a cost. How do we ensure that these are permanent reductions in workforces, if we're going to allow these types of programs to continue to be authorized?

MR. BEAVER: I'm not sure, to be honest with you. There would have to be some statutory authority that would provide some oversight, or some review, or some prohibitions against backfilling positions, I expect.

SENATOR SCUTARI: Thank you, Mr. Chair.

SENATOR CONIGLIO: Any other questions? (no response)

Thank you, sir.

MR. BEAVER: Thank you.

SENATOR CONIGLIO: Anyone else wishing to speak?

I believe Dudley Burdge.

MR. BURDGE: Now, for a contrasting point of view.

My name is Dudley Burdge, from the Communications Workers of America. Thank you for the opportunity to testify this morning. And there's four basic points I'd like to make this morning. And that is, contrary to the impression you might have got from some of the previous testimony, particularly for State employees, health benefits costs are rising slowly. Public worker benefits, particularly State worker benefits, are rising at a rate considerably lower than the rate of health-care inflation. And I actually think if you would listen carefully to what Director Beaver said -- he talked about the trend in the private sector; and I said, I think it was maybe 13, 12, and 10; and that for State health benefits, it was 12, 6, and 5 -- in a couple of those years, about half the trend in the private sector. Predictions that health benefits costs would go up by 20 percent a year were, and are, a wild exaggeration.

New Jersey State worker health benefit costs compare favorably to other states. In 2003, New Jersey paid $231 per employee, per month, less than Massachusetts for family coverage. These low results are a result of collective bargaining.

Third point, New Jersey is a union state with generous health benefits. Plans with low copayments and low- or no-premium sharing dominate. Significant shifting of health-care costs from the State onto 100,000 State workers is likely to have an unintended consequence. Private sector employees are likely to seize the opportunity to shift health-care costs from themselves onto their employees.

And finally, the State, with it's unions, should discuss implementing other cost-saving initiatives. The Corzine administration is going in the right direction with bulk purchasing. That's something we've talked about for, I think, the last four years. Disease management programs are another good idea. Consolidation of local government health benefit purchasing is also something that should be on the agenda.

Back to the first point -- health-care costs rising slowly. That doesn't sound like what everyone is saying here at all. A year ago, the Codey administration made a big splash with the predictions that health benefits would go up by 20 percent a year in the foreseeable future. The prediction was far off the mark. A look at the 2007 budget is instructive. If you look at the interdepartmental accounts, post-retirement benefits for those in the public employees retirement system are expected to go up by 2.9 percent. That's 17.1 less than predicted.

For State employees, health benefits are slated to go up 1 percent, 19 percent less than predicted. The State Employees Prescription Drug program costs will fall by 43.4 percent -- a whopping 63.4 less than predicted. While the prescription drug reduction is likely to be a one-time opportunity, made possible by a significant surplus in the prescription drug account, it's clear that the trend for State employee health benefit is that of modest increases.

In the private sector, health insurance cost increases for the last two years have been in the 7- to 10-percent range. The State Health Benefits Program has had a significantly superior result.

New Jersey State worker health benefit costs compare favorably to other states, and why is that? According to business and industry, health insurance costs in New Jersey are the highest in the country. The American Hospital Association finds hospital costs run 22 percent higher than in Pennsylvania. And you can go on with these.

As Fred Beaver said, this is due to being -- that the populated areas in New Jersey -- our health-care markets are dominated by the academic medical centers in New York and Philadelphia. In 2003, the Segal Company, a major health benefit consulting company, performed a national survey of state employee health benefits. The results show that New Jersey costs were below those of other northeastern states, in some cases dramatically so. Massachusetts, which I believe to be a comparable state in the sense it's a relatively small state with a large population and an expensive health-care market, paid $231 per employee, per month, more than New Jersey for family coverage. New Jersey costs were more in line with Maryland, Virginia, and Midwestern states.

New Jersey's low cost for State employee health benefits are no accident. They are a result of collective bargaining. The use of incentives, especially the so-called *free* New Jersey PLUS plan, has given New Jersey an unusually high concentration of its workforce in intensive managed care plans. And by intensive managed care, I mean an HMO, or a plan similar to New Jersey PLUS, which is called a *point-of-service plan* in the term. And what characterizes those plans are relatively small networks, particularly on the physician side in the case of New Jersey PLUS. And we don't have a PPO plan.

The percentage of State employees in an HMO or point-of-service plan approaches 95 percent, far higher than in other states. This has given the State and its representatives great clout in negotiating with providers. The free New Jersey PLUS plan -- and when I say that, I mean no premium sharing for the State employee -- has been an outstanding cost-saving success.

New Jersey is a union state with generous health benefits. The Center for the Study of Health System Change had this to say in its study of the northern New Jersey health market: In August 2005 they said, "A strong union presence and a relatively robust labor market have continued (*sic*) to the persistence of generous health benefits," and, "The current HMO penetration rate in northern New Jersey, 25 percent, is far lower than the penetration rate in other markets -- largely because many large employees with highly skilled and often unionized workforces have favored less restrictive coverage." They said that in the Summer of 2001, and they have changed somewhat since then. But in any case, I would contrast that with the situation with State employees, with 95 percent in that kind of program.

While we have heard much about the skyrocketing costs for health care for the small law office or other small employers, millions of New Jersey residents receive their health coverage through large employers. Health insurance without premium sharing or with low premium sharing is typical in New Jersey. This is the norm for the 25 percent of the workforce that is represented by unions. But many other industries follow the lead of unionized counterparts. This is true, for instance, of the primarily non-union *Star-Ledger* newspaper. What I think is still the largest New Jersey industry, pharmaceuticals and health equipment, is characterized by generous health benefits.

If the largest cohesive group of unionized employees in the state, State employees, were to have significantly increased premium sharing, other employees currently offering similar benefits are likely to shift costs to their employees. This would be a significant pay cut and a diminution of what's the New Jersey standard of health-care benefits.

Finally, the State, with its union, should discuss implementing other cost-savings initiatives. We talked about bulk purchase of drugs. Large cost savings are possible here. We also have told this administration, and the last two administrations, that we think that we should work to do something about what is really an abysmally low usage of generic drugs by public workers in New Jersey. I'm not sure what it is now, but when Segal Company did their report, New Jersey was dead last in the percentage of generic drug usage by State employees and retirees.

The State also needs to be able to purchase drugs directly. Right now, the actual purchase of drugs is done by Caremark. The State does not have a contract with Caremark. Horizon Blue Cross does that. There are some other arrangements, and I'm talking about the biggest arrangement -- is Caremark and Horizon. We actually asked for that contract with Caremark, who was then called Advanced PCS, during our contract negotiations, and we were told, "No problem. We'll get it." Well, the reality is, the State does not see that contract and we never got it. And none of you have ever seen it either, I imagine.

We support the increase usage of disease management programs. They're a good cost-saving idea, and they should, if designed properly -- they should provide better health-care services. There's more to be done. Another idea that should be looked at: Currently, health benefits for New Jersey municipalities, special districts, and school boards are a confusing mess of multiple insurers and multiple brokers that ultimately is excessively expensive. Consideration should be given to consolidating health-care insurance purchasing.

SENATOR CONIGLIO: Thank you very much.

Any questions?

SENATOR SCUTARI: What's your position with respect to what the Director talked about, as maybe one of the number one, first cost reducers would be the elimination of the traditional health plan, as an option?

MR. BURDGE: Well, first I should say, for the folks that we represent, we have maybe 5 percent that are in the traditional plan. So its not a huge issue for them. I guess I'm a little skeptical. I think that the idea, and the cost savings for that, is that if you can get all the retirees into a PPO, that that would be less expensive than the traditional plan. I have to say I'm a little skeptical that -- it makes sort of logical sense. But when I see some of the big increases in, say, the New Jersey PLUS retiree plans the last couple of years, which seems to have done a very good job with the active employees, I just wonder whether it will be that much less expensive for retirees. My personal opinion is that going to a PPO -- look, I think our members would probably like that -- most of it, the 60 percent that are in New Jersey PLUS -- to have a less-restrictive network and so forth. Truth be told, it's a little hard for me to understand how it could save money for the active employees. In fact, I think the likelihood is the opposite.

SENATOR SCUTARI: Thank you.

SENATOR CONIGLIO: Anyone else?

Senator Weinberg.

SENATOR WEINBERG: Yes. The traditional plan, by the way, I heard what Mr. Beaver said about the growth and the cost of that, but they are beginning -- beginning? -- they have been capping fees in that plan too. There's been much more cost control. Granted you have the right to go to any physician without going through the gatekeeper. And I have that plan for which I pay part of the premium, in order for the luxury of having it. And I see where there is much more cost control -- going into a maximum number of certain kinds of tests and so on. You have to -- the insured has to pay the difference. So I'd be curious to see why there's this so-called *runaway growth* there. And this is not a question for you, Dudley, though I am happy to hear that the unions, or at least your union for whom you speak, are ready to think about some cost containment here.

And I'm sorry I had to step out of the room, so I didn't get a chance to ask the Director this question, but I'd like, if we can, for Christian to find out -- how often do we do audits to make sure we are not paying health insurance for people who are deceased, for double premiums? I mean, this kind of thing is bound to happen in such large -- when you're dealing with such large numbers. So I think I'd like to know about how often we do audits of that. And if we have done an audit in recent years, have we turned up the obvious things that happen when you look at this kind of thing?

SENATOR CONIGLIO: Good question, Senator.

SENATOR WEINBERG: Just an aside.

So, thank you. And I would hope that you might even make an overture, not only with your union, but to be talking to the negotiators on behalf of the State, that we would like to sit down, maybe talk about these things, even before we get into the negotiating season.

MR. BURDGE: Let me just add one little piece of that. I think it was the '95 contract -- there was a health-care cost containment committee set up that included most of the State worker unions, at least the non-Police unions. And I have to say -- and I guess it's four administrations since that -- that that's essentially been honored in the breech. The truth is, it's been largely ineffective in doing anything. We would love to try to either make that or some other mechanism work.

SENATOR WEINBERG: How does that have to get reimplemented? Do you know?

MR. BURDGE: We could sit down with the appropriate people in the administration, set up the meetings, and come up with an agenda.

SENATOR WEINBERG: But somebody from administration has to do--

MR. BURDGE: Yes. It could either be the Treasury or the Office of Employee Relations.

SENATOR CONIGLIO: Any other questions, Senators? (no response)

Anyone else wishing to speak? (no response)

Hearing none, this meeting is adjourned.

(HEARING CONCLUDED)