Overview of Proposed Benefit Change Scenarios

General Comments

1. These proposals are designed to be discussion starters, not firm recommendations.

2. The actuarial analyses provide rough estimates of the savings generated by each scenario. They are based on a series of assumptions about future events. Actual results will likely vary from those assumptions, but the savings generated by each proposed change relative to current projections should generally hold, even if the absolute numbers differ from the projections.

Health Benefit Changes

1. By design, Scenarios 1 and 2 each generate approximately 10% reductions in State costs for active and retiree health care costs.

2. Scenario 1 achieves the savings primarily through a reduction in the employer premium subsidy, phased in over two years. The 9% reduction in the employer subsidy results in employees and pre-Medicare retirees paying about $470 extra per year for individual PPO coverage (the most popular option) and $1,160 more per year for family PPO coverage. Premium increases for employees and pre-Medicare retirees participating in POS or EPO plans will be slightly smaller.

3. Scenario 2 achieves the savings primarily through plan design changes. Out-of-pocket increases for participants vary according to their usage. The actuary projects that, based on current usage, 20-25% of participants will pay up to $500 more out of pocket under the proposed changes, and about 40% will see out-of-pocket expenses increase by more than $1,000 annually. Those estimates may vary if participants alter their usage of the plans.

4. Under either scenario, co-pays for doctor office visits (currently $15 for primary care visits and $25 for specialists) remain unchanged and are not subject to coinsurance or out-of-pocket limits. The coinsurance changes apply only to services not covered by a co-pay (i.e., hospital stays, except emergency room visits).

5. The changes in vesting and subsidy eligibility requirements for retiree health benefits apply only to current employees with less than 15 years of service as of June 30, 2010.

Pension Benefit Changes

1. The calculations of projected savings are done using the "replacement life" actuarial method because that is current Board of Trustees policy. However, the replacement life method has come under some criticism for calculating savings from benefit reductions for overestimating the potential savings from benefit reductions. The actuary is also working

on a parallel analysis using the more conservative "current life" method, which will likely calculate smaller savings.

2. The COLA provision that prohibits the system from paying a COLA as long as the system is less than 80% funded means that COLAs are not paid for at least 15 years, based on current projections. By far, that provision generates the largest savings.

3. Legislators and judges are excluded from the COLA provisions because their benefits are linked to the salaries of active members. Their benefits increase only when active salaries increase.

4. The DROP program is available only to participants in the State Police Retirement System and Law Enforcement Officers Pension System, so the changes affect only those members. The DROP program allows members who are eligible for retirement to officially retire, but to continue working for up to four years. During that time, they earn their fully salary while their pension benefits (including COLAs) are deposited in an individual account that earns 6% interest, compounded monthly.

Health Benefit Plan Change Scenarios

	Current	Scenario 1		Scenario 2	
		FY 2012	FY 2013	FY 2012	FY 2013
Medical					
Employer Subsidy % (PPO/POS/EPO)	80/83/85	76/79/81	[redacted]	80/83/85	80/83/85
In-Network Deductible (individual)	None	$100	$100	None	[redacted]
In-Network Deductible (family)	None	$200	$200	None	
Out-of-Network Deductible (individual)	$250	$250	$250	$250	
Out-of-Network Deductible (family)	$500	$500	$500	$500	
Emergency Room Co-Pay	$100	$100	$100	$100	[redacted]
In-Network Coinsurance	100%	100%	100%	90%	90%
Out-of-Network Coinsurance	80%	80%	80%	70%	70%
In-Network OOP Maximum (individual)	NA	NA	NA	$2,000	$2,000
In-Network OOP Maximum (family)	NA	NA	NA	$4,000	$4,000
Prescription					
Retail Generic Co-Pay	$5	$5	$5	$5	[redacted]
Retail Formulary Co-Pay	$15	$15	$15	$15	
Retail Non-formulary Co-Pay	$25	$25	$25	$25	
90-Day Mail Order Generic Co-Pay	$10	$10	$10	$10	[redacted]
90-Day Mail Order Formulary Co-Pay	$20	$20	$20	$20	
90-Day Mail Order Non-formulary Co-Pay	$20	$20	$20	$20	
OOP Maximum (individual)	$700	$700	$700	$2,500	$2,500
OOP Maximum (family)	$700	$700	$700	$5,000	$5,000
Paygo Savings ($ in millions)		**$59.9**	**$130.4**	**$48.4**	**$110.8**
Retiree Health Eligibility					
"Vesting" Years of Service	5	15		15	
Years of Service for Maximum Subsidy	16	25		25	
Deferred Vested Eligibility	Yes	No		No	
Prescription Drug Benefits	Same as Employees	Medicare Part D in 2020		Medicare Part D in 2020	
Unfunded Liabilities ($ in millions)	**$15,915.2**		**$8,167.1**		**$8,322.8**
ARC ($ in millions)	**$1,225.2**		**$577.8**		**$594.9**

OOP: Out of Pocket

Source: Gabriel, Roeder, & Smith

Pension Benefit Change Scenarios

	Current	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Comments
Vesting	5 years	10 years	10 years	10 years	10 years	Non-vested and new employees in all plans
Normal Service Retirement	Age 62 or 30 years	Age 62 or Rule of 95	Age 62 or Rule of 95	Age 62 or Rule of 95	Age 62 or Rule of 95	Non-vested and new employees in TPS/EPS only
Early Service Retirement	Age 55 and 15 yrs.	Age 57 and 20 yrs.	Age 57 and 20 yrs.	Age 57 and 20 yrs.	Age 57 and 20 yrs.	Non-vested and new employees in TPS/EPS only
Cost of Living Adjustment (COLA)	Unlimited or 3% Cap	2% Cap; paid only if 80% funded and 7.75% return	2% Cap; paid only if 80% funded and 7.75% return	2% Cap; paid only if 80% funded and 7.75% return	Age <60: No COLA Age 60-64: 1% Cap Age 65-67: 2% Cap Age >67: 3% Cap	All current and future retirees, except Legislators and Judges
Deferred Retirement Option Program (DROP)	COLA + 6% monthly interest	Closed as of 6/30/2011	Closed as of 6/30/2011	COLA only	Closed as of 6/30/2011	State Police and LEOPS only
Amortization	25 year	30 year	30 year	30 year	30 year	
Benefit Multiplier	1.8%	1.6% for service after 6/30/2012	1.4% for service after 6/30/2012	1.4% for service after 6/30/2012	1.4% for service after 6/30/2012	
FY 2013 Contribution Rate	**16.98%**	**8.27%**	**7.54%**	**7.53%**	**12.32%**	
Contribution Savings ($ in millions)	**NA**	**$918.4**	**$995.6**	**$996.1**	**$491.5**	
Funded Status on 7/1/2020	**68.9%**	**76.6%**	**76.8%**	**76.8%**	**71.0%**	

Source: Mercer, Inc.

Additional Pension Change Scenarios

(Actuarial Analyses Forthcoming)

Scenario 5

Convert all current SRPS members except for those in the State Police Retirement System (who retain their current plan) to a cash balance plan with the following characteristics:

- Employer contributions of 10% of compensation
- Employee contributions of 5% of compensation
- Guaranteed 5% return, compounded annually
- Mandatory lump sum withdrawal or roll-over at retirement

Scenario 6

Maintain all current benefit structures, but employee contributions for all plans increase by 2%. The increased employee contributions are dedicated entirely to reducing the unfunded liability and do not supplant employer contributions (i.e., employer contributions are calculated as if the 2% increase in employee contributions did not occur, except for the reduction in unfunded liabilities they would engender).

Scenario 7

Provide all current members (except State Police) with the option of (1) remaining in their current plans, subject to a 2% increase in the employee contribution as in Scenario 6; or (2) transferring to the cash balance plan described in Scenario 5. All new employees (except State Police) will be in the cash balance plan.