STATE OF CONNECTICUT
EXECUTIVE CHAMBERS

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GOVERNOR

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Governor Rell: Far-Reaching Labor Agreement Will Cut Costs for Taxpayers Now and in Future

Proposal, Approved by Union Leaders, Now Headed to Rank-and-File State Employees for Consideration

Governor M. Jodi Rell today announced that the tentative agreement between her Administration and state employee labor unions makes significant changes in employee benefits that will result in cost savings to taxpayers now and in years to come. In addition, union leaders have made tentative agreements on their individual labor contracts that include wage freezes and furlough days for all state employees. The combined changes will save more than $637 million in the next two budget years, while a furlough day and the deferral of certain pension payments included in the agreement will also allow the state to achieve some savings in the current fiscal year. The proposals are now being considered by rank-and-file union members.

"The agreement we have crafted makes far-reaching and incredibly important changes in issues such as health care and pensions," Governor Rell said. "These changes will not only help resolve some of the financial problems we are facing now but will have far lasting effects in future budget years. These are the kinds of comprehensive, structural approaches we need to take to reduce state spending, both now and in the future.

"From the very beginning of these discussions, the State Employee Bargaining Agent Coalition has worked with my Administration in a spirit of respect, professionalism and a genuine desire to help resolve the enormous financial issues facing our state," the Governor said. "To have reached this pact without extending the underlying agreement on health care – already in effect until 2017 – is a major accomplishment on behalf of Connecticut residents."

The agreement freezes wages for state employees for one year and requires them to take at least seven unpaid furlough days – one before the current fiscal year ends on June 30 and three in each of the next two fiscal years.

It also creates for a retirement incentive program (RIP) to encourage those who are eligible to retire to do so now. Under the RIP, a retiring employee will get three years of credit added to the retirement benefit, but would also defer payouts for unused leave until 2012, when it would then be paid in three annual installments. The RIP is intended to achieve about $205 million in savings.

In addition, all active state employees' share of health care costs will increase by $350 a year and co-payments for prescription drugs will be increased. Employees will pay $5 for generic medications, $10 for brand name drugs and $25 for drugs not on the formulary, or list of preferred brands.

The prescription plan also requires the use of generic drugs unless there is a medical necessity for a non-generic medication. This change is applicable to both active and retired employees.

Another significant element of the agreement is the establishment of a "Rule of 75" governing entitlement to health benefits for state employees who leave state service with vested pension rights but do not immediately begin collecting a pension.

Currently, these individuals qualify for retiree health benefits when they reach retirement age with at least 10 years of state service. Under the "Rule of 75," the combination of a retiree's age and years of service must equal or exceed 75 before he or she can begin receiving health benefits, even if qualified for a pension at an earlier date.

Under another significant change, current employees with less than 5 years of service and all future employees will be required to contribute 3 percent of their earnings annually to fund retiree health acre during the first 10 years of their employment.

"These two changes – the 'Rule of 75' and the contribution requirement – will greatly reduce our long-term health care costs, pension costs and unfunded liabilities," Governor Rell said. "Future budgets will feel the relief, and so will taxpayers."

Under the agreement, the Administration has committed to no layoffs in Executive Branch agencies through the end of the biennium on June 30, 2011. The protections apply only to permanent state employees hired before July 1, 2009, and would not bar the Governor from restructuring agencies or eliminating positions, provided the affected employees could transfer to a comparable position elsewhere in state government. The Judicial Branch has agreed to comparable job security protections for its employees.

The agreement also contains fallback provisions in case the state's financial situation becomes more severe or if savings from the Retirement Incentive Plan are not achieved. In that case, SEBAC and the Administration would take joint measures to encourage additional voluntary furlough days and the state could delay some scheduled payments and/or reduce its pension contributions.

"This agreement is the result of weeks of work by all sides," Governor Rell said. "I believe we have reached a deal that is fair to the hard-working and dedicated state employees of Connecticut while reducing the costs of state government borne by the hard-working taxpayers of Connecticut."