MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

LARRY HOGAN
Governor

BOYD K. RUTHERFORD
Lieutenant Governor

DAVID R. BRINKLEY
Secretary

MARC L. NICOLE
Deputy Secretary

DEPARTMENT OF BUDGET AND MANAGEMENT – OFFICE OF PERSONNEL SERVICES AND BENEFITS

Testimony of
David R. Brinkley
Secretary

Senate Budget and Taxation Committee
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The Department of Budget and Management (DBM) appreciates this opportunity to respond to the Department of Legislative Services' (DLS) analysis of the Office of Personnel Services and Benefits' budget.

ISSUES

Statewide Employee Compensation

The Department has been asked to comment on negotiations, State employee salary increases, and the extent to which low salaries affect retention, productivity, and effectiveness.

With regard to negotiations, each bargaining session is unique. As the representative for the State, DBM's role is to balance the needs of bargaining unit employees with the fiscal limitations of the State's budget. During the most recent round of negotiations, existing contracts were in place for eight of the bargaining units and the State was negotiating economic reopeners with the exclusive representatives of those units. For the remaining three units, the State needed to negotiate new contracts since the previous contracts had already expired or were about to expire.

While the agreement with the State Law Enforcement Officers' Labor Alliance (SLEOLA) does not readily appear to have concessions in the actual language of the agreement, the State believes that SLEOLA made a significant concession by agreeing to a three year contract with the State. Unlike other contracts, the SLEOLA contract contains an interest arbitration provision that allows either party to declare an impasse when negotiating a successor contract and to request arbitration by a Board of Arbitration. Additionally, SLEOLA made other concessions by reducing the spread between steps on its pay scale to offset other increases and agreed to changes in shift differential times to ease the administrative burden on State agencies.

In response to the analyst's inquiry, the Administration will provide the additional funding to support the agreement through the budget process.

The Department was asked to comment on the economic conditions under which general salary increases are affordable and appropriate. While the current economic and budget outlook is positive in FY 2016 and 2017, long-term there is still an imbalance between ongoing revenues and spending. The Administration's top fiscal priority is resolving the structural deficit and we are committed to making decisions with a long-term view of structural balance. To the extent revenues increase or spending is reduced such that the structural deficit is eliminated, then the Administration would consider providing both a general salary increase and salary increment.
It is also important to remember that the Administration is providing a salary increase of 2-4% for eligible employees in the Governor's FY 2017 budget.

It is widely accepted that low salaries have a negative impact on employee retention; however we would note that the overall compensation package offered to State employees, also includes a generous leave package and robust benefits coverage.

Human Resources Shared Services

The Department was asked to brief the committees on its new HR shared services initiative and to prepare MFR indicators measuring the effectiveness of the services provided to agencies. With only four months of shared service experience, DBM is even more resolved in the belief that the shared services model brings increased efficiency, improved service, and overarching fairness to affected agencies. Ultimately, we believe that the shared services model will be more cost effective than the siloed service model that had been in place.

In addition to the planned annual satisfaction survey, DBM has established Standard Operating Procedures to ensure consistency of service. Operational time frames will be established to ensure that legal requirements and organizational expectations are met. DBM will agree to create MFR indicators that will measure both the quality and cost of delivered services.

Unfunded Retiree Health or Workers' Compensation Liabilities

The Department was asked to discuss plans to reduce the OPEB and workers' compensation liabilities. The Administration agrees unfunded liabilities are something that should be addressed. For example the Administration has taken steps to resolve several prior year unfunded liabilities in this year's budget. In the coming years, the Administration is committed to resolving the structural deficit and shoring up our pension system which remains below the 80% funded level for a healthy system.

Earlier this Session in the State Reserve Fund analysis, DLS recommended a workgroup to look at revenue volatility and to consider using excess revenues to pay off these outstanding liabilities. DBM agreed to that language and certainly feels that sweeping extraordinary revenue to these unfunded liabilities may be something to consider.

Statewide Personnel System Implementation

The Department was asked to update the committees on the status of the Statewide Personnel System and the implementation of the new benefits administration module. Currently, the Employee Benefits Division manages various benefit transactions through a proprietary, customized system known as the BAS (or Benefits Administration System). Many functions unique to both the public sector in general, and the State specifically, were developed over time to give us the system currently in place. As such, DBM anticipated some change in business processes and functionality as a result of the transition to Workday Benefits, a cloud-based system.

In the development stage for the benefits transition, performance issues were noted by Workday when running large transactions and there was insufficient time to address those issues in advance of Open Enrollment. It was then determined to move the Benefits transition to spring of 2017 and move to implementing the Time and Attendance module in 2016. This would allow Workday resources to address the performance issues prior to re-starting the Benefits module implementation. To accommodate this change, the current contract with MS Technologies was extended through December 2017. DBM is investigating options under the contract to recoup any costs associated with the delay.

EBD and Workday personnel meet twice each month to ensure the project continues to progress until implementation is restarted.

Health Insurance Cost Trends

With regard to State health insurance costs, based upon the data and trends we are seeing, DBM is comfortable with the budget as constructed for FY 2016 and 2017. DBM's estimate of normal health claims is less than projected by DLS, and we believe that implementation of the Wellness Program will further lower health claim costs in the future.

Following the plan design changes in 2009 where coinsurance was decreased under the PPO and POS plans to 90% in network and 70% out of network, the Program’s medical cost trend has been somewhat stable. However, the increasing cost of unmanaged chronic conditions was putting pressure on that stability. Effective January 1, 2015, DBM implemented a value-based benefit design that encourages treatment compliance without punitive cost-shifting. Rather, value based benefit design improves treatment compliance through reduced cost barriers. This design coupled with the wellness plan should aid in continuing to stabilize the medical trend.

The Incurred But Not Reported (IBNR) balance reflects the amount of claims with dates of service in the plan year (January 1 through December 31) that were not submitted for payment during the plan year, but will likely be submitted within the first two or three months of the new plan year. The estimate is calculated based on the current claims lag for the plans and the percentage of claims that are not filed electronically. The only time DBM would need to utilize this balance is in the event of termination of any or all of the current self-insured plans. The funds in this category would then be used to pay “run-out” claims – the claims incurred during the plan year, but not submitted for payment during the plan year. Therefore, the IBNR acts as a cushion in the event of unforeseen spikes in Program spend.

Wellness Program

DBM was asked to comment on the State's wellness program and the decision to waive the surcharges in 2016 and 2017. The wellness plan was designed to include both "carrots" and "sticks." The carrots, the zero-dollar copay for PCP visits (waived immediately upon completion of the healthy activities) and the waived copay and coinsurance for lab work related to chronic conditions (immediately – part of plan design) are enjoyed within the plan year. The stick, the $2.08 per pay surcharge, would not begin until the following plan year.

The decision to delay implementation of the wellness surcharges was made in response to participant concerns. The waiver of the surcharges for 2016 and 2017 has no impact on cost projections because the surcharge dollars were not a factor in that analysis.

While the DLS analysis indicates a lower than expected completion rate, our data contradict that statement. According to the RAND report, "A review of the U.S. Workplace Wellness Market," many wellness plans have less than a 20% participation rate. However, as of December 31, 2015, the State plan shows 36% had completed all the 2015 wellness activities, or nearly 53,000 out of approximately 145,000 eligible participants. The numbers are even higher for selecting a PCP and completing the health risk assessment.

	CareFirst	**Kaiser**	**United Healthcare**	**Totals**
Selected PCP	**63,642**	**3,057**	**13,901**	**80,600**
Completed HRA	**54,388**	**2,418**	**10,102**	**66,968**
CompletedAll Steps	**45,875**	**943**	**6,061**	**52,879**

Cost avoidance is the benefit of wellness plans designed with a focus on prevention and screening, such as the State's. Cost are avoided by reducing the number of emergency room visits for chronic conditions, reducing the number of acute inpatient admissions for chronic conditions, through improved treatment compliance and through increased screenings and annual physical that catch illnesses early. We have already seen an increase in colorectal screenings and annual physicals. Actual cost avoidance begins to appear through the flattened trend lines in the fourth and fifth years of the program.

For the 2016 calendar year, DBM has updated its wellness webpage to include:

- 2016 wellness seminar topics and schedule
- Simplified instructions for completing the healthy activities
- Testimonials
- Access to the health risk assessments – including the State version for those who disliked the carrier version

We have engaged a group of agency wellness champions to help spread the message at the agency level and are working with carriers to ensure regular and timely messaging. DBM is also pushing out a wellness newsletter to the agencies for distribution to employees. Additional activities are being planned to include lunch and learn sessions, agency to agency competitions, webinars and on-site activities.

DLS RECOMMENDATIONS

DBM concurs with eleven of the analyst's recommendations with the following caveat. It is our understanding that DLS will be revising Recommendations 1-3 to remove the restrictive budget language and instead offer committee narrative requesting certain reports. DBM concurs with the revised recommendations. DBM does not concur with Recommendations 5, 6, and 10, as discussed below. With regard to Recommendation 4, the University System of Maryland has provided testimony on the issue for this budget hearing.

Recommendation 5: Reduction to Increment Funding

DBM Response: The Department opposes this recommended reduction to funding for salary increments to reflect the abolition of 657 positions per Section 20 of the budget bill. DBM would note that this reduction will be part of the $25 million total fund reduction required in Section 20, so an additional reduction would be duplicative.

Recommendation 6: Personnel Plan

DBM Response: The analyst recommends committee narrative expressing legislative intent that the Administration refrain from abolishing unspecified positions through across-the-board sections in the budget bill. As noted in the DBM testimony on the Office of the Secretary analysis, it is not unprecedented to impose an unallocated across-the-board reduction in the budget bill. In fact, unallocated reductions to positions and funding have been made in five of the past six years. Moreover, transparency is not an issue. Once allocations are made, the detail has been provided as a matter of course. For these reasons, the Department disagrees with the recommendation.

Recommendation 10: Position Reductions – Due Date and BPW Approval

DBM Response: The Administration respectfully disagrees with the recommendation adding language requiring a schedule of position abolitions be approved by the Board of Public Works and submitted to the budget committees by July 1, 2016.

DBM is happy to submit a report at the appropriate time as we did with the two percent reductions, the Voluntary Separation Program, and other similar actions. However, DBM anticipates that part of the position reduction will include attrition over time. It is the intent of the Administration that agencies take a thoughtful approach to abolishing positions in the context of their agency operations. We have started to engage agencies in this discussion; however, making a determination by July 1st is too soon to give this exercise the thoughtfulness required. One goal of the Administration is to streamline government operations and to reduce the size of government. The shared services initiative is one example of this effort. To be successful, these efforts require time and sufficient opportunity for review and implementation. A July 1st due date would not serve the best interests of the agencies as we move forward.

Finally, the Administration is not clear why the Board of Public Works would need to approve an action already taken by the General Assembly. Consistent with prior practice, DBM requests that this requirement be removed.