LEGISLATIVE FISCAL ESTIMATE TO

ASSEMBLY, No. 1457

STATE OF NEW JERSEY

DATED: April 1, 1996

This bill makes various changes regarding the payment of the premium or periodic charges for the State Health Benefits Program (SHBP).

Current law provides that the State as an employer pays the full cost of SHBP premiums for active State employees and their dependents. Local participating public employers are required to pay the cost of SHBP coverage for an employee and may require an employee contribution toward some or all of the cost of dependent coverage. Many local employers, however, have assumed the cost of SHBP dependent coverage.

The bill provides that the obligations of the State or any local employer to pay the premium or periodic charges for SHBP coverage with respect to active employees and retirees may be determined by means of a binding collective negotiations agreement, including any agreements in force at the time of the adoption of this bill. With respect to State employees for whom there is no majority representative for collective negotiations purposes, the State Health Benefits Commission may, in its sole discretion, modify the respective statutory payment obligations of the State and such employees in a manner consistent with the terms of any collective negotiations agreement binding on the State. With respect to employees of employers other than the State for whom there is no majority representative for collective negotiations purposes, the employer may, in its sole discretion, modify the respective statutory payment obligations of such employer and such employees in a manner consistent with the terms of any collective negotiations agreement binding on such employer.

The bill also provides that if a husband and wife are both eligible for SHBP coverage as employees:

(a) each may elect coverage for himself or herself as an employee and for their qualified dependents, including the spouse, under the traditional plan or NJ Plus, but only one may elect coverage for himself or herself and for their qualified dependents, including the spouse, in a participating HMO; and

(b) each may elect single coverage in any participating HMO, provided that he or she is not covered under that HMO as a dependent of his or her spouse.

The bill allows the State and local employers to establish a cafeteria plan for their employees pursuant to section 125 of the

Internal Revenue Code to provide for a reduction in an employee's salary in exchange for payment by the employer of any required employee contribution for SHBP coverage, medical or dental expenses not covered by SHBP, or dependent care expenses. The amount of any reduction in an employee's salary for the purpose of contributing to the plan will continue to be treated as regular compensation for all other purposes, including the calculation of pension contributions and the amount of any retirement allowance, but, to the extent permitted by the Internal Revenue Code, will not be included in the computation of federal taxes withheld from the employee's salary.

The Office of Legislative Services (OLS) notes that it cannot estimate the impact of this bill because of the elective nature of this legislation. The OLS notes that the SHBP is a multi-employer program, with multiple unions representing State and local government employees. Each union independently negotiates collective bargaining agreements for its members and these agreements are frequently of different duration. For example, only three of the unions representing State employees have negotiated settlements at this time. In addition, the legislation leaves many of the specific details of implementing this legislation to the discretion of the State Health Benefits Commission. For example, with respect to State employees for whom there is no majority representative for collective negotiations purposes (non-aligned employees), the Commission may, in its sole discretion, modify the respective statutory payment obligations of the State and the non-aligned employees in a manner consistent with the terms of any collective bargaining agreement binding on the State.

Using the collective bargaining agreements of the three unions, representing State employees, which have concluded negotiations as a guide, this bill implements premium sharing, eliminates "dual coverage in HMOs", establishes a cafeteria plan for State employees, eliminates the reimbursement of Medicare Part B for active employees and requires certain employees to pay part of the cost of post-retirement medical benefits.

(1) Premium Sharing:

This bill allows the State to substitute the terms of a binding collective bargaining agreement for the current statutory requirement that the State pay the full cost of the SHBP for employees and their eligible dependents. This bill allows the employer to include the cost of employee health benefits in the collective bargaining process. In anticipation of this or similar legislation, the State negotiated contracts with the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Workers (AFSCME), and the International Federation of Professional and Technical Engineers (IFPTE), which collectively represent approximately 48,000 State employees, to require employees choosing Traditional Plan health insurance coverage to contribute a portion of the cost of that coverage. Enrollment in an HMO or NJ Plus requires no employee

contributions.

For example, the CWA contract provides that effective July 1, 1996, all new hires (since the date of ratification) who select the Traditional Plan will pay the difference, regardless of salary, between the cost of the Traditional Plan and the average cost to the State of NJ Plus and the HMOs.

Effective July 1, 1996 through June 30, 1997, State employees hired before the ratification date of the contract with a base salary above $50,000 who select the Traditional Plan will pay the difference between the cost of the Traditional Plan and the average cost to the State of NJ Plus and the HMOs. Employees hired before the ratification date of this contract with a base salary of less than $50,000 shall pay 1% of their annual base pay, but no less than $20.00 per month if they elect to stay in the Traditional Plan.

Effective July 1, 1997, State employees hired before the ratification of the contract with a base salary of $40,000 or more who select the Traditional Plan will pay the difference between the cost of the Traditional Plan and the cost to the State of NJ Plus and the HMOs. Employees hired before the ratification date with a base salary below $40,000 shall pay 1% of their annual salary, but no less than $20.00 per month if they elect to stay in the Traditional Plan.

The OLS notes that according to the Governor's FY 1997 Budget in Brief, "Premium Sharing for the Traditional Plan Coverage" will save an estimated $15.8 million in State-employer contributions to fund the SHBP. The OLS notes that this amount also includes the savings associated with the elimination of dual coverage. According to the FY 1996 Budget in Brief, the elimination of dual coverage will save an estimated $4 million. If this amount is deducted from the $15.8 million, the savings from implementing premium sharing is $11.8 million for FY 1997. It should be noted that this amount could change if the unions still negotiating settlements agree on different terms.

(2) SHBP premiums for FY 1997:

The Division of Pensions and Benefits has not provided the premium amounts for the SHBP for FY 1997. Based on the premium information for FY 1996, the difference in cost between the Traditional Plan and the average of NJ Plus and the HMOs is $513 for single coverage; $994 for husband and wife coverage; $1,182 for family coverage; and $690 for parent and child/children coverage. Employees enrolled in the Traditional Plan would have to pay some portion of these amounts, depending on the employee's salary and date of hire, during the terms of the current contract. These amounts will change as the cost differential between the Traditional Plan and the HMOs/NJ Plus changes.

The OLS also notes that as employees shift from Traditional Plan coverage to HMOs and NJ Plus, the HMOs and NJ Plus may have adverse experience, thus increasing the future premiums for the HMOs and NJ Plus. The OLS believes that more high-risk individuals are

enrolled in Traditional Plan and as these individuals shift to the HMOs and NJ Plus, the cost of these options will likely increase. Therefore, the OLS believes that the $8.1 million savings identified in the FY 1997 Budget in Brief from lower HMO premiums may not be a recurring savings.

(3) Elimination of Dual Coverage in HMOs:

Under current law, each State employee and his or her family are enrolled in the SHBP. If both spouses are employed by the State or a local employer participating in the SHBP, they may be enrolled as employees and as dependents of each other. If they choose the same HMO coverage, the State or the local employer pays a premium for each employee's coverage without the employees receiving additional medical benefits.

The FY 1996 Budget In Brief estimated savings from eliminating dual coverage at $4 million.

(4) Eliminate Medicare Part B Reimbursement for Active Employees:

Under current law, active State employees over the age of 65 must enroll in Medicare, pay the premium, and then file for reimbursement from the State for the cost of the premium. Since the health insurance for these individuals is already provided by the SHBP, enrollment in Medicare is unnecessary prior to retirement.

The negotiated contracts provide that: "Effective January 1, 1996, consistent with law, the State will no longer reimburse active employees or their spouses for Medicare Part B premium payments."

However, this bill does not amend the sections of law, N.J.S.A. 52:14-17.30 and 52:14-17.38, requiring active employees, age 65, to enroll in the federal Medicare program. The OLS notes that the State would save an estimated $1.9 million in FY 1997 if active employees are not required by law to enroll in Medicare Part B and the State did not have to reimburse the premium payments.

(5) Establish a Cafeteria Plan under Section 125 of the Internal Revenue Code:

This would allow State employees to use pre-tax dollars to pay medical premiums. Employees save federal (but not State) income taxes through the reduction in taxable income. In addition to the employee savings in federal income taxes, both employees and employers avoid Social Security and Medicare taxes on the amounts deferred under a Cafeteria Plan.

The FY 1997 budget assumes State-employer savings of $1 million in Social Security and Medicare taxes.

(6) Post-Retirement Medical Benefits:

Under current law, State employees with 25 or more years of service are entitled to employer-paid post-retirement medical benefits. The collective bargaining agreements include provisions concerning post-retirement medical benefits. Under the terms of the contracts, those employees who accrue 25 years of service by July 1, 1997 will

receive State-paid post-retirement medical benefits, including the reimbursement of Part B of the Federal Medicare Program. Those employees who accrue 25 years of service from July 1, 1997 through June 30, 1999 will be subject to the provisions governing health benefits for active employees, and will receive Medicare Part B reimbursement after retirement up to a cap of $46.10 per month.

The OLS notes that the employer-paid post-retirement medical benefits negotiated in the current contracts will only affect employees accruing 25 years between the dates included in the contract and who retire by June 30, 1999. It is not clear how future contracts will affect employees who accrue 25 years of service under one contract but retire under another contract.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.