



# SEBAC 2017 Savings Report

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OFFICE OF THE STATE COMPTROLLER  
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# Authority

Sec. 326 of Public Act 17-1 requires the Comptroller to determine the amount of labor-management savings realized as a result of the 2017 SEBAC agreement for each fiscal year from FY 2018 to FY 2027. This report estimates the savings realized for the biennium July 1, 2019 – June 30, 2021.

Pursuant to Sec. 326 of Public Act 17-1 the Comptroller “shall determine the amount of labor-management savings realized by the State of Connecticut for each fiscal year ending June 30, 2018, to June 30, 2027, inclusive, pursuant to the operation of the agreement between the state and the State Employees Bargaining Agent Coalition (SEBAC) with all attachments and agreements appended thereto, filed with the General Assembly on July 21, 2017, including any agreement reached through negotiations between the state and SEBAC concerning wages, hours and other conditions of employment and any other agreement between the state and individual collective bargaining units representing state employees to achieve the labor-management savings specified in the state budget act for the biennium commencing on July 1, 2017, and for adjustments or revisions made to said act for the fiscal year commencing on July 1, 2018, and for each successive state budget act thereafter and any even-numbered year adjustments or revisions made thereto, until and including for the biennium commencing July 1, 2025. (b) Not later than December 1, 2018, and each December first thereafter, until and including December 1, 2027, the Comptroller shall report the amount of labor-management savings realized for the previous fiscal year pursuant to the operation of the agreements described in subsection (a) of this section to the Governor and the General Assembly in accordance with the provisions of section 11-4a of the general statutes. (c) If the amount of savings reported by the Comptroller in accordance with subsection (b) of this section is less than the labor management savings specified in the state budget act or any even numbered year adjustments thereto, for the previous fiscal year, the Governor shall take immediate action to recover any such unrealized House Bill No. 7501 June Sp. Sess., Public Act No. 17-1 505 of 1117 savings for the previous fiscal year and to ensure that for the second year of the biennium, if applicable, such savings specified in the state budget act for the even-numbered year of the biennium are realized. (d) Not later than January first annually, the Governor shall report in accordance with section 11-4a of the general statutes to the joint standing committee of the General Assembly having cognizance of matters relating to appropriations any action taken or to be implemented in accordance with subsection (c) of this section

# Projected Savings

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Upon the announcement of the 2017 SEBAC agreement the administration of Governor Dannel P. Malloy provided a [comprehensive document](#) detailing the projected savings or cost for each component of the agreement. The projections forecast a savings to the state of \$2.1 billion over Fiscal Years 2020 and 2021 (\$1.042 billion in Fiscal Year 2020 and \$1.064 billion in Fiscal Year 2021), \$4.8 billion over the first five years of the agreement, and more than \$24 billion over the next 20 years.

The savings were projected to accumulate from a combination of wage concessions, changes to employee and retiree health care benefits and adjustments to pension calculations.

In this report each component of the SEBAC 2017 agreement is provided with a short summary of the policy modification along with the initial savings projection and the estimated actual savings for Fiscal Year 2020 and 2021. For consistency, the report includes each provision of the agreement, including those that do not impact Fiscal Years 2020 and 2021.

The analysis finds that the SEBAC 2017 labor agreement resulted in an estimated total savings of \$895.1 million in Fiscal Year 2020 and \$905.1 million in Fiscal Year 2021, for a total savings of \$1.8 billion. The savings are in addition to the [reported](#) savings of \$1.7 billion in Fiscal Years 2018 and 2019.

# Wages and Attrition

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# Wage Freeze

For Fiscal Years 2018 and 2019, the agreement provided no wage increases for union employees which were mirrored for non-union employees. Employees who were promoted were exempt from this and were allowed wage increases commensurate with their promotion.

Union employees were provided wage increases of 3.5% in each of fiscal years 2020 and 2021. The prior wage freeze lowered the base upon which the fiscal year 2020 and 2021 wage increase was applied, generating the estimated savings.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$491.6	\$491.6	\$983.2
Actual Savings	\$419.0	\$433.6	\$852.6

Methodology: The analysis takes the estimated FY 2019 savings that resulted from the SEBAC 2017 wage freeze (\$404.8 million) and compounds the savings by the 3.5% wage increases in FY 2019 and 2020. In the absence of the SEBAC 2017 wage freeze the base payroll in FY 2020 would have been \$404.8 million higher and that increased base payroll would have had the applicable FY 2020 wage increase applied to it. Thus, the savings associated with the wage freeze in FY 2020 are the reduction in the base \$404.8 million, plus the product of the base savings and the applicable wage increase. The same calculation is applied to FY 2021, using the actual savings in FY 2020 as the base savings.

## Furlough Days

In Fiscal Year 2018, the agreement required three furloughed days (non-paid days off from work) for union employees.

## Delay in Longevity Payments

Longevity payments are those given to state employees based on seniority and time spent working for the state. These payments are normally given in April of the fiscal year, but were withheld until July, the beginning of the following fiscal year, resulting in a one-time Fiscal Year 2018 savings and offsetting cost in Fiscal Year 2019.

## Onetime Lump-sum Payments

As a partial offset to the negotiated wage freeze and furlough days the agreement included a one-time lump-sum payment to all union employees of \$2,000 or the top step lump sum payment plus \$1,000, which ever was greater, to be paid in Fiscal Year 2019

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$0	\$0	\$0
Actual Savings	\$0	\$0	\$0

Furlough days were only applicable in FY 2018 and thus did not contribute to savings in FY 2020 or 2021.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$0	\$0	\$0
Actual Savings	\$0	\$0	\$0

The delay in longevity payments resulted in FY 2018 costs being rolled over into FY 2019 but had no impact on fiscal years beyond that.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$0	\$0	\$0
Actual Savings	\$0	\$0	\$0

The one-time lump-sum payments were made in FY 2019, resulting in a cost for that fiscal year but no ongoing costs for FY 2019

# Attrition

The initial savings projections associated with the SEBAC 2017 agreement including initial and ongoing savings resulting from an assumption that one-third of Fiscal Year 2018 retirements and one-tenth of Fiscal Year 2019 retirements will remain permanently unfilled.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$63.2	\$65.4	\$128.6
Actual Savings	\$70.3	\$72.7	\$143.0

Methodology: All vacancies occurring in FY 2018, FY 2019 remained vacant through the close of the analysis period (FY 2021) were identified. Savings were calculated conservatively using the step 1 salary associated with each vacancy for FY 2020 and adjusted for an assumed 3.5% wage increase in FY 2021. The salaries were then summed to establish a total savings amount in FY 2020 and FY 2021 associated with unfilled vacancies. Please note that these estimates do not include vacancies that became vacant in FY 2020 and FY 2021 as the initial SEBAC 2017 savings estimate assumed that positions that became vacant after the first two years of the agreement would be refilled at 100%. In fact, the vacancies in FY 2020 and FY 2021 have been left unfilled at a similar rate to those that became vacant in FY 2018 and FY 2019. If the savings associated with the unfilled vacancies from FY 2020 and 2021 are added to the savings calculation, savings would increase by \$24.3 in FY 2020 and \$69.9 in FY 2021.

# Active Employee Health Care

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Due to challenges in comparing pre and post covid health care utilization data, the health care estimates leverage the estimated savings determined for the FY 2018/FY 2019 SEBAC savings report and adjusts them to reflect current health care expenditures.



## Financial incentive to utilize urgent care

The agreement increased Emergency Room copays from \$35 to \$250, with the goal of decreasing unnecessary ER visits and encouraging the use of Urgent Care.

## Utilization management on physical and occupational therapy services

The agreement requires the state employee health plan's consistent application of utilization management requirements for physical and occupational therapy.

## PCP tiering based on quality and cost for primary care providers

The agreement waives copays for certain primary care providers who commit to shared savings agreements with the state's medical carriers which encourage improvements in quality metrics and improvements in the efficiency with which care is provided.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$15.9	\$15.9	\$31.8
Actual Savings	\$12.8	\$12.9	\$25.7

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$3.3	\$3.5	\$6.8
Actual Savings	\$2.1	\$2.3	\$5.4

(in millions)	FY 2020	FY 2021	Total
Projected Savings	(\$1.4)	(\$1.4)	(\$2.8)
Actual Savings	(\$1.2)	(\$1.4)	(\$2.6)

## Active Employee Health Care

### Specialist tiering based on quality and cost for specialists

The agreement waived copays for certain specialists who have demonstrated better than average quality metrics and better than average efficiency in the care they provide to patients

### Incentives to utilize lower cost imaging, and lab providers

The agreement created a new tiered benefit design for imaging and lab services in which the \$0 copay for lab and imaging services would continue for certain preferred low-cost lab and imaging providers, a 20% co-insurance would apply to in-network non-preferred higher cost SEBAC providers, and a 40% co-insurance would apply to out of network providers for plans that include an out of network benefit.

### Member incentive-based program (SmartShopper)

The agreement allows for a new financial incentive program to encourage plan participants to seek care from high-quality, low-cost providers in order to improve patient outcomes while reducing overall plan costs.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$0.2	\$0.2	\$0.4
Actual Savings	\$0.2	\$0.2	\$0.4

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$3.3	\$3.5	\$6.8
Actual Savings	\$3.4	\$4.0	\$7.4

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$3.8	\$4.0	\$7.8
Actual Savings	\$0.9	N/A	N/A

Note: the SmartShopper program was discontinued on July 1, 2020. On October 1, 2020 the Network of Distinction program replaced Smartshopper. The new program has the advantage of directly engaging providers in better managing care through risk-based reimbursement agreements known as episodes of care. The programs, while similar, have significant differences and thus it would not be appropriate to extrapolate from one to the other. That combined with impact of Covid-19 on overall claims make it difficult to provide a reasonable FY 2021 savings estimate for the updated program.

## Active Employee Health Care

### Increased co-pays for certain prescription drugs

The agreement creates a 4-tier co-pay schedule. \$5 and \$10 co-pays will be assigned to clinically equivalent generic drugs, with \$5 co-pays corresponding to the lower cost generics within the therapeutic class.

Preferred brand drug copays increased from \$10 to \$25 and non-preferred drugs copays increased from \$25 to \$40. Any drug indicated to treat one the five chronic diseases covered by the state's Health Enhancement Program are exempt from the copay adjustments.

### Adopting the CVS standard formulary

The agreement requires the adoption of a standard drug formulary offered through the state's contracted pharmacy benefit manger to encourage utilization of lower cost and more effective prescriptions

### Premium Cost Sharing Increases

The agreement requires employee premiums to increase by 1% each year until 2021, beginning 7/1/2019, except that in FY 2019 and FY 2020, premium share will not exceed 15% and in 2021, it will not exceed 16%

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$4.5	\$4.5	\$9.0
Actual Savings	\$1.3	\$1.3	\$2.6

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$28.1	\$29.2	\$57.3
Actual Savings	\$22.3	\$21.3	\$43.6

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$5.6	\$11.2	\$16.8
Actual Savings	\$5.1	\$9.0	\$14.1

**Methodology:** Total employee premiums paid under the new cost sharing requirements were compared to the employee premiums that would have been paid under the cost sharing percentages in place prior to the SEBAC 2017 agreement.

# Retiree Health Care

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## Retiree Health Care

### Medicare Advantage

The agreement requires, beginning on 1/1/18, the state employee plan for retired employees to be transferred to a Medicare Advantage plan with a passive-PPO network design and other benefits enhancements.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$135.1	\$141.1	\$276.2
Actual Savings	\$157.7	\$169.1	\$326.8

Methodology: Medicare expenditures from the last full year of the state's experience under the Medicare Supplemental plan were trended forward and compared to actual expenditures on Medicare Advantage premiums over the evaluation period.

### Medicare Part B changes

The agreement required, effective 7/1/22, the state to continue to reimburse the full standard premium of the Medicare part B, but reduce reimbursement to half for any additional Medicare charges outside of the standard premium

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$0	\$0	\$0
Actual Savings	\$0	\$0	\$0

No projected savings until FY23

### Retiree cost sharing changes

The agreement requires a premium contribution for retiree health care coverage of 1.5% for non-hazardous duty employees retiring before 7/1/22 and 3% for Hazardous duty employees retiring after 7/1/22. The required premium contribution will increase to 5% for Non-Hazardous duty employees retiring after 7/1/22.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$0.9	\$1.2	\$2.1
Actual Savings	\$0.3	\$0.4	\$0.7

Methodology: Premiums paid under this provision over the evaluation period were totaled.

## Pre-65 Retiree Benefit Changes

The benefit changes described under the active employee health care section are also applicable to pre-65 retirees who retired after October 1, 2017.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$5.9	\$7.9	\$13.8
Actual Savings	\$9.4	\$14.2	\$23.6

Methodology: Premium equivalent values for retirees that retired between October 2011 and October 2017 (retirees who maintained the benefit design in place prior to the 2017 SEBAC agreement) were compared to the premium equivalent values for retirees who retired after October 2017 who have the benefit design put in place by the 2017 SEBAC agreement.

# Pensions

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# State Employee Retirement System (SERS)

The agreement requires several adjustments to retiree pension calculations including:

- COLA Holiday – The first COLA payment for new retirees will be distributed 30 months after retirement instead of 9-15 months. Employees who retire after July 1, 2022 will not see COLA increases for the first 18 months after they retire but will see changes in payments with inflation after that point.
- New COLA Formula - For retirements occurring after July 1, 2022, COLA payments will match the Social Security COLA index up to 2% and will be adjusted for inflation.
- Contributions – Starting 7/1/2017 employees in all tiers contributed an additional 1.5% of their salary to their pension.
- Creation of Tier IV hybrid pension/defined contribution plan – a new pension plan was created with a defined employee/employer contribution. If employees choose to have a separate retirement account, the state will contribute a small portion to it.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$258.8	\$263.5	\$522.3
Actual Savings	\$187.1	\$159.1	\$346.2

**Methodology:** SEBAC 2017 included many changes in retirement calculations and additional employee contributions which combine to reduce the long-term pension liability for SERS. The reduced pension liability requires lower annual actuarially determined employer contributions (ADEC) reducing costs to the state and other employer entities that contribute to the fund. The savings associated with these changes is calculated by comparing the projected ADEC for FY 2020 and FY 2021 in the actuarial evaluation completed just prior to the finalization of the agreement (adjusted for subsequent changes and the amortization period and actual investment returns) to the ADEC that was actually paid in these years.

Please note that while adjustments were made to the projected baseline to account for the two largest factors that impact the ADEC, no adjustments were made for other more limited changes in assumptions and experience some of which would have a positive and others a negative impact on the baseline projected ADEC used in the calculation.

Pensions



# Alternative Retirement Program Changes

Beginning 7/1/2017 Employer ARP contribution decreased by .75% from 8% to 7.25% of salary. Beginning 7/1/2019 Employer ARP contribution decreased .25% from 7.25% to 7% of salary. For new employees, employer ARP contributions will be 6.5% of salary

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$7.0	\$7.5	\$14.5
Actual Savings	\$6.0	\$6.4	\$12.4

**Methodology:** All salary applicable to the 7% contribution rate over the evaluation period was calculated and multiplied by 1%, the difference between the prior employer contribution rate and the current contribution rate. Similarly, all salary applicable to the 6.5% contribution rate over the evaluation period was calculated and multiplied by 1.5%, the difference between the prior employer contribution and the current contribution rate.

# Other

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## Tuition and Reimbursement

The agreement provides  $\frac{1}{2}$  the normal amount of funds for all other funds (e.g. tuition reimbursement). Other wage payments e.g. shift differentials, allowances, etc. for Fiscal Year 2017 for units that did not receive funds in that year and any additional amount needed to pay off obligations for that fiscal year while reducing the funds available in the subsequent fiscal year.

(in millions)	FY 2020	FY 2021	Total
Projected Savings	\$0	\$0	\$0
Actual Savings	\$0	\$0	\$0

The tuition reimbursement provision only had a cost impact in FY 2018

# Summary

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The SEBAC 2017 labor agreement resulted in an estimated total savings of \$895.1 million in Fiscal Year 2020 and \$905.1 million in Fiscal Year 2021, for a total savings of \$1.8 billion. The savings are in addition to the [reported](#) savings of \$1.7 billion in Fiscal Years 2018 and 2019.

Negotiated items in the 2017 SEBAC agreement varied in the level to which they are estimated to have reached or surpassed the savings targets.

Certain items, like changes to active employee benefit design were particularly challenging to evaluate, due to the underlying changes in health care utilization resulting from the Covid-19 epidemic.

In general savings estimates of prior policy changes become more tenuous the more time passes from the initial policy change. This is especially true for changes with-in complex systems like health care or pensions. As we continue to move further out from the initial implementation date of SEBAC 2017, the accuracy of the savings attributed to such changes related to the agreement will be grow less certain.