



Memo:

TO: Executive Board Members and Council Leaders
FROM: President Kenneth Brynien
DATE: February 17, 2011
RE: Potential Change in Calculation of Sick Leave Credit for Retiree Health Insurance

As reported previously, we have learned that the Department of Civil Service is contemplating a change in how the value of accrued sick leave is calculated for the purposes of retiree health insurance.

Although the situation remains fluid, I directed staff to prepare the attached memo to share with you the information we have learned to this point, and what actions PEF has already taken. We will update this information as more details are made available.



Contract Administration

TO: Executive Board Members and Council Leaders

FROM: Elizabeth S. Hough, Director of Contract Administration
Lorraine Simpkins, Health Benefits Specialist

DATE: February 17, 2011

RE: Possible Change in Sick Leave Credit Calculation

On Friday, February 11, PEF received information suggesting that the Department of Civil Service is planning to change how it calculates the value of the monthly sick leave credit that is used to offset a retiree's share of health insurance premiums (10% for the retiree and 25% for the retiree's covered dependents). On Monday, the Department of Civil Service (DCS) verbally confirmed that they intend to change the procedure for new retirees beginning effective April 1, 2011.

As of today, there has been no official announcement of this change. Additionally, we have received nothing in writing providing us with any more detailed information regarding the DCS's plans. There are still numerous unanswered questions. However, bearing in mind the need to communicate this impending change to our members as quickly as possible, we are notifying you of the incomplete information we have so far. Please keep in mind that the situation is still fluid and there may be changes in this information going forward.

Current Sick Leave Credit

Many retirees are able to reduce the cost of health insurance premiums through the use of the sick leave accruals remaining at the time of retirement. Unused sick leave, up to maximum of 200 days, is converted to a credit by dividing the total dollar value of the sick leave accruals by the actuarial life expectancy of the employee in months. The result is a lifetime monthly sick leave credit that is used to reduce a retiree's share of the monthly health insurance premium for as long as s/he remains enrolled in NYSHIP.

For example, assume a 40 hour a week employee is retiring at age 62 with an annual salary of \$60,000 and 100 days of accrued sick leave:

- The DCS calculation first converts annual salary to an hourly rate of pay:
 - $\$60,000 / 2088 \text{ hrs} = \$28.74/\text{hr}$

- The hourly rate of pay is then multiplied by the hours of unused sick leave to generate the total dollar value of the unused sick leave:
 - $\$28.74 \times 800 \text{ hrs} = \$22,992$
- The total dollar value of the credit is then divided by the employee's remaining life expectancy which is obtained from the actuarial chart DCS uses:
 - $\$22,992 / 216 \text{ months (remaining life expectancy at 62)} = \106.44
- \$106.44 is the maximum monthly credit that is available to offset the retiree's monthly health insurance contribution.
- Currently the retiree premium contribution for Empire Plan individual coverage is \$59.23 per month. The monthly retiree premium contribution for Empire Plan family coverage is currently \$250.12 per month.
 - A retiree with a \$106.44 sick leave credit currently has no additional out of pocket cost for individual coverage. $\$59.23 - \$106.44 = -47.21$ (less than 0 = no out of pocket cost)
 - The same retiree would currently have an additional \$143.68 monthly out of pocket cost for Empire Plan family coverage. $\$250.12 - \$106.44 = \$143.68$

Proposed Change

DCS has advised us that they intend to use different actuarial tables to calculate life expectancy for new retirees beginning on April 1, 2011. DCS intends to replace the existing actuarial tables, which have remained unchanged for decades, with more current actuarial tables that reflect increased life expectancy. DCS has indicated that they are looking at the NYS Employees Retirement System (ERS) actuarial tables as a possible substitute but until DCS takes formal action to adopt these tables the precise impact on our members won't be known. If DCS changes tables to increase life expectancy the result will be a lower lifetime monthly sick leave credit.

As we have not yet received complete information regarding the DCS's plans, there are a number of additional yet unanswered questions. For example, it is not yet clear precisely who this change may apply to. While our initial information suggests the DCS intends this change to apply to employees retiring on or after April 1, there is ambiguity regarding what this means. For example, it is possible to retire from State service but delay commencement of retiree health insurance coverage until a later date post retirement. It is not yet clear, whether this change, if implemented, will apply to individuals who have already retired from State service but who have not yet commenced retiree health insurance coverage.

Below is an example of how a change to increase life expectancy by 20% could impact a hypothetical PS&T Unit retiree's monthly sick leave credit. **Until Civil Service formally announces what changes they have implemented, we will not know the exact impact on life expectancy. We include this example as a hypothetical illustration of how an increase in estimated life expectancy will affect the value of the offset from accrued sick leave.**

Also, please remember that the actual value of an individual's sick leave credit varies widely depending on final salary, accrued sick leave, and age at retirement.

Assume the same 40 hour a week employee is retiring at age 62 with an annual salary of \$60,000 and 100 days of accrued sick leave after implementation of a 20% increase in life expectancy:

- Once again the DCS calculation first converts annual salary to an hourly rate of pay:
 - $\$60,000 / 2088 \text{ hrs} = \$28.74/\text{hr}$
- The hourly rate of pay is then multiplied by the hours of unused sick leave to generate the total dollar value of the unused sick leave:
 - $\$28.74 \times 800 \text{ hrs} = \$22,992$
- The total dollar value of the credit is then divided by the employee's remaining life expectancy (increased in this example by 20 %):
 - $\$22,992 / 259 \text{ months} = \88.77
- \$88.77 is then the maximum monthly credit that is available to offset the retiree's monthly health insurance contribution.
- Currently the retiree premium contribution for Empire Plan individual coverage is \$59.23 per month. The monthly retiree premium contribution for Empire Plan family coverage is currently \$250.12 per month.
 - If the sick leave credit is reduced to \$88.77 this individual would in the short term still have no additional out of pocket cost for Empire Plan individual coverage.
 - $\$59.23 - \$88.77 = -29.54$ (less than 0 = no out of pocket cost).
 - However, this individual would also have a significantly reduced cushion against future increases in premium.
 - If this retiree had Empire Plan family coverage, s/he would have a \$161.35 monthly out of pocket cost.
 - $\$250.12 - \$88.77 = \$161.35$
 - Net monthly retiree premium increase due to revised life expectancy: $(\$161.35 - \$143.68) = \$17.67$

Again, this example is only to illustrate how increasing life expectancy will decrease the monthly sick leave credit. The **actual** cost shift to retirees depends on many factors, including the specific actuarial table adopted by Civil Service, as well as the age, salary and accumulated sick leave credits of the enrollee.

PEF's Response

On Monday, 2/14, PEF's Contract Administration Department electronically mailed a demand letter regarding the impending change to GOER. This letter demands that the state immediately cease and desist implementation of this change because we believe it is a violation of the 2007-2011 PS&T contract and a mandatory subject of bargaining. As of 2/17, we have not yet received a response to our demand letter.

Assuming that the Department of Civil Service will nevertheless implement unilaterally, we have also voiced our serious concerns that an April 1 implementation date provides our members who are eligible to retire with no reasonable opportunity to review the impact of such a change on their sick leave credit and consider whether to adjust their retirement dates accordingly.

Finally, Contract Administration and the Office of General Counsel are currently reviewing all legal options available to fight this change. Assuming implementation, we will, at minimum, file a statewide class-action contract grievance challenging this change and are continuing to review other options that may be available to us.

As more information becomes available, we will notify you. In the meantime, members who are contemplating retirement in the near term should be encouraged to contact their Health Benefits Administrator for advice on how their monthly sick leave credit may change based on their planned retirement date.