SUMMARY OF THE AGREEMENT

Among the principles that the parties agreed to in their discussions, the most important was "maximizing the gain while minimizing the pain." This principle was not perfect, nor perfectly honored. But ultimate agreement resulted from a combination of this principle and the recognition from both sides that the costs of failure to reach agreement could be disastrous for state employees, the administration, and all Connecticut residents. Here are the elements of the Agreement:

A. A Declaration of Peace, A Process for Stable Transformation

1. JOB SECURITY: No agreement would mean anything in these times without job security. SEBAC 2009's two plus years of job security will be extended four more years until June 30, 2015. In those areas where the promise was abused, new protections will make sure that job security is stronger. Job Security is available to any bargaining unit that ratifies an agreement within the parameters of the framework described below.
2. TRANSFORMATION: For decades, the ideas of frontline workers have been ignored, the ranks of high paid contractors and consultants have grown, and the levels of bureaucracy have multiplied. Much of the discussion with the Malloy administration, and much of the savings from the agreement, involved these issues, and the parties have agreed (in addition to the administration following the pre-existing statutory mandates for the Contracts Standards Board and the Innovations Review Panel), to the following permanent structures to help transform state government:
   a. *A joint information technology committee will be established as soon as possible following the appointment of the CIO that will consider, among other things, utilizing new technologies and reducing licensing procurement and consulting costs.*
   b. *No later than September 1, 2011, a joint labor management committee will be comprised and begin to work to harness the creativity and experience of front-line bargaining and non-bargaining unit state employees to improve the efficiency and effectiveness of state government; to streamline and flatten organizational structures to concentrate on service delivery; to examine and redress barriers to the most efficient use of in-house resources to address agency and cross agency needs; to discourage the use of outside contractors and consultants when internal capacity exists or can be reasonably developed, except issues that impact matters of collective bargaining.*
   c. *The Governor will issue an Executive Order no later than June 1, 2011, or similar appropriate directive to agencies that will make best efforts to ensure that vendors and service providers doing business with the state do so at reasonable rates of return and under terms that reflect the shared sacrifice being asked from all sectors of Connecticut society.*

3. CONTRACT EXTENSIONS: Only 6 years remain on "SEBAC 5", the Pension and Health Care agreement covering all state workers. Since long term positive transformation requires stability, the agreement extends SEBAC 5 for five more years, until June 30, 2022. At the same time, bargaining unit agreements are offered that provide the administration substantial needed savings during the upcoming 2 years where the state faced $7 Billion in total deficit, but offer improvements in the future. There are no furlough days (which had cost members about 1.3% of salary in fiscal 2011. But there are sacrifices. Almost all state employee contracts are set to expire June 30, 2012. The framework offers contracts with economic terms fixed through June 30, 2016. The wage pattern offered is 0, 0,3,3,3, all on time, and with increments and top step bonuses (in those units that have them) in each of the last 3 years. Non-increment based units will receive 2% additional in lieu of increments. The only other contractually related sacrifice is in longevity. The administration had sought to end longevity. Instead, workers in "capped units" -- those that have had their longevity amount fixed since 1977 – will give up one payment in October 2011. Uncapped units will give up the same amount as if they were capped, assuring equal sacrifice (managers will be asked to give up at least as much, and if not, workers will not give up anything). After July 1, 2011, newly hired workers with no prior state service will not be eligible for longevity payments unless they had prior military service. All other longevity payments for current workers are maintained, although workers won't progress into new longevity levels (first time payments for 10, 15, 20, or 25 years of service) until the third year of the contract – 2013. The same thing is true for the state's OJE system. The administration had sought to eliminate it, but the only change is that no new OJE adjustments can be effective before July of 2013, again to provide savings during this biennium.
4. AN INVESTMENT IN RETIREE HEALTHCARE: The benefit most at risk for state workers has been retiree health care. Not only has it been successfully attacked by almost all other employers, it is almost entirely unfunded. The result is a nearly $20 billion liability for the state, which is both irresponsible, and has a huge negative factor whenever any union bargains wages or other financial improvements. The extension of SEBAC 5 until 2022 helps with this, of course. But the agreement calls for both parties to begin investing in the trust fund, a provision which by the accounting rules of the Government Accounting Standards Board, instantly reduces the unfunded liability by billions. All state workers not currently contributing to the Retiree Health Care Trust Fund will begin contributing ½% to the trust fund in fiscal 2014 (which starts July 1, 2013), a total of 2% in fiscal 2015, and a total of 3% in 2016. Each workers contribution ends after paying the equivalent of 3% for 10 years, (assuming they don't retire first), and those who were previously paying under SEBAC 2009 will continue paying 3% but will get credit for all years they have already paid (so they'll finish sooner). Just as important, beginning in July 1, 2017, the state will match each employee's contributions with a 3% contribution of its own. These two changes together constitute a tremendous investment in the long-term viability of our most vulnerable benefit. The state, of course, will continue paying the healthcare costs of current retirees out of the general fund. Finally, the parties had a mutual interest in reserving free retiree healthcare for long-time employees (thus reducing the costs and making it easier to

preserve). The new agreement requires 15 years of actual state service to be eligible for retiree healthcare, but is phased in so as not negatively impact current employees, . Finally, the Tentative Agreement will have provisions committing the administration to consider additional payments towards unfunded liability in pension and healthcare in surplus years.

B. *A Win/Win in Health Care*

State employees already pay a substantial portion of their healthcare costs -- an average of 14%. Despite the best efforts of our joint Health Care Cost Containment Committee, these costs have continued to rise – they are scheduled to go up about 5% for both the state and state employees beginning July 1, of this year. A huge part of the discussions involved finding common ground on how to address this problem. The simplistic answer -- raising employee premium shares, co-pays, and instituting deductibles doesn't work. In the short term, it saves employer costs by increasing employee costs. In the long term, it discourages employees from getting needed medical care, creating more avoidable illness and greater costs for everyone. The answer was to save money by keeping employees healthier, a concept known as Value Based Health Care. It is based on employees signing a commitment form each year promising to get scheduled yearly physicals, age appropriate diagnostics (such as a colonoscopy), and two free dental cleanings per years. In addition, employees with one or more of the 5 listed diseases (Diabetes, COPD or ASTHMA, Hypertension, Hyperlipidemia (high cholesterol), and Heart Failure) which respond particularly well to disease management programs and which are a large part of total healthcare costs —must enroll and comply with the disease management programs. All of these employees – which we hope is everyone – will lower the costs of health care for everyone by staying healthier. In addition, they will receive no premium increase (other than the estimated 5% pre-scheduled increase), and will receive free office visits and reduced pharmacy co-pays for any of the listed diseases (Diabetes medication are already free, other medication for listed diseases will go to no co-pay for generic, $5 from preferred brand name, and $12.50 for no-preferred name brands). Employees who after proper notice refuse to sign the commitment or fail to get their physicals (or if they have a listed disease, refuse to participate in disease management), will have a premium increase of $100 per month, and a deductible of $350 per person per year. We hope no employees will make this decision, but every employee will have that choice.

All the other changes in health care are designed to provide delivery more effectively and cheaply for everyone beginning July 1. For actives, and future retirees, mail order prescriptions for maintenance drugs will become mandatory after the first prescription, with a 90 day supply for only one co-pay. Current retirees below 65 will also have this become mandatory, but a 90 day supply will be available for no co-pay at all. Current retirees over 65 will have an option to join the same program. Current retirees will also have the option to participate in value based health care, while new retirees will continue to have a choice of free (the POE Plan) or nominally charged (the POS Plan) health care for life, but will be required to participate in value-based health care or pay the $100 per month extra premium. In order to further incent the use of generics of non-chronic conditions, the co-pays for non-maintenance drugs will be changed to $5 for generic, $20 for preferred brand name, and $35 for non-preferred brand name, but only for non-maintenance drugs. Maintenance drugs (other than the cuts in co-pays for the listed diseases) will stay at their current $5/$10/$25 structure. We have also

harmonized various money saving rules between the two vendors to avoid things like unnecessary and repetitive diagnostic testing. There is a new $35 co-pay for emergency room visits that don't result in a hospital admission, but only if there was an reasonable alternative to the emergency room available to the member. (We've had some people using the emergency room as many as 150 times a year!) There is a new, free post hospitalization follow up program to reduce the chances of expensive and unnecessary hospital readmission. And the joint Health Care Cost Containment Committee is charged with finding ways to make sure healthcare vendors (Anthem and United) have a stake in keeping healthcare costs down and members healthier.

Other than these changes, all the current SEBAC Healthcare choices remain -- the POS and the POE, and the current two vendors (Anthem and United/Oxford) are in place at least until the next rebidding effective July of 2012. Rules for vendors competing for a place in the plan (statewide access and benefits) are unchanged, except that of course any new vendor, like Anthem and United do, would need to be able to offer the value based health care.

C. A Pension Compromise With An Upside

Pension matters were the most challenging aspect of the discussions, because the parties came at it from no common ground. The administration sought to make huge cost savings by immediate and devastating changes in pension benefits for almost all current employees. They sought to delay COLA's for 5 years for all new retirees, immediately add three years to the retirement age for Tier II and IIA, effecting both past and future years of service, remove all overtime and a number of other payments from pension calculations, and a new maximum on earnings counting towards pension. They sought to immediately require 25 years or 50 years of age from all hazardous duty employees. They sought a new Tier III that not only incorporated all those changes, but had 5 year rather than three years averaging of final earnings, and a new early retirement age of 60 years old with 15 years of service. Finally they sought a 20% premium share for all new retirees, even those who worked until full retirement age. We sought to protect the settled expectations of current employees, even beyond the current expiration of the agreement in 2017 (when legally nothing is truly settled). We also sought to fix the current Tier II breakpoint, a complicated formula in the current agreement through which over time, the pension benefits of current employees are going down, especially those of lower paid employees. The result was a compromise which was difficult, but conformed to our basic principles and has a substantial upside.

There are two big upsides for us: First, of course, is that the pension and healthcare agreement is extended through 2022. This means that current employees (and even new employees) not only have expectations, they have legally protected rights to our pension program for another full 5 years. Second, the State will set aside ½% of payroll to address the Tier II break point, a problem in the current pension plan that results in gradually decreasing the value of the Tier II and Tier IIA plans, especially for lower paid members. And there were compromises, but they were designed to produce modest and fair savings rather than the wrenching dislocations (and hundreds of millions of dollars) that would have come from the administration's initial approach. Here are the results:

1. No changes in Hazardous Duty retirement rules except for new employees.
2. No changes in Normal Retirement Age for Tier II or IIA until after the expiration of agreement on July 1, 2022. After that, the normal retirement age will be 3 years longer

(Age 65 with 10 years of service, Age 63 with 25 years). The change effects only future years of service, and any current employee wishing to be exempt from the change can pay an additional pension contribution determined by the plan actuary beginning July 1, 2013.

3. Reduce the Early Retirement Subsidy. Under our current SERS plan, people who retire before their normal retirement age of 62 with 10 years of service, or 60 with 25 years of service, are considered Early Retirees. Currently, people are actually encouraged to retire early because their reduction in their retirement benefit is only 3% per year, while the true cost of their early retirement is about 7.5% a year (that is, they will average about 7.5% more in pension benefits received in their life time for each year they retire early). This is expensive, and raises the costs for those employees who work until their full retirement age. Effective with employees who retire after September 1, 2011, the Early Retirement Subsidy will be reduced, in that employees will be charged 6% for each year they retire early instead of 3%. This will have no effect on the pension of anyone who works until full retirement age. Also there is no effect on Hazardous Duty, which does not permit early retirement. Tied to this will be the imposition of premium sharing on Early retirees after 9/1/11, which reflects the fact that early retirees are much more expensive in retiree healthcare costs. The percentage of premium share will vary with the number of years early (the earlier the more, of course), and the numbers of years of service (the less service, the more the person pays). The precise percentages are being computed by the parties and the plan actuaries, and will be part of the tentative agreement well before members vote. They will also have a cap based on the amount of the person's pension. Again, this has no impact on people working to their normal retirement age, including hazardous duty. Finally, the healthcare premium will have no effect on any employee with 25 years of service as of 7/1/11 who retires before 7/1/13.
4. There are no changes in the rules or premiums for "early retirement" for disability retirees.
5. There is no COLA delay. For new retirees after 9/1/2011, the same COLA formula applies, but the minimum has been lowered from 2.5% to 2 (a cost savings for the state), but the maximum has been raised from 6% to 7.5% (insurance for retirees).
6. Overtime and all other normal payments still count towards final average earnings.
7. There is a new Tier III for new employees which preserves the basic structure and benefits of Tier II/IIA and Hazardous Duty. It does add three years to the normal and early retirement ages for Tier II/IIA and change the final average earning computation to 5 rather than 3 years, but rejects all the other negative changes just as it did for current employees. New Hazardous Duty employees the only change is they need to be age 50 with 20 years or 25 years at any age.
8. No Change in Tier I

D. A New Option For New Higher Ed Employees And Current Alternate Retirement Plan (ARP) Participants

The agreement provides the right for new higher ed. employees to join, and current ARP participants to switch to, a Hybrid Defined Benefit/Defined contribution type plan. The purchase option is at the full actuarial cost. The Hybrid plan will have defined benefits identical

to Tier II/IIa but requires employee contributions 3% higher than the contribution required from the applicable Tier II/IIa plan. The higher contribution is because the Hybrid participant has the option, upon leaving state service, of accepting the defined benefit amount, or electing to receive a return of his/her contributions to the hybrid plan, plus a 5% match, plus 4% interest. No match is provided on any purchased service.
The Hybrid plan is intended to allow new employees to avoid the impossible choice of ARP versus SERS when they are too soon in their careers to assess the likelihood they'd stay for their careers. It is also designed to provide an additional choice to current participants, but not to replace the pending ARP Award. The parties are hopeful that the Hybrid plan can be implemented much more quickly than the pending ARP Award, but will allow employees the option of waiting to make their choice until the validity of the ARP award is determined by the IRS. The parties have agreed to work together with the members of the Retirement Commission to implement the process in as expeditious and cohesive manner as possible.

CONCLUSION

This agreement is not perfect, but in perilous times, it is far, far better than the alternative. It provides not just at least 4 years of peace, but a more stable future, and a platform from which to continue to fight for long term justice for all middle class and working families.