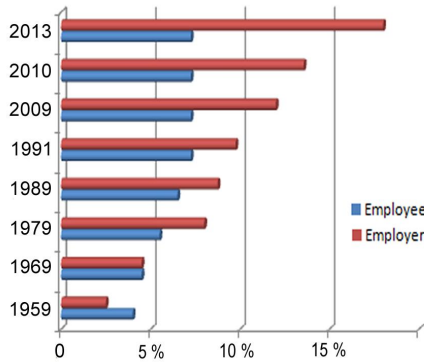


*Ensuring the Integrity of the State Retirement and Health Insurance Systems*

## Dramatic Shift in Retirement Contributions



Year	Employee's Percentage	Employer's Percentage
1959	4	2.5
1969	4.5	4.5
1979	5.5	8
1989	6.5	8.75
1991	7.25	9.75
2009	7.25	12
2010 *	7.25	13.56
2013 *	7.25	18

\* Proposed contribution percentages

Due to unsustainable benefit enhancements passed during the late 1990s and early 2000s, increased costs associated with the state retirement system are inevitable. What we must be wary of, however, is continuing to turn a blind-eye to wrongheaded policies that saddle only the state's taxpayers with an impossible financial burden.

Beginning in the late 1990s through 2002, the Legislature approved benefit enhancements for the state employee retirement system. These enhancements included a guaranteed three percent cost-of-living-adjustment each year until age 55, and compounded thereafter, as well as several benefit accrual increases – with a collective price tag of more than \$3 billion in system liability costs. That means Mississippi taxpayers pay more than \$700 million annually to fund the retirement system. To ensure pension sustainability, consideration should be given to modifying the current benefit structure, including accrual rates and automatic cost-of-living adjustments, for current and prospective state employees.

In October, the Public Employee Retirement System (PERS) Board voted to increase the state's (i.e., taxpayers') contribution for retirement benefits by a full 1.56 percent, from 12 percent to 13.56 percent, resulting in additional cost of more than \$70 million to the state budget and taxpayers. This number does not include the \$20.3 million cost increases on other entities covered by PERS, such as county and municipal governments (again, taxpayers). This 1.56 percentage increase in the employer contribution rate means that Mississippi taxpayers would have to pay an additional \$90 million for retirement benefits for government workers.

What's more, the PERS Board has proposed a long-term plan that would increase the employer contribution rate to 18 percent, or a whopping \$350 million in new annual costs to fund the retirement system.

While citizens are being asked to pay huge increased costs to the retirement system, employees (who are the beneficiaries of the PERS program) have paid the same rate (7.25 percent) into the system since 1991. This is obviously unfair to taxpayers, so we must recalibrate the ratio of contributions paid by employers and employees to ensure the system has integrity, fairness, and is sustainable in the long-term.

Therefore, in order to offset increased costs associated with the retirement system, I am recommending no increase in the state contribution to PERS for FY 2011, and that any necessary increases, including the 1.56 percent proposed increase, be funded through higher employee contributions until we have reached a fair balance between the amount of contributions paid by both employees and the employer. State law authorizes the PERS Board to set the employee contribution rate in order to maintain the benefits that have been promised to state employees, and I am calling on this board to step up to the

## Make up of Total Retirement Contribution

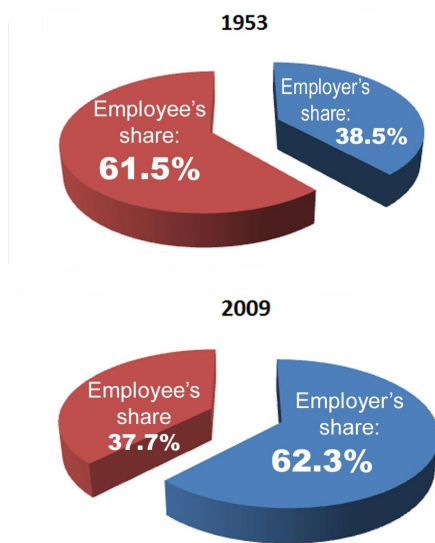


plate to adopt a responsible and appropriate employee contribution rate that keeps these benefits intact. As a long-term funding goal, I am recommending that the PERS Board and the Legislature return equity to the funding system by avoiding unsustainable benefit enhancements as well as ensuring the ratio of employer and employee contributions is not only fair, but fiscally responsible.

As a general retirement policy, Mississippi also should have a better way to manage benefits paid to retirees who continue service with the state. I commend the Legislature for its proactive work on this issue during the last legislative session, which required documentation to be filed regarding all retirees who continue working for the state. To protect the pension plan and as a matter of fairness, retirees who continue working for the state in any capacity should also continue contributing to the funding of the state retirement system.

Another related, critically needed area of reform is the state health insurance plan. As a preliminary measure, the State Health Insurance Board voted to increase premiums by 11 percent, resulting in a cost to the state of approximately \$29.3 million. This figure is unacceptable; however, I am pleased that the Board will meet again to address this very important issue. Between now and then the Board needs to consider costs of benefits for all beneficiaries of the plan.

Currently, taxpayers significantly subsidize health insurance for non-Medicare eligible retirees. Benefits for these retirees cost the state some 60 percent more than the premium they pay. I propose their (i.e. non-Medicare eligible, non-disabled retirees) premium be increased by 15 percent in each of the next four years so that premiums are more in line with the actual cost of providing insurance, as they are with the costs for other beneficiaries.

The Board is trying to keep costs low by developing several proposals that would help mitigate rising costs to the state. Instinctively, we know there are some areas where

true costs savings can be achieved, such as implementing programs to encourage usage of generic drugs and implementing a surcharge for tobacco users. I look forward to receiving the Board's final proposals and will work with them to enact legislative changes, where appropriate.

### *Affordable health insurance*

While the healthcare debate has reached a fever pitch on Capitol Hill, Mississippi has a plan to provide quality medical care to uninsured individuals. My proposed Mississippi Health Insurance Exchange is designed to give many Mississippians a way to buy, own and keep health insurance. A voluntary, portable and affordable option would help Mississippi families and small businesses. While the Senate has supported this plan repeatedly, the House has not.

The plan creates a state-authorized health insurance exchange for health insurance options, and participation would be voluntary. For small businesses the exchange would assume many of the administrative functions of a human resources department at a large corporation.

Under the program, small businesses would contribute a pre-designated amount of money toward the cost of an employee's health insurance. By noting the "exchange" as the employer's health plan, the contribution would become tax-free for the business, and the health benefit would be tax-free for the employee.

For small businesses, the Mississippi Health Insurance Exchange would reduce premium rates through expanded purchasing power as well as saving administrative costs. For individuals and families, the program provides more options for affordable healthcare, including tax deductibility of employees' contribution to paying health insurance premiums. While this is not a cure-all for the rising cost of healthcare or the availability of insurance, a health insurance exchange would be a worthwhile way our state can increase the number of citizens with health insurance.