

Good Afternoon Chairman Parsky and Post Employment Benefits Commission Members.

My name is Nadine Franklin. I will be addressing post retirement health benefits and pensions for classified school and community college retirees.

I am a Senior Member Benefits Coordinator for the California School Employees Association. There I assist our 221,000 members with retirement information.

Our members are classified employees and retirees from public school and community college districts throughout California. They are secretaries, bus drivers, food services workers, groundskeepers, security personnel, business office employees, para educators, custodians, maintenance workers, electricians, plumbers, painters, carpenters, mechanics, glazers and locksmiths. They keep the schools running and clean and safe for students from pre-school age to college.

Some districts provide both retiree health benefits and pensions for classified employees, many do not include retiree health benefits. I will briefly cover some scenarios relating to health benefits. I will also discuss the need to continue pensions for employees in their 50's and the logic of continuing their defined benefit plan that is nearly fully funded.

Thousands of classified employees have no pension because they work less than 4 hours a day. Rarely do employers pay toward or allow these employees *access* to health benefits. Some districts do allow these employees to be in Social Security but many offer a qualified alternative to Social Security. This leaves employees with a small lump sum or limited pension at retirement but *no retiree health benefits*, not even Medicare if they are not in Social Security.

Of the 221,000 employees CSEA represents, approximately 71% of them qualify to contribute to CalPERS. Of those approximately 50% are full time, 8 hours a day, 12 months a year employees. The remaining 50% are employed for 4 to 7 hours a day, most for only 10 months a year. Of this group *many have no employer paid health benefits*, some have benefits on a pro-rated basis with employees paying part of the premiums. Those with no health benefits will obviously have *no retiree health benefits*.

Since 1989 I have worked with classified employees who plan to retire. Of the thousands of conversations I have had with members, the majority included health benefit questions. Employees are directed back to their employer for health benefit answers, because, there is no consistency among schools as to what, if any, benefits are provided after retirement. There is often no consistency in what is provided for teachers, administrators and classified within the same district. In some cases teachers or administrators may be entitled to retiree health benefits but full time classified employees are not.

Only 116 out of over 1200 school and community college districts in California participate in the CalPERS health benefits program. Several of the participating districts include administrators, classified and certificated employees. Of the 116 districts, only 16 pay the full premium for retirees. In three of those districts only one retiree is

covered, two are covered in two of the districts and only 36 retirees are covered in one of the districts.

In four of the remaining 100 districts there are a total of 11 retirees in the health plan but with *no employer contributions*. Two districts have a total of 310 retirees insured with *\$1.00 per month employer contributions*. The district that pays the largest amount (\$1862 per employee per month) is paying for only two retirees, most likely they were administrators.

CSEA recently sampled 50 school districts we represent. We found that of the 50 only two provided lifetime benefits, both contract with CalPERS and both pay only the minimum required (\$80.80 per month in 2007). Ten of the 50 districts provide no health coverage. The remaining 38 districts provide coverage for retirees between ages 55 and 65 only, most require 15 years of service for eligibility.

Our labor relations representatives report that a very small number of school and community college districts are in the process of arranging for pre-funding post retirement benefits at this time. At least two were reported to have a pre-funding process already in place in recent years. Discussions are beginning to take place in other districts.

A sampling of California Public-Sector entities that was funded by the California HealthCare Foundation gives a bit of insight into the health benefit situation in schools vs other public agencies. A total of 108 agencies from four California geographical regions were studied.

While the study refers to the 2003-04 year and the percentage of the agencies' total budgets needed to pay for retiree health benefits, it also projects the cost to the years 2019-20. Today's total costs will be different, of course, but how schools fit into the picture is likely to be the quite similar.

Of the 108 agencies, 20 school districts were included, 13 show well below 1 % of the district's budget being spent on retiree health care. Five school districts fell between 1% and 2% and two districts fell between 2% and 3%. These figures do not tell the story of how much of the of the retiree health benefit costs are attributed to classified employees, however.

We do know that only approximately 40% of the 750 districts represented by CSEA offer *any* type of benefits for classified retirees. The most common type covers a retiree up to Medicare age if they retire at age 55 or over and have at least 15 years of service. Again, a small percentage of districts offer lifetime benefits.. Of those that do, some have developed a lesser tier of coverage for new hires. In light of the fact the so few employees receive significant or lifetime coverage the *cost of retiree medical benefits for classified employees is small* by comparison with other agencies, *so is the amount of healthcare coverage*.

This may be good news to those who are looking at retiree health benefit costs to tax payers, which, of course, includes all public employees. But, the bottom line is, many classified employees and retirees cannot afford health care and end up in other health care programs funded by the taxpayers, such as Medical and Healthy Families. One way or another, the taxpayers pay, but they pay more in the long run if the employees do not have health care through a group plan.

As has repeatedly been pointed out during these and other meetings, our nation's health care system is seriously broken. The California School Employees Association has taken an official position in favor of a single payer plan that will save money and provide coverage for all workers

The pension discussion for classified employees is another story. All of California's *qualified* classified employees participate in the California Public Employees Retirement System, CalPERS. What qualifies an employee to be in CalPERS? They must work at least four hours a day, 20 hours a week or 1,000 hours in a fiscal year.

There are interesting facts about classified employees' pensions. Classified employees and retirees make up *37% of the total CalPERS membership*. However, they are eligible for the absolute *lowest pensions* from the system. These are dedicated employees upon whom the public depends to keep our young people safe, provide meals, transportation, and appropriate learning environments. Many employees directly assist students with all types of special needs.

Classified school positions might be the perfect example of why it's important to continue to make pensions available for people in their 50's. Try driving a school bus full of 30, 50 or 80 high energy children under age 12; or moving large, heavy containers of food and stacks of cafeteria trays daily; or, many times a day lifting students of all ages and sizes who can't move on their own. Injuries often occur from on-going work in these types of positions. People often need to retire early or they will end up retiring on a more costly disability retirement. They *must* continue to have the earlier retirement option. Remember, many of these employees do not have retiree health benefits provided by their employers so they desperately need their guaranteed lifetime pension.

Those who speak against the public employees retirement benefits often paint a picture of retirees who receive excessive pensions. Those are the exceptions, at least within CalPERS. According to CalPERS statistics, the average school retiree monthly pension is \$1,030 or \$12,360 a year. The average disability monthly pension for school retirees is \$723 a month. With over one third of the CalPERS members receiving an average annual pension of just over \$12,000 and another third of the CalPERS members (retired state workers) with only slightly higher pensions, *where are the excessive pensions?* Classified employees' pensions at this level are earned after 15 to 20 years spent providing the setting for teachers to teach and students to learn. Out of their pensions classified school retirees must pay several hundred dollars a month for health benefits. Even though many classified retirees also receive Social Security, their benefits are often small because their earnings from the schools have been very small.

So much of the debate surrounding both pensions and health benefits for public employees omits the fact that employees, covered by health benefits, sacrifice salary increases to pay for rising health care costs. At the same time, they often have high benefit co-payments. They also contribute their share of their monthly income to the pension systems. Since pension boards carefully invest their money, at least the employees can hold their heads high in society because they will have some income in their retirement. Certainly the bulk of the employees would not have the financial savvy to make such good investments on their own, or the income to prepare them for retirement. They stay with lesser paying jobs, however, knowing their hard work will pay off and they will have money to live on when they are no longer able to work.

I have watched CalPERS grow over the years and observed the care with which the Board of Administration makes decisions that will impact employers, employees and retirees. It's gratifying to assure employees that the contributions they have made during their service in the schools will provide them the lifetime *pension* they have *earned* and so richly deserve. Their personal income contributes to the investment portfolio which CalPERS has used wisely to bring about a system that is over 93% funded. Only 25% of the money that is paid out in retirement benefits is coming from tax payers. Again, since the employees themselves are also taxpayers they are helping to pay that 25%.

With the excellent returns that are being realized by CalPERS, it is projected that the system will soon be 100% funded. *Where could the taxpayers get a better deal?* Money that is provided for CalPERS pensions soon won't be costing taxpayers a dime. However, because the pensions exist, taxpayers won't be seeing public employees on the welfare roles taking advantage of other taxpayer funded benefits. We in CSEA do not believe there is any logic in diminishing *pensions* which for the majority of CalPERS members are *far from overly generous*.

With proper modification to the health care system classified employees and retirees could also have adequate health care during their careers and in their retirement. For now, taxpayers are paying very little toward retiree health benefits for classified school retirees.

Thank you for your attention. I will be happy to answer questions.

Respectfully submitted,

Nadine Franklin, Sr. Member Benefits Coordinator
California School Employees Association.

July 18, 2007