



The Voice for Public Pensions

FIRST REPORT:

NCPERS Task Force

On Health Care Benefits

Of Public Employees and Retirees

Prepared by

**National Conference on
Public Employee Retirement Systems**

January 2003

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TO: NCPERS Members

The National Conference on Public Employee Retirement Systems, for the past 62 years, has focused on preserving and protecting the pensions of public sector employees. This remains our primary focus. However, we would be remiss in our responsibilities if we ignore the fact that rising health care costs are eating away the pension benefits of our current retirees and threatening the benefits of future retirees. If something is not done to stop the spiraling health care costs, future retirees could lose their entire pension benefit to health care costs. Worse yet, they could be forced to forego health care treatment and protections.

While not every public retiree is facing this problem, it is significant and growing. Those who are facing this problem now need help. Those who say it does not affect them may very likely face the health care cost problem sometime in the future. I don't believe anyone will be completely immune forever.

To address the issue of health care costs, the NCPERS Executive Board approved the creation of a national task force. I appointed 16 members to the Task Force on Health Care Benefits. They met on November 8-9, 2002, in Washington, DC, for the purpose of defining the health care problem and recommending solutions for public plans, public employees and retirees. The task force heard from national leaders on issues related to the rising costs of health care and discussed how to address the health care issue.

The attached report represents the recommendations of the 16-member Task Force on Health Care Benefits, arrived through deliberations at the first meeting. These recommendations were subsequently approved unanimously by the NCPERS Executive Board at their meeting on November 7, 2002, in New York City. These recommendations now become official NCPERS policy and will be the focus of our efforts to address the issue of rising health care costs.

The NCPERS website, www.NCPERS.org/healthcare, contains additional information about the task force meeting and will continue to update you about the work of the task force. We did not solve all the problems in one meeting nor in one report. This is an historic journey for NCPERS, and we will meet the challenges of rising health care costs as we have met the challenges of protecting our pension benefits.

I personally thank the 16 members of the task force for their work and look forward to their continued efforts to address this critical problem

Elmer J. Khal
NCPERS President

Defining the Health Care Problem

The task force recognizes that NCPERS' primary focus is pension plan retirement benefits; however, it is also clear that the issue of health care deserves attention because health care costs are eroding retirement benefits. Because of this situation the task force was created.

The Task Force identified numerous issues affecting access to and the cost of health care for public pension plans, public employees and retirees. During its initial two-day meeting, the task force members chose to focus attention on the more pressing problems: those that could be addressed without diverting the organization from its primary mission of protecting and preserving public sector pensions.

Education

1. How do we educate employees and retirees about the value of their current health care benefits and the approaching threat to existing health care benefits because of rising costs?
2. How do we protect existing retiree health care coverage when there is pressure on active workers to bargain it away?
3. Can we benefit from a long-term education program by inviting key players to join us—from providers, insurers, state and local governments and other purchasing groups?
4. Health care plans are under attack because of cost pressures on employers (private and public). When public employees and retirees say, “They’re coming after my health insurance benefits,” how will we respond?
5. Are legislators and executives aware of the impending fiscal crisis municipal and state governments are facing?
6. Do we know what we’re buying, and how do we ensure that we are getting quality health care for the dollars spent?
7. Can we form partnerships for discussion and/or action with groups such as the National Conference of State Legislators and the National Governors Association?

Funding

1. Where will the money come from to provide good health care?
2. How do we respond to state and local governments that are reducing funding by increasing cost sharing or cutting coverage?
3. How do we deal with those systems that do not offer retiree health care?

4. Should we encourage state and local governments to purchase Medicare Parts A and B for noncovered retirees?

Costs

1. Can we control rising costs, such as in-patient and out-patient hospital costs, prescription drugs and plan administration?
2. Are state mandated minimum health care benefit requirements helping or hurting us?
3. How do we combat the lack of competition that has reduced consumer choice and increased costs?
4. Are the costs for the uninsured being shifted to the insured?
5. How is the shortage of health care workers affecting health care costs?
6. Can tort reform help reduce the costs of health care?
7. Can wellness/fitness programs reduce the costs of health care?

Buying Cooperatives

1. How can we develop health care buying cooperatives within states and across state lines?
2. How do we resolve the issues of buying authority, risk sharing and benefit standardization?
3. Can public employees create purchasing alliances for drugs and health care?

Prescription Drugs

1. How do we reduce the costs?
2. How do we educate enrollees about the problems and possible solutions?
3. How do we educate enrollees about the use of generic drugs and step treatment programs?
4. How can we enlist the help of prescription drug companies, pharmacy benefit managers, physicians and pharmacists to address the problem?

Competition

1. How do we restore price competition in health care?

2. How can the Federal Trade Commission and state officials encourage competition in health care?
3. How do we educate legislators and regulators on the effects of provider consolidation?
4. Can we develop a dialogue with doctors?
5. Is consolidation denying access to certain groups and putting too much pressure on public hospitals?

Tax Code Amendments

1. How can we use the tax code to help address health care costs?
2. Should the federal government offer revenue sharing to state and municipal governments that provide employees and retirees health care coverage?
3. Should retiree health care be funded similar to the way we fund defined benefit pension plans?
4. Should long-term care be deductible by employers as a health benefit?
5. Should penalties be waived for delayed entry into Medicare?
6. Should a Medicare HMO be created to cover retiree dental and vision care?

Long-Term Care

1. Should long-term care be part of the health care benefit?
2. Should long-term care be available through a cafeteria plan using pre-tax dollars?

Recommendations on Health Care Benefits

The NCPERS Task Force on Health Care Benefits submitted the following recommendations, which were adopted by the NCPERS Executive Board on December 7, 2002. NCPERS is committed to enacting these recommendations.

Federal Legislative Actions

1. Allow retired public employees to take a distribution from their deferred compensation plans, such as a 401(a), 401(k), 403(b) or 457 plan, and use these pre-tax dollars to pay for health care costs without incurring a tax penalty.
2. Establish a tax credit deduction on federal and state income taxes for every dollar spent on health care costs, thus helping make health care affordable to all retirees.
3. Allow for elective rollover of sick leave into a health care account on a pre-tax basis.
4. Expand the employer pickup provision under Internal Revenue Code Section 414(h) for health care to allow use of these pre-tax funds for health care costs.
5. Allow retirees to pay for health care benefits and long-term care from their pension checks without tax consequences.
6. Allow long-term care coverage under a cafeteria plan.
7. Support legislation to close the loopholes in Hatch-Waxman Act of 1984 (Drug Price Competition and Patent Term Restoration Act of 1984) that allows drug manufacturers to extend drug patents beyond their legal time limit.
8. Send a letter to the Federal Trade Commission asking them to review whether hospital consolidations and mergers hurt competition in health care and result in higher health care prices.
9. Ask members of Congress to use the legislative process to review whether hospital consolidations and mergers hurt competition in health care and result in higher health care prices.
10. Continue to oppose the Government Accounting Standards Board (GASB) exposure draft that would require state and local governments to carry health care benefits as a long-term liability on their financial statements.
11. Establish federal revenue incentives to state and local governments that provide or guarantee retiree health care benefits for public employees and retirees.

State Legislative Actions

1. Secure legislative recognition of retiree health care benefits as a "contract" that would be secure from later impairment and provide for actuarial funding of these benefits, which could be incorporated into a governmental defined benefit plan.
2. Ask the appropriate state officials, such as the state insurance commissioner, to review whether hospital consolidations and mergers hurt competition in health care and result in higher health care prices.
3. Ask members of state legislatures to review whether hospital consolidations and mergers hurt competition in health care and result in higher health care prices.

Legislative Education

1. Educate the Department of Health and Human Services and its agencies about the costs of Medicare and the need for ways to improve the program as it relates to public employees and retirees.

Pension Plans and/or Their Health Care Providers Actions

1. Provide information and resources to public pension plans and public employers about how they can reduce costs and improve health care quality through such programs as generic drugs, step treatment programs and wellness/fitness programs for employees.
2. Encourage public pension plans to participate in labor-management coalitions to explore ways to control and reduce health care costs.
3. Encourage public pension plans to move away from individual health care accounts to pooled accounts that are prefunded through employer and/or employee contributions similar to defined benefit pension plans.

Recommendations for Executive Board Consideration

1. Conduct an NCPERS membership survey on the health care benefits offered by various plans, focusing on funding and plan design. Such a survey could be informative to NCPERS and helpful with legislators.
2. Publish an educational report on public sector health care that can be distributed to trustees, administrators and public officials, to help educate them and their active and retired members. This publication would also include a list of options to reduce costs and educate members on health care, as well as resources for further information.
3. Conduct a trustee educational conference on health care benefits and recommendations, perhaps as part of or during the TEDS program, including a new continuing education program on health care administration.
4. Invite other organizations, such as National Conference of State Legislators and National Governors Association, to NCPERS conferences to begin a dialogue and engage in roundtable discussions about public employee and retiree health care.

5. Join health care alliances, such as Leapfrog and the National Coalition on Health Care, to gather more information and form coalitions to support our health care recommendations. Encourage our members to look into these groups on a state or regional basis.
6. Encourage the NCPERS Executive Board members to attend appropriate conferences to better educate themselves on health care issues.
7. Continue the NCPERS Task Force on Health Care Benefits, for the purpose of reviewing the status of health care costs and making additional recommendations to the NCPERS Executive Board.

Respectfully submitted,

NCPERS Task Force on Health Care Benefits

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December 7, 2002

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