

# State of Connecticut



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COMPTROLLER

Hartford

October 30, 2013

Mr. Benjamin Barnes, Secretary  
Office of Policy and Management  
450 Capitol Avenue  
Hartford, CT 06106

Dear Secretary Barnes:

In accordance with instructions sent with the FY2015 Midterm Budget Adjustment Guidance – Budget Options, I write to request that software be enabled to submit expansion options for (13) full-time positions in FY 2015 in the Office of the State Comptroller.

Below is an outline of our proposals on the requested positions:

## **1. Information Technology Division - CORE-CT**

### **A) Business Intelligence Project**

Core-CT has undertaken a new project to implement business intelligence reporting and decision support capabilities within its data warehouse environment. The new reporting capabilities include HR and financial analytics as well as procurement and spend, project costing, and supply chain. This project is a joint effort between OSC, OPM and DAS. Four consultants are currently working on the design and build phases of the project. The project is scheduled for a multi-phase implementation beginning in the spring of 2014 and continuing through 2016.

As phase 1 transitions from development to production the Core-CT team will need to provide production support for the new functionality. This will require additional personnel as well as new skills to ensure a successful implementation that delivers the enhanced capabilities the State requires. Therefore, I am requesting the following positions:

Four (4) positions will be assigned to the Business Intelligence Module:

<u>Job Classification</u>	<u>Function</u>	<u>Salary</u>
ITA-2	ETL Developer	\$73,071
ITA-3	BI Data Architect	\$76,935
ITA-3	BI Administrator	\$76,935
Accounting Specialist	BI Financial Report Writer	\$83,151

Estimated Cost for four (4) new positions for FY 2015 – \$ 310,092

### **B) Human Resource Management System (HRMS)**

Within the last biennium, there has been a significant expansion of services for the Core-CT HRMS Team. With the roll-out of Self Service, retiring outdated systems, streamlining, automating manual processes, and assisting state agencies with service delivery, this also increases the volume and complexity of work for the Core-CT team. Additional development is needed to release the next self-

service applications, as well as to support the use of the new AWE (Oracle Automated Workflow Engine).

Two (2) positions will be assigned to HRMS:

<u>Job Classification</u>	<u>Function</u>	<u>Salary</u>
ITA-1	Retirement Payroll Support	\$57,570
ITA-1	eBenefits Support	\$57,570

Estimated Cost for two (2) new positions for FY 2015 – \$ 115,140

## **2. Retirement Services Division**

Following the passage and implementation of SEBAC 2011, we have determined that we grossly underestimated the additional requirements that would be placed on the Retirement Services Division.

### **A) Miscellaneous Retirement Systems Unit (“ARP”)**

The Miscellaneous Unit is responsible for the following retirement plans, Alternate Retirement Plan (ARP), Judges, Family Support Magistrates and Compensation Commissions’ System, Probate Judges and Employees, the States Attorneys Retirement System, and the Public Defenders Retirement System, including counseling, purchasing, calculating and auditing retirement benefits, and the processing of a semi-monthly payroll for retired State Judges. The unit needs additional staff who can assist in counseling state employees relative to the ARP, the Hybrid Plan and the SAG Award.

Two (2) new positions filled at the CCT (Administrative and Residual) Level - Target Class Retirement and Benefit Officer.

Estimated Cost for two (2) new positions for FY 2015 – \$123,540

### **B) Purchasing Unit**

The purchasing unit is responsible for the administration of any requests to obtain additional retirement credit potentially from the 46,000 active members of the State Employees Retirement System (SERS). The calculating and determination of eligibility for additional credit is performed at different levels. The Unit currently has a significant backlog of applications to be processed. The need to prioritize for impending retirements as well as addressing the purchase of obtaining additional retirement credit for those who have retired and are not yet finalized places a further burden on the unit. The backlog of pending purchase applications has a direct impact on the finalizations of audits if the purchase has not been completed we cannot finalize the retirement application.

One (1) new position filled at CCT (Administrative & Residual) Level - Target Class Retirement and Benefit Officer

Estimated Cost for two (1) new position for FY 2015 – \$61,770

### **C) Audit Unit**

There is a severe audit backlog (over 11,000 retirements) as a result of three Retirement Incentive Plans (RIP) and other retirement finalization issues. In prior years, the Division was able to finalize a retirement application in approximately 9 to 12 months – today the same audit could take more than six times as long due to the volume of retirements to be audited. Significant progress cannot be made in reducing the backlog without additional skilled personnel to further automate the retirement calculation and audit process.

Additionally, there are approximately 3,400 Hazardous Duty (DOC, State Police, etc.) employees that are eligible to retire over the next several years. We have increased our counseling sessions to try to meet the demand, however, we are now booking sessions out to May 2014. We are working with the respective agencies and union representatives to look at alternative ways to

communicate with the employees, i.e. additional generic sessions at various locations in the State to provide as much information as possible.

Once the employees make the decision to retire those applications will all be handled in our Audit Unit for processing. We do not have the resources available for the influx of a large number of applications at one time to be able to calculate the estimated benefit and place them on the Retirement Payroll within two weeks from the first of the month. Additional staff will be required to meet our statutory requirements. Below are the total numbers of retirement applications received and processed within the last years:

Calendar year 2011 – 2,947  
Calendar year 2012 – 1,396  
Calendar year 2013 – 1,752 (through October)

The state will realize savings related to the interest payments due to a retiree because of a delayed audit. (The State must pay the retiree interest on the back due benefit.). Below are the total amounts of interest payments because of the delayed audit within the last years:

FYE 2011 - \$860,203.79  
FYE 2012 - \$602,083.21  
FYE 2013 - \$722,647.86

Two (2) new positions filled at the CCT (Administrative and Residual) Level - Target Class Retirement and Benefit Officer.

Estimated Cost for two (2) new positions for FY 2015 – \$123,540

### **3. Healthcare Policy & Benefit Services Division**

#### **A) Employee Benefits Unit (EBU)**

The EBU administers the collection/refunding/and oversight of the collectively bargained program requiring contributions to the Retiree Health Fund. Currently we have one full-time and one-part time (0.8 FTE) employee overseeing the Retiree Health Fund program. The full-time employee has other duties and can only spend part of her time on OPEB. The assistant director devotes about 10-15% of her time dealing with problems relating to the program. Other employees in the unit administer the 403(b) and the 457 Plans, supplemental benefit vendors, flexible spending plans and unemployment claims contracts.

#### **History/Financial Impact**

The collection process for the Retiree Health Fund started for new employees in 2009, and by July 2010 approximately 17,000 existing employees started contributing. There was no module in CORE-CT to accommodate the program. As a result, we were forced to use a General Deduction code to collect and track the contributions. (From July 2010 through July 2013, the amounts collected were approximately \$21,000,000 per year.)

Effective July 2013, all healthcare eligible employees (an additional 35,000) were required to contribute. The contribution percentages are being phased in for these new contributors over three years (0.5% in FY 2014; 2% in FY 2015 and 3% in FY 2016).

When such contributions are fully phased in by FY 2016 the estimated OPEB contributions will be \$133,000,000 per year. [FY 2014 contributions are estimated at \$41,000,000 and FY 2015 contributions will be around \$94,000,000.]

#### **Current Challenges**

**Refunds:** Employees who terminate employment are eligible to obtain a refund of their contributions unless they have qualified for retiree health benefits.

- The refund process presents many opportunities for mistakes: a) erroneous calculations of refund amounts; b) issuance of duplicate refunds; c) issuance of refunds to wrong employees; d) failure to stop deductions for separating employee—resulting in under payment.
- Absence of systemic controls: Because we are using a General Deduction code there is no mechanism in CORE-CT to prevent an employee from receiving a greater refund than the amount of their contributions. Duplicate and excess refunds have been issued. Once an employee has terminated our ability to collect the over-refund is significantly diminished.
- Volume: Since the program began in 2009, Central Payroll has completed 2600 refunds, mostly for terminated employees. The process for issuing a refund after an employee's record is closed is particularly cumbersome, which has resulted in significant delays.
- Additional Volume: We recently determined that approximately 1700 people who left state service after 2010 failed to request a refund of their contributions. Some of these people contributed thousands of dollars. Ideally, we should be reaching out to these people to advise them of the option of obtaining a refund. However, the potential volume of work required to process those refunds could easily swamp our division and Central Payroll as well.
- Although the agencies were directed in March 2012 to process refunds for terminated employees before the final paycheck a number of agencies do not do so—citing lack of manpower or other impediments.
- Even when the agency does process the refund in the employee's final check, because of calculation and payment errors the EBU and Central Payroll must coordinate by running a back-up query before refunds are paid to prevent over-payments or duplicate refunds.

**Audit:** Efforts to monitor compliance are complicated by a present lack of logistical support through CORE-CT. We must rely on the agencies to do the following: a) timely start contributions for new employees; b) correctly assign employees to the appropriate deduction code; c) calculate the amount of the refund for terminated employees; d) start/stop or adjust deduction dates following a leave of absence; e) ensure that retiring employees pay the contributions on their final paychecks; f) ensure that retiring employees have made all required contributions.

When employees terminate service after qualifying for retiree coverage they are not eligible for refunds. We had to add another step [determination of retiree health eligibility] to prevent the issuance of refunds to those who are not entitled to receive them.

The essential requirements are as follows:

- Ensuring that people who are required to contribute are actually doing so;
- Terminating deductions for employees not required to contribute;
- Identifying people who were signed up for the wrong code;
- Verifying that employees with sufficient service to qualify for retiree health benefits have paid all required Retiree Health Fund contributions;
- Preventing refunds to ineligible deferred vested members; and
- Overseeing accurate refund process.

There is a concern that an audit would reveal numerous matters requiring attention. The 2012 audit of the program revealed insufficient controls in the refund process. In response, we stepped up our monitoring efforts, but a program involving so many people presents numerous opportunities for things to go awry. For example, we recently audited contributions for approximately 300 TRS members and discovered errors to be corrected in 40 records (37.5%). These were due to agency enrollment errors, duplicate deduction codes, and failure to process refunds for separated employees. Agencies frequently contact us to help correct problems discovered in course of their own audits.

One (1) new position filled at the Retirement and Benefit Officer level.

Estimated Cost for one (1) new position for FY 2015 – \$61,770

#### **B) Retirement Health Insurance Unit**

This unit is responsible for the administration of retiree medical, dental and prescription insurance benefits for state retirees and their families. Administration of these benefits includes enrollment, eligibility, record keeping, finance, customer service, carrier oversight, etc. Some of the most significant tasks are the monthly processing the enrollment for new retirees, processing enrollment changes for those aging into Medicare and other such family status changes, troubleshooting enrollment and coverage problems, claims resolution and providing plan information to current and prospective retirees.

The unit fields 75 phone inquiries per day, ranging from general inquiries to severe coverage issues causing disruption of benefits. Many calls require detailed research and multiple follow-ups with carriers and members.

The unit also processes approximately 750 transactions per month relating to new retirees, current retirees transitioning to Medicare/EGWP, COBRA, SEBAC 2011 Early Retirement Premium Grid calculations and other miscellaneous enrollment changes. This does not include the additional workload generated by open enrollment.

An additional position is needed to fulfill the new contribution and eligibility requirements contained in the 2009 and 2011 SEBAC agreements, specifically, compliance with the mandatory 3% employee OPEB contribution, the associated retirement health insurance eligibility component, the Rule of 75 and the Early Retirement Premium Grid calculation. Prior to enrolling retirees in the health plan, a service and 3% contribution audit will need to be performed. The audit must be performed in a timely manner to ensure that only eligible retirees are receiving benefits. Current staffing levels are insufficient to accommodate the additional workload.

#### **History/Financial Impact**

Prior to the SEBAC 2009 and 2011 agreements, eligibility for health insurance benefits was aligned with eligibility for a pension benefit. Essentially, if an individual was eligible for a pension, they were eligible for health insurance benefits. The two agreements modified and disconnected health insurance eligibility from pension eligibility and included a contribution aspect (3% OPEB) not previously contemplated. While an individual needs to be eligible and in receipt of pension benefits to receive health insurance during retirement, merely receiving a pension is no longer enough to establish eligibility for such benefits. They must complete the requisite service and make the appropriate contribution to acquire the health benefits. Note that pensions system (SERS, ARP, TRS, Haz Duty, Probate, etc.), age, hire date and vested status are also factors in determining health insurance eligibility. The financial impact is significant if an ineligible retiree and their family is enrolled in the plan in error.

#### **Challenges**

**Service and Contribution Audits:** Staff will need to perform a pre-audit of each new and/or perspective retiree's service and contribution history before enrolling them in health benefits. The audits must be timely and accurate to ensure only those properly entitled are enrolled in health insurance. Currently, there is no method or system in place to track service and contributions. Pre-audits must be done quickly and simultaneously with the pension pre-audit in order to ensure a smooth and direct transition from active to retiree health benefits. In addition, the pre-audits are needed to determine whether a retiree is subject to the Early Retirement Premium Grid and/or the Rule of 75. Similar to the pension plan, a post-audit for each retiree will be required to insure the veracity of the process.

**Claim Liability:** The state could become liable for claims paid due to errant enrollment of a retiree and their family. Timely audits will ensure limited retroactive disenrollment problems and the potential liabilities.

One (1) new position filled at the Retirement and Benefit Officer level.

Estimated Cost for one (1) new position for FY 2015 – \$61,770

Thank you for considering the approval of these important positions. The additional staff will allow the agency to move forward in a more efficient manner to meet the continuing challenges of increased obligations.

Sincerely,



Kevin Lembo  
State Comptroller

cc: Paul E. Potamianos, Executive Budget Officer  
Linda Ecklund, Budget Analyst