

**STATE OF LOUISIANA
LEGISLATIVE AUDITOR**

Louisiana Employee Benefits

**Preliminary Staff Study
March 1995**



Performance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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State of Louisiana**

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March 10, 1995

Honorable Samuel B. Nunez, Jr.,
President of the Senate
Honorable John A. Alario, Jr.,
Speaker of the House of Representatives
and
Members of the Legislative Audit Advisory Council

Dear Legislators:

This is our preliminary report of our staff study of Louisiana Employee Benefits. This staff study was conducted as part of Phase Two of the Select Council on Revenues and Expenditures in Louisiana's Future (*SECURE*).

This staff study report presents our preliminary findings, conclusions, and recommendations. We have also identified matters for legislative consideration. To meet the needs of *SECURE* to review the findings and recommendations of this staff study and issue their report to the Louisiana Legislature, we are issuing this preliminary report before completion of the entire staff study. The findings, conclusions, and recommendations contained in this preliminary report represent those that have been fully developed as of the date of this report. The final report will be issued when completed.

Sincerely,

A handwritten signature in cursive script that reads "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

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Chapter One: Introduction

Study Initiation and Objectives

This *interim report* of the staff study of Louisiana Employee Benefits was conducted by the Performance Audit Division of the Office of Legislative Auditor in conjunction with the Legislative Actuary. In addition, we contracted with an independent actuarial firm, Milliman and Robertson, Incorporated, for actuarial studies. We relied on the representations of this firm for parts of this interim report.

The Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) requested us to follow up on certain benefits issues from SECURE Phase One. The Legislative Audit Advisory Committee authorized this study on September 20, 1994.

The Louisiana Legislature established SECURE through Senate Concurrent Resolution (SCR) 192 in the 1993 Regular Legislative Session. The council was created to develop recommendations to improve the financial future of the state and the quality of life of its citizens. The resolution provided for the council to be composed of 27 members representing state and local government, private industry, education, labor, and special interest groups. The legislature reauthorized SECURE through SCR 17 in the Third Extraordinary Legislative Session of 1994 and expanded its membership to 30. This continuation of effort is known as Phase Two of the SECURE project.

Scope and Methodology

The SECURE Phase One report said that Louisiana does not comprehensively evaluate employee compensation and benefits. Thus, the overall goal of this study is to comprehensively evaluate employee benefits, pointing out where benefits are overly generous as well as where improvements are needed. The study analyzes state employee compensation and benefits with respect to the following:

- ♦ Salaries
- ♦ Retirement benefits
- ♦ Non-retirement benefits

This *interim report* is being issued so that the SECURE Council may have access to our major findings and recommendations when they need to consider all findings and recommendations of all Phase Two reports. The report is preliminary. Therefore, all statistical matter, conclusions, and recommendations may be subject to change if further research so indicates. We are reasonably confident that the contents of this interim report will change little in the final version.

The staff study is being conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. The legislative actuary planned and executed the actuarial study of the benefit structure of the state's two largest unfunded retirement systems, Louisiana State Employees Retirement System (LASERS) and Teachers' Retirement System of Louisiana (TRSLA). He was assisted by performance audit staff as well as an independent actuarial firm, Milliman and Robertson, Incorporated (M&R). M&R also conducted a study of the medical benefits in the State Employees Group Benefits Program (SEGBP) indemnity plan.

Our work began in October 1994 and is yet to be completed. The study consists of four parts. Because of data limitations, we used information from different populations as described below to perform different parts of the study. These limitations will be clearly described in the final report when it is issued.

- ♦ *Salaries and paid leave of selected classified Civil Service positions in Louisiana state government.* No reliable data were available on unclassified positions.
- ♦ *Benefits for participants in the State Employees Group Benefits (SEGBP) medical and life insurance programs.* Participation in this group is not limited to classified Civil Service Employees or members of certain retirement systems.
- ♦ *Retirement and ancillary benefits for members of LASERS and TRSLA.* The legislative actuary has an extensive demographic database on retirement systems members. These two systems were chosen because they are both underfunded and they are by far the largest, representing about 90 percent of the population and actuarial assets of the four state systems.

- ♦ *Paid leave and holidays.* Our examination focused on leave accrual rates and policies for classified employees.
- ♦ *Salaries and benefits of public elementary and secondary education teachers in Louisiana.*

We obtained a legal opinion from the general counsel of the Office of Legislative Auditor on the potential legal ramifications of changing benefits in the retirement system.

We compared Louisiana Civil Service salaries and salary ranges to averages contained in a southeastern state government survey. We also used two surveys to compare Louisiana Civil Service salaries and salary ranges to private industry averages in Baton Rouge and New Orleans. These two cities represent the two largest employment markets in the state for private industry and state government. The analysis is not statistically valid because our comparisons were not based on a random sample of all Louisiana Civil Service job classifications. We only compared Louisiana Civil Service job classifications for which we could find comparable data.

Our salary comparisons focused on actual salaries and salary ranges. Actual salaries for some job classifications in southeastern state governments and private industry in Baton Rouge and New Orleans were compared to actual salaries for Louisiana Civil Service classifications. Salary ranges were compared using the average midpoint of the survey's job classifications to the midpoint of the comparable civil service job classifications.

Background

Where an employee of a private sector corporation might have a complete compensation and benefits package provided by his or her employer, compensation and benefits for a state employee in Louisiana are administered by several different entities. For each employee, this may include his or her retirement system, a group insurance benefits organization, the Department of Civil Service, and the agency where he or she works.

Salary administration is developed by the Department of Civil Service for classified employees and by individual agencies for unclassified employees.

Leave policies and rules are developed by the Department of Civil Service and the Civil Service Commission for classified employees. Most agencies generally follow Civil Service rules for their unclassified employees as well, although there is no standardization of leave policies throughout state government.

Life insurance is available from three sources. One is a group term insurance policy through State Employees Group Benefits Program (SEGBP), a state agency that administers the insurance for most branches of state government as well as some political subdivisions. The cost of this policy is partially paid by the state. Also, many private insurers are allowed to offer life policies to state employees through *payroll deduction*, but the employer does not share any of the cost. Finally, long-term state employees are eligible for a survivor benefit through the *retirement systems*. This benefit varies by retirement system, but typically it pays an annuity to the employee's spouse and/or children. To qualify, a member must have been working for the state for at least five or ten years at the time of death, depending on family composition.

Health insurance is administered through SEGBP. Most employees have a choice among a basic indemnity plan, which is structured with a preferred provider organization (PPO) and several health maintenance organizations (HMOs). Under the PPO, the state has contracted with numerous physicians, pharmacies, hospitals, and other medical providers for lower charges. HMOs are private organizations that negotiate fees with providers, then charge whatever premium is necessary to cover anticipated expenses and make a profit. While SEGBP designs, pays claims, and collects premiums for the PPO plan, it merely negotiates contracts and collects premiums for the HMOs. *Employees compare premiums and benefits, then select the option that best suits their needs.*

Disability coverage for disabilities of various lengths is available from three sources. The first is *accrued sick leave*. The second is the employee's *retirement system*, which provides a long-term benefit computed like the retirement benefit for LASERS and TRSLA. Only system members with ten years of service in LASERS or five years of service in TRSLA are eligible. An employee may buy an individual short-term

disability policy through *payroll deduction*, but benefits under these policies may not be collected for more than just a few years. Also, the state does not contribute toward the premium.

Retirement is available to state employees through one of four state *retirement systems*. This study concentrated on LASERS and TRSLA, which are the two largest state systems with approximately 68,000 and 85,000 active members, respectively. Funding comes from employee and employer contributions as well as investment income from system assets. Retirement system membership is mandatory. Age and years of service requirements for system benefits vary. Louisiana is one of seven states that does not contribute to Social Security. Therefore, Louisiana state employees are ineligible for Social Security benefits unless they have significant prior service with an employer that contributes to it. Retirement system members vest (have their benefits fully available) after ten years, but if they leave state service before that time, they receive only their own contributions with no interest.

Chapter Two of this report is a summary of our conclusions, recommendations, and matters for legislative consideration. These matters will be discussed in further detail in our final report of employee benefits in Louisiana.

Chapter Two: Summary of Conclusions and Recommendations

Salaries

Selected Louisiana civil service employees' salaries are lower than those in southeastern states.

Salaries for state employees in the Southeast average four percent higher than those of comparable Louisiana civil service employees. There are 2,876 job classifications covering 65,000 classified employees in Louisiana. We examined 71 classifications in other southeastern state governments that were comparable to Louisiana civil service jobs. If the four percent difference were to hold true for all job classifications in Louisiana, total annual salaries would have been approximately \$1.52 billion in fiscal year 1993-94. This is \$60 million greater than the approximate \$1.46 billion actually paid.

Some state civil service employees with job classifications comparable to employees in private industry earn less than their private industry counterparts.

Baton Rouge. Salaries for employees in private industry in Baton Rouge average 13 percent higher than those of comparable Louisiana civil service employees. We examined 67 classifications in private industry that were comparable to civil service jobs. If the 13 percent difference were to hold true for all job classifications in Louisiana, total annual salaries would have been approximately \$1.65 billion in fiscal year 1993-94. This is \$190 million greater than the approximate \$1.46 billion actually paid.

New Orleans. Salaries for employees in private industry in New Orleans average 10 percent higher than those of comparable Louisiana civil service employees. We examined 45 classifications in private industry that were comparable to civil service jobs. If the 10 percent difference were to hold true for all job classifications in Louisiana, total annual salaries would have been approximately \$1.61 billion in fiscal year 1993-94. This is \$146 million greater than the approximate \$1.46 billion actually paid.

As stated in Chapter One, our sample was based on a limited number of positions for which we could find comparable descriptions. Therefore, it is not statistically valid. As a result, we do not intend for these projections to be interpreted as the exact dollar amount by which Louisiana salaries are behind. We only intend for these estimates to give a general idea of the potential cost to the state if it chooses to bring employee salaries up to the market.

Teachers' salaries are among the lowest in the Southeast and the nation.

Salaries for teachers in the Southern Regional Educational Board (SREB) states average 15 percent higher than salaries for teachers in Louisiana. Even after adjusting for the cost of living, salaries for teachers in the SREB states still average 13 percent higher than salaries for teachers in Louisiana. If these teachers were paid the average salary of \$30,163 for the SREB states, total teachers' salaries would have been approximately \$1.36 billion. This is \$180 million greater than the approximate \$1.18 billion actually paid in fiscal year 1993-94.

Even after adjusting for the cost of living, salaries for teachers nationally average 37 percent higher than salaries for teachers in Louisiana. If these teachers were paid the national average salary of \$35,813, total teachers' salaries would have been approximately \$1.61 billion. This is \$430 million greater than the approximate \$1.18 billion actually paid in fiscal year 1993-94.

Matters for Legislative Consideration

The legislature may wish to consider:

1. Funding pay increases for state civil service employees to bring salaries for state employees into a more competitive position with southeastern states and private industry. Consideration should be given to each individual job classification before any adjustments are made.

2. Funding pay increases for teachers to bring salaries for teachers into a more competitive position with SREB states and nationally. Consideration should be given for years of experience and level of education before any adjustments are made.

**Retirement,
Death
and
Disability
Benefits**

The Louisiana State Employees Retirement System (LASERS) and the Teachers' Retirement System of Louisiana (TRSLA) currently have an unfunded accrued liability (UAL) of over \$6 billion. UAL amortization for the LASERS and TRSLA debt is anticipated to claim about \$233 million from the general fund in fiscal year 1994-95.

Although the state is now on a legislatively mandated amortization schedule, other payment options exist, such as pension obligation bonds. Under certain options, the UAL could be paid out more quickly and with reduced interest payments. Applying any one-time windfall funds toward the UAL can also generate savings. For example, funds distributed from the state's recent settlement with Texaco are projected to save \$2.5 billion in interest over the life of the current schedule. In addition, the UAL will be funded two years sooner than originally anticipated. This distribution has already been made.

Louisiana's Constitution requires that employer contributions to the retirement systems not fall below a certain percentage of payroll until the original UAL established in 1988 is fully funded. The Public Retirement Systems Actuarial Committee has fixed these percentages at 12 percent for LASERS and 11.8 percent for TRSLA. Therefore, if benefit costs are reduced, more of this required contribution is allocated to pay off the UAL. Increases in funding applied to the UAL today can generate substantial interest savings later.

Matters for Legislative Consideration

The legislature may wish to consider:

1. Applying any future windfalls toward amortizing the UAL.
2. Adopting different amortization schedules or other funding arrangements such as pension obligation bonds.

The law is not clear as to whether the benefits of current retirement system members can be changed. Because modifications to benefits for current retirement system members would very likely result in costly litigation for the state, changes should be made for new entrants only.

While the Louisiana Constitution does not expressly prohibit benefit modifications, it can be argued that a contractual relationship exists between the state of Louisiana and retirement system members. Federal and state constitutions prohibit the impairment of contracts. In addition, the accrued benefits of the retirement system members are constitutionally protected from being diminished or impaired.

Matter for Legislative Consideration

The legislature may wish to consider:

1. Making changes for the new system entrants only to avoid the inevitable litigation that would result from benefit revisions.

Instituting a revised retirement plan for new employees in LASERS and TRSLA would yield savings of approximately \$53 million by the year 2003. The revised plan would include a standard retirement age of 65, a minimum early retirement

age, and a final average salary based on 60 consecutive months.

Limiting the benefits of early retirement and the way in which salaries are calculated is consistent with providing employees adequate benefits at reasonable costs. The retirement systems have no established normal retirement age. Establishing such an age at the social security threshold of age 65 would allow the system to reduce benefits for those who retire before age 65. Further, the systems have no minimum early retirement age, only a years-of-service requirement. The longer employees remain in the retirement system, the more they can contribute toward funding their retirement benefits.

In addition, the retirement benefit is calculated based on a formula that takes into account the average of the employee's highest consecutive 36 months of salary. The formula is based on final average salary. Since salaries normally increase over time, the average of the five highest years would be lower than the average of the three highest years. The savings of \$53 million are based on a uniform accrual rate of 2.5 percent of final average salary (5 years).

Currently, different employees make different percentage contributions. Mandatory employee contributions to the new programs would be uniform for both systems.

The state will gradually see cost savings under any new plan in terms of reduced contributions to the retirement systems. Since the eventual retirement of these new employees will cost less than it would have under the current system, the state will have to set aside less to fund it. The savings impact of these provisions is projected to be approximately \$53 million in annual employer contributions by the year 2003. The general fund portion of this amount is \$36.5 million.

Matter for Legislative Consideration

The legislature may wish to consider:

1. Instituting a revised plan for new LASERS and TRSLA entrants with the following features

(Corrections and Wildlife agents under LASERS and Lunchroom B workers under TRSLA would be excluded):

- ♦ Normal retirement at age 65
- ♦ Reduced benefits for early retirement before age 65
- ♦ Minimum early retirement age
- ♦ High 60-month final average salary
- ♦ Equal contribution rate of 7.5 percent in both systems

The survivor and disability features of LASERS and TRSLA provide members with inequitable and sometimes inadequate benefit provisions.

A redesigned in-service survivor plan for LASERS and TRSLA members could provide a death benefit to the survivors of active employees of two times pay in a lump sum. Currently, the survivor benefit in LASERS and TRSLA is an annuity payable for an extended period of time. The state also makes available to most LASERS and TRSLA members a group term life insurance policy through SEGBP.

For disability, LASERS and TRSLA members receive benefits according to a variant of their retirement formula. The disability benefit in this system replaces less than 65 percent of pay for the typical system member. Income replacement at two-thirds of predisability pay is standard for disability insurance.

Currently, a member with less than five or ten years of service, depending on circumstances, is not eligible for these benefits. For instance, only 43 percent of LASERS and 73 percent of TRSLA members are now eligible for disability coverage. Under the revised system, members would be eligible immediately.

We projected the **cost impact in the first year** of replacing the current retirement system death and disability provisions with the proposed changes for current employees. A negative cost impact indicates a savings.

Exhibit 2-1			
First-Year Cost Impact of Revised Death and Disability Provisions			
System	Survivor Benefit	Disability Benefit	Total
LASERS	-\$3,793,000	+\$7,503,000	+\$3,710,000
TRSLA	+\$725,000	+\$3,971,000	+\$4,696,000
Total	-\$3,068,000	+\$11,474,000	+\$8,406,000
Source: Prepared by Office of Legislative Auditor's staff from data supplied by the Legislative Actuary.			

The cost of implementing both programs in both systems in the first year is estimated to be \$8.4 million. However, there would be a savings of more than \$3 million if only the survivor benefit were changed. Also, if the survivor benefit were changed, there would be no further need for the SEGBP policy because the new plan would offer a better benefit. This policy costs the employer (the state and some political subdivisions) approximately \$7.4 million annually in premiums for active LASERS and TRSLA members. If this premium were added to the savings for the survivor portion of the new plan, the total savings in the first year would be almost \$10.5 million. The employer would pay the full cost of the proposed plan.

Nevertheless, the proposed plan would generally represent a diminished benefit for employees who are eligible for the in-service survivor benefit in the retirement systems. The law is not clear as to the extent to which this could be done. Further, some employees whose employers provide a lump sum death benefit are eligible for monthly social security survivor benefits. Louisiana's employees are not eligible because the state does not contribute to social security other than Medicare for employees hired after 1986. On the other hand, a broader base of employees would be eligible for the program if existing survivor benefits were replaced with a lump sum death benefit as proposed. A qualified pre-retirement survivor annuity is typical of governmental pension plans.

Recommendations

1. Although it appears that significant savings would result from proposed changes in the in-service survivor benefit, these may be overshadowed by litigation costs. Therefore, careful study of legal implications must be performed before changing this benefit for current employees to the proposed level.
2. Because of apparent cost savings for the current employees we studied, we recommend consideration of revised survivor benefits for possible incorporation into the design of a program for new entrants only.
3. The revised disability program will cover more employees. However, the cost impact of the proposed disability benefit for current employees is high. Other options that provide more coverage than currently available to all employees at less cost should be studied. One other option is the proposal by LASERS discussed on page 16.

The state's life insurance program is in need of redesign to ensure that adequate coverage is available to employees. Currently, state law inhibits such redesign.

One method for state employees to obtain survivor benefits is through their retirement system, another is through SEGBP's life insurance program. The life insurance program under SEGBP is uncompetitive in cost and benefit provisions. It covers an older population since younger employees can buy less expensive life insurance elsewhere. Seventy-nine percent of private business establishments provide life insurance coverage at no cost to the employee. Forty-four states pay the full cost for a basic level of life insurance for their employees. Participants in SEGBP's program pay half of the stated premium cost of \$.88 per thousand dollars of coverage.

Although the stated premiums of the program are \$.88 per thousand, SEGBP only remits \$.71 of this to the insurance carrier. The remainder is being used to subsidize the medical plan. When this is factored in, the employee is really paying the

equivalent of 62 percent of the cost for life insurance coverage under SEGBP.

Also, Louisiana Revised Statute (LSA-R.S.) 42:821 requires that life insurance contracts be rebid every two years. Insurance carriers normally amortize their acquisition costs for new contracts over at least three years. This makes it difficult to find new carriers to bid on a contract.

Recommendations

1. SEGBP should modify the existing life insurance contract, rebid the contract, or self-insure life insurance benefits.
2. SEGBP should change the life insurance premiums to be approximately equal to what it pays to the carrier or to actual claims costs if the contract is self-insured.
3. The state should consider funding a basic level of life insurance for all employees. This could be studied in conjunction with the consideration of restructuring survivor benefits for new employees under the retirement systems.

Matter for Legislative Consideration

The legislature may wish to consider:

1. Amending LSA-R.S. 42:821 to increase the maximum term for insurance contracts.

LASERS is proposing a supplemental disability policy that would pay higher benefit levels to a larger number of employees.

The program would allow LASERS members with two or more years of service to obtain additional coverage that would replace 50 percent of salary in the event of disability. The coverage would supplement benefits already available through LASERS.

The program would be self-insured through LASERS. Costs could be split between the member and the employer or could be totally paid by the member.

Matters for Legislative Consideration

The legislature may wish to consider:

1. Assessing this proposal. It represents an option for providing state employees with a benefit that would reflect the standard level of predisability pay.
2. Encouraging TRSLA and other systems to develop similar proposals.

By limiting or eliminating the amount of unused sick and annual leave convertible at retirement, the state could reduce the amount it contributes annually to the retirement systems.

In LASERS and TRSLA, some unused sick and annual leave may be converted to retirement credit at the point of retirement. For LASERS, there is no limit to the amount of unused sick and annual leave that can be converted to retirement credit at no additional cost to the member. For TRSLA, up to one year of sick leave earned after June 30, 1990, and unused may be converted to retirement credit at no additional cost to the member. Sick leave over that amount earned after June 30, 1990, and unused may be purchased on an actuarial basis for

conversion to retirement credit. Unused annual leave also may be purchased on an actuarial basis for retirement conversion. Purchasing such leave on an actuarial basis means there will be no cost to the system for funding it. If the sick or annual leave was earned before June 30, 1990, there is no limit to the amount that can be applied for conversion to retirement credit.

If all future conversion of sick and annual leave credit were eliminated for LASERS and TRSLA, the state would save on the annual contribution it must make to fund benefits. The legislative actuary has estimated that if such a restriction had been enacted with June 30, 1993, as its effective date, the state would have saved approximately \$32 million in the two systems in fiscal year 1993-94. If the conversion of future sick and annual leave were capped at one year, the state would have saved approximately \$3.6 million, all of it in LASERS. TRSLA has such a cap.

However, the ability to convert leave to retirement credit may be an incentive to a potential retiree not to use that leave just before retirement.

Matter for Legislative Consideration

The legislature may wish to consider:

1. Amending LSA-R.S. 11:424 and LSA-R.S. 11:752 to cap the conversion of sick and annual leave for retirement credit.

An automatic, prefunded cost-of-living adjustment (COLA) for retirees based on a variant of the CPI (Consumer Price Index) would be costly.

The SECURE Council recommended in Phase One that the state consider granting automatic, prefunded COLAs for retirees based on the CPI. The social security administration as well as a majority of state plans fund COLAs in this way.

A prefunded COLA for LASERS and TRSLA members would require the employer to make additional contributions to the retirement systems on behalf of all active members and retirees. We studied such a COLA based on a CPI index capped at three percent annually. If this COLA had been in effect in 1993, it would have cost an additional \$198 million in contributions. Of this amount, \$137 million would have come from the general fund.

COLAs for LASERS and TRSLA are currently funded through an experience account that benefits from the systems' investment performance. Although the retirement systems may not grant COLAs unless the COLAs are fully funded, the legislature is able to grant COLAs at any time, whether the COLAs are prefunded or not.

Matter for Legislative Consideration

The legislature may wish to consider:

1. Requiring that all COLAs be prefunded before being granted.

Because the Deferred Retirement Option Program (DROP) is so new and also unique to Louisiana, it is difficult to measure actuarially. When no reliable experience measurements are available, one cannot know how great the state's liability is for this program.

DROP was instituted in 1990 for LASERS and 1991 for TRSLA. The program allows system members who are eligible for retirement to continue to work and earn a regular salary. In the meantime, they are accumulating credits in an account based on the amount they would otherwise receive as a retirement benefit.

The TRSLA DROP has a "window" of opportunity for the program. A potential retiree is notified when he or she first becomes eligible and must join immediately to take advantage of the full three-year period. In LASERS, no such window exists. An employee may join any time after becoming eligible and may continue for three years. Preliminary actuarial modeling indicates that a three-year DROP without a window is costly.

Matters for Legislative Consideration

The legislature may wish to consider:

1. Amending LSA-R.S.11:447 to add a window similar to the TRSLA window to the LASERS system.
2. Other than the foregoing, allowing no further changes to the DROP programs so that an actuarial experience base can be accumulated.

Retirement is an issue of enormous fiscal importance; therefore, adequate time must be allowed for study of retirement legislation. Further, this legislation should be considered in terms of its financial consequences.

Moving back the prefiling deadline for retirement legislation would provide more time to produce thorough actuarial cost notes and studies of complex retirement legislation. Once cost notes and studies are submitted, dual referral of retirement legislation to the Senate Finance and House Appropriations Committees would promote consideration of this legislation from a budgetary perspective. Although LSA-R.S. 24:521 requires actuarial cost notes for amendments to retirement legislation, this law allows floor amendments on retirement to be adopted without an actuarial cost note in certain circumstances.

We do not recommend further consideration of two proposals by SECURE in Phase One. Requiring retirement bills to lay over for one year before passage is not common practice.

Further, such a provision would violate Louisiana's Constitution and still might not ensure adequate study before passage. Also, Louisiana's current oversight committee structure is consistent with common practice. Consequently, institution of a pension commission may be of limited benefit.

Matters for Legislative Consideration

The legislature may wish to consider:

1. Establishing the prefiling requirements for retirement legislation as November 1. In addition, appoint the legislative actuary as the certifier for any exceptions. Finally, draft the law so that the actuary receives the bills promptly after they are filed.
2. Instituting referral of all retirement legislation to the appropriate Senate Finance or House Appropriations Committees after consideration by the retirement committees in each house.
3. Requiring actuarial notes for floor amendments to retirement legislation.

Medical

Louisiana state employees and retirees pay a high portion of their medical insurance premiums compared with other states and private sector employees in Louisiana. The state's medical plan currently has low participation. Bringing the state into a competitive position could be costly and would require a change in state law.

SEGBP's current premiums are \$168.20 for single coverage, \$284.12 for single plus one coverage, and \$347.08 for family coverage. Overall, Louisiana state employees pay a higher percentage of medical insurance premiums for active,

single coverage than employees in every other state in the nation. For active family coverage, Louisiana ranks 46th.

The state fares better with retirees on Medicare, ranking 32nd out of states reporting retiree-only coverage. Louisiana ranks 26th for retiree and spouse coverage. However, 14 states do not pay any portion of the premiums for retirees. We found no statistics that compared costs for retirees not in Medicare. Approximately 10,000 of Louisiana's 27,000 retirees (37 percent) do not participate in Medicare. Exhibit 2-2 below shows the state's rank and percentage of premium paid for various coverage types compared with other states.

Exhibit 2-2			
Health Insurance Premiums			
Louisiana Compared to National Average			
Coverage Type	Rank	Percent Paid by Louisiana	Average Percent Paid by State Governments
Active Single	50	45%	90%
Active Family	46	47%	74%
Retiree (On Medicare)	32	40%	86%
Retiree and Spouse (On Medicare)	26	45%	73%
Retiree (Not on Medicare)	N/A	75%	N/A
Retiree and Spouse (Not on Medicare)	N/A	77%	N/A

Source: Prepared by Office of Legislative Auditor's staff from *State Employees Group Benefits Program, Comparison to Other State Health Care Plans, 1994, The Segal Company.*

The state also pays less towards single coverage for its active employees than all 11 major private Louisiana employers that we surveyed. In addition, of these only two private employers paid less for family coverage. Louisiana fares better with retirees with Medicare, placing ahead of three employers who do not pay any portion of the premiums for retirees.

Louisiana's medical program has high deductibles, tied for 46th out of 50 states. Louisiana's medical program is near the middle of all states in coinsurance and out-of-pocket maximums.

Paying a higher portion of employee and retiree medical insurance premiums to reach national and local averages would be expensive. For example, it would cost an additional \$68 million if the state paid 70 percent of the current medical premiums for active indemnity plan and Health Maintenance Organization participants. Cost for any changes for retirees would be in addition to these costs.

We estimate that approximately 59 percent of eligible active employees participate in SEGBP's medical plan or contracted HMOs. In comparison, approximately 96 percent of eligible active employees participate in the medical programs of the 11 Louisiana private sector employers we surveyed. The state's low participation rate may be a result of the high portion of medical insurance premiums that state employees pay. An increase in the amount the state pays towards premiums might result in additional employees joining the program. If participation increased 10 percent, these costs would increase by an additional \$18 million. Again, costs for any changes for retirees would be in addition to these costs.

Currently, state law prohibits Louisiana state government from paying more than 50 percent of the medical insurance premiums for active employees. State law also requires that retirees' share of premiums does not exceed the premium amount paid by active indemnity plan members with similar coverage.

SEGBP's claims and expenses are projected to exceed its revenues by between \$26 and \$40 million in fiscal year 1995. The program holds insufficient reserves. Furthermore, SEGBP lacks important information to perform adequate cost analyses and projections.

SEGBP's claims and expenses may exceed total indemnity plan premiums by \$32.5 million on an accrual basis and by \$40.4 million on a cash basis in fiscal year 1995. Including other revenues available to SEGBP, these amounts are \$25.6 million on an accrual basis and \$33.6 million on a cash basis. This shortage is primarily due to a 10 percent increase in claims costs over fiscal year 1994. SEGBP's Board of Trustees recently recommended a 10 percent increase in rates. SEGBP estimates

that this increase will generate approximately \$24.6 million in fiscal year 1996.

SEGBP does not have adequate reserves for incurred but unpaid claims. At the end of fiscal year 1994, SEGBP was liable for an estimated \$47 million in incurred claims, yet had only \$23.5 million in assets.

SEGBP does not maintain complete claims data on an incurred claims basis. SEGBP needs information on incurred claims to perform adequate cost analyses and projections.

SEGBP's medical plan is well designed and provides adequate medical coverage for its participants. SEGBP could reduce costs by increasing participants' deductibles and out of pocket maximums or lowering coinsurance benefits. However, these actions would raise participants' costs, which are already unusually high. SEGBP can achieve savings by negotiating lower physicians' fees.

The state's costs for preferred provider and non-preferred provider services differ by a small amount. This indicates that SEGBP's medical plan is well designed. SEGBP's plan, includes all significant benefits usually included in benefit plan and does not include any unusual or overly generous benefits which should be eliminated.

SEGBP could reduce the state's costs by increasing employee costs outside premiums. However, as stated earlier, Louisiana's employees are already paying more than employees of other states and Louisiana private sector employers.

SEGBP could also decrease the state's costs by lowering the non-preferred provider coinsurance below the current 70 percent. This coinsurance increase will only affect participants who choose to use non-preferred providers. SEGBP concurs with this recommendation. Its Board of Trustees recently voted to lower the non-preferred provider coinsurance to 50 percent. This change is estimated to save \$9.5 million in fiscal year 1996.

SEGBP's physicians' fee schedule is currently 15 percent above the Louisiana average. Lowering the non-preferred-provider coinsurance to 50 percent should encourage increased use of the PPO physicians. Increased participation in the PPO should give SEGBP more leverage in negotiating discounts. Accordingly, SEGBP should negotiate for greater discounts with PPO physicians.

Recommendations

1. SEGBP and the Board of Trustees should assure that medical insurance premiums cover expenses.
2. SEGBP and the Board of Trustees should assure that the medical plan maintains adequate reserves for incurred but unpaid claims.
3. SEGBP should negotiate greater discounts with physicians.

Matters for Legislative Consideration

The legislature may wish to consider:

1. Modifying laws that limit the state's contributions and that require retirees' share of premiums not to exceed the premium paid by active indemnity plan members for similar coverage.
2. Funding a larger portion of employee medical premiums.
3. Providing for the employer portion of any future premium increases that are necessary to cover the expenses of the program.

Paid Leave and Holidays

Louisiana grants higher than average amounts of annual and sick leave.

In comparison with other states, Louisiana's classified employees earn above-average amounts of annual and sick leave. *State employees earn an increasing amount of annual and sick leave as their years of state service build.*

Exhibit 2-3		
Louisiana's Yearly Accrual Rates		
Length of Service	Sick Leave	Annual Leave
Up to 3 years	12 days	12 days
3 years	15 days	15 days
5 years	18 days	18 days
10 years	21 days	21 days
15 years and above	24 days	24 days
Source: Prepared by Office of Legislative Auditor's staff from the Civil Service table for crediting annual and sick leave.		

We used statistics from the *1994 Survey of State Employee Benefits* published by Workplace Economics to compare the amount of leave that Louisiana grants its employees with the other 49 states. The only interval where Louisiana does not exceed the average is during the first year of service.

Exhibit 2-4		
Annual Leave Accrual Rates Comparison		
Length of Service	National Average	Louisiana Average
1 year	13 days	12 days
5 years	16 days	18 days
10 years	18 days	21 days
15 years	21 days	24 days
20 years	23 days	24 days
Source: Prepared by Office of Legislative Auditor's staff from Workplace Economics, Inc.'s 1994 survey on state employee benefits.		

Louisiana's sick leave accrual rates also exceed the norm of other states. Most states grant employees between 12 and 15 days of sick leave per year. In contrast, over 71 percent of Louisiana's classified state employees receive between 18 and 24 days per year.

Exhibit 2-5	
Sick Leave Accrual Rates Comparison	
Days Accrued per Year	Number of States
9 - 10	3
12 - 15	39
18 - 21	3
Source: Prepared by Office of Legislative Auditor's staff from Workplace Economics, Inc.'s 1994 survey on state employee benefits.	

The average number of sick leave days per year granted by other states is 14. Currently, Louisiana is granting the equivalent of approximately 19 sick leave days per employee per year. In comparing this average to the number of days allowed in other states, we found that only one state provides more than 19 days of sick leave.

While Louisiana grants more sick leave days than most other states, it is the only state that does not allow employees to use sick leave to attend to an ill family member. We do not know what impact a change in policy to allow employees to use sick leave to attend to an ill family member would have on sick leave usage.

Louisiana is one of only four states that ties the number of sick leave days granted to years of service. All other states grant employees a set number of sick leave days per year without respect to service length.

Louisiana allows unlimited accumulation of annual and sick leave.

Louisiana is one of only three states that allows an unlimited amount of annual leave to be carried forward into succeeding years. In the remaining 47 states, annual leave that an employee earns over the maximum accrual must be used during the year, forfeited, or in some cases paid out at year end.

Other states use one of three methods listed below to limit the amount of annual leave an employee can carry forward at year end.

- ♦ A set number of days that applies to all employees.
- ♦ Limit of either one, two or three times the employee's accrual rate.
- ♦ Limit is tied to the employee's length of service.

Regardless of which of these three methods a state employs, the maximum number of days that an employee is allowed to carry forward is between 20 and 60 days.

Although Louisiana does not limit the amount of sick leave that an employee may accumulate, this practice is not uncommon. Thirty-seven other states do not limit sick leave accrual. However, because Louisiana employees earn sick leave at a higher level than in most states, it is likely that sick leave accumulated in Louisiana is also higher than in other states.

Other states commonly provide incentives for not using sick leave. As incentives not to use sick leave, other states use the following:

- ♦ Credit unused sick leave towards calculating retirement benefits. (Louisiana currently allows this.)
- ♦ Apply a portion of the value of unused sick leave towards the cost of life insurance.
- ♦ Pay the equivalent of some or all of the value of unused sick leave to the employee in cash.
- ♦ Pay the value of unused sick leave to the employee in the event of disability.
- ♦ Pay the value of unused sick leave to an employee beneficiary in the event of death.
- ♦ Allow employees to convert some or all unused sick leave days to personal use days.

Louisiana's generous leave policies may have been designed to compensate for the lack of disability insurance.

Other states may have lower leave accrual rates because they also provide disability insurance. Eighteen states provide short-term disability insurance and 23 states provide long-term disability insurance. Louisiana does not provide traditional disability insurance for its employees.

Some long-service employees in Louisiana have a disability provision through the retirement systems. However, according to the SECURE Phase One Personnel and Benefits audit report issued in 1994, approximately 39 percent of the members of the four state retirement systems were not eligible for long-term disability as of June 30, 1993. Accrued leave may be the only protection these employees have in the event of catastrophic illness or disability. Further, Louisiana is one of seven states that does not pay into the Social Security System; therefore, many state employees are not eligible for social security disability benefits.

Agency schedules and staffing policies may cause problems for establishing leave accrual limits.

If the state institutes a limit on leave accrual, it should consider and modify scheduling and staffing policies that could create conflicts. For example, the state generally compensates overtime hours worked as compensatory time earned instead of cash payment. Departments may require employees to use accumulated compensatory time before annual leave. In a given year, an employee might have difficulty in scheduling all of his or her compensatory leave in addition to his or her annual leave. In addition, 24-hour facilities or departments with critical staffing shortages may have difficulty in scheduling employees if state policy forced all employees to "use or lose" leave.

Having above-average annual and sick leave accrual rates have some implications.

The Department of Civil Service does not have reliable data on leave usage. As a result, we were not able to determine if or to what extent Louisiana's above average accrual rates result in excessive usage of leave by its employees. Nor were we able to project the actual cost savings, if any, which might result from adjustments to leave accrual and usage policies. Therefore, we based our annual and sick leave cost calculations on earned rather than used leave.

We projected that, for one year alone, Louisiana state employees are earning approximately 106,500 days of annual leave above the national norm for classified employees with between one and 25 years of service. We excluded employees with 25 years of service or more from this calculation because we did not have information on how many states change accrual rates for these intervals. The dollar value of annual leave that state employees earn in excess of the national average for classified

employees with one to 25 years of service is \$9.9 million. The actual cost incurred by the state may be much less than this amount because employees may not use or receive payment for all of the leave which they accrue.

When classified employees terminate state service because of separation, resignation, or retirement, they receive a cash payment for up to 300 hours of unused annual leave at their current hourly rate of pay. If the employee is eligible for retirement, they can convert the remaining annual leave into retirement credit or receive an actuarially reduced equivalent lump sum payment. For those classified employees who leave service without retiring, annual leave over 300 hours is lost. The state does not incur a cost for this leave.

We also projected the number and value of excess sick leave days earned (assuming employees were to use 100 percent of the sick leave granted to them). Louisiana state employees are currently earning approximately 300,000 sick leave days above the national norm for sick leave for all classified employees per year. The dollar value of this leave is \$30.4 million.

Tangible costs savings would not occur simply by reducing leave accrual rates. If Louisiana's classified employees have excessive sick leave usage, then lowering leave accrual may reduce absenteeism. If employees are at work more often, the state could potentially reduce the size of its workforce and thus achieve cost savings.

Particularly in the case of sick leave, it is important to understand that the state is not actually incurring a cost equal to the dollar value of this excess leave. Large sums of sick leave may go unused in a given year because sick leave is only to be used in the event of personal illness or injury. Furthermore, Civil Service rules prohibit employees from being paid for any unused sick leave upon separation and, unless the employee is retiring, the state never incurs a cost for this leave. We do not have information on the amount of unused sick leave which is lost.

At retirement, some employees may also convert unused annual and sick leave into service credit or receive an actuarially reduced lump sum payment. The cost associated with applying leave towards retirement system credit is discussed in another part of this report.

Louisiana grants the same number of holidays per year as other states.

According to the *1994 Workplace Economics Survey*, the average number of paid holidays granted to state employees nationwide is 11 days. The most paid holidays granted by any state is 14 and the least is 9.

The state observes eight legal holidays: New Year's Day, Mardi Gras Day, Good Friday, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day, and Christmas Day. In addition to the eight legal holidays, the governor may proclaim two other holidays each year. In the past, governors have generally proclaimed Acadia Day, the day after Thanksgiving, and two additional holidays per year. The eight legal days, the two days proclaimed by the governor plus the day after Thanksgiving yield 11 holidays for state employees in Louisiana.

Recommendations

The Civil Service Commission should:

1. Adjust leave accruals to be more consistent with the national averages. However, this should only be done in conjunction with the state instituting an adequate disability policy for all employees. This would include allowing a set number of sick leave days per year regardless of an employee's length of service.
2. Limit the amount of annual leave that an employee can accumulate and carry forward to subsequent years.
3. Allow sick leave to be used to care for ill family members.
4. Explore the feasibility of implementing incentives to keep sick leave usage down.

Louisiana teachers earn less sick and personal leave than teachers nationwide. Louisiana teachers can accumulate unlimited sick leave.

Louisiana teachers earn 10 days sick leave per year, compared to an average of 12 days per year nationwide. State law requires that all Louisiana school boards provide teachers at least 10 days of sick leave per year. We surveyed 16 of Louisiana's 66 school boards and found that all 16 provide the minimum number of days required by state law.

State law also allows Louisiana teachers to use at least two days of sick leave per year for personal needs and requires that school systems charge personal days to the teachers' sick leave. Fifteen of the 16 school boards we surveyed in Louisiana provide teachers two personal days per year, and the remaining one provides three personal days per year. Nationwide, teachers receive an average of four personal days per year. Approximately 40 percent of school systems nationwide charge all or some personal leave to sick leave (32 percent charge all and 8 percent charge some). The remaining 60 percent of school districts do not charge personal leave to sick leave.

Similar to nationwide trends, Louisiana teachers accumulate unlimited sick leave. Approximately half the school systems nationwide allow unlimited accumulation of sick leave.

Recommendation

1. All Louisiana school boards should consider granting additional days of leave to teachers for sick and personal leave.

