

June 24, 1996

SENATE BILL NO. 503

To the Senate:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I herewith return Senate Bill No. 503 without my approval.

A. Summary of Bill

Prior to December 18, 1995, local government employers who participated in the State Health Benefits Program (SHBP) were required to offer full SHBP coverage to any employee who worked an average of at least 20 hours per week. Effective December 18, 1995, a regulation amendment adopted by the State Health Benefits Commission (Commission) gave discretion to local government employers to require that local government employees work a greater number of hours per week than 20 in order to be deemed full-time for SHBP purposes. The regulation amendment also gave local government employers the option of "grandfathering" existing employees who had qualified as "full-time" under the 20-hour standard but who might fall short under a higher standard. Senate Bill No. 503 removes that option from local government employers by mandating the "grandfathering" of existing employees.

B. Recommended Action

I acknowledge the efforts of the sponsors to provide protection to local government employees who, prior to the effective date of the regulation amendment, were covered by the SHBP and would lose that coverage if the local employer increased the number of hours required for such coverage and refused to "grandfather" existing employees. Indeed, as part of an overall restructuring of the State Health Benefits Program, I would be prepared to support the "grandfathering" of existing employees who have been covered under the 20-hour rule. Restructuring is essential to maintaining the core mission of the SHBP: to provide health benefits and security for State and local workers and retirees.

There is no question, however, that any such "grandfathering" is unjustified in the absence of other measures to ensure the integrity of the SHBP. At one time, more than 1,000 local government employers participated in the SHBP, which is voluntary for local government employers. The reasons for its popularity were obvious; the SHBP offered comprehensive coverage at nonprofit rates. With the advent of managed care and other forms of consumer choice among private carriers, however, the SHBP has become a less attractive option. From 1991 through 1995, the SHBP Local Group suffered a net loss of 159 employers; of even greater concern, in the past six months, more than 100 employers have filed to leave the SHBP.

Employers have been leaving the system for one reason: they are trying to control their costs, and the SHBP, as it is currently configured, prohibits them from using cost-containment tools that become available to them when they leave the SHBP. Earlier this year, I signed legislation enabling the State to implement significant cost-containment measures while preserving generous health care benefits for State employees. To date, however, similar efforts to reform the SHBP to give local employers cost-containment flexibility have not been successful, despite the good-faith efforts of the legislative sponsors and the New Jersey Education Association. In view of the accommodations being made by State workers, it would be unfair to allow local government participation in the SHBP to continue to erode without insisting on comprehensive reform.

The erosion of local government participation is precisely, however, what Senate Bill No. 503 would encourage. By mandating the "grandfathering" of existing employees, Senate Bill No. 503 requires local government employers to bear the cost of "grandfathering" if they choose to remain with the SHBP. Thus, rather than affording local government employers an incentive to remain with the SHBP, Senate Bill No. 503 creates a further incentive for them to leave the SHBP by

removing "grandfathering" as an issue that can be negotiated at the local level. In the absence of comprehensive reform, therefore, the principal effect of this bill will be to accelerate, rather than to constrain, the trend toward local government abandonment of the SHBP. Because Senate Bill No. 503 limits the ability of local governments to control costs without addressing the fundamental issue of the continued viability of the SHBP, I must return the bill without my approval. In the interim, I am sure that local government employers will continue to consider seriously and to exercise, where appropriate, their option of "grandfathering" their employees.

Accordingly, I herewith return Senate Bill No. 503 without my approval.

Respectfully,

/s/ Christine Todd Whitman

Governor

[seal]

Attest:

/s/ Harriet Derman

Chief Counsel to the Governor