

Committee Meeting

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ASSEMBLY SELECT COMMITTEE ON CIVIL SERVICE AND EMPLOYEE BENEFITS

"The Director of Pensions, Representatives of the New Jersey Education Association, and other interested parties have been invited to appear and provide basic information"

LOCATION: Committee Room 10
Legislative Office Building
Trenton, New Jersey

DATE: April 14, 1992
3:05 p.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman David C. Russo, Chairman
Assemblyman Richard H. Bagger, Vice-Chairman
Assemblyman George F. Geist
Assemblywoman Harriet Derman
Assemblyman Louis A. Romano

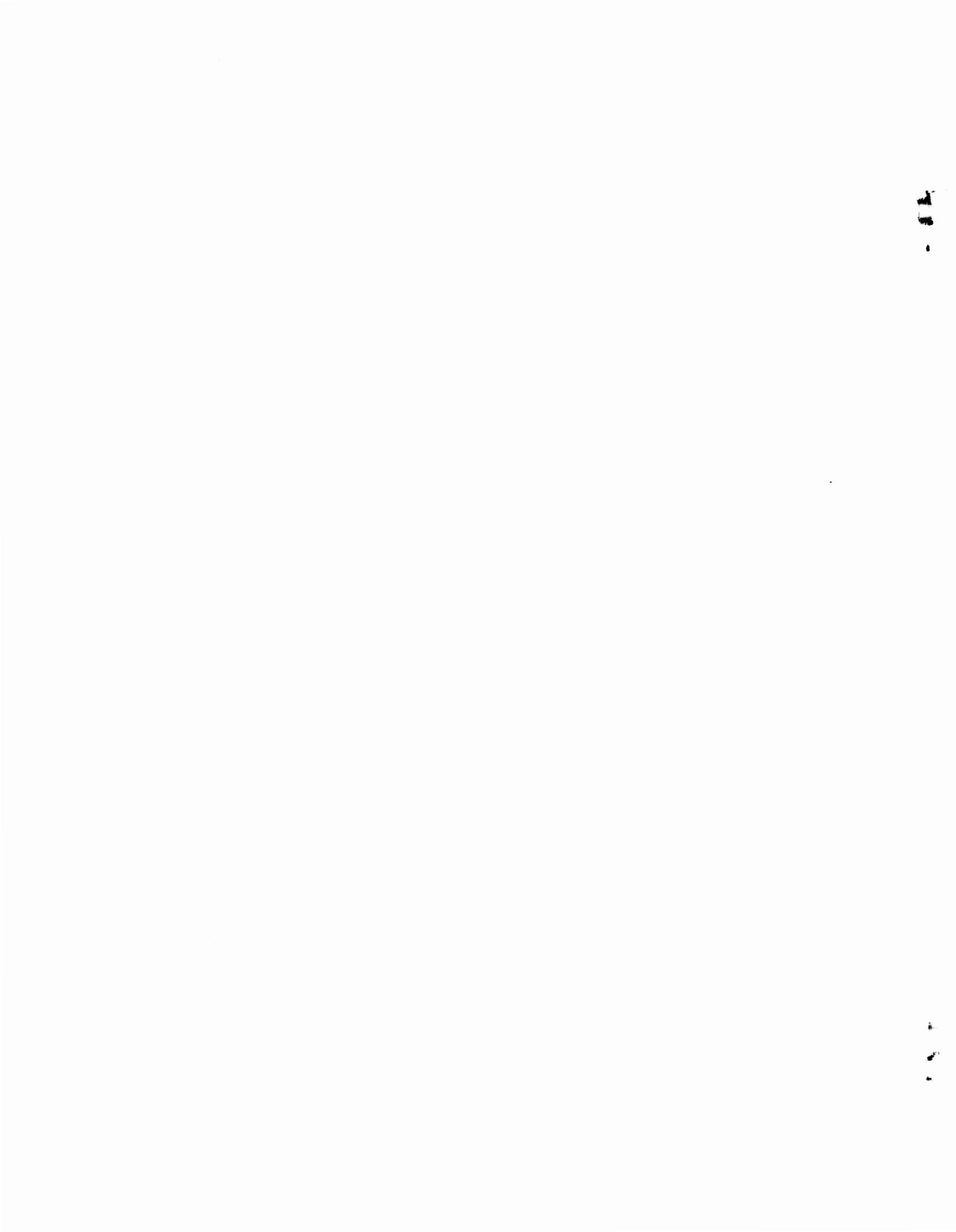


ALSO PRESENT:

Pamela H. Espenshade
Office of Legislative Services
Aide, Assembly Select Committee on Civil
Service and Employee Benefits

Hearing Recorded and Transcribed by

The Office of Legislative Services, Public Information Office,
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David C. Russo
Chairman

Richard H. Bagger
Vice - Chairman

Alex DeCroce
Harriet Derman
George F. Geist
Stephanie R. Bush
Louis A. Romano

New Jersey State Legislature
ASSEMBLY SELECT COMMITTEE ON CIVIL SERVICE
AND EMPLOYEE BENEFITS
Legislative Office Building, Cn 068
TRENTON, NEW JERSEY 08625-0068
(609) 292-9106

COMMITTEE NOTICE

**TO: MEMBERS OF THE ASSEMBLY SELECT COMMITTEE ON
CIVIL SERVICE AND EMPLOYEE BENEFITS**

FROM: ASSEMBLYMAN DAVID C. RUSSO, CHAIRMAN

SUBJECT: COMMITTEE MEETING - APRIL 14, 1992

The public may address comments and questions to Pamela H. Espenshade, Committee Aide, or make scheduling inquiries to Kathleen Lieblang, Secretary, at (609) 292-9106.

The Assembly Select Committee on Civil Service and Employee Benefits will meet on Tuesday, April 14, 1992 at 2:30 P.M. in Committee Room 10 of the Legislative Office Building, Trenton, New Jersey.

The meeting scheduled for Wednesday, April 15, 1992 has been cancelled. The committee will meet again on Tuesday, April 21, 1992 at 2:30 P.M. and Thursday, April 23, 1992 at 2:00 P.M. in Committee Room 10 of the Legislative Office Building, Trenton, New Jersey.

Issued 4/9/92

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ASSEMBLYMAN RICHARD H. BAGGER (Vice-Chairman): We have a quorum, so we can get underway.

ASSEMBLYMAN ROMANO: Where is David?

MR. KINGSTON (Majority Aide): He was detained. He gave me a message that he'd be about 15 minutes late, but it looks like he might be a little later than that.

ASSEMBLYMAN BAGGER: He'll walk in the door any moment and relieve me. I was over at the Appropriations Committee, and the Department of Environmental Protection was just about to admit that they had a thousand too many employees when John came in. I'm just kidding.

ASSEMBLYMAN GEIST: That's an understatement.

ASSEMBLYMAN BAGGER: This hearing is a continuation of last week's meeting, focusing on local public employers. First up we have Director McMahan, from the Division of Pensions, who has become a regular friend at these meetings, back with us again. I believe you have some comments on testimony that was heard last week, and want to answer some of the Committee's questions, I think, as they pertain to health benefits, also.

Welcome back.

M A R G A R E T M. M c M A H O N: Good afternoon. Mr. Chairman and members of the Committee, thank you once again for the opportunity to provide information, answer questions, and clarify and correct some information which was provided by other speakers who testified before this Committee last week.

Let me first identify, again, the various components of the State health benefits program, so that you have a framework within which to place the additional information I will be providing. I had mentioned before that the State health benefits program provides coverage for over 315,000 State and local government employees, who together with their dependents account for covered membership of almost 1 million individuals.

Of the 315,000 employees, 35,000 are State employees. Sixty-five percent are employed by the 1000 local government and school board employers who make up the-- Yeah, that's it: 1000.

Although the Plan provisions are identical for both State and local employees, the groups are rated separately, and therefore there are two separate sets of rates. Currently the local rates are just slightly less than the State rates. For example, family coverage under the traditional plan as of July 1, 1992 will be \$6765 for the State employees, and \$6630 for local employers. So that's--

ASSEMBLYMAN GEIST: What was the second number?

MS. McMAHON: Six-thousand six-hundred-thirty.

ASSEMBLYMAN GEIST: Thank you.

MS. McMAHON: So it's one program but two separate sets of rates.

To get back to some of the comments that were made last week: There was a suggestion to give cash incentives when you have a husband and wife team, either with a local employer or with the State employer. In most cases, there would be no significant savings as a result of that. That is because, traditionally, when you have a case like that, usually one person goes in the HMO, and one person goes in the traditional plan. Now the traditional plan is self-funded, and actually it's based upon what claims are incurred, with a very small administrative cost. So when you have the two people having, "double coverage," basically, one of them isn't making any claims, probably the one in the traditional plan, and the claims affect the rates. So, whether-- If the person is signed up for the plan but isn't really making any claims against it, it's reflected in the rates, so there are not the kinds of savings that would be imagined if it was two separate insurance plans.

The same holds true on the local level where there are no significant savings either, and I think the testimony from the NJEA has some dramatic cases that demonstrate that a cash incentive will really increase the cost.

There was some discussion of the Prescription Drug Program, and I wanted to clarify that. As of now, the Prescription Drug Program is a plan that's available only to State employees. We hope that by July of 1993 that it is a program that we will be able to make available to local employers, as well.

The Prescription Drug Plan, the Dental Plan, and the Vision Care Plan are programs that can be negotiated, unlike the State health benefits program, which cannot.

ASSEMBLYMAN GEIST: Which ones are negotiable? Some of us are without shorthand capabilities, but are very interested in your details.

MS. McMAHON: Okay. The Dental Program, the Prescription Drug Program, and the Vision Care are negotiable.

ASSEMBLYMAN GEIST: Thank you.

ASSEMBLYMAN ROMANO: Excuse me. By negotiable, are you talking about the copays? What is negotiable about them?

MS. McMAHON: Okay. Well, let me go back to the State Health Benefit Programs. The benefits are mandated. They're set in State law. There can be no negotiations. The Prescription Drug Program, in other words, a different copay could be negotiated.

ASSEMBLYMAN ROMANO: With the individual employer, you're saying, or with the employee?

MS. McMAHON: Between the unions and the employers.

ASSEMBLYMAN ROMANO: Should this become available to subpolitical bodies?

MS. McMAHON: Well, right now I'm telling you the State program, the Prescription Drug Plan, the Dental Program, they are not available to local employers. But many local employers have negotiated these benefits with other carriers.

ASSEMBLYMAN ROMANO: No, what I'm saying is, when the time would come, let's say in July of '93, where this would be available-- Now you have a certain fixed copay. You have, I think, three and one. You have one dollar generic and three on name-brands.

MS. McMAHON: Oh, right.

ASSEMBLYMAN ROMANO: Is that negotiable, or that's the State plan? That's what will be there?

MS. McMAHON: That's the State plan, and the local employer then would have the option either to adopt that, and if they wanted different copays, then they would probably go with a different plan.

ASSEMBLYMAN ROMANO: You think it would be adjustable when it's offered by the State?

MS. McMAHON: No. I'm not sure what the copays will be in the future, but it will be one program. What happens if we have a variety pack, it makes the administrative costs higher. But that's not to say it shouldn't be considered at some time, but that is the one offset to that.

There was some conversation, apparently, about allowing individual bargaining units to enroll in the State Health Benefit Program, and other units, perhaps, then could choose other insurance. Then you get into the process of adverse selection, where an employer could look at their pool of employees and say, "Well, this particular group is very young and very healthy, and I think can get a good deal outside." And maybe another bargaining group would have older employees who had traditionally more claims, "and we'll put them in the State Health Benefit Program." You'd be getting into adverse selection, which knocks the underpinnings out of any plan. So we could not support that.

There was another point made that for local employers, the employer has to pick up the total cost of the plan. The law currently allows local employers to charge for dependent

coverage. The employee coverage has to be free, but employers could ask for, even up to 100 percent of the cost of dependent coverage. I think as a practical matter a lot of them don't. Most, I think, offer the totally free coverage.

Those were the points that I wanted to make, and if you have any questions--

ASSEMBLYMAN DAVID C. RUSSO (Chairman): Any questions?

ASSEMBLYMAN GEIST: Mr. Chairman, thank you. Relative to the cash incentive program, I'd like if you could provide me with a little more enlightenment. No significant savings when one is in the HMO and one is in the traditional plan: Why would a couple purposely choose one in the HMO, one in the traditional plan? What's the benefit to a couple making that selection? I'm not familiar with that judgment.

MS. McMAHON: Okay. The reason a couple would do that: The HMO plan, and most of the HMOs, you know, there are no forms to fill out, there's a small copay. They cover well-baby checkups and physicals, things that are not covered under the traditional plans, and you have to deal with forms. So joining an HMO, there is ease for the employee, and that makes it attractive.

However, there are a number of employees who are concerned that perhaps sometimes an illness would come up that they may want to go to outside specialists, and under the HMOs you deal with the doctors who are part of the group. So if you join the traditional plan, then you have the option, basically, if it ever comes up, to go outside of the HMO program. It really provides the best of both worlds. That's in the eyes of the employees. Now, we also have a PPO that actually provides both of those options in one plan. But, traditionally, that is the reason that couples do that.

ASSEMBLYMAN GEIST: So on the savings aspect, the contention that there would be no significant savings is based upon an assumption that a couple thought this out and made this particular preference; one in the HMO, one in the traditional?

MS. McMAHON: Yes, that's-- I would say that's our experience.

ASSEMBLYMAN GEIST: So under other hypothetical arrangements there could be greater savings through a cash incentive program?

MS. McMAHON: If the couple, let's say, each joined a different HMO, where we're actually paying double premiums--

ASSEMBLYMAN GEIST: Right.

MS. McMAHON: --but that's not usually what happens.

ASSEMBLYMAN GEIST: Well, are there any statistics that show that your assumption is the prevailing practice? I understand your rationale. I understand your common sense suggestion that this would be a logical selection. But do we know, statistically, that this is the selection preference of most couples?

MS. McMAHON: The answer is, "No." One of the problems we have with our internal systems -- which is, I might add, being corrected -- right now, even if we could demonstrate that a cash incentive would work, under our current system we cannot track husbands and wives working for the same employer. Under the new system that we hope to implement within the next year or more, we will be able to do so.

What I'm telling you as far as what couples traditionally do-- As a matter of fact, in some of the benefit offices in various State and local employers, if you go to your benefits person, and you're a new employee and you say, "My spouse works here," that's exactly the advice that you'll be given. I know that for a fact. So that may account for the reason that the people make that selection; because when they ask, "What should I do?" that advice has been given out.

ASSEMBLYMAN GEIST: As of this minute, there's been no suggestion of the option of cash incentives, because as of this minute, that is not an available option; is that correct?

MS. McMAHON: That is not an available option.

ASSEMBLYMAN GEIST: You suggested-- Mr. Chairman, I hope you don't mind these questions? (no response) You suggested as though the cash incentives could be projected to possibly, actually increase the cost. That's, obviously, assuming a cash incentive of a significant value, correct?

MS. McMAHON: Well, of course, the amount of the cash incentive determines how much it would cost. I believe the NJEA, in checking with some of the local school boards have, in fact, some material that indicates that there are certain times where it has cost more money. I think there will be further details coming on that.

ASSEMBLYMAN GEIST: On the cost per plan, "For State employees is \$6765--" If two employees are right now -- same family, husband and wife -- is it my understanding that the State is paying two times \$6765?

MS. McMAHON: Well, yes, okay? But it's a self-insurance arrangement.

ASSEMBLYMAN GEIST: Do you want to clarify that?

MS. McMAHON: All right. That money, let's say, is thrown into a pool, and claims are paid. Then depending upon what the experience was, the rates are set for the next year. So the rates-- When someone has coverage and doesn't submit any claims at all, it brings down the rates. So the rates reflect the actual experience.

ASSEMBLYMAN GEIST: But generally, the average for a couple would be the contribution of \$6765, times two?

MS. McMAHON: Yes.

ASSEMBLYMAN GEIST: And therefore, you believe that there still wouldn't be significant savings if a cash incentive program could be so adopted? Are you recommending against a cash incentive program?

MS. McMAHON: Yes, I am.

ASSEMBLYMAN GEIST: Thank you. Thanks, Mr. Chairman.

ASSEMBLYMAN RUSSO: Harriet?

ASSEMBLYWOMAN DERMAN: Pursuing Assemblyman Geist's point, you indicated that it's a self-insurance system. The money goes into the pool, and it affects the ratings. But nevertheless, that money is allocated in the budget, is it not, to pay so much per employee?

MS. McMAHON: Right. The money is allocated based upon the previous year's experience, and the rates are set based upon--

ASSEMBLYWOMAN DERMAN: So the money never comes back, in a sense, to the budget to be used for other purposes. I mean, once it's paid, it's just next year; it will impact on next year's cost.

MS. McMAHON: As last year's costs impacted on this year.

ASSEMBLYWOMAN DERMAN: Yes. But the money never comes back even-- For instance, let's-- I'm sorry, Mr. Chairman. Maybe it's not worth belaboring.

ASSEMBLYMAN RUSSO: No, no. Ask.

ASSEMBLYWOMAN DERMAN: You have a husband and wife who are both State employees. They are both in the plan, and the wife makes claims and the husband makes claims. And we've paid, almost -- we've paid \$1350 or something, for the husband and wife to be in the State Health Plan. Correct?

MS. McMAHON: Okay. Correct.

ASSEMBLYWOMAN DERMAN: So what happens? Okay. The wife makes a claim -- I think there are also Federal rules about this. The wife makes a claim under her coverage.

MS. McMAHON: Right.

ASSEMBLYWOMAN DERMAN: And the husband might make a claim under his coverage.

MS. McMAHON: Right. As a matter of fact, they would have to, because even if they have husband and wife coverage, you're primary, so she would make it under hers and he would make it under his.

ASSEMBLYWOMAN DERMAN: And the expectation is to have it for both in case there's a catastrophic illness, they would have-- Some benefit would inure to the family?

MS. McMAHON: Well, as far as the catastrophic illness -- and that was another point that I wanted to make earlier -- I believe one of the points that was made last week talked about the major medical maximum -- the \$1 million maximum. Would there be a double maximum? That's not true. Even with double coverage there is not a double maximum.

This, I agree, it's-- As a matter of fact, it's one of the things that I had a hard time understanding. Maybe it would be helpful to the Committee -- and I think Pat may have it available in her file. This was a discussion that occurred about a year ago, and we had a chart made up that showed, visually, how the money went into the self-insurance pool, and how it affects -- kind of a flow chart. I'd be glad to provide that chart to you and then go through this explanation.

ASSEMBLYWOMAN DERMAN: Do you ever have a State employee who says, "I don't need coverage." For instance, it's a woman, she says, "My husband has excellent coverage with his-- He's with Johnson and Johnson, and I opt out of the plan." Do you ever have employees like that?

MS. McMAHON: Yes, we do.

ASSEMBLYWOMAN DERMAN: Many employees?

MS. McMAHON: No, because again, I know some of the folks who do benefit counseling, both the local employers and the various State offices. This is what they normally will say: "Okay, I don't need coverage. My husband has me covered, and it's a waste of money." And someone will say, "What happens if he dies?" Because you can only enroll in the plan, you know, once a year. So usually that scares people into belonging.

Now, however, if you're talking about a husband and wife situation, both in the State. If that were to occur, I

think we do allow-- If you have a husband and wife in the State, and the wife says, "My husband's employed. I'm not going to even sign up for it." In that case we will -- okay, and the husband died, and here it is not annual enrollment time, and now this woman is without insurance. We will allow her, because this is the State program, to come in.

ASSEMBLYWOMAN DERMAN: In your hypothetical, the woman was not a State employee.

MS. McMAHON: In my hypothetical the woman was a State employee. Her husband worked in the private sector, and she just thought she would not take the insurance.

ASSEMBLYWOMAN DERMAN: Oh she was in the private. I see. Okay.

MS. McMAHON: But she could be at risk if he died, because--

ASSEMBLYWOMAN DERMAN: So you make an exception for the enrollment?

MS. McMAHON: For the State employees, yes.

ASSEMBLYWOMAN DERMAN: Employee can? So in a sense, some of you employees are receiving misinformation.

MS. McMAHON: No, I'm not saying-- In other words, the advice that's given out is usually in response to the question, sometimes the husband is working in the private sector, and the person just doesn't want to sign up and go through coordination of benefits, and then that is cited. It's not cited in the case if both people are State employees.

ASSEMBLYWOMAN DERMAN: No, I understand that. But in other words, if somebody says, "I don't need it. My husband has an excellent benefits package." Somebody signing them up might say, "But if your husband dies, you will have a lapse of benefits." But that's not true, you're saying? The State will pick the person up.

MS. McMAHON: It's not true if the husband who is going to die is also a State employee. It is true--

ASSEMBLYWOMAN DERMAN: Oh, that's what I was-- Okay.

MS. McMAHON: --if--

ASSEMBLYWOMAN DERMAN: --if it's somebody in the private sector.

MS. McMAHON: --it's a private sector, yes.

ASSEMBLYWOMAN DERMAN: But if there were a cash incentive, somebody might be willing to take the risk of saying, you know, "State, save \$6700." Because again, if that employee -- I'm sorry, Mr. Chairman -- If that employee, the woman, spouse, if she comes to the State and says, "Okay, then I want coverage." Is she going to be afforded family coverage?

MS. McMAHON: Actually, anyone who works can select the coverage they want. If you're-- Yeah. Both people could choose family coverage as a practical matter. You can't collect under both. I mean the children can only--

ASSEMBLYWOMAN DERMAN: Right. But nevertheless, we are paying for it.

MS. McMAHON: We are paying for it, but in a self-insurance pool it's-- It really-- As I say, if both people selected an HMO, yes, it would make a difference. But given what the selection process is, that it's an HMO and a traditional plan -- basically, no claims come against the traditional plan -- then that's reflected in the rates, and the rates are lower than they would otherwise be.

ASSEMBLYWOMAN DERMAN: If you have a female employee who does decide to participate, and has children and has a husband, again, in the private sector, what would the rate be? Do you differentiate if she only said, "I want to be insured then for myself and my dependents, but not my spouse." Can you come up with a figure? Can you make such an allocation?

MS. McMAHON: Yes. We have four separate rate structures: single, husband and wife, parent and child or children, and family. So parent and child is usually cheaper than family.

ASSEMBLYWOMAN DERMAN: Right. So in a sense, if we had a parent and child in the scenario that I proposed--

MS. McMAHON: Right.

ASSEMBLYWOMAN DERMAN: --that would cover your risk of the husband -- spouse -- with the private benefits package -- you know, private sector, generous--

MS. McMAHON: Right.

ASSEMBLYWOMAN DERMAN: But I bet you don't see that too often: Somebody saying, "Well, my husband has a very generous package, but he may die, and I don't want to have a problem, so only give me the parent child package."

MS. McMAHON: You probably don't see that. Again, because for State employees there is no cost, they will sign up.

ASSEMBLYWOMAN DERMAN: Exactly. On the other hand, somebody might say, "With the cash incentive, I'm prepared to take some risks." Or make sure that I take only a parent child or whatever is appropriate.

MS. McMAHON: Well, again, as I say, it's really hard to discuss this without what kind of cash incentive are you talking about, and would you offer that cash incentive every year that the person was covered and selected the lower coverage? And would that cash incentive-- I'm not saying there would be no savings, but at first glance there appears to be, "Wow, we could really save a lot of money." I can give you more details and an analysis of what it would mean in an individual case. I'm saying the savings are small, if there are savings at all.

So, again, the cash incentive, if it was significant could end up costing more all around. If you have a cash incentive, it could. But it would depend on the cash incentive. Was it a one time--

ASSEMBLYWOMAN DERMAN: Maybe the cash incentive should be lodged with the individual who is signing up employees? The more you save per enrollee because you've done a good job in educating people, you'll get the bonus.

Okay. Thank you.

ASSEMBLYMAN RUSSO: You're welcome. Assemblyman Bagger?

ASSEMBLYMAN BAGGER: Let me see if I have this right. Clearly, in the private sector, if you have a husband and wife who both have traditional private plan insurance such as the Prudential through their employers, and their employers are actually paying a premium for that, their employers -- if they both elect family coverage -- their employers are buying unnecessary coverage. We all understand that?

MS. McMAHON: Clearly.

ASSEMBLYMAN ROMANO: That's right.

ASSEMBLYMAN BAGGER: Now where this is a little different is because we're dealing with a self-funded plan, and if you have unnecessary coverage, or redundant coverage being opted for by a State employee -- obviously a State employee will choose to have maximum coverage because it doesn't cost anything -- your redundant coverage doesn't cost the State the same as it would if the State were paying a premium to a private insurer for coverage, as the State is self-insured?

MS. McMAHON: That's right.

ASSEMBLYMAN BAGGER: The cost becomes whether the State is paying any unnecessary claims because of the redundant coverage. The reason the husband and wife will both opt for full coverage is so that they are covered for the copayment and the deductible which in a traditional plan is usually about a maximum of \$500 a year out-of-pocket.

MS. McMAHON: That's right. There is a coordination of benefits if people go through the process of getting it. Sometimes coordination of benefits can be a little bit difficult, but--

ASSEMBLYMAN BAGGER: Well, there's a regulation of the State which covers which carrier is first when there is duplicative coverage.

MS. McMAHON: Right, absolutely.

ASSEMBLYMAN BAGGER: So really what you gain as an employee is, in the traditional plan it's \$500 that you don't have to pay out of your pocket if you have duplicate coverage. And if you're an employee, and your coverage is free, it's obviously a good deal to get the copay and the deductible paid.

MS. McMAHON: It's, as I say, the best of both worlds.

ASSEMBLYMAN BAGGER: If you had to pay more than \$500 for your coverage, you wouldn't do that.

Now it may be a little different, and you may need to help me here for a local government unit, because what the State pays for State employees is just an average of the State's total health experience divided by the number of participants which comes out at what you call a rate. But it's really not a rate. It's really what was spent last year on claims, and that's budgeted in the following year?

MS. McMAHON: That's right.

ASSEMBLYMAN BAGGER: It's not like paying a premium. The local governments -- correct me if I'm wrong -- pay a premium to the State to participate in the State Health Benefits Plan. They are given a rate based on a larger pool than their own experience.

MS. McMAHON: Right. Theirs is a premium.

ASSEMBLYMAN BAGGER: So if I'm a local government unit, and I'm not allowed to have copayment or deductible because that's for the employees. I can't negotiate a copayment and a deductible if I'm a local government unit; is that right?

MS. McMAHON: That's right. You can have for the dependent coverage, you know, up to 100 percent, but employees are-- It's free coverage for employees. Now I haven't checked recently, but my understanding is that most local governments really do offer free, both employee and dependent coverage, even though they could require payments.

ASSEMBLYMAN BAGGER: So for the local government, when the local government employee elects duplicate coverage because it doesn't cost him or her anything, but the municipality has to pay the State a "premium," for that coverage-- I guess the same would apply to the school board that participates. That if their rate is \$6630 per participant, if it's a board of education or a municipality which has an employee who elects duplicate coverage, those units have to pay the State the whole \$6630 for that person. Is that right?

MS. McMAHON: If they elect, that's right. That's right.

ASSEMBLYMAN BAGGER: So that's, maybe, where the very insightful questioning of my colleagues here really has a substantial impact. In private industry they go to cafeteria plans. If you don't spend your benefit dollars on health coverage because of duplicative coverage, you can get extra vacation, or extra cash, or--

After that soliloquy, I'll ask a real question. What's your Division's position on self-insured pools for health insurance for school boards and municipalities? I guess municipalities it's permitted, but boards of education it's not.

ASSEMBLYMAN ROMANO: There's a bill in the hopper, I believe.

ASSEMBLYMAN BAGGER: Does the Division have a position on it?

MS. McMAHON: Well, our position is that the State health benefits program is probably the best deal around. One of the individuals on my staff has gone around to talk to local school boards and local governments who are thinking of leaving the program, and when he has looked at the alternatives that are being offered, in many cases they're buying the proverbial pig in a poke. They're getting into a program where the promise is made initially that the rates-- As a matter of fact, this is the offer that's made: "We'll knock off 10

percent; we'll knock off 15 percent. Whatever the State program is, we'll knock that off." And because everyone is so concerned about budgets and caps, and they're shortsighted, perhaps, it sounds like a good deal. They'll go with it. Then what happens down the road a little bit is that the rates go up significantly. Of course, that's some of the insurance arrangements that are going forward.

The self-insurance pools that we've looked at, a number of them really will, depending upon the area, it looks like they're going to be paying far more, perhaps not this year or next year, but certainly three years down the line.

Now looking back -- and I think Len Koch, from the NJEA has actual numbers of school districts, for example, who left the State health benefits program and got a better rate, and perhaps in the third year they're seeing 78 percent increases. Now the State Health Benefit Plan has a rule that if you leave the program, you cannot come back in for five years. I think I would have real concerns if I were some of these districts that in two or three years they're going to see rates that are very much out of line. When we go back and look at some of the locals that have gone with other programs in the last couple of years, the State Health Benefit Plan rates have been better. But I think they're, in many cases, being sold a bill of goods.

Of course, what the underlying issue is, and it's a much bigger one than can be resolved here, is the cost of health. I mean, it's a national issue, and certainly anyone who is handling a budget, that's a real scary piece of your budget. So if someone comes by and says, "Have I got a deal for you!" people are going to pay attention.

ASSEMBLYMAN BAGGER: Thank you. Thank you, Mr. Chairman.

ASSEMBLYWOMAN DERMAN: I have one more question. Do you know what the rationale is foreclosing a board for coming

back, or anyone who opts out, why they can't come back for five years; what the rationale is for that?

MS. McMAHON: Yes, I'll tell you exactly. What's going-- Some of the special deals -- and I'll call them that -- where a school board is approached by an individual who says, "Okay, I'm going to give you this deal. It's going to be 10 or 15 percent lower." So it is for that first year, and perhaps the second year. In the third year, when they get that 78% increase, then they jump back on board. It doesn't seem fair to be the port of last resort; for the State health benefits program to be there after someone has a poor experience, to be coming back to the Plan. So it's really an administrative issue, not to have people -- you know, a revolving door.

Certainly with the biggest part -- the biggest piece of our business, over 200,000 members -- you can imagine if we had the ins and outs, if we allowed easy entrance and exit, especially during these times where someone can pick up a deal for a year or two.

Now, I will say, at various commission meetings we have talked about perhaps waiving that on a one-time basis, if the situation occurred where all of a sudden there were a number of local employers who either wanted to get in for the first time or who wanted to come back. So there have been discussions about waiving that for a one-time period only. But most of the times when it has been discussed, we have decided to keep it.

ASSEMBLYWOMAN DERMAN: There's an administrative impact, but there's no fiscal cost to the Plan?

MS. McMAHON: Well, the fiscal cost to the Plan would be the people who leave, and when their experience is bad-- It would be adverse selection again. You know, when the going gets rough you come back into the Plan. Then you get a good deal and you go out for a year. You know, it would be a boomerang -- back and forth.

ASSEMBLYWOMAN DERMAN: Thank you.

ASSEMBLYMAN GEIST: Mr. Chairman?

ASSEMBLYMAN ROMANO: I just have one question.

ASSEMBLYMAN RUSSO: I'm sorry. Yeah, Lou, sure.

ASSEMBLYMAN ROMANO: If someone comes back in, I don't recall, for someone just coming into the State Health Benefit Plan there's no preexisting condition in the State Health Benefit Plan?

MS. McMAHON: There is no preexisting condition.

ASSEMBLYMAN ROMANO: I just wanted to make sure. I'm done.

ASSEMBLYMAN GEIST: Mr. Chairman, while we're on this topic, as someone who wants to close one revolving door, I don't think that it would be anything other than, perhaps, in the best interest of the employees to perhaps explore opening the other revolving door. So that when a local community finds that they can no longer afford this other alternative, they can quickly economize by having the revolving door open again. At the same time the employees, who we should have special consideration for, can be assured that they will have that type of coverage always available. So I would like to work on opening this revolving door while I'm trying to close the other one. The Chairman knows exactly what I'm referring to.

ASSEMBLYMAN RUSSO: Thank you.

ASSEMBLYMAN GEIST: Thank you, Mr. Chairman.

ASSEMBLYMAN RUSSO: Just one last question: Are there states, in your knowledge, who, for example, deal with two spouses being employed in various forms of the system, whether a teacher and a state worker or whatever, with regard to health benefits, where it is just prohibited? Instead of a cash incentive, which Ms. Derman was talking about, which is something we've talked about -- I don't know if you've been here for all the meetings; this is something we've talked about, and it's also been in private industry -- where you have

a situation where you have two adults, in essence, in the system. I believe Assemblyman Romano mentioned one time, from his experience, that the problem is a discrimination issue, where if you have the woman first, or the man first, where you had a statute in any other state where it says that no matter if the male or female is first, but whichever one is-- Whoever who would be first is primary, and secondary just could not opt for second coverage, but it would be covered as a dependent.

MS. McMAHON: Yes. I mean, I can't name the states for you right now, but yes.

ASSEMBLYMAN RUSSO: Some others do that?

MS. McMAHON: There are some who have cash incentives.

ASSEMBLYMAN RUSSO: Right.

MS. McMAHON: There are some who don't allow--

ASSEMBLYMAN RUSSO: Just don't allow it.

MS. McMAHON: --double coverage.

ASSEMBLYMAN RUSSO: Right.

MS. McMAHON: And that discrimination actually--

ASSEMBLYMAN ROMANO: That doesn't square with my knowledge of it, because my understanding is that it's a Federal statute about discrimination that we're talking about--

MS. McMAHON: Well, the discrimination--

ASSEMBLYMAN ROMANO: --which would not be up to the individual state to decide whether they can have coverage or they can't have coverage.

MS. McMAHON: Okay. The discrimination that I think you may be talking about -- and this is whether it was the man or the woman first.

ASSEMBLYMAN RUSSO: Right.

MS. McMAHON: My knowledge of it, it had to do with the way children were covered, and the rule used to be that the male was always primary for the children. So if you had a married couple the children always had to be covered by the father, and that was found to be discriminatory. Now what they

have is what they call the birthday rule, and actually, the children go with the parent whose birthday occurs first in the year. So if the wife has a January birthday, she's primary. That's how they got around that aspect of discrimination.

But there are-- I talked recently with the folks who run the New York City Health Plan, and they simply don't allow--

ASSEMBLYMAN RUSSO: They simply don't allow-- I mean there's not a cash incentive as we--

MS. McMAHON: --double coverage. It's not cash incentive.

ASSEMBLYMAN RUSSO: It's just not allowed.

MS. McMAHON: Right. It's not allowed.

ASSEMBLYMAN RUSSO: Okay. And just so I understand, and Assemblyman Bagger asked this: My understanding is that if you do have this double coverage, this overlapping, as you talked about quite well--

MS. McMAHON: Right.

ASSEMBLYMAN RUSSO: --the only possible financial benefit to the insured -- to the worker, in essence -- would be maybe the copay and the deductible, but not the catastrophic?

MS. McMAHON: Right. Because the major medical maximum is--

ASSEMBLYMAN RUSSO: Right.

MS. McMAHON: That's not double. In other words, you have one million dollar maximum.

ASSEMBLYMAN RUSSO: Okay. I wasn't sure, because I know I and Assemblyman Romano were talking about the catastrophic, and I wasn't sure. I know he has a background in this field.

ASSEMBLYMAN ROMANO: Just let me ask you though, when you have two employees covered by the State Health Benefits Plan -- you know, the husband and wife -- their deductible changes? Isn't their deductible based upon the person in the family?

MS. McMAHON: The deductible, it's \$100 for the employee and \$100 for dependents, once one dependent reaches the \$100.

ASSEMBLYMAN ROMANO: Right. Now if both have coverage, is there a reduction in that deductible? No. So I can't see where that-- If you have two plans, one doesn't save money -- the employee doesn't save money on the deductible.

MS. McMAHON: The money is saved this way. If the coverage is mine, I have to pay the \$100 deductible, but it can be submitted through my spouse's part of it, and part of that deductible then will be paid. There is a definite benefit.

ASSEMBLYMAN ROMANO: Oh, okay. That's right. All right.

ASSEMBLYMAN RUSSO: I was just going to thank you, but one last question.

ASSEMBLYWOMAN DERMAN: Yes. If we're talking about a self-insurance pool -- system, rather -- we could also explore the possibility of giving an employee a credit or a cash incentive for not using the system. In other words, if no claims are submitted under the traditional plan, next year's ratings would be lower. That would inure to the benefit of the plan and the costs. So we could also consider the possibility of a cash incentive to an employee who stays well, and doesn't-- I mean, private industry is going this way.

MS. McMAHON: The cash incentive for staying well?

ASSEMBLYWOMAN DERMAN: For not using your health care.

ASSEMBLYMAN BAGGER: Or electing not to be a subscriber at all.

MS. McMAHON: Yeah. I think I know more about the cash incentive when you decide not to be a subscriber, but I don't know if--

ASSEMBLYWOMAN DERMAN: Private industry is utilizing plans where they do cover employees, but if, at the end of the year they have not utilized the plan, there is a cash incentive

given to the employee for staying well. For either one, for not using the system, or possibly abusing it, or -- I don't want to say abusing it -- in the marginal case, not using it. And also, to perhaps stay well, to stay physically fit, to not smoke, to eat the right foods, that kind of thing.

MS. McMAHON: Okay.

ASSEMBLYWOMAN DERMAN: So private industry is moving that way.

MS. McMAHON: Yes, I know of a number of plans where-- But in many cases it's where there are, say, employee contributions for a plan. I also believe there's a big fuss in the companies that are doing something where they'll say, "If you're a smoker, your contribution is higher." It's not based upon the fact that that individual smoker is going to be sicker, it's just, "You're a smoker, you will pay more than I will as a nonsmoker." But controversy then got into all the other kinds of services that, say, a nonsmoker might need, and I know there is a court case pending over those kinds of issues.

But, yes, there's a host of somewhat creative things that are being done.

ASSEMBLYWOMAN DERMAN: Which would be effective in a self-insured, where you're looking at your rating. You don't want people using the plan.

MS. McMAHON: Yeah, I'm not--

ASSEMBLYWOMAN DERMAN: You don't want people availing themselves of the services.

MS. McMAHON: Right. But I'm not sure that that would work.

ASSEMBLYMAN BAGGER: If I can chime in, following up on Assemblywoman Derman's comment: That sort of an incentive program works when you are getting someone not to submit claims. It doesn't work when you are rewarding someone for being healthy at the end of the year. None of any of us have to have a hospitalization-- We're going in, and we're

submitting a claim. It winds up costing the system money. It's just at the end of the year you take those employees who haven't had any claims because they're 22-year-old State Troopers who are healthy, and give them some sort of a reward, because the healthy have to subsidize the sick. It's the basis for the insurance pool. But if you can somehow get people to not participate, or not get the duplicative coverage, or reduce their utilization that way, you should go to lengths to encourage it.

ASSEMBLYMAN RUSSO: Thank you. Thank you very much.

MS. McMAHON: Thank you.

ASSEMBLYMAN RUSSO: Jim Schroeder and Len Koch from the New Jersey Education Association. Thank you, gentlemen.

J A M E S E. S C H R O E D E R: Thank you, Mr. Chairman. Mr. Chairman and members of the Committee, we appreciate the opportunity to testify on issues related to public employee pensions and health benefits. I am Jim Schroeder from NJEA, and as you mentioned, I have Len Koch with me, who I'm going to ask to speak on some of the issues that you've been discussing in a few minutes.

Let me say, first and foremost, NJEA is adamantly opposed to any efforts to balance the State budget to the diminution of public employees' pensions and health benefits. We have seen some very troubling legislation that's been introduced, and a Governor's Management Review Commission report which we view as potentially serious attacks on public employees and their families. We will join with other public employee groups in resisting this scapegoating and singling out of public workers' benefits for special treatment.

While the thrust of our testimony this afternoon will be on health benefits, let me reiterate the words of NJEA President, Betty Kraemer, who has stated that pension security is the first priority of the NJEA. And I ask you to look very,

very carefully at the Governor's revaluation proposal to ensure that all promised benefits of the retirement system will be secure for current and future retirees.

A second important element of the concept of pension security is the issue of who pays the employer contribution for teachers' pensions and Social Security. I ask your support as soon as possible in returning this obligation to the State, where it has resided since at least 1955. Two bills have been introduced to achieve this end. They are Senate Bill S-707, introduced by Senator Corman, and Assembly Bill A-2, introduced yesterday by Assemblymen Collins and Garrett. And I'm pleased to note that there's about 45 additional signatures as cosponsors of that legislation. We appreciate that these bills were introduced, and we hope that you will move quickly on this important legislation.

I said that we would spend most of this time discussing health benefits. Let me move to that issue at this time. As Marge mentioned earlier, escalating health care costs are a problem of extreme complexity, as you know, that is national in scope. There are no easy solutions to this problem. The issues of cost, quality, and access cannot be remedied by quick fix, piecemeal proposals. Cost shifting will not make the problem go away. It will only cause it to resurface somewhere else. During testimony, before this Committee last week, I heard public employer representatives make a number of statements regarding the State health benefits program. I'd like to turn it over now to Len Koch to provide you with some specific information regarding the State Plan and the issue of school employee health benefits.

As Len is starting, let me give you a couple of handouts which Len will probably want to talk to you about during the course of his remarks.

L E O N A R D K O C H: Mr. Chairman, I would also like to thank you for this opportunity of what I consider quality time with you, to help you understand the critical issues that are

before you. I'm pleased that you're taking this time to address the issues of the State health benefits program, especially at this time, because the State Plan is, I think, in jeopardy because of much of the misinformation that's being distributed about it.

The State health benefits program, in my opinion and that of the NJEA, is one of the big success stories in the State of New Jersey that began in 1960 when it was initiated for State employees. The long success began in 1964 when it was opened up to political subdivisions in the State of New Jersey.

We have evolved over the years to a Plan that now offers employers/employees quality benefits at, I suspect, the lowest retention that anyone has in the country. The cost to administer this program is under 4 percent -- 3.9 percent. That means for every dollar that comes in, a little in excess of 96 cents is going out to pay claims. No competitor of the State Plan can come anywhere close to matching those low retentions. And those low retentions are the credit of several administrations who have worked so hard to keep this Plan the quality Plan that it is, and to put pressure on administrating providers -- Blue Cross and Prudential -- to keep costs at a bare minimum.

There's a lot at stake with the State health benefits program because significant dollars are currently being wasted in the public sector with political subdivisions that do not participate. I have copied for you today -- or I put together for you today -- just a sample of six school districts, which I believe is in the material that Jim passed out, taking one district from each of the counties represented by members of this Committee. If you'll look at that chart, it says, "State Health Benefits Plan versus certain nonstate Plan districts, effective July 1, 1990." LER means the local experience rate of plans.

The reason I chose July 1, 1990 is because I had the best hard data to present to you for that particular year. But if you notice, in Bergen County for example, as we read across in this chart, Lodi has a local experience rated Blue Cross/Blue Shield Plan. For single coverage effective July 1, 1990 they charged \$2092 for participation in that plan, paid by the employer. The family coverage cost was \$5570, effective July 1, 1990. The rates for the State health benefits program for that same effective date is listed under, "single." That should be parent/child, not parent/wife, husband and family.

Under single you'll notice the rate was \$1732, and underneath is the difference. That board of ed was paying \$360 more per person who was enrolled under single coverage. For family, the difference was \$1084. That board of ed was paying \$1084 more per family coverage.

Now, as you look down the chart you'll notice I picked out Pennsauken and Camden County, and the differences for single was \$672 and \$1156 for family. Secaucus in Hudson County, \$549 for single, \$1793 for family. West Orange, \$497 additional dollars for that local plan, \$1271 for family. Woodbridge, \$202, \$2031 per family. And West Morris Regional, \$75, and \$624.

This is not by region. This is spread out around the State. These are local experience rated plans, that right now you have possibly 100 or more of the 1000 political subdivisions that are participating in the State Plan with proposals in front of them as these districts once had, that they can save money by leaving the State health benefits program. There are many, many, many more examples, and if we looked at some of the more current rates, as Marge said, there was one district I recently picked out of our data information service, where they received a 78 percent increase this year, '92 -- or '91, rather. In fact, there was one, where I picked it out where they just received a 92 percent rate increase. When you have a local experience rated plan you are, in fact,

going to pay a premium based on what your unique experience is, but beyond that you are also going to pay for retentions that are way above the 4 percent. You could even have a good experience in your local and pay significantly more.

But where is the money going? The money is going to the procurement process -- brokers, agents -- representing the third party payers, being insurance companies or self-insurance, or what have you. The State pays none of that and should pay none of that. The State pays for administering the claims. They do not pay for procurement.

I'd like to touch on a couple of the issues that you addressed with Marge, that was addressed by representatives that spoke before you at an earlier date. Some you covered, some you didn't.

That whole issue of an incentive is one that you discussed a whole lot here today, and I know it came up, through Jim's briefing to me, on previous occasions. The Woodbridge Board of Education, on that list that I gave you, they offered the employees a significant incentive not to participate in their plan. Look what it did to their rates. And I can tell you that the more recent data shows that the rates shot up even more, way above where the State Plan is.

What we found is something very interesting. After that was negotiated-- It was negotiated after they were-- Well, I don't know if they were ever in the State Plan. It was negotiated while not being in the State Plan. The district offered a cash incentive and then went to the insurance company and found something out very interesting. They weren't even paying a premium where husbands and wives were both working in the same district for two people. They were just carried on for coordination of benefits with no additional cost. The employer ended up giving our own members \$2000 extra not to participate. So they're paying those outlandish rates, and now they're paying husbands and wives both working in the same

district a \$2000 cash incentive for one not to participate, when under the program, the design is very similar to the State health benefits program. That second coverage wouldn't have cost that board any more than \$500 in their claim experience.

You want to offer cash incentives? That's a real life experience that ought to be studied by everybody. Not just you but by responsible people representing school boards, representing municipalities, by people in the industry. I suspect, though, we will not get that responsibility from those who are going to benefit by getting the contract sold in one place or another. Because of the way our system is set up, it's very hard to get a neutral party to come in and present the facts.

The reverse situation is the second issue raised before this body, and that is; the State Plan rule that the local must pay 100 percent of the premium of employee coverage. The cost of dependent coverage is negotiable, as Marge pointed out, and in fact, 96 percent of the districts have negotiated -- this is in the school arena -- for the employer to pay the full cost.

West Morris Regional is on your list. West Morris Regional required the employee to pay everything above a negotiated cap on the cost for their health insurance plan. The rate differential you see before you is relatively small compared to the State health benefits program. They enrolled in the State health benefits program in, I believe it was February of '92 or February of '91. The rate increase above this particular rate that you have before you was phenomenal. It would have required the employee to fork up 45 percent of the cost because of the cap. The board, interestingly enough, pushed to go into the State health benefits program because with their new rates, that were just, just out of sight, and would have cost them more paying 55 percent of the coverage.

It doesn't pay to give the people, whether it be in the public sector or the private sector, incentives not to participate in our plans. Think about our problem in this State with the Uncompensated Care Trust Fund. None of us anticipate that this year is our year. Give me an incentive. Allow my family to go on vacation. Allow me to buy that new car. And God forbid that I be the one, as Assemblyman Bagger said, that has to go into the hospital, and I can't afford it. Folks, our system pays for it. We all pay for it. In the private sector we pay for it. In the public sector we pay for it. Individuals pay for it. Those who pay the hospital bill pay for it. So offer people an incentive -- either a positive incentive by giving them cash, or a negative incentive by charging them to participate, it's just simply causing the problem to get worse. We need more people in the system, both in the public sector and in the private sector. To say, Assemblywoman Derman, that this is the trend in the private sector, let us not repeat their mistakes. Let us look at laws to correct the mistakes that were made. The mistakes that were made are serious. They're cutting deep, and they're costing us all more.

As you can see, I get animated. There was a proposal before this group that perhaps 20 hours a week ought to be changed to 30, or something higher, that is; under the State health benefits program, there is a requirement that if you participate in the plan and you have an employee who works 20 hours a week or more, you have to provide them health benefits. That's good public policy. That's important public policy. And yes, we do have some school boards that hire certain employees for 19 hours-and-a-half-a-week, so that they don't have to include them in the health benefits program. We fight that at the negotiations table. We're doing our darnedest to include everybody in a health benefits program. It's good public policy. Even if it takes money out of salary

agreements, it's still the right thing to do. Changing it to 30 hours a week? Terrific. More employees not insured working 29 and-a-half hours a week. Where does that make sense?

And you could say, "The private sector is doing it." Yes, they are. That's the problem. We need good public policy. We need laws that include people, not exclude people.

You also discussed here the issue of coordination of benefits. I don't think the issue of coordination of benefits is being well understood. That comes out of the National Association of Insurance Commissioners. It's not a Federal law that deals with coordination of benefits. It's a national group of Insurance Commissioners that gets together as an organization. They work to develop what they consider to be good public policy, and they offer these ideas to the states.

It's the states that have had control over the rules and regulations and laws that are going to apply to insurance companies operating in their states. Coordination of benefits was a rule that was established which was recommended by the National Association of Insurance Commissioners to provide fairness in the system, so that if you have a husband and wife both working and they're both enrolled in a group health insurance plan, both plans get part of the positive impact of that dual coverage. Coordination of benefits puts a system in place where one plan is primary under a certain circumstance, and another plan is primary under another circumstance, each are the secondary to each other. It creates an environment where you have fairness so that it reduces the overall cost to all employers.

I submit to you that coordination of benefits and the concept of it has gone down the tubes for one reason: Private employers were just sold a bill of goods, and they're losing it, and we're losing it because people don't understand the issue.

Self-insurance came about. Self-insurance is not controlled by our departments of insurance; not in New Jersey or throughout the country. Self-insurers don't even have to abide by the rules of coordination of benefits, and I can tell you that I have seen employers who have been cited in this State -- not by this administration, I'll use another administration -- as the ideal employer in our State. I can remember reading that article about that great employer, and then finding several weeks later that that employer went self-insurance and they adopted a rule. And their rule was: If you are employed by us and you have an employee that works elsewhere and they're insured, that insurance coverage is primary all the time over us. It wiped out fairness all together, and was allowed to do it because the State couldn't control it. And they got away with it. One of our model employers.

And Assemblywoman Derman, out of all due respect to you, this is what's destroying our system, not only in this State but around the country, because the mind set of the employer is, the premium is all you're paying. And if you can get out from paying some premium, then all of a sudden, we get out from a greater liability. But you know, a premium is nothing more than money that pays claims, and if you want everybody to have coverage someplace, then you want all these claims to be covered either through the individual's ability to pay, or through some third party payer's ability to pay, or somebody's ability to pay. We've got to have somebody who can pay.

Well, we created an environment where the employer says, "Well, if I can give this person no coverage, then I don't have to pay." But believe me, if they are giving someone else coverage, they're paying through the Uncompensated Care Trust Fund. Or they may be shifting their liability to the State system, where the State didn't follow their rules that

are destroying our system. Or they're simply placing the liability on some other employer who maintained insurance coverage. And I submit to you less and less are.

Now, the State is a joint insurance fund. You need strict rules and regulations when you govern a joint insurance fund. I don't care whether the State is doing it or whether you get into those municipal JIFs that were referred to earlier today. If you have a municipal JIF, or if you have a State Program, all of the participating local employers must be treated equally. If not, what you are doing is creating a system where one employer will take advantage of another employer, and save money for one employer at the expense of another employer.

Clearly, and you pointed it right out, Assemblyman Bagger, when you said that maybe what Assemblyman Geist was saying works with the local employers because the local employers are paying a premium. Yes, it does work, at the expense of another local employer. Surely, if you have a local employer who can convince a subset of its employees, "Don't participate in the plan. We'll give you \$2000 not to participate." And if a family rate is \$6700 or \$6600, as was quoted today, we could save the difference, \$4600. Well, another local employer says, "I'm not going to do that." Well, who is paying it? Will the premium go up? Yes, it absolutely will go up. There's no question it will go up, because the same claim liability is going to be paid out, because the person who takes the \$2000 will only take it -- if they have any sense whatsoever -- if they have coverage elsewhere. So therefore the other party is paying for it. The claim will be paid. And if they're crazy enough not to have coverage elsewhere, what are they going to do? You're going to pay for it through the Uncompensated Care Trust Fund, and so are all the employers going to pay for it out there.

Policy -- public policy -- to give people an opportunity not to participate, and under any scheme that you come up with simply is not good, in my opinion, and that of the NJEA.

Seventy percent of the school districts now participate in the State health benefits program. That's good. That's real good. The rate of participation may go down very quickly, and I'd like you now to look at, if you will, a proposal that school boards are given whereby they believe they are going to save some money. The first page is the minimum premium concept description. If you read it carefully you'll see that the minimum premium is nothing more than the shadow of a self-insured plan with insurance protection above and beyond requirements of funding that a local employer is mandated to provide. Rather than go through that verbiage, I'd like you to turn to the next page, if you will, which is the first financial page of this proposal beyond the written description.

Now this is a real life proposal that a board of education in our State is currently considering. The top portion, part one, gives you the rates of the State Plan for the people who are in the traditional program in this district; single, parent and child, husband and wife, family, broken down as you see, and the rates beside that, the monthly premium beside that, and under that the total annual premium, \$2,088,000. The proposed plan has the same category of coverage -- which is unusual, by the way. This company tailored parent and child, husband and wife under this proposal. They tailored it this way in order to, again, create that seductivity to get out of the State Plan. This is a new revelation for this company. They didn't use to include the parent and child, and husband and wife categories. In fact, under the chart that I used earlier, I don't believe that they do include it. But be that as it may, look across and look at the bottom and the annual premium is \$1,879,000, and you've got

to come to the conclusion-- Well, they tell you: "The initial savings in the first policy year is \$208,000." How can a board of education refuse, in this climate of tight money, a savings of \$208,000?

I went before this board of education, our local leaders went before this board of education, together, on three separate occasions, and we were able to get the board to table this suggestion on three separate occasions. It's going to be taken up again tonight in this district. Against great odds, the board kept tabling it. They had their experts testify, this was a good deal -- a real good deal. Flip the page, if you will.

Let's analyze this breakdown for a moment. That \$1,879,000 is the supposedly total cost to the board. You saw it just a few moments ago. Experience protection benefit: Now basically, this is \$93,972 that is going out. That's part of the retention, and it's going out to pay for any claims in excess of \$75,000. So what this board is being told is that if you have any individual in this contract year whose claim exceeds -- whose incident of health care for that particular treatment exceeds \$75,000, this company will pay that excess, and for that we are going to charge you \$93,972. That's money where if no claim goes over \$75,000, you're still paying out. That's what retention is all about. Retention is money that goes out to service your contract, it goes out to pay for procurement, goes out to pay for risk insurance, and all that stuff that's involved in a health insurance contract.

Now look at the next. Billed premium: What they describe as billed premium, and what was presented to this board of education was, your retention is 13%. That includes the commissions, the brokerage fees; that includes the insurance -- risk insurance -- and all that. They failed to tell this board of education that the \$93,000 was actually part of that, and the retention was not 13 percent. If you add it

in, it was 17.35 percent. Remember what I said the State Plan retention is? Less than 4 percent -- 3.9 percent. They would be buying into a program where, if they have no claim whatsoever, 17.35 percent of that \$1,879,000 is already gone. Out the window. It's not paying one health claim. All out. Gone.

Now you would think that this board of education may be taking some risks here. Not the board, that is, the insurance company may be taking some risk. Look at the bottom. It's addressed in a note, almost as an afterthought. A supplemental premium agreement will be signed this year in the estimated amount of \$469,000. It's only estimated because the insurance company is the one who will dictate it in the final agreement. Here it's only estimated. And a new agreement with an adjustment amount will be signed each year.

Now what that means is, if this board goes into this program, not only do they have to pay the \$1.8 million to fund what is shown here, but they have to put aside and have in the bank, have in their reserves, have at their disposal, another \$469,000, and it was never clearly pointed out to that board until we brought the issue before them. And do you know what the agent representing the board said: "Mr. Koch is only talking about the absolute worse scenario, and only you can bring that about, because the only the way the \$469,000 is called to question is if you terminate from us. You don't need that money if you don't terminate, so only you can cause the worse scenario."

Well what does that mean? Next year they get a rate increase of 50 percent? We've seen some higher than 50 percent. We've seen 78 percent and 92 percent. "Well, the board will be the only ones to call the question though." Right? And that money would have to be there if that happened to them.

So if you add the \$469,000 where you fully fund this program to that \$1,789,000 -- you go through the arithmetic -- this plan is costing the board \$261,000 more. Yet they're being told -- you see it on the first page -- savings of \$208,000. Now I ask you, where are the responsible people in this State to point this out? Is this the job of the union?

In fact, in most instances-- We've got this problem right now in Union Township, Union County. The board is very ready -- momentarily -- to elect to go with this very program you see in front of you. You don't have the numbers. The reason you don't have the numbers, is the board of education refuses to give the numbers to the Association. The people who are offering the program advised the board, "Don't give the numbers to the Association." They saw what happened in the district where this came out. I even know for a fact, that one board member told me -- who is a so-called maverick on the board -- "They wouldn't even give us the numbers." But they're presenting to the public we're going to save money. I submit to you that if they fully fund their program, they don't save a dime. It's going to cost them a lot more.

But they won't fully fund it. They're told the \$469,000 will come -- this is what they're told -- the \$469,000 will come out of your favorable claims experience. Not only are you going to pay the difference between 17.35 percent retention and 3.9 percent, you're also going to have such a favorable claims experience you're going to get another \$469,000 that you are going to save, that you will put in the bank to save this money. And boards are believing it. They're believing it.

Well, we submitted a newspaper ad in the local newspaper of the town that received this proposal. It's the last page of this distribution. We spelled out the story, and we told the community the facts. Guess what happened? Tonight this district is going to be offered a program -- conventional

premiums -- not this. I think they got the message on this. Another insurance company saw an opportunity, and they're offering a conventional premium, all of the safeguards of paying a premium, none of these gimmicks that I described here. Oh, they made note that all of these gimmicks are available if you want to take advantage of it. They undercut the cost of the State Plan, and the district, I was told, is being recommended by its administration to go with this new proposal. I submit to you that this district cannot save money. The demographics just are not there.

So another district is going to leave the State Plan. I know for a fact there are hundreds of these proposals out there on the desks of boards of education. And unfortunately -- unfortunately -- many of these boards are being told, "We will be able to increase the number of hours required for you employees to participate. We will be able to offer your employees incentives not to participate, either positive or negative. In fact, we'll be able to do all the kinds of things that the State won't let you do, plus you have a better experience." It's a win/win for everybody.

I thank you for the opportunity. As you can see, I take the matter rather seriously. I hope you do. God, we need leadership on this. We need it bad.

ASSEMBLYMAN RUSSO: Harriet, do you have any questions before you go, because Harriet is leaving.

ASSEMBLYWOMAN DERMAN: Yes, I just want to say that you shouldn't take my leaving as anything personal. Because I do think you misstated what I had said.

MR. KOCH: I apologize for that, and I do appreciate the fact that you were able to hear my full presentation.

ASSEMBLYWOMAN DERMAN: No. I think the trend, which is very clear in the United States, is toward full health insurance for everyone, and not to contract the number of people who are insured. So I do think you misstated what I said.

MR. KOCH: I apologize for that, and I'm pleased to see that your recommendations and votes in the future will be to incent people to participate. That's important.

MR. SCHROEDER: Mr. Chairman?

ASSEMBLYMAN RUSSO: Sure.

MR. SCHROEDER: Can I just wrap it up, and then again, we'll be more than happy to entertain any questions you might have?

ASSEMBLYMAN ROMANO: Before you begin, I'd just like to make one comment.

MR. SCHROEDER: Go ahead.

ASSEMBLYMAN ROMANO: I know George is going to let me speak first.

ASSEMBLYMAN GEIST: Of course:

ASSEMBLYMAN ROMANO: What the problem is, you need the sort of secretary/business administrator in some of the school districts, like I am. Because I'm one of those who will not be -- I was not swindled by any of the insurance companies, and we stayed in the State health benefit system.

MR. KOCH: I appreciate that. And you could probably testify better than me on the kind of pressures on you people.

ASSEMBLYMAN ROMANO: That's right.

MR. SCHROEDER: You know, to follow up on Assemblyman Romano's comments--

ASSEMBLYMAN ROMANO: They know of me.

MR. SCHROEDER: Let me talk about some other responsible people, and I take this as a page out of Bill Dressel's book. It's the "New Jersey Municipalities" article, which appeared this month, the April edition. It's about the experience in Montclair.

ASSEMBLYMAN GEIST: This month's magazine?

MR. SCHROEDER: Bill's not even here to hear me say good things about the League of Municipalities. It's a shame.

The town of Montclair, in dealing with the problem and the issue of escalating rates, took up the idea of leaving the State Plan. When you look at this I think you see a responsible approach. They took a lot of time. They were judicious, and I think the key to the whole thing was they got independent counsel. As you read what the town of Montclair did, they got independent information -- independent analysis -- and they took their time and they studied it. The bottom line was that they decided to stay in the State health benefits program.

You know, Len gets animated on this, I think, because he cares very deeply about the issue, and about the people who we represent. If more local governments and school boards spent the kind of time that Montclair did, and really took the time to understand the issue and got independent input, we wouldn't be seeing districts leaving the State Plan. They would realize that they would rather have what moneys they are expending utilized to pay the claims for their employees, rather than having some entrepreneur walking off with hundreds of thousands of dollars in commissions and brokerage fees.

So again, the thrust of what we're saying is, please let's do everything we can to strengthen the State health benefits program. We think they do an outstanding job.

Let me make one final comment about a bill that was mentioned last week by the School Boards Association. The New Jersey School Boards Association handed out a position statement on A-1136, which is the Heck and Charles bill that would provide equity for support staff at county colleges who work in the schools. I know they are opposed to that bill. That bill would not have premiums borne by the local school boards. It would be borne by the State of New Jersey. There are only about 1500 people, right now, who would qualify for that benefit, as I understand it. It's an equity issue. We have support staff who retire -- secretaries -- who might work

27, 28, or 30 years, retire on a benefit of \$700 a month, and if their husband is still alive, they might be-- And I say that, "husband," because typically it is a female who works in a secretary capacity. I don't mean that as a sexist statement, that's a reality. And it's unfortunate that these ladies, in many cases, work a whole career alongside principals and teachers, and retire on a benefit much lower -- as I said, typically \$700 a month -- and they're paying \$450 for husband and wife coverage out of that pension. As much as 60 percent of their pension, after they've given a career, is used to provide vital health benefits and health care coverage. That's an equity issue, and I just wanted to get that in, and if it does come before you, that we can elicit your support for that legislation.

Thank you very much, again, for bearing with us this afternoon.

ASSEMBLYMAN RUSSO: Thank you.

ASSEMBLYMAN ROMANO: Mr. Chairman?

ASSEMBLYMAN RUSSO: Assemblyman?

ASSEMBLYMAN ROMANO: I'll jump in again. You had said something about strengthening the State health benefits system?

MR. SCHROEDER: That's correct.

ASSEMBLYMAN ROMANO: I heard a good argument for staying in the State health benefits system, and -- how should I say? -- memorializing the good aspects of the State health benefits system. Is there something about the system that you might make recommendation to where, knowingly, is there going to be a way, without jeopardizing the program, without jeopardizing the total concept, which you aptly put, when you're paying two persons in one family for the same plan, if you will, actually if that weren't the case, the premium at the end of the year would be higher because it is like a self-replenishing plan? Are there any comments that you might have about strengthening the State Health Benefits Plan?

MR. KOCH: We are preparing some proposals now, and the avenue in which we wish to address this is through amending the self-insurance proposal that you people are considering. As you stated earlier today, you have a self-insurance for joint insurance funds for municipalities. That particular law has some problems. The Department of Insurance is addressing those problems. I have been in consultation with them on the issue, and we will be supporting, I believe, an amended approach to providing for the self-insurance opportunity. We will also be adding an amendment in this process that will strengthen the State health benefits program, and the integrity of the State health benefits program in terms of providing for rate stabilization. We will create, hopefully, an environment whereby if a school district drops out of the State health benefits program, it will not leave the State Plan with a liability that is now being borne by other plans that are in the State Plan. I would rather talk more fully about proposals when they are finished.

MR. SCHROEDER: Let me just say that that legislation that Len referred to is Assembly Bill No. 251, sponsored by Assemblyman Dick Kamin. We have been discussing the issue with both he and Assemblywoman Clare Farragher in the Insurance Committee. That's the Committee that's handling that piece of legislation.

MR. KOCH: I would also add that the agents and brokers will not line up behind us in support of this, and I would hope that you look very carefully at those who are addressing the issues in the future on these matters, and take into consideration as to what motivations might belie their positions.

ASSEMBLYMAN RUSSO: George?

ASSEMBLYMAN GEIST: Thank you, Mr. Chairman. Leonard, I want to walk through a hypothetical. It seems to be based upon your intentions: A) I'm brokering an alternative plan to

the State health benefits program. I, purposely, in order to be competitive, to make an impression upon the board, lowball the premium, which is what you're telling me is standard operating procedure. But I know that if I hook you in with that hook, and reel you in, under the revolving door prohibition, you can't go back into the State health benefits program for five years, i.e. once I reel you in with the lowball price, I know you can't go anywhere back for five years, thus I can jackpot at the end. Therefore it's in my best interests to really lowball it so I bring you into my program and take you out of the State Program. You seem to have made, in a sense, an indirect suggestion that the five-year rule -- right now if you leave the State Program you can't come back for five years -- perhaps should be reexamined for this exact reason. You never explicitly said that. You subtly, to me, suggested that perhaps it should be reexamined. What are your thoughts?

MR. KOCH: I really appreciate your observation, and I think it's extremely astute, and perhaps much more astute than my own over the years. I've been working for the NJEA since 1974, and one of my primary responsibilities in the last 18 years has been to monitor and work with the health benefits issues. Clearly, I've been quite close to the State health benefits program for a long, long time. At one time the State Plan did not allow any board to return to the State Plan. In other words, if you left, you never could get back in. South Orange/Maplewood left. They had a disastrous situation. They went to court and tried to turn that decision around, and an agreement was made between the State and the board that after five years they would be allowed in. And that agreement was made primarily because they were, I suspect, concerned that that rule could be overturned with the definitive prohibition from ever returning.

The reason that prohibition was set up was so that districts wouldn't have the ability to take the risk. In other words, if you're in the State Plan and you're enjoying the benefits of the pool, and somebody convinces you that you have a better experience -- and everybody always believes that they do -- then if you knew you could get back the second year, the likelihood is you would take the chance, and you would go out. Now in any joint insurance fund, at any snapshot in time, you're always going to have one participating employer with a more favorable experience than the whole. The reason why I submit that no district will have an overall better experience from the State Plan is because the retentions are so low. I mean, all of that gain that you might have from a favorable experience is simply eaten up in giving somebody else the money. So I maintain when I'm out there with our locals and tell them that there's no better deal out there. Even if you have a better experience, it can't be that much better to overcome that significant retention cost.

To be perfectly honest with you, and I say you're much more astute than I am, I was talking to Marge prior to this meeting getting started and telling her some of the aspects of my presentation today, and a light lit up in my head and said, "You know, maybe our rule of five years is counterproductive."

ASSEMBLYMAN GEIST: Right.

MR. KOCH: "Maybe insurance companies wouldn't be willing to put the contract out there is they saw they could lose after a year."

ASSEMBLYMAN GEIST: Right.

MR. KOCH: But I have a major caution here. Lowballing is a problem. Clearly that's a problem in this district that's going to get the conventional rates that I just made reference to here today. But you know, that minimum premium program is not lowballing at all. They're not lowballing. What they're doing is, they're shifting the risk.

They're shifting the risk from the insurance company on to the employer, and most of the groups today of over 200 in size -- over 200 employees in size -- most of them today are not going into the conventional insurance program. They are going into the minimum premium programs, and they believe they are saving money. Some of these districts have rates that are absolutely horrendous, like the ones I've shown you today. I think Woodbridge is a classic example. They have this kind of an arrangement. Lakewood is a very classic example. They can't buy out of their contracts. They can't buy out because they don't have the reserves. I think in Lakewood I heard that the cost to buy out, why I put it in that ad, is-- I think it was \$1.7 million. They don't have the money there. So the insurance company can raise the rates anyplace they want, and if you don't have the \$1.7 million to get out, you're stuck.

So the five-year rule is still pretty important because not everybody is buying conventional premiums where the insurance company would be stuck. You see, if you pay the conventional premium and leave after the year, the insurance company has the whole liability, and they're stuck, and they're going to lose and lose bad, but if you go into the minimum premium program it's the board that has to fork up the money because of the shift in the risk.

ASSEMBLYMAN GEIST: But long-term, if the best program, which you seem to advocate, is the State Health Benefit Program, then easiest access should be the maximum, with no restriction?

MR. KOCH: Well, I agree, as long as we don't have to end up spending a lot of money for districts coming in and out.

ASSEMBLYMAN GEIST: Okay.

MR. KOCH: And I submit to you that the 3.9 percent retention would be higher if we had to deal, on a regular basis, with--

ASSEMBLYMAN GEIST: Of course.

MR. KOCH: You know, you've got a thousand political subdivisions, you know 10 percent. A hundred in and out every year would be a very, very costly thing.

ASSEMBLYMAN GEIST: But if economically nobody can truly compete with the State Health Program because in this particular instance the cost is only 3.9 percent, you're going to eliminate this type of competitive process with lowballings or--

MR. KOCH: But not if they're shifting the risk on the employer, and the employer fully doesn't understand it. You'd be surprised what I had to go through to get this local board to understand that they had a \$469,000 additional liability.

ASSEMBLYMAN ROMANO: George, you have to put this in perspective. It's not so much today about people trying to get out of the State health benefit system. This occurred -- what was it five or seven years ago? The State health benefit system went up 35 percent that one year.

MR. KOCH: There was a year where it was high.

ASSEMBLYMAN ROMANO: That was the year. With that, many subpolitical bodies chose to get out. There were a lot of insurance companies waiting with a low rate, and some of those even were discussed in here, were considered to be the best place to go. What people were not aware of though was this business about that sinking fund to pay for claims that were not known at that time. You have to remember that you have two years on claims, and that the claim would come up after you left the program. So they have this as a sinking fund to play that game.

I don't think today-- Maybe you can correct me. Do you find many subpolitical bodies looking to leave the State health benefit system?

MR. KOCH: Large numbers.

ASSEMBLYMAN ROMANO: For what reason though, now?

MR. KOCH: They're being told that they are going to save money. They are being told that the State health benefits program is out of control. They're being told that the rate increases are going to go on, and on, and on. They're being told now is the time to bail out. And I want to tell you something: If they do, they will fulfill a self-prophecy.

The problem we have is it goes beyond the local board of education making an independent decision. I don't see anyone representing the employer side who guides the boards or the local municipalities of the dangers. And when you think about it, all of the people out there today who profit from these decisions are advising the boards: "The bad scenario is there, get out." Now that's the advice that's coming.

When they turn to their advisors -- you know them as well as I do -- what kind of advice are they getting? If you're involved, you're a member of organizations, and you know what I'm talking about. You're a business administrator--

ASSEMBLYMAN ROMANO: We stayed in the plan.

MR. KOCH: Does everything have to be on the record?

ASSEMBLYMAN ROMANO: Yeah.

MR. KOCH: I'll put it on the record. I don't care. Your group-- Jim's shuddering now. (laughter) Your association collects a lot of funds from who? The associate members. Who are they? Well, I'll leave it there. Do your research. Believe me, I don't know where the sober voice is being told. And when I or the NJEA steps in to tell the story: "Don't listen to the union. Don't listen to them. It's our responsibility to take care of the budget, because all they care about is their members' benefits."

MR. SCHROEDER: What Len's referring to is some of the carriers who are out there offering alternative programs, have associate memberships in some of the organizations that represent public management. You know, that's a problem. I think that may be a contributor to the problem.

ASSEMBLYMAN ROMANO: I apologize. I thought that by now though, everybody knew that the emperor wasn't wearing clothes in this particular situation.

ASSEMBLYMAN GEIST: Mr. Chairman, I have a question. Just mathematics, for one second. On your chart that you prepared reflecting 1990 rates, those rates in the far right column for family, \$4486.56. Today we heard from the Pension Director who says that the county and local level it's \$6630

ASSEMBLYMAN ROMANO: George, these are July 1, '90.

ASSEMBLYMAN GEIST: September 1, '90.

MR. KOCH: No.

ASSEMBLYMAN ROMANO: No. What she gave us was effective 7/1/92.

ASSEMBLYMAN GEIST: Right. That's what my question is.

ASSEMBLYMAN ROMANO: No, no. Read the-- This is '90s though.

ASSEMBLYMAN GEIST: I know, I know. Please, Assemblyman Romano.

ASSEMBLYMAN ROMANO: Oh, no, no. I didn't--

ASSEMBLYMAN GEIST: Forty-four eighty-six point fifty-six are the July '90 rates, which you-- July '90 rates; is that correct?

MR. KOCH: Yeah. The only one that was September 1990 was Secaucus in Hudson County, and I showed that via the asterisk.

ASSEMBLYMAN GEIST: Just for my clarification, and she's quoting today \$6630?

MR. KOCH: Right.

ASSEMBLYMAN GEIST: So we've had approximately a 50 percent increase.

MR. KOCH: Over the two-year period.

ASSEMBLYMAN GEIST: Fine, thanks.

MR. SCHROEDER: But that would be both the State Plan and the private carriers, probably very similar.

ASSEMBLYMAN GEIST: The State Plan rate has though increased on the family basis approximately 50 percent in two years?

MR. KOCH: That's correct. Now the reason I chose the data that I chose, was not to in any way be deceptive there, but that's where I had hard data on these other districts. Data collection--

ASSEMBLYMAN GEIST: Oh, no. No, no, no. I'm glad you showed me the increases.

MR. KOCH: I'd like-- This is raw data. It's not the kind of thing that I would use to distribute yet, but before I left the office I said to our data collection area, "Just run me off the latest figures you have" on districts that are covered by the company that I distributed here. That's where I noted that in a given district, they had a rate increase of 78 percent, and in that district their family coverage cost for July 1, 1991 -- the year we're in -- and I didn't have it in time for what I gave you earlier -- \$8700 for family. Should we do a comparison between July '91 and that? I didn't get to July '92, because we're just-- Those numbers are just coming in.

We have districts here that are out of sight in their costs -- out of sight.

ASSEMBLYMAN GEIST: Can I focus you back in on some questions?

MR. KOCH: I'm sorry.

ASSEMBLYMAN GEIST: Thank you. A couple of other quick questions. The cash incentive, either to opt in or to reduce coverage, husband and wife, members of NJEA: Are you telling me, in your position, that you would not advocate providing them with the option of a cash incentive, either to opt out of the plan, or to reduce coverage?

MR. KOCH: Absolutely. That is the advice I'm giving this Committee, and that is the advice that the NJEA is giving its locals. It is not good policy.

ASSEMBLYMAN GEIST: No. I'm not talking about shifting into a new program. I'm talking about--

MR. KOCH: You're suggesting if the board offers our members \$2000 not to participate--

ASSEMBLYMAN GEIST: State health benefits program, husband and wife.

MR. KOCH: Right.

ASSEMBLYMAN GEIST: Is it your position on behalf of NJEA that they should not be given the option -- the freedom of choice -- for one of them to opt out of the State health benefits program in favor of a cash incentive?

MR. KOCH: That is our position. As hard as it is to believe, that is our position, because it's the right policy. It's the right policy for that district to take, and that's what we're telling our locals. Does that mean all locals follow what we suggest? No, absolutely not. Obviously, there are several districts that offer incentives. I just gave you an example of one. But that's where State policy is important. The NJEA can't stand alone on this. If boards want to work off other districts by offering incentives, and our local buys into it because our members like the idea of an extra few dollars cash, you know, what can we do?

But I'm absolutely, without question, giving our locals the same advise I'm giving you, and it's not easy to do. It is not easy to do. It's the responsible thing to do.

ASSEMBLYMAN GEIST: Thank you. Thank you, Chairman.

ASSEMBLYMAN RUSSO: Thank you.

I believe Mr. Trimboli is not here, or a representative from the New Jersey Association of Counties.

ASSEMBLYMAN GEIST: Mr. Pankok was here.

ASSEMBLYMAN RUSSO: Yeah, he had to leave about an hour ago. Okay, what I'd like to do is this: Mr. Kehler, if you would next testify, and if we have a little time, and School Boards wants to say something today, okay? Then we'll try to finish up as rapidly as we can, okay?

MR. KOCH: Thank you.

ASSEMBLYMAN RUSSO: Thank you, very much.

D A V I D K E H L E R: Mr. Chairman, members of the Committee, my name is Dave Kehler, and I'm President of the Public Affairs Research Institute of New Jersey. We're a nonprofit organization headquartered in Princeton involved in fact-finding and making recommendations on New Jersey fiscal and administrative policy issues.

I'd like to begin my presentation with an apology to you, Mr. Chairman. Because of a misunderstanding on my part, I didn't realize that I was slated for your last meeting. I'm very sorry, and hope I caused no inconvenience. It was an error entirely on my part.

What I'd like to do is summarize some material we published on the comparative compensation of State government employees versus employees in three major private sector companies headquartered in New Jersey. The material we published last November, and still has a great deal of currency. Then I'd be happy to field any questions that you have, Mr. Chairman, or members of the Committee, on any of the aspects of employment policy discussed before the Committee to date.

What we attempted to do was answer a question -- a simple question: Are State government employees overpaid, underpaid, or fairly paid in terms of the labor market of New Jersey? We thought that the labor market of comparison was one that was very particular, that it would be inappropriate to compare State government employment from this compensation perspective with, say, a steel mill, that it would be inappropriate to compare it with, say, a retail food store. We thought that it was important to try to compare State government employment with large, service sector organizations because they were the fairest basis of comparison.

We did so, and we chose three types of service organizations. One was a public utility, the second was a commercial bank, and the third was an insurance company. All of the companies we chose -- all three of them -- are headquartered in New Jersey, and are listed in the Fortune 500 list of the largest service companies headquartered in the United States. In each of these categories, New Jersey has at least two companies within that Fortune 500 ranking, so we provided some anonymity to these companies.

We then began a process of extensive contact with the benefits administrators of our four private employers, and we devised a system we thought was fair in terms of looking at the various leading aspects of compensation.

The first we did was we looked at wages. It is commonly claimed by representatives of public employee unions that wages in the public sector tend to be lower than in the private sector for comparable jobs. So we identified four job titles existing both in State government and in our three comparison private sector companies, and we determined how much people are paid to do those jobs. The jobs included both clerical and managerial positions. We found that in three of the four instances, the compensation for the private sector positions was higher than for the public sector positions. We did not attempt to quantify the level of expectations that incumbents in those jobs might have. That's something essentially unquantifiable, so we did not attempt to measure it.

Nor did we attempt to measure certain other working condition issues such as the presence or absence of civil service or seniority benefits. Again, not quantifiable for these purposes, but noted in our report.

Then we turned to the second part of this, what might be called benefits issues. It used to be called fringe issues.

ASSEMBLYMAN GEIST: Can I interject a quick question on compensation? Are we talking about apples and apples, the same number of hours?

MR. KEHLER: That's an excellent question, and something we can't determine. It's quite possible that people working in an insurance company may be working on a salary basis with an expectation that they would work several extra hours to complete a task, but that in the State government service they would be provided with comp time if they were expected to work extra hours.

Now, we're not in a position at the Public Affairs Research Institute to actually monitor the workplace of these private sector or public sector employers to see whether salaried workers are expected to spend extra hours. Nor did we attempt to determine whether quotas for productivity, which exist for some State government workers, also exist for some private sector workers. Some State government workers are measured by key strokes. Vince Travelli, I'm sure, could speak a lot about that. Perhaps that's present in some private sector settings. We didn't determine that, and we didn't really look for that with our State government employees.

On this point, the Governor's Management Review Commission has surveyed salary information from a broader array of employers and for a broader array of job titles and found a number of instances where the State government paid appreciably more, and a number where they paid appreciably less.

My conclusion, based on our work strictly on the salaries, and that of the Governor's Management Review Commission, is that New Jersey might want to follow the model of some states in the west, where there is an annual compensation survey made in anticipation of collective bargaining in the labor market in which the state government is servicing. Typically, those compensation surveys don't attempt to represent the entire breadth of private sector workers; they tend to concentrate on the larger companies rather than all of them. But nonetheless, that's something not typically done in New Jersey, but characteristic of a number of states around the

country, and provides a kind of a continuous benchmark over time, and also provides some information applicable to the strategy adopted by the state government in its negotiations with its state labor unions.

We looked at the other side of the compensation ledger, and that's the benefits side. It's typically understood that while salaries in the private sector are often considered to be higher than in State government, that the State government benefits plans tend to compensate for that. And we found that in a number of instances, but not in all instances, the State government benefits were better from the employees' standpoint than those of our benchmark companies.

We looked in several areas. One was leave time. Leave time would be vacation time, would be what are called, "personal days" in State government, and would be holidays. The advantage for vacation time was, up to 20 years of service, very clearly to the advantage of the State government workers. In terms of the personal and holiday situation, the State government employees had 17 days, while the private companies provided 15, 13, and 12 days.

In terms of sick leave and disability: In terms of sick leave days off, the advantage for two of the three-- Excuse me, the advantage was for the State government over two of the three private firms, and a general advantage in terms of disability, again, over two of the three private firms for disability pay.

Hospitalization: We looked at essentially Blue Cross plans, not preferred provider or HMO plans. We found that the coverage was similar across all four of the employers. What we found was there was no mandatory cost control elements in the State Plan, but that that was present with two of the three private employers. And since we did our report, the third private employer also adopted that. What I mean is such as concurrent case review, second opinions for surgical

procedures, and the like. We found that the State government plan had no payroll contribution requirement, where that was typical for the private plans. State government had lower copay maximums and lower deductibles.

For dental plans, we found similar coverage. The State government and one of the private companies -- the insurance company -- had no limit on benefits, but two of the other companies had limits on benefits. The State government had the largest payroll contribution for families of four. The deductibles and copays were a mixed picture.

I guess the point I'm trying to make is that there was not an overwhelming and consistent advantage for the State government employee, but in some selected areas there was an advantage, and in some other areas, the advantage was for the employees of the private companies.

The greatest differential, we thought, was in retirement benefits, and there were five points that seem to be germane here. One was the normal retirement age was typically lower, and the basis for the calculation of the benefit was typically narrower. Second, that the State government's cost of living adjustment, which is automatic and 60 percent of the CPI change, was an advantage in that the private employers did it on an ad hoc basis if they provided it at all. Third was the option for buy-in time. A person who has worked in another state's state government can buy credit for that. Or there is the possibility of getting credit for prior military service and the like. We didn't find anything analogous for that in the private sector. Fourth, special provisions for veterans.

At an earlier hearing, Assemblywoman Bush had raised questions about gender bias in certain aspects of the compensation system for New Jersey State government employees. I'm an unlikely spokesperson for feminist concerns, being a man, but I'm sympathetic to them very much, and the feminist critique of civil service generally holds that the greatest

offense to women is the provision of special benefits for veterans since most of the veterans, particularly those who have seen service in time of war, are men. That's clearly applicable to New Jersey as well.

Fifth, there are some other special provisions such as the loan rate situation which is so favorable for the State government employees who may borrow from their pension system.

There are some advantages, though, for the private sector, as well. An important one is five-year vesting under ERISA, where the vesting arrangement for New Jersey State government employees is 10 years. So an employee might work eight years and have no pension benefit in State government, where an employee who worked eight years for any of these private companies -- or any private company in America with a plan -- would vest at eight years.

There are some advantages in the private sector where there are no provisions in the public sector such as profit sharing, savings plans, and stock purchase plans. There was an example of at least one of those options for all three of our private sector plans.

We drew some conclusions. One of the most important ones, I believe, is the statutory provision of benefits. For private sector companies, often they are the subject of negotiation, where a number of these benefits are statutorily established here for State government in New Jersey.

I suppose there is a flip side to that in that public policy concerns, where people other than the parties on either side of negotiation have an input -- can impact the benefits of public sector employees, where there is no such analog for the private sector. It's strictly a private arrangement between the insurance company and its employees.

The press coverage of our study was interesting, and somewhat disappointing from my perspective, because the focus was strictly on the salary aspect of it and did not address the

larger question of: Is the compensation fair? Is there advantage to one side or the other. I've been asked often, since, what does this really show? And I have to give you kind of an equivocal answer. It depends upon how long someone might live in terms of whether or not over the span of a lifetime, for equivalent period of service in, essentially, an equivalent job title, whether the State government compensation will be greater or much greater, or lesser or much lesser than that of one of these three benchmark companies.

I merely wanted to summarize that for you today. I'd be happy to answer questions that you might have about elements of this or other matters that have come before your Committee over the past several sessions.

ASSEMBLYMAN RUSSO: Thank you. Questions?

ASSEMBLYMAN GEIST: Did you explore at all the consideration of job security?

MR. KEHLER: No. But that's something I would be very happy to discuss here. The State government is not likely to declare bankruptcy. People who have vested pension benefits in the State government are going to receive them. There is no concern for those who are looking for their cost of living adjustments that the State government will not pay them, where with some private sector employers the situation can be quite bleak. The company may go bankrupt. A business reverse may mean that the cost of living adjustment may never be made. The company may be acquired and as a consequence of the acquisition, certain seniority benefits may be eroded, or the very position, itself, may be jeopardized, where the State government is not likely to be acquired by some other State government, no matter how difficult our fiscal situations develop.

Those are definite factors, but they're not quantifiable factors. They matter, obviously, and they're an incentive for people to come to work for State government.

Certainly, the stability of this employment has been eroded in the past couple of years. A system where 20,000 layoff notices are generated in order to support about 900 layoffs, certainly is not one to encourage someone's sense of well-being about one's job. That kind of system is not present in the private sector though. Certainly, there are layoffs in the private sector, but there's not bumping in the private sector, threatening the sense of security and well-being about the position. Private sector people are employed at will, and they may very well be subject to dismissal in a much more abrupt way, for cause, than people in the Civil Service system who have a number of appeals systems, as well.

I guess I could talk at great length about that, but the conclusion is that there are real differences here between the conditions of employment in the public and private sector, and in many, but not all respects, the advantage is to the State government. The real disadvantage in this regard appears to me to be the threat of being bumped out of one's position, a job one might love, with the relationship with people on a caseworker basis that might be sundered, on the basis of this kind of automatic system of cascading bumps. You wouldn't see that in the private sector.

ASSEMBLYMAN GEIST: Thank you.

ASSEMBLYMAN BAGGER: You've just said 20,000 notices for 900 layoffs. There's been quite a bit of back and forth, and press releases, and letters, and meetings of this Committee as to what the real ratio for layoff notices to layoffs is under the existing Civil Service law in New Jersey. The source of those numbers, was that for last year's--

MR. KEHLER: That's press accounts, and it's for last year, absolutely. Nonetheless, I suspect that when Commissioner Cimino issues the second edition of his work force report, that one of the results will be higher utilization of sick leave during the period under which these layoff notices

were issued. I think the result can be attributed to anxiety on the part of public employees subjected to this preposterous system by which their livelihoods and security are threatened.

ASSEMBLYMAN BAGGER: Thank you.

ASSEMBLYMAN RUSSO: Any other questions? (no response) Thank you very much.

MR. KEHLER: My great pleasure. I'd be happy to be of assistance to the Committee in any way I might in the future, and if I had any recommendations for you, it would be to look very closely at that bumping situation.

ASSEMBLYMAN RUSSO: Thank you. Before we close I just had mentioned this. New Jersey School Boards will address us next time. We'll have a little more time.

The next two meetings: Next Tuesday the 21st at 2:00, here, and then Thursday the 23rd at 2:00, here.

ASSEMBLYMAN ROMANO: There goes the Easter vacation, then.

ASSEMBLYMAN GEIST: The 2:30 is moved up?

ASSEMBLYMAN RUSSO: Yeah. Both at 2:00 now.

ASSEMBLYMAN ROMANO: They're both at 2:00 now?

ASSEMBLYMAN RUSSO: Both at 2:00. The 21st which is a Tuesday at 2:00, and Thursday the 23rd at 2:00. Okay?

I should mention, because Assemblyman Romano is correct with that statement, which I was trying not to do. On the other hand, I am-- So that we have a positive outlook on things here, my goal is to really-- Of course, we want to hear every possible group, and I think we're making an effort to do that here -- every question and whatever. But just so we know, because there is a demand on time on the legislators here and staff, it's possible those might be the last two hearings -- maybe one more in that last week in April, because there are certain time constraints we're dealing with with budgetary issues. So I'm looking for, possibly, a conclusion this month, which is probably more rapid than most committees you'll ever be on.

ASSEMBLYMAN ROMANO: Oh, I see. That's good news.

ASSEMBLYMAN RUSSO: Yeah. I thought that might temper that.

ASSEMBLYMAN GEIST: Mr. Chairman, while it wasn't necessarily within our purview, when Mr. Pursell from the CWA appeared before our Committee, he had a famous fat charts, and while I'm sure our friends on the Appropriations--

ASSEMBLYMAN RUSSO: The project managers and so forth?

ASSEMBLYMAN GEIST: Right. I'm sure our friends on the Appropriations Committee are doing their homework. Nevertheless, we have not extended, directly, any invitation to the administration to respond to some of those critiques. In a sense, their argument is without challenge. I don't know whether you desire to explore some of those contentions, nevertheless, for the purposes of "fundamental fairness"? You may want to at least enable them to have another viewpoint.

ASSEMBLYMAN RUSSO: Okay. Fine.

ASSEMBLYMAN ROMANO: David, you might answer this? If these two meetings, plus one more-- What is the procedure? Is this Committee going to publish a report? Is it oral; is it written? What is it?

ASSEMBLYMAN RUSSO: I think what we're going to do is this: And we've been doing this as we went along, to be very blunt with you. I think what we're going to do is try to come to some conclusions, or at least, at first conclusions on what the problems may be. Hopefully, we can agree on some type of recommendations. Where the recommendations go, whether they would be legislation out of this Committee, or members of this Committee, or anyone in the Legislature, is the prerogative of anyone. I have ordered transcripts. I think it's important because it's not only a question of note taking, but we've had disparate testimony here. There were, obviously, reasonable folks with completely different views on the same issue. We've

been fortunate in that we have a lot of people on this Committee with a lot of expertise in the area, so that's been good.

But that's how we're going to move. Whether we actually vote on recommendations, I don't know. I think we're going to just sit down, and I plan on that last week in April. Hopefully, if we've heard as many groups and individuals as possible, what I'd like to do is maybe have at least one, and possibly two workshop sessions with all the members, and we'll sit down and work it out from there.

I think we've actually covered a lot of ground in one month.

ASSEMBLYMAN ROMANO: I just wanted to know what protocol we were going to follow on this?

ASSEMBLYMAN RUSSO: No. I think that's about the protocol, just as-- We've sort of conducted it that way, too.

ASSEMBLYMAN GEIST: The sessions in May?

ASSEMBLYMAN RUSSO: The voting sessions?

ASSEMBLYMAN GEIST: There's a committee day Monday, the 4th--

ASSEMBLYMAN RUSSO: Right.

ASSEMBLYMAN GEIST: --where there are "C" committees and "A" committees. I'm just--

ASSEMBLYMAN RUSSO: I think you know, I've always tried to do this on days when we were here anyway--

ASSEMBLYMAN GEIST: Right.

ASSEMBLYMAN RUSSO: --to be very blunt, because it makes it-- But the problem is--

ASSEMBLYMAN ROMANO: I'm on "B" and "C."

ASSEMBLYMAN GEIST: I'm on "A" and "C."

ASSEMBLYMAN RUSSO: Yeah. I have a voting session down for April 30, which is a Thursday.

ASSEMBLYMAN GEIST: Right.

ASSEMBLYMAN RUSSO: That's the only one for the remainder of this month, and I believe, that's the only quorum call for the remainder of this month. But the 30th we won't have a meeting, because it's just going to be physically impossible with committees. I'll tell you that right now. That day is out. What I'm looking at is maybe the 28th, which may well be a workshop. Or maybe the 29th. Sorry, the 29th, or 28th. One of those, probably the 29th, Wednesday, which would be a Wednesday

MR. KINGSTON: That's Tuesday. The 29th is a Tuesday.

ASSEMBLYMAN RUSSO: No. The 29th is a Wednesday.

MR. KINGSTON: Oh, I'm sorry.

ASSEMBLYMAN RUSSO: Just to go back. I'm sorry. The 28th, which is a Tuesday, and probably my intention, to try and be fair to all the members, would be to start, maybe, at 10:00 that day, and workshop it, and literally sit down and talk -- have no testimony, probably -- see how long it takes and try to come up with recommendations and/or conclusions.

ASSEMBLYMAN ROMANO: Do you have your calendar? What's on the 27th? Do we have a session on the 27th?

ASSEMBLYMAN RUSSO: No, there's no session on the 27th.

ASSEMBLYMAN ROMANO: Okay.

ASSEMBLYMAN RUSSO: And there may be certain meetings that certain people have, and that's why I was looking at that day originally. So that appears to be not a usable day, and the 30th is not a usable day.

ASSEMBLYMAN ROMANO: So you're saying Tuesday the 28th?

ASSEMBLYMAN RUSSO: Tuesday the 28th. I would think that, or the 29th, but probably the 28th. My intention is--

ASSEMBLYMAN ROMANO: Is there any possible way that we take a look at what's on the day of that Monday, if there is any conflict with anybody--

ASSEMBLYMAN RUSSO: Yeah.

ASSEMBLYMAN ROMANO: --before we make that determination. If we just have a quorum that day-- Are you following me, what I'm saying, George? Do you have a committee meeting on the 28th?

ASSEMBLYMAN GEIST: The 27th.

ASSEMBLYMAN RUSSO: My understanding is the 27th is Republican committee -- the whole thing, right? Am I right? That's what I was told.

ASSEMBLYMAN GEIST: Yes, yes.

ASSEMBLYMAN ROMANO: What's the 27th, Sunday?

ASSEMBLYMAN RUSSO: No, it's a Monday.

ASSEMBLYMAN GEIST: It's a Monday

ASSEMBLYMAN ROMANO: Oh, you're right. Okay.

ASSEMBLYMAN RUSSO: It's an off day, but I think I'm going to lose a lot of members that day from this Committee. That's the problem. Believe me, I explored that possibility.

So I'm left with the 28th or 29th. The 30th is out because of a voting session, and people having committees. So I think I'm looking at Tuesday, the 28th. My intention, instead of scheduling -- this is my intention. Instead of possibly scheduling two workshops-- And George, as long as you're here, do you have a problem that day with prosecuting and things?

ASSEMBLYMAN GEIST: I do, but I'll have to work that out.

ASSEMBLYMAN RUSSO: Is that in the afternoon or the morning?

ASSEMBLYMAN GEIST: I'll have to work that out. If you're going to be here all day.

ASSEMBLYMAN RUSSO: Will that start in the afternoon or the morning?

ASSEMBLYMAN GEIST: I believe that's an afternoon session.

ASSEMBLYMAN RUSSO: Okay. Because if you had to leave, that's my intention to start early, maybe, that day.

ASSEMBLYMAN GEIST: Okay.

ASSEMBLYMAN RUSSO: See how long it takes. If you have to leave, or Lou has to -- whatever. We have to be reasonable. I understand; it's a Tuesday. With the report being written simultaneously, we'll try to come up with our recommendations that day. If we decide we want to vote on it, we do it that day. To be very blunt with you, we may well do it -- this is where I'm coming from -- on Thursday the 30th, after the voting session, because I know everybody will be here, and we're trying to wrap this up this month.

ASSEMBLYMAN GEIST: On the Thursday, the voting session day--

ASSEMBLYMAN RUSSO: I think that's the way we would do it in private industry, and that's the way I intend to do it.

ASSEMBLYMAN GEIST: Chairman Russo, on Thursday the 30th, since the Speaker generally doesn't have the voting session until 2:00--

ASSEMBLYMAN RUSSO: Right.

ASSEMBLYMAN GEIST: --is there the possibility of maybe utilizing that morning?

ASSEMBLYMAN RUSSO: I would love to. The problem is this, at least for myself, which is totally unfair, but I'll mention this to you. Chairman Bob Martin has a State Government Committee which he has adamantly established, as of yesterday during the voting session -- okay? -- where he's going to be discussing campaign finance bills starting in the morning.

ASSEMBLYMAN GEIST: Of that day, the 30th?

ASSEMBLYMAN RUSSO: Yes. So believe me, that was explored.

ASSEMBLYMAN GEIST: Okay.

ASSEMBLYMAN ROMANO: Just do your best, Dave.

ASSEMBLYMAN RUSSO: So the up side is, I think we will conclude this this month, and I don't want to beat a dead horse, okay?

Thank you.

(MEETING CONCLUDED)

APPENDIX:

STATE HEALTH BENEFITS PLAN PREMIUM VS. CERTAIN NON-STATE PLAN DISTRICTS
EFFECTIVE JULY 1, 1990 **LER

COUNTY	DISTRICT	CARRIER	SINGLE	FAMILY CHILD	STATE PLAN			
					SINGLE	PARENT WIFE/CHILD	HUSBAND	FAMILY
Bergen	Lodi	BC/BS	2,092.80	5,570.76	1,732.44 (360.36)	2,558.40	3,856.08	4,486.56 (1,084.20)
Camden	Pennsauken	BC/BS	2,405.04	5,643.24	1,732.44 (672.60)			4,486.56 (1,156.68)
X Hudson	*Secaucus	Conn. Gen.	2,281.44	6,279.72	1,732.44 (549.00)			4,486.56 (1,793.16)
Essex	West Orange	Conn. Gen.	2,229.72	5,758.44	1,732.44 (497.28)			4,486.56 (1,271.88)
Middlesex	Woodbridge	Equicor	1,934.52	6,518.28	1,732.44 (202.08)			4,486.56 (2,031.72)
Morris	West Morris Reg.	BC/BS	1,807.80	5,129.40	1,732.44 (75.36)			4,486.56 (624.84)

* Rates effective September 1, 1990

** Local Experience Rated (LER) plan often charges Parent/Child and Husband/Wife the same premium as Family.

Prepared by NJEA Research

How One New Jersey Municipality Investigated Alternatives to the State Health Benefits Plan

Tackling High Health Care Costs

By David Leonard, Personnel Officer
Robert Czech, Township Manager,
Township of Montclair

THE Township of Montclair, like all New Jersey municipalities, is enduring severe financial pressures. These pressures are caused, in part, by the rapid escalation in the cost of providing health care benefits to employees. For many years, the Township has been a subscriber to the State Health Benefits Plan (SHBP) offered by the New Jersey Division of Pensions. In the fall of 1990, after several years of significant increases, the wisdom of continuing to subscribe to the SHBP was being questioned by various groups and individuals both within the Township's administration and without. Straining under the "Cap" law, and with a 1990 plan year increase of 15.1%, the pressures to take some major action were quickly building.

WEIGHING A COURSE OF ACTION

For a New Jersey municipality currently in the SHBP, there are two basic alternatives. One is to obtain from an insurance carrier (probably through an insurance broker) a quotation for a group insurance plan and insure separately. Naturally, this indemnity plan would be specific to the Township and would have to meet the "or equal" clauses of our collectively bargained labor contracts. With approximately 400 employees plus eligible dependents, this plan would have to be experience-rated. The cost of the plan from year to year would be affected significantly by the incidence of claims submitted by the group in the previous year or years. This issue would later have an impact on the way we proceeded to investigate alternatives and in the decisions that were reached.

The second alternative would be to self-insure. By self-insuring, the Township would assume the risk for claims fluctuations rather than transferring that risk to an insurance carrier in an indemnity plan. The idea of self-insuring had the attractions of improved cash flow (monies to pay claims could be placed in the account as needed rather than pre-funded

in the form of premium) and administrative costs would likely be less than the retention charges paid to an insurance carrier.

There were no shortage of advocates for either of those two major alternatives. As in most municipalities, the administrative staff in Montclair is required to wear several hats and provide expertise on a wide range of subjects. However, as the debate over whether to leave the SHBP took shape, it became apparent that the stakes might be too high to rely on internal resources and expertise for an informed decision.

THE ISSUES AT STAKE

First, there was the finality of the action we would take. State regulations would preclude the Township from re-entering the SHBP for at least five years should we decide to withdraw. In addition, despite recent high increases, the SHBP offered some real advantages including:

- Simplified plan administration; direct dealings with insurance carriers are not our responsibility; and
- Excellent benefits with an employee's choice of multiple plan designs.

Notwithstanding, a strong case was made from some quarters that the Township could purchase an equivalent plan for an attractive savings. This raised many financial and risk questions such as:

- How reasonable were the estimates of claim liabilities and costs?
- What might the cost of the plan be over the five year period that we were banned from the SHBP?

- What were the additional risks to be assumed by the Township? In a worst case scenario could we afford to fund the benefits program at the required premium levels?

- Were the savings guaranteed?

Similar questions existed if the Township considered self-insuring its own risk.

Faced with these unanswered questions and without the internal resources to obtain the answers, the decision was reached to engage a consultant before taking any action.

CONSULTANT ROLE

It was clear that the consultant must

not have any vested interest in the outcome of their investigation of study. They would be retained on a fee basis. No commission, broker of record assignment or third-party administrative duties were to be involved. The consultant's responsibility would be strictly to provide the Township with the answers as to:

- Whether or not the Township could reasonably expect to benefit from leaving the SHBP; and
- If so, should it self-insure or enter into an indemnity contract with an insurance carrier.

Any discussion of which insurance carrier of third-party administrator to use would be tabled until a definite potential financial advantage had been identified.

A search was made for an employee benefits consulting firm with experience in group insurance, negotiated benefits and government health care plans. We decided to retain the firm of Noble Lowndes, which maintains an office in Roseland, New Jersey.

THE STUDY PROCESS BEGINS

Our first meeting with the consultants identified a serious stumbling block to obtaining the answers needed. It was the unavailability of actual claims experience in the SHBP of Township of Montclair employees and dependents. Our written request for experience information was turned down point blank by the SHBP. While they did provide some cost information on the category of local government employees, they were unable to extract specific group experience and claims history from the larger data base. Of course, experience and claims history is not recorded here at the Township and a fee to obtain the information was not even discussed. It was up to our consultants to propose an alternative.

Clearly, the information was essential to going forward. Because we did not know how our employees consumed health care services, lack of plan experience made it difficult to evaluate the risk characteristics of the group and therefore, the advisability of assuming that risk. This was an issue regardless of

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New Jersey Municipalities, April 1992

NORTH BRUNSWICK'S TRAFFIC MANAGEMENT

(Continued from Page 26)

adopted in the City of New Brunswick, the Township of Plainsboro, and Cranford Township. In the state of California there are 30 ordinances of a similar nature being implemented. As a result of the Clean Air Act Amendments of 1990, the state of New Jersey is required to put forth similar programs and describe these programs in a State Implementation Plan. This plan is to be presented to the federal government in November, 1992.

ALTERNATIVE ACTIONS

The Township also prepared the following listing of alternative traffic management actions (not exhaustive) that employers could adopt.

General

- adopt and announce company policy supporting traffic management
- approve budget for traffic management planning and program
- establish continuing company planning process to manage traffic generation
- develop inter-departmental transportation management committee
- develop employee advisory committee
- secure services of traffic management consultant
- participate in inter-company traffic management committee
- offer on-site services (day care, postal services, banking, cafeteria, etc.)

Alternate Working Hours

- offer flextime
- implement staggered work hours
- offer flextime for people who rideshare (car or van pool)
- allow employees to work at home as appropriate (telecommuting)
- establish regular work hours outside normal peak periods
- set policy of discouraging late afternoon meetings

Promotion of Transit and Ridesharing

- appoint Employee Transportation Coordinator (E.T.C.)

- implement employee rideshare programs (matching, promotion, etc.)
- establish preferential parking and loading areas for ridesharers
- implement van or bus shuttles to existing rail/bus services and serve local mid-day travel needs of ridesharers
- purchase/lease vans for employee use
- allow/promote use of company cars for ridesharing
- implement fare discounts for employees using transit and/or ridesharing
- distribute transit/rideshare information (flyers, bulletin board, paycheck stuffers, company newsletters, information center, etc.)
- provide bonus, extra vacation day or other incentive programs for transit/rideshare users
- implement new employee orientation programs providing incentives, information, and other inducements for commute alternatives
- support third-party vanpool services
- provide emergency mid-day travel services for ridesharers (guaranteed ride home plan)

Regarding the program, Matarera stated "We are very proud of what we have accomplished to date and look forward to serving as a model for other governmental agencies that are grappling with the traffic congestion problem and the air pollution that it creates." •

TACKLING HIGH HEALTH CARE COSTS

(Continued from Page 12)

any re-insurance or "stop loss" that we might purchase.

Fortunately, our consultants had a solution. They offered to develop an actuarially sound claims estimate utilizing various manual rating bases, similar to those used by insurance underwriters. This process would use census data (age, years of service, gender, occupation, dependent in-

formation, etc.) to develop probable utilization levels. While not as definitive as actual claims experience, it is a proven means of providing a reasonable estimation of the utilization of benefits of a given census group based on the benefit levels found in the SHBP. It would produce a reasonable actuarial approximation of the cost of a duplicate plan in the first year and later. We accepted this method of estimating actual claims experience and the study got underway.

STUDY PROCESS

To get things rolling, our consultants requested:

- Census information
- Union contracts
- SHBP booklets
- The prior 3 year's billing statements

A few weeks after this information was given to them, we were to meet for an interim discussion of their findings to date. Following this meeting, the consultants would compile a full written report for presentation to the Township Manager, Municipal Financial Director and the Personnel Officer.

The interim discussion, held midway in the study process, revealed some strong indications as to what the final recommendations would be. Those indications were based, in part, on a few facts that we knew all along. However, the conclusions that began to be drawn from those facts surprised many in the Township's administration.

THE ANSWERS

In the first week of June 1991, the study was completed. We knew that if the recommendation was to leave the SHBP, it would require a minimum of several months to approve such a decision and select the alternative arrangement and vendors. An increase of 26% for the 1991-1992 plan year only served to heighten the interest in the recommendations of the consultants.

The study prepared by Noble Lowndes was presented by two of their consultants; Paul Bonsee and Bill Gibson. They came right to the point, based on the evidence developed through the study process; the Township of Montclair should remain in the SHBP. The recommendation was a surprise, though we received indications that they were coming to that conclusion in our earlier meeting. The next 90 minutes contained a discussion of the findings of the study that led to their recommendation to "stand pat." There were numerous reasons given, but the most significant ones revolved around the demographic characteristic of our employees, what those characteristics meant in terms of probable future claim costs and the results of their risk evaluation.

The average age of an employee employed by the Township of Montclair is 44. The

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JAMES P. GRANELLO

COUNSELLOR AT LAW
(Member New York and New Jersey Bars)
530 Prospect Avenue
Little Silver, New Jersey 07739
(201) 842-4114

Practice specializing in representing management in matters arising under federal and state labor relations laws, municipal law, public contracts, school budget appeals and employment discrimination.

TACKLING HIGH HEALTH CARE COSTS

(Continued from Page 28)

difference in the costs of different health care plans usually reflects difference in claim frequency and severity among different age groups. Older individuals have a higher morbidity rate and larger medical care claims than younger employees in general. This is because a 60 year old is more likely to experience a long illness than a 25 year old. However, the reverse is true for maternity claim frequency which decreases as women advance beyond age 40. We have an average age that is several years older than the typical worker in New Jersey, and a workforce that is predominantly (79%) male. Therefore, the expected claim costs of our group is going to be higher than average.

Even with a reasonable margin for error, this means that the SHBP as a whole may be helping to carry the Township of Montclair's health care plan costs. In addition, medical care charges can vary widely by geographic location. These variations in claim costs result from differences in cost of living, the availability and organization of health care facilities, and the general attitude of insured individuals, employers, and physicians toward the use of hospitals and medical care facilities. Essex County, where the Township is located, is classified as a high cost area. This further increases the likelihood that our expected claims costs would be higher than average.

These demographic characteristics, when combined with a nationwide medical inflation "trend" rate of 20% in recent years and a rich benefit package (that would have to be duplicated) made the SHBP look like a comparatively attractive option. In fact, Noble Lowndes estimated in their study that, on an actuarial basis, the expected claims cost of the average employee covered under the Township's medical benefits plan could have been a high as between \$4,000 to \$4,500 for the period of July 1990 through

June 1991. For the same period, they estimated that the expected claim costs under the SHBP, based on the actual elections made by the Township's employees (the SHBP offers a wide range of HMO choices as well as a traditional plan and Pru-Care) was between \$3,200 to \$3,300 or 25% lower than the actuarially expected claim cost.

In any event, it is reasonable to assume that the Township is benefitting from the pooled rating mechanism of the SHBP. Finally, Noble Lowndes estimated that the SHBP's costs to subscribers includes approximately 9% to 10% for expenses and margins. This, we understood, is significantly lower than the charges found in most group insurance contracts for groups of similar size to the Township.

However, the study was not a total vindication of the SHBP. Noble Lowndes did point out some significant drawbacks to the SHBP. Among them:

- The plan's lack of employee incentives to choose a managed care option over the indemnity option.
- The plan's lack of cost containment and employee cost sharing features (example: single employee contribution requirements).
- The plan's rich levels of benefits when compared to corporate norms and when measured against inflation overtime.
- The subscriber's overall lack of control or influence upon plan design features and provision.

Notwithstanding, the case for maintaining the status quo had been made.

CONCLUSION

The presentation by our consultants left no doubt in our minds. Despite the high rate of increases that we had been experiencing, the Township of Montclair was better off remaining in the SHBP.

In addition to settling this question for the short-term, the study provided several other benefits to the administration of the Township.

- It provided the Township Manager with a consolidation of actual information concerning our employee groups that should help us to understand their needs better.

• The study will act as reference to help save time in the foreseeable future when the issue of high health care costs comes up again.

• It provides some guidance to Township negotiators in the collective bargaining of health care benefits.

A new issue has surfaced, however, since the completion of the study. It is whether or not to take advantage of the state's possible offer to defer or withhold payments to the SHBP. We may want to discuss with our consultants the pros and cons of taking action in the future.

As of this writing, we are still with the SHBP. While continuing to be concerned about the costs of providing health care benefits, the issue of what to do about it is no longer on the immediate agenda of Township officials. Our attention is focused on a host of other problems that have been aggravated by recent economic conditions. It remains for the state and federal levels of government to take the steps needed to remedy the crisis in providing health care. ●

LEGISLATIVE UPDATE

(Continued from Page 18)

fairness to the arbitration system. We believe, the sponsors have attempted to do just that with A-336 and A-836. The intent of this legislation requires that a municipality's ability to pay be given utmost consideration when granting an award, is a concept we have strongly supported for years.

For years we have sought remedial action from the Legislature to address the inequities of a system that so adversely affects our property taxpayers. Thus, the League implores you to bring this action to fruition by contacting your Assembly representatives in support of these bills. At press time both bills were before the Assembly Policy and Rules Committee.

LEAGUE OPPOSED S-417

"THE PERMIT EXTENSION ACT"

The League of Municipalities stands opposed to S-417 which would automatically extend all development applications for three years after enactment or until December 31, 1994, whichever is earlier.

The enactment of S-417/A-1032 will supersede and suspend all state, county, municipal laws and ordinances relating to land development and issuance of building permits. This blanket suspension is misdirected. It is intended to benefit a small segment of the state—namely, the land developers, at the expense of prohibiting

(Continued on Page 34)

DANIEL A. LEBAR

Attorney-at-Law

(successor office to Alvin B. Lebar, Esq.)

A general practice firm, concentrating on municipal tax foreclosures, municipal law, contracts, collections and real estate title litigation. Resumé and references on request.

581 Middlesex Avenue
Metuchen, NJ 08840
(908) 549-1119

DRAFT

DON'T FALL FOR THE LATEST IN INSURANCE SHELL GAMES!

Recent news articles would have you believe West Windsor-Plainsboro educators are not interested in cost savings for our district's taxpayers.

Nothing could be further from the truth.

We have serious reservations about the "savings" offered by the proposed health insurance carrier. We're also deeply concerned about the long-term implications of switching to another plan.

FACT:

Our school board will have to put aside nearly half a million dollars in a **special reserve fund** for this new plan in addition to regular premiums. This will cost us \$200,000 more than continuing in our present plan--a fully insured plan requiring no supplemental funds.

FACT:

The board must carry the burden of claims that are incurred or received outside of the contract year. Our present plan pays all claims that occur during the contract year, no matter when the claim is received!

FACT:

The board cannot leave this new plan at a later date without the reserve fund being fully in place. If these "bargain basement" rates go up (and they have gone up as much as 50% in some districts!), we could be paying tens of thousands more in tax dollars for higher premiums and additional reserve costs.

FACT:

Some school districts are currently "hostages" of these insurance companies because they can't afford to pay the extra reserve amounts necessary to leave. These ransoms are as high as \$1 million!

We're outraged over the misinformation and sleight of hand tricks these insurance companies use to manipulate and confuse the public.

Don't be deceived. Our school budget deserves your close attention and your full support. Let's save money whenever possible--but not at the cost of mortgaging our children's future!

VOTE "YES" FOR THE SCHOOL BUDGET ON APRIL 7!

5x

MINIMUM PREMIUM CONCEPT

Under this concept, the Policyholder will pay only a minimum portion of the normal premium. For illustration purposes, the Policyholder will pay 13% of the normal monthly rates. Based upon an assumption of the annualized premiums being \$1,879,733 this will generate approximately \$19,346 of monthly payment. This monthly payment covers the cost of operating the program, as well as providing an "umbrella" policy on the claim experience.

The Policyholder will establish a banking arrangement with Citibank and with a local bank of their choice. An account at Citibank in the amount of \$30,000 will be set up in the Policyholder's name. As claim checks are issued to employees and as employees deposit those checks with their bank, the employees bank will forward the checks to Citibank. The day the check arrives at Citibank, Citibank will cover the amount of that check out of the account established by the Policyholder. At the end of each week (or when \$30,000 has been paid out if sooner than the end of the week), Citibank will wire transfer from your local bank account enough money to re-establish the \$30,000 account at Citibank.

In the attached illustration, we are showing the monthly estimated bank account at \$129,468. On an annualized basis, this works out to \$1,553,612. If the paid claims exceed this annualized figure, the excess will come out of Connecticut General's pocket. This is where the "umbrella" concept comes into play, insofar as it allows the Policyholder to determine a maximum liability for budget purposes.

The Policyholders claim experience is also protected on an individual basis by the Experience Protection Benefit (EPB). The amount of any individual claim (during a calendar year) in excess of the EPB threshold (\$75,000) will be funded by Connecticut General and will not be factored into the Policyholders claim experience. In this fashion the Policyholders claim experience will not be adversely affected by large individual claims.

Each year the claim experience will be reviewed, as will the operating expenses, and rate structures are subject to change. Each year we will re-establish what the residual minimum premium percentage of payment will be. In addition, we will re-establish what the bank account liability will be.

Any excesses paid under the "umbrella" policy in a given year, will be subject to recovery in future years where there is an unused portion of the bank account available. This is essentially the same concept that has been used under a traditionally insured program and will continue to function under the Minimum Premium Concept.

The terminal liability (Supplemental Agreement) is signed by both the Policyholder and Connecticut General. This agreement is a binding obligation on the part of Connecticut General to cover runout claim liability in the event the contract is terminated. On the same basis, it binds the Policyholder to remitting to Connecticut General specified dollars to cover the payment of the runout claim liability. Each year a new agreement will be signed reflecting a new dollar amount based upon the claim experience. It should be construed by the Policyholder as an outstanding unpaid liability. With the reserve established in that fashion it will carry over from one budget year to the next. ✓ ?

I. CURRENT PROGRAM (STATE PLAN)

<u>Category</u>	<u>In-Force</u>	<u>Rates</u>	<u>Monthly Premium</u>
Single	89	\$184.54	\$16,424.06
Parent & Child	24	\$270.30	\$6,487.20
Husband & Wife	101	\$405.31	\$40,936.31
Family	<u>233</u>	\$472.97	<u>\$110,202.01</u>
	447		\$174,049.58
Annual Premium:			\$2,088,595.00

II. PROPOSED PROGRAM (CONNECTICUT GENERAL)

<u>Category</u>	<u>In-Force</u>	<u>Rates</u>	<u>Monthly Premium</u>
Single	89	\$166.09	\$14,782.01
Parent & Child	24	\$243.27	\$5,838.48
Husband & Wife	101	\$364.78	36,842.78
Family	<u>233</u>	\$425.67	<u>\$99,181.11</u>
	447		\$156,644.00
Annual Premium:			\$1,879,733.00

Initial Cash Savings (1st Policy Year) \$208,862.00

Notes:

- 1) Proposed rates are guaranteed until July 1, 1992 at which time the rates will increase by the same percentage as the State Health Benefits Plan. Effective July 1, 1993 the rates will increase by no more than 25% guaranteed to July 1, 1994. This rating scenario is contingent upon all claim bank account margins, at the end of the first policy year, being wired into a Premium Stabilization Fund (PSF).
- 2) Medicare Supplemental rates are as follows:

Single	\$100.25
Family	\$200.50
- 3) Proposed Medical rates include a \$75,000 Experience Protection Benefit (EPB). The EPB rates to be carved out of the full rates are:

Single	\$8.30
Parent & Child	\$12.16
Husband & Wife	\$18.24
Family	\$21.28
- 4) An alternative "Managed Care" Medical program, duplicating the benefit levels of the State Plan PPO, is available. Details will be furnished upon request. The rate structures will duplicate those of the State Plan PPO.
- 5) Proposed Medical rates are based upon existing Dental and Prescription Drug being provided by Connecticut General.

Cal. #397158

CASH MANAGEMENT PROGRAM

17.35%

Total Estimated Annual Premium:		\$1,879,733
<u>A. Experience Protection Benefit (EPB)</u>	Annual	\$93,972
	Monthly	\$7,831
<u>B. Billed Premium:</u>	Annual (13%)	\$232,149
	Monthly	\$19,346
<u>C. BANK ACCOUNT:</u>	Annual (87%)	\$1,553,612
	Monthly	\$129,468

NOTE:

A Supplemental Premium Agreement (Reserve) will be signed for this year in the estimated amount of \$469,933. A new agreement with an adjusted amount will be signed each year.

Alaska

→ have to fund

don't have to fund fully

it will be fully funded

cash flow account

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deductible coverage
deductible coverage*

*cash flow account
- charge board for claim experience
- dictated by claim experience
- add reserve to protect
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Issue Number 19
November, 1991

State Government Employee Compensation In Perspective

Governor Florio's proposals for state government employee compensation givebacks were major factors driving this year's state government budget debate. The governor's proposals were not adopted. Yet, it is certain that questions concerning the fairness and affordability of wages and benefits will again take center stage as various state government employee contracts are negotiated over the next several years. This report is intended to provide background information to enlighten the debate.

Are state government employees fairly compensated for their work? Critics of the state government workforce claim that, compared to private sector workers, public employees enjoy high wages, overly generous benefits, and unusual protections provided by the combination of civil service rules and union membership. Defenders of the interests of the public workforce hold that wages are disproportionately low and that the benefit structure is a compensating balance.

To provide a perspective on this debate, PARI surveyed four major New Jersey employers: the state government and three large service

companies headquartered in this state. Service companies were chosen for inclusion in this survey as they resemble more closely than do other types of companies the state government, which is a large service organization. The three private sector employers included in the survey are all ranked in *Fortune* magazine's 1991 roster of the 500 largest service companies headquartered in the United States and include a commercial bank, a public utility, and an insurance company. All of these companies have thousands of New Jersey employees, and all offer a broad array of employee benefits, probably exceeding those of most companies in the state.

Caveats abound. The limited number of private firms examined in this survey are not necessarily representative of the wage and benefit levels of all New Jersey private employers, so generalizations must be qualified. Also, there is no attempt to quantify the value of civil service protection for state government employees, meaning that this variable has not been addressed in the following comparisons. Certainly, many jobs and

tasks in state government have no match in the private sector. Finally, and importantly, comparing wage and benefit levels across employers tacitly assumes that job responsibilities and performance expectations are also equivalent, which may not be the case.

Wages

Four benchmark positions were chosen for comparative purposes:

- Clerical with steno skills/no experience/starting salary
- Supervisor of a data input center/three years experience
- Staff attorney/two years experience
- Manager of facility maintenance for an office building/three years experience

State government salaries are from five percent to eight percent lower for the entry level clerical than are salaries for this position in the commercial bank and public utility. However, the state government's entry level clerical salary is 36 percent lower than that offered by the insurance company.

Salary disparities between state government and the private firms are even greater when looking at the staff

STATE GOVERNMENT FISCAL ISSUES

This is the eleventh in a series of publications on New Jersey fiscal issues.

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TABLE 1
**Annual Salary Comparison for Selected Positions,
 State Government and Three Private Employers: 1991**

	Clerical	Attorney	Facility Manager	Data Input Supervisor
State Government	\$14,300	\$52,800	\$37,500	\$41,300
Private Firm Average	16,600	63,200	57,900	33,250

Source: Public Affairs Research Institute of New Jersey survey.

attorney and facility manager positions. State government salaries are between 14 percent and 18 percent less for a staff lawyer than with the commercial bank and public utility. The insurance company pays its attorney 28 percent more than state government, partially due to an average 10 percent performance bonus for which a staff attorney is eligible.

The disparity in facility manager pay is even greater. The insurance company, public utility, and commercial bank pay, respectively, 75 percent, 65 percent, and 25 percent more than does state government. Again, the insurance company wage includes an average 10 percent performance bonus.

When comparing data input supervisor salaries, the state government wage was higher than that of the private firms. For this position, state government pays 15 percent to 20 percent more than does the commercial bank and insurance company. The public utility has no similar positions.

Overtime policy is treated somewhat differently in state government when compared to the private

employers. Under the federal Fair Labor Standards Act, all employers must compensate overtime work in excess of 40 hours per week with either cash or compensatory time off at a rate one and one-half times the usual hourly rate. This provision of the act applies to hourly employees, excluding salaried managers and professionals with no limit to their work week. However, state government goes even further. It allows department heads to give non-union managers and professionals compensatory time. Among the private employers, compensatory time is not provided to managers and professional staff. There is no record of the actual incidence of compensatory time granted to non-union state government employees.

Leave Time Benefits

Under most circumstances, the state government offers the most liberal vacation benefit. A state government employee with up to five years service receives 12 days of vacation each year. A similar employee in the surveyed private firms would begin with five days (except for the insurance company, which begins its employees at 10 days) and receive no more than 10 days after five years. Over time, the vacation benefit differential expands in favor of state government employees. A state government employee with 14 years service receives 20 vacation days per year, while, for a typical employee

with a similar period of employment, the private firms each provide only 15 days per year. A state government employee continues receiving one week more of vacation each year than that received by the employees of the three private companies up to 20 years of service. At that time, state government employees are capped at 25 vacation days, but employees at the insurance company and public utility continue earning additional vacation days until reaching 30 days per year (after 30 years service) in the case of the insurance company and the public utility.

The state government employee advantage in leave time grows even greater when comparing holidays and administrative/personal days, with state government employees earning holiday/administrative/personal time off equal to 17 days per year. This compares to 12 days for the public utility, 13 days for the commercial bank, and 15 days for the insurance company.

Sick Leave/Disability

It is in sick leave time that the benefits of state government employment become most pronounced. State government employees earn 12 sick days in their first year of service and 15 days per year thereafter. Thus, after five years service, a state government employee has earned a total of 72 sick days. The commercial bank's employees earn 10 sick days per year or a total of 50 days after five years. The insurance company offers the highest number of sick days after five years: 75 days total and 20 additional days per additional year (non-cumulative). The public utility provides sick leave under a dual sick leave/disability leave program. The utility's union and clerical employees* receive no sick leave during the first two years of employment. After five years, employees have available 66

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* Throughout this report, benefit levels listed for the public utility are those provided to union employees covered under the largest union contract.

sick days which they can use at any future time. The public utility's employees accrue an additional 22 days of sick leave every other year until reaching a total of 264 sick days earned after 25 years service.

The real advantage of the sick leave benefit to state government employees is the sick leave buy-back provision, which none of the private employers offers. Under this provision, retiring state government employees are compensated for each day of unused sick time at 50 percent of the employees' daily pay rate during the last year of work. Buy-back compensation is capped at \$15,000 per employee. The \$15,000 buy-back payment is achievable for many retiring state government employees. The average state government retiree in 1990 received a final year salary of slightly over \$40,000. For this average retiree to have received the maximum sick leave buy-back payment, accumulation of 194 sick leave days would have been required. A retiree with 20 years of service will have received a total of 297 sick days, and retirees with 25 and 30 years of service will have received totals of 372 days and 447 days, respectively. This means that the retiree could use between 35 percent and 60 percent of his or her sick leave and still retain sufficient sick days to receive maximum buy-back at retirement. The express intent of the state government sick leave buy-back policy is to reduce employee use of sick leave; private sector employers typically use other approaches.

For employees with extended illnesses, there are disability benefits. All New Jersey employers must provide temporary disability benefits under the New Jersey Temporary Disability Benefits Law. These benefits extend for a maximum of 26 weeks and equal the lesser of 66 percent of weekly salary or \$270. Additionally, the employers in this survey provide both free and employee paid supplemental disability insurance. This report compares free supplemental disability

insurance, which is available for both work and non-work related disability.

State government offers different disability insurance programs for work and non-work related disability. If an employee is injured on the job, he or she qualifies for a separate sick leave injury program providing full salary and job benefits for up to one year, with no reduction for other payments received and with no reduction in accrued regular sick days. If the employee is totally and permanently disabled, he or she becomes eligible for a lifetime annual disability payment of 66 percent of salary at time of disability. For other totally and permanently disabled state government employees with at least 10 years service, lifetime retirement benefits are provided. Compensation is calculated at one and one-half percent of salary for each year worked, a slight reduction from the normal retirement benefit.

For the insurance company's employees with five years of service, disability pay extends for up to one year at 90 percent of salary. After 10 years of service, lifetime disability payments are available for totally and permanently disabled employees. In these cases, the insurance company guarantees that the annual sum of the long term disability benefit and social security will equal 50 percent of salary at disability. The commercial bank provides a typical benefit equal to 60 percent of salary at disability less Social Security primary benefits up to a maximum of \$120,000 per year paid until normal retirement date. As previously mentioned, the public utility provides full pay for disability, depending on years of service, for a period of up to one year, with the maximum earned after 25 years of service. Additionally, lifetime disability payments are available to permanently and totally disabled employees with at least 12.5 years of service. The annual payment is calculated using the pension compensation formula, with no reduction for early retirement.

Health Benefits

The following health benefits were compared across the employer sample: hospitalization/major medical, dental, prescription drug programs, and vision programs.

Under hospitalization/major medical benefits, this review is restricted to benefits offered under "traditional" benefit plans, as opposed to newer preferred provider or health maintenance organization plans. Each employer offers optional plans, in some cases more than two optional plans, so that comparisons of all of the options would be difficult. In every instance, however, the traditional benefit plan is the one most utilized by employees. There is very little difference in the range of illnesses and services covered under the four health insurance plans. However, two of the employers (the public utility and the insurance company) mandate that employees utilize cost control measures, such as second opinions and pre-admission/concurrent case reviews, or face financial penalties. Neither the state government nor the commercial bank require these cost control measures. The public utility reduces hospitalization benefits by 50 percent in cases where a mandatory second surgical opinion is not obtained. The insurance company also requires a second surgical opinion, as well as pre-admission and concurrent case reviews. If not obtained, 20 percent of hospital expenses do not count toward deductible or out-of-pocket maximums and payable surgical benefits are reduced by 20 percent.

Despite the similarity of health benefit plans, state government employees pay less for hospitalization/major medical insurance than do employees in the comparison companies, primarily because state government employees have no payroll contribution requirement, pay much lower co-payment maximums, and pay somewhat lower deductibles. When including payroll contributions, annual deductibles, and annual

co-payment limits, a typical family of four headed by a state government employee would face maximum annual hospitalization/major medical out-of-pocket expenses of \$1,800. By comparison, a similar family headed by an employee of the commercial bank pays a maximum \$3,321 per year, a family of a public utility employee pays a maximum of \$4,140, and a family of the insurance company employee pays as little as \$1,690 per year for the lowest paid employee (under \$15,000 annual income), to \$2,240 for an employee earning \$35,000 annually, to a maximum of \$3,490 for an employee earning over \$75,000 annually. It should be noted that Governor Florio proposed in the budget discussions establishing an income based sliding scale for state government employees for deductibles and out-of-pocket maximums similar to that employed by the insurance company.

Each of the four employers provides dental benefits which are similar in terms of services covered. However, employee costs under the plans vary widely. Both the public utility and the commercial bank limit total annual insurance payments paid on behalf of employees. The public utility will pay not more than \$1,500 per year per covered person for dental costs. The commercial bank will pay no more than \$1,000 per year per covered person (\$4,000 for a family of four). Neither the state government nor the insurance company limit dental benefits. Three of the four employers require their employees to make payroll contributions to dental insurance; however, unlike the case with major medical benefits, the state government dental plan requires the largest payroll contribution for a family of four (\$334/year) of the four plans sampled. This is far higher than the contribution for a family of four required by the insurance company (\$112/year) or the commercial bank (\$90/year). Deductibles also vary both in the type of services covered (preventative, basic, and

major) and in the duration of the deductible period (one year to lifetime). A family of four faces a deductible of \$75 per year under the state government plan. Both the insurance company and commercial bank provide bifurcated deductibles: for the insurance company employee, \$300 lifetime deductible for preventative and basic service/\$150 annual deductible for major service and, for the commercial bank employee, no deductible for preventative services/\$200 annual deductible for all other. The public utility employee family pays a limited lifetime deductible of \$50. After meeting the deductible costs, the four representative families are subject to a variety of co-payment levels. State government requires a 20 percent co-payment with no benefit limit. The insurance company requires no co-payment for preventative and basic services but a 30 percent co-pay for major services with no benefit limit. The commercial bank has even higher co-payment levels: 30 percent for preventative services and 40 percent for basic and major services, increasing to 100 percent employee payment after \$4,000 of expenses for a family of four. The public utility pays 100 percent for preventative service, 80 percent for restorative work, and 50 percent for all other dental work, subject to \$1,500 per person annual cap.

A vision program is offered by the state government, the insurance company, and the public utility but not by the commercial bank. State government employees and each dependent receive \$35 typically every two years for examinations and between \$35 and \$45 for eyeglasses, depending on the type of lens prescribed. The insurance company pays \$200 per year for all vision services and covers only the employee up to \$100 and his or her spouse up to \$100 but no other dependents. The public utility provides the following plan for its employees: \$35 per year per exam, \$15 every two years for frames, and between \$15 and \$60 each year for lenses.

State government employees also receive prescription drug benefits, for which they pay per prescription \$3.50 for brand name drugs and \$1.00 for generic drugs. The commercial bank and the insurance company cover prescription drugs as an eligible expense under their major medical benefits. The employee co-pay is 20 percent under both plans. The public utility plan is a traditional prescription drug program: employees pay per prescription \$3.00 for brand name drugs and \$1.50 for generic drugs.

Pension Benefits

State government's pension plan is far superior to those offered by the three private employers surveyed, even when considering that it is the only plan requiring an employee contribution. The surveyed companies' plans are non-contributory. Another major difference is that state government pension benefits are often set by statute rather than by administrative regulation. Free health insurance for state government retirees with at least 25 years service at age 55 is one such statutory benefit. While each of the private employers surveyed offers this benefit, in two cases, (the commercial bank and the insurance company), a review of the free benefit is taking place. Because the health insurance benefit is statutory in state government, it would be much more difficult to revise or eliminate. The state government plan is far superior from the employee's perspective for at least five reasons:

1. Retirement compensation. The retiree at normal retirement age with 30 years service earns 50 percent of his or her highest three consecutive years salary with no reductions for social security benefits. The three private sector company plans use a greater number of years of salary to compute retirement compensation (between four and seven years) and reduce retirement compensation by a social security adjustment, effectively reducing the percentage of final compensation received by the typical

retiree described above at retirement to between 33 percent and 37 percent.

2. Cost of living adjustment. State government retirees receive annual cost of living adjustments to pension compensation equal to 60 percent of the Consumer Price Index increase. None of the private plans mandate annual COLAs. However, the private employers may provide adjustments on an ad hoc basis, balancing the ability of the firm to pay the benefit with the retiree's need for the benefit increase.

3. Buy-in time. State government employees may buy time for periods spent working as a public employee for another state, for prior military service, for unpaid leaves of absence, and for current military service.

4. Special provisions for veterans. State government employees who are military veterans receive differential benefits, including more liberal retirement compensation formulae for some and the ability to purchase credit for military service time. For example, veterans serving during wars and conflicts can retire at half of the final year's salary with 20 years service at age 60. Such veterans with more years of service (at least 35) utilize a retirement compensation formula that provides over 50 percent of the final year's salary. Also, as mentioned above, all veterans, whether in peacetime or conflict, can purchase credit for prior military service, subject to certain limitations. The private employers surveyed do not provide special retirement benefits to veterans.

5. Other special provisions. State government employees derive other benefits from their pension plan that are not duplicated under the surveyed private sector plans. For example, employees may borrow from accrued employee pension contributions at an annual interest rate of four percent. Also, part-time employees paid as little as \$1,500 per year are considered the same as full-time employees for pension service purposes. This means that each year worked under such circum-

stances counts as a full year of service. Also, the required employee pension contribution under the state government system is reduced by the amount of the employee's social security contribution.

At 60 years of age, state government's normal retirement age is lower than all of the employers except the public utility, with a normal retirement age of 55. Normal retirement age with the remaining two companies is between 62 and 65. With recent passage of special one-time early retirement legislation, the state government also has the best early retirement option in terms of age at which full benefits may be received: employees could retire with full benefits if at least 50 years of age with 25 years of service.

Savings/Profit Sharing/ Stock Purchase Plans

One benefit area in which the private sector has traditionally been more generous than the public sector is in provision of profit sharing, savings, and stock purchase plans. All employers in this survey provide compensation programs under which current income can be deferred for federal tax purposes until employment separation or the employee reaches 59½ years of age. The commercial bank is the only surveyed employer without a contributory savings plan. The commercial bank made available, in the past, a profit sharing payment equal to 15 percent of employee compensation to all employees with at least one year of service. At that time, at least seven and one-half percent was paid directly into an employee savings plan and up to seven and one-half percent made available to the employee as added compensation. Two years ago, this 15 percent profit sharing payment was reduced to seven and one-half percent, and, last year, no profit sharing payment was made.

The two remaining private employers surveyed provide an employer

match to amounts employees contribute to their savings plans. The public utility will contribute up to one and one-fourth percent of an employee's compensation, providing 25 cents for every \$1 the employee saves, up to the above mentioned limit. The insurance company will match on a dollar for dollar basis employee savings up to three percent of employee compensation. State government provides no match for employee contributions to its tax deferred savings plan.

The public utility is the only employer in the survey offering a widely available discounted stock purchase plan to its employees, with a five percent reduction on market value for shares purchased.

Finally, the commercial bank provides its employees with a wide range of banking service discounts including a waiving of various account fees, reduction of application fees for mortgage loans, and reduced interest rates for installment loans.

Conclusions

1. For three of the four job titles included in this survey, pay levels in state government were appreciably lower than the salary rates of the three private sector companies. Also, two of the companies surveyed offered additional compensation through employer match payments to employee savings plans.

2. State government employee hospitalization/major medical benefits appear less costly to employees than in the private plans surveyed. However, the same cannot be said for other health benefits, where no discernible advantage exists.

3. State government pension benefits, for those who receive a pension, appear far superior to pension benefits in the surveyed private sector companies, even after adjusting for the fact that the state government plan is the only contributory one in the sample. The advantage is even greater for

state government employees who can utilize special veterans' benefits.

4. State government employees receive a decided advantage in leave time benefits, particularly when one considers the buy-back program for unused sick time.

5. No attempt was made to quantify the benefits provided to state government employees by various civil service protections. Private sector employers do not provide comparable benefits. However, some important federal employment-related legislation is applicable to the private sector but not to state government. One example: the Federal Employee Retirement Income Security Act provides for pension vesting after five years service with an employer, but it is not applicable to state government, only to the private sector.

6. As some state government employee benefits are provided by statute, they represent a different policy process for conferring benefits from that used by the private sector firms, where management has broader discretion. A related point is that state government employee compensation matters are public policy issues subject to scrutiny by citizens and elected officials.

In summary, there are significant differences in the compensation of state government employees compared to the employees in the three companies surveyed. There is no simple, single indicator within which to compress all compensation elements of the four employers for purposes of ranking. Some differences offset others. As the issue of what constitutes fair and appropriate compensation of state government employees continues to be debated and negotiated, this

report may serve the public as an objective frame of reference.

—Arthur J. Maurice
Visiting Fellow

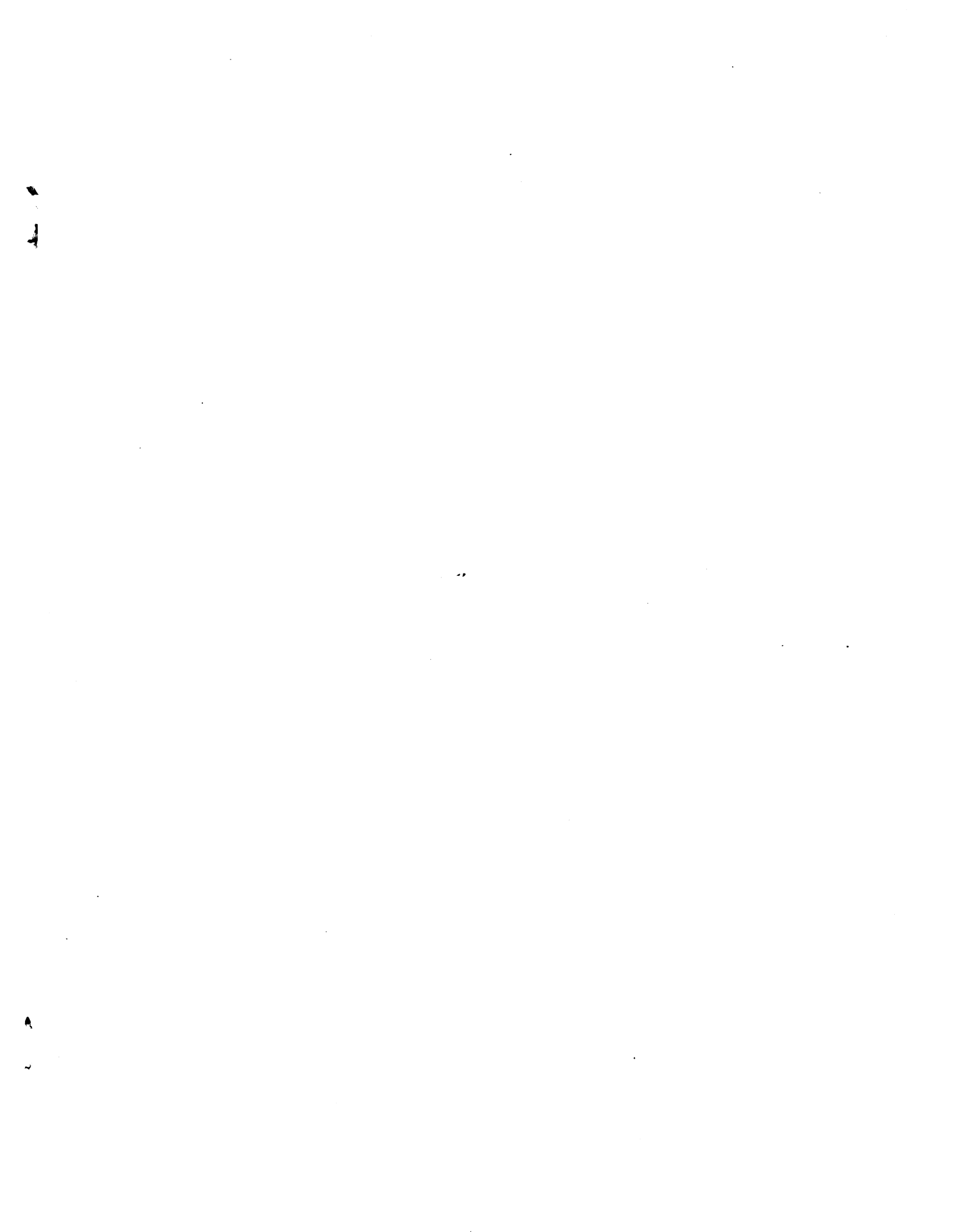
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