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To: Legislative Commission Budget Subcommittee

From: Kent Ervin, Nevada Faculty Alliance

Subject: PEBP Benefit Cuts and Elimination of Long-Term Disability Insurance

The Nevada Faculty Alliance represents faculty statewide at colleges and universities in the Nevada System of Higher Education (NSHE). Like other state employees, NSHE faculty rely on the Public Employees' Benefits Program (PEBP) for our healthcare and other benefits, which are essential for keeping the workforce productive and for recruitment and retention.

In November, in response to the Governor's target of 12% budget cuts, the PEBP Board made extremely difficult decisions to cut benefits and increase employee premiums. The result was draconian benefits cuts. For the base high-deductible plan, net deductibles were increased 112%, (from $7,800 to $12,000 for a family), and estimated employee premiums increased up to 32%. **Cutting benefits and increasing premiums is the most regressive way to fill a revenue gap on the backs of state employees—more regressive than furloughs as a percentage of salaries.** Also, the employer contributions for Medicare retiree coverage was reduced by 15%. Other benefits, including basic life insurance and long-term disability insurance, were trimmed but not eliminated by the Board.

Fortunately, the Governor's executive budget reduced the cuts to PEBP by about half. We appreciate that GovRec keeps employee premiums for the base plan relatively flat—though for much reduced benefits. The increases in deductibles and out-of-pocket costs are still hefty—a 43% increase in net deductibles and a 28% increase in out-of-pocket maximums for the base high-deductible plan. The increased out-of-pocket maximums to $5,000 for a single employee and $10,000 for a family (from $3,900 and $7,800, respectively, in FY2021) mean that employees with serious health issues are paying for the bulk of the budget cuts.

A new mid-level low-deductible plan will be established per PEBP Board action last July, following advocacy by participants, which we greatly appreciate. However, employees pay for the entire extra actuarial cost of the low-deductible plan (and HMO/EPO plan) through higher premiums, so this provides the choice at a cost that is fair but unaffordable for many employees.

In the past, the PEBP Board has been responsible for making decisions on benefits and plan design within the fiscal constraints given to them, after thorough and public deliberation of the impact on participants. **In a departure from decades of allowing the members of PEBP Board to make such difficult decisions in the best interests of participants, the Governor's budget has instead apparently mandated specific changes in plan design and benefits,** beyond only high-level monetary decisions about employer contributions toward benefits or Health Savings Accounts. This is an unwise new practice because the PEBP staff and PEBP Board are best situated with all the information needed to make such decisions.

The most egregious change to benefits in GovRec is the complete elimination of Long-Term Disability Insurance. We can only surmise that the Governor's Office did not fully understand the critical nature of this benefit. LTD insurance provides a portion of income for an employee who becomes disabled and cannot work after exhausting medical leave. **State employees are not covered by social security disability**—not even from previous employment if they have not worked under social security for 5-10 years. The Public Employees' Retirement System has a disability retirement provision, but at much reduced benefit compared with retirement at normal age (which is subtracted from any LTD benefit). Most NSHE faculty are not in PERS and therefore do not have that coverage. Without the LTD benefit, disabled employees will have no income and once they have depleted any personal savings will become dependent on Medicaid and social services.

The cost of the group LTD insurance is about $14.40 per employee per month or $5.6M/year for all state employees. Group rates are much more reasonable than the individual LTD insurance market—typically up to 3% of salary depending amount and years of coverage or up to hundreds of dollars per month. It is unlikely that a significant number of state employees would manage to find or be able to afford individual private LTD insurance. PEBP staff say they cannot even offer it as a voluntary product in the next year.

Because the Governor's budget has included these specific benefit cuts, it is now up to the Legislature to fix. Time is pressing because PEBP plan design for the coming year is already going into rate calculations that are finalized in March for open enrollment starting May 1.

It is unconscionable that the PEBP cuts are structured to cost the most vulnerable the most—those who are sickest or who become disabled. We respectfully request that the Legislature act expeditiously to:

- Restore the Long-Term Disability Insurance Benefit, at a cost of $5.6M/year (or $4.0M/year as a very rough estimate if the coverage is reduced from 60% to 50% of income and perhaps the monthly cap is reduced).
- Further reduce the out-of-pocket maximums, preferably by committing additional state funds. Alternatively, a temporary "COVID premium surcharge" with a triggered sunset to go away once the economy and state budget improve would at least spread the costs over all participants rather than those whose medical costs are highest.

Thank you very much for your attention to these matters.