

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE STATE COMPTROLLER
STATE EMPLOYEE AND RETIREE
HEALTHCARE AND OTHER BENEFITS
FISCAL YEARS ENDED JUNE 30, 2017, 2018 AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

Table of Contents

EXECUTIVE SUMMARY	i
AUDITORS' REPORT.....	1
COMMENTS	2
FOREWORD	2
Significant Legislation.....	2
RÉSUMÉ OF OPERATIONS	3
State Employees' Health Service Costs	3
Retired State Employees' Health Service Costs.....	4
Deferred Compensation.....	5
RECOMMENDATIONS	6
Status of Prior Audit Recommendations:	6
Current Audit Recommendations:.....	6
ACKNOWLEDGMENTS	7

February 17, 2022

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Office of the State Comptroller – State Employee and Retiree Healthcare and Other Benefits for the fiscal years ended June 30, 2017, 2018 and 2019. Our audit did not identify any internal control deficiencies; instances of noncompliance with laws, regulations, and policies; or a need for improvement in practices and procedures that warrant the attention of management.

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

CLARK J. CHAPIN

February 17, 2022

AUDITORS' REPORT OFFICE OF THE STATE COMPTROLLER – STATE EMPLOYEE AND RETIREE HEALTHCARE AND OTHER BENEFITS FISCAL YEARS ENDED JUNE 30, 2017, 2018 and 2019

We have audited certain operations of the Office of the State Comptroller – State Employee and Retiree Benefits, including the records pertaining to the state's deferred compensation plan as well as those pertaining to the state's share of health insurance costs for active and retired employees in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2017, 2018 and 2019. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions;
2. Evaluate the office's compliance with policies and procedures internal to the office or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the office; and testing selected transactions. Our testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the office's management and the state's information systems, and was not subjected to the procedures applied in our audit of the office. For the areas audited, we:

1. Did not identify deficiencies in internal controls;
2. Did not identify apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Did not identify a need for improvement in management practices and procedures that we deemed to be reportable.

COMMENTS

FOREWORD

The Office of the State Comptroller operates primarily under the provisions of Article Fourth, Section 24, of the State Constitution, and Title 3, Chapter 34 of the General Statutes. The Office of the State Comptroller's Healthcare Policy and Benefit Services Division administers benefits programs for all state employees, retirees and their families including medical, pharmacy, and dental benefits. The division is also responsible for the contract procurement, administration and evaluation of these programs. In addition, the division administers the state employees defined contribution plans, and coordinates group life insurance, unemployment insurance and supplemental benefits.

Kevin Lembo was elected State Comptroller in November 2010 and served throughout the audited period. He served until his resignation effective December 31, 2021, when he was succeeded by Natalie Braswell who was appointed to the position by Governor Ned Lamont. Dr. Thomas Woodruff served as director of the Healthcare Policy and Benefit Services Division during the audited period.

For prior audited periods, our office issued a single report entitled State Retirement Funds and State Employee and Retiree Benefits related to these areas. Effective for the current audited period, we separated our reporting to reflect the two areas of review: (1) State Retirement Benefits and Funds, and (2) State Employee and Retiree Healthcare and Benefits.

Significant Legislation

There was no significant legislation affecting the Office of the State Comptroller's Healthcare Policy and Benefit Services Division during the fiscal years ended June 30, 2017, 2018 and 2019.

RÉSUMÉ OF OPERATIONS

State Employees' Health Service Costs

Under the provisions of Section 5-259 of the General Statutes, Connecticut is obligated to pay 100% of the portion of the hospital and medical insurance premium charged for individual coverage and 70% of the portion charged for each state employee's spouse or family coverage and members of the General Assembly. As with all statutory provisions concerning employee benefits, approved collective bargaining contract language may supersede the provisions of Section 5-259. The state negotiates the hospital and medical insurance plans offered through the collective bargaining process. The State Employees Bargaining Agent Coalition (SEBAC) agreement requires the state to provide Point of Service, Point of Enrollment, Point of Enrollment-Gatekeeper, and out-of-area plans, including prescription drug coverage. Based on SEBAC requirements, the Office of the State Comptroller goes out to bid for the agreement's state plans through a request for proposal (RFP) process. Insurance carriers respond to the RFP with proposed costs. The State Comptroller then chooses the carriers and which plans they must offer.

Since the enactment of the pension and benefits agreement, the State of Connecticut and SEBAC negotiations resulted in one arbitration award and separate SEBAC agreements, which changed the terms of the initial agreement. The SEBAC I, II, III, IV and V agreements were enacted and effective prior to the 1997-1998 fiscal year. The SEBAC V pension agreement provided that the State Employees Retirement System would not be changed through June 30, 2017, unless mutually agreed to by all parties.

The SEBAC 2009 agreement modified sections of SEBAC V and required that all employees hired on or after July 1, 2009, and existing employees with less than five years of service as of July 1, 2010, contribute 3% of their salary for ten years, to be deposited into a newly established retiree healthcare trust fund. A revision of the SEBAC pension agreement in 2011 extended the requirement of the trust contributions to all other state employees to be phased in beginning July 1, 2013 as follows: 0.5% of salary for the fiscal year ended June 30, 2013; 2% of salary for the fiscal year ending June 30, 2014; and 3% of salary for the fiscal year ending June 30, 2015 and thereafter, with a period of required contributions of ten years or to the beginning of retirement, whichever occurs first.

Revisions in the SEBAC agreement in 2009 and 2011 also changed benefits as cost control measures, including the creation or modification to emergency room and prescription drug copayments, the use of mail-order prescriptions, and the implementation of a voluntary health enhancement plan. The Health Enhancement Program is available to all state employees and retirees (including all enrolled dependents) and requires enrolled individuals to adhere to a schedule of health assessments and screenings. There are no additional costs to employees choosing the program, but there are increased premium shares and a deductible for those who decline to enroll in or fail to comply with the program's requirements.

The SEBAC 2017 agreement encompassed changes to employee healthcare including increases to premiums for active employees by 1% on July 1, 2019, 2020 and 2021, provided these increases did not push the employee's premium share above 15%. The agreement also split the

generic drug copay into two tiers (Preferred Generic and Non-Preferred Generic) and increased emergency room copays for non-emergencies to \$250.

Each fiscal year, the state's share of employee health services is initially met from General and Special Transportation Fund appropriations authorized for this purpose. Based on the payroll transactions submitted by state agencies, the Office of the State Comptroller charges the General and Special Transportation Fund appropriations for the state's portion of the premiums due to the private insurance carriers, and makes payroll deductions for the balance of premiums for employees with additional coverage. Reimbursements to the General Fund are received from certain federal and state funds or restricted accounts charged with salaries of employees covered under the state's health insurance program.

Effective July 1, 2010, the State of Connecticut adopted self-insured funding for medical claims rather than paying premiums. The base rates for all benefit plans are determined by an actuarial consultant. The derived rates are used to establish state employee payroll deductions and adequate appropriations for the state share of health claims based on historical trends in claims data.

An analysis of the total payment of the state's share of such costs for the audited period follows:

	Fiscal Year		
	2016-2017	2017-2018	2018-2019
Expenditures – General Fund:			
Employer's Share – State Employees	\$ 644,726,791	\$ 608,481,141	\$ 634,210,107
Expenditures – Transportation Fund			
Employer's Share – State Employees:	\$ 48,413,124	\$ 46,616,808	\$ 47,495,758

Retired State Employees' Health Service Costs

For retirements before July 1, 1997, the state paid 100% of the health insurance premiums for each retiree receiving benefits from a state-sponsored retirement system, except those under the Municipal Employees Retirement System and the Teachers' Retirement System. This coverage includes the payment of 100% of health coverage provided through the State Comptroller or in conjunction with federal medical benefits provided under the Medicare Part B Program. Members retiring on or after July 1, 1997 may be required to assume a share of the premium cost, depending on their plan selected. Pursuant to the SEBAC 2017 agreement, current Medicare retirees were covered through a Medicare Advantage vehicle, effective July 1, 2018. Premium shares increased by 1.5% for future non-Medicare covered non-hazardous duty retirees with less than 25 years of service, who retire after October 2, 2017 but before July 1, 2022. For hazardous duty and non-hazardous duty employees retiring on or after July 1, 2022, premium shares increase to 3% and 5%, respectively. Effective July 1, 2022, the state will continue reimbursing the full standard Medicare Part B premium for all applicable retirees. The state will also reduce its reimbursement to high earners to half of the additional Medicare charges beyond the standard premium.

The state appropriated and transferred \$726,612,061, \$748,844,000, and \$692,189,000 to cover its share of health insurance costs for eligible retirees during the 2016-2017, 2017-2018, and

2018-2019 fiscal years, respectively. The state spent \$706,466,675, \$701,146,279, and \$682,032,180 during those fiscal years, respectively. The decrease in expenditures from fiscal years 2016-2017 to 2018-2019 was primarily due to the changes enacted by the 2017 SEBAC agreement.

In the past, the state funded the health insurance benefits for retired employees as costs were incurred. Unlike retirement benefits, the state did not establish a reserve to provide support for future years. During the fiscal year ended June 30, 2008, the Governmental Accounting Standards Board (GASB) implemented Statement No. 45 (GASB 45), which was later replaced by GASB Statement No. 75 (GASB 75) effective for fiscal years beginning after June 15, 2017. GASB 45 required the state to calculate and record the actuarial accrued liability for future health care benefits of retired employees. As a result, in May 2008, the state created the State Employees Other Post-Employment Benefits Plan (SEOPEBP). SEOPEBP is administered by the State Comptroller as a single-employer defined benefit other post-employment benefit (OPEB) plan covering retired state employees receiving benefits from any state-sponsored retirement system, except the Teachers' Retirement System and the Municipal Employees Retirement System. SEOPEBP provides healthcare and life insurance benefits to eligible retirees and their spouses. The cost of post-retirement health care benefits is funded through the transfer of General Fund appropriations to the OPEB – State Employees trust fund. As of June 30, 2019, the fair market value of the net assets within the fund totaled \$849,889,000.

As noted above, the state must provide an actuarial valuation of the OPEB liability. Actuarial valuations of the system were prepared as of June 30, 2017, 2018 and 2019. Based on the June 30, 2019 actuarial valuation, the net OPEB liability was \$17,264,398,000.

Deferred Compensation

Section 5-264a of the General Statutes authorizes the Office of the State Comptroller, through a third-party administrator, to offer State of Connecticut employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. This plan permits all permanent employees, including elected and appointed officials and members of the General Assembly, to defer a portion of their salary until future years. This deferred compensation is not available to employees until retirement, termination of employment, disability, unforeseeable emergency, or death.

The Office of the State Comptroller contracts with an administrator selected through a competitive process. Prudential Retirement was the third-party administrator of the state's deferred compensation program through the audited period.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Office of the State Comptroller – State Employee and Retiree Benefits contained one recommendation that has been implemented or otherwise resolved and will not be repeated during the current audit.

- The Office of the State Comptroller Healthcare Policy and Benefit Services Division should ensure that outside agencies who participate in the state’s healthcare plan begin contributing the appropriate amount to the Retiree Health Care Trust Fund, as required by the 2011 SEBAC agreement. The division should also identify and collect any past contributions that should have been paid by outside agencies. **This recommendation has been resolved.**

Current Audit Recommendations:

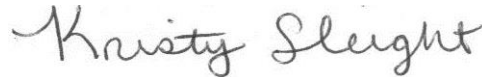
Our current examination did not result in any recommendations.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the State Comptroller – State Employee and Retiree Healthcare and Other Benefits during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Sarah Monaghan
Brianna Passero
Kristy Sleight
Samantha Smith

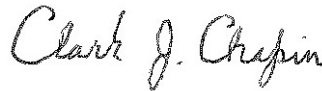


Kristy Sleight
Principal Auditor

Approved:



John C. Geragosian
State Auditor



Clark J. Chapin
State Auditor