TURNING THE TIDE

Fiscal Policy Changes, Best Practices and Ideas That Work
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TURNING THE TIDE
Fiscal Policy Changes, Best Practices and Ideas That Work
More than five years after the Great Recession of 2007 began, and two years since Connecticut technically exited it, the state continues to face serious economic and financial challenges.

The state’s unemployment rate is 8.8%, well above the national rate of 7.9% (Nov. 2012, seasonally adjusted); Connecticut’s unemployment rate has been above 8% since May 2009 (with the exception of February-May, 2012).\(^1\) Job growth is essentially flat, and some economists believe that it will be several more years before Connecticut regains all of the jobs lost during the recession.

Adding to the recession’s impact on Connecticut’s economy have been the state’s fiscal problems. Policymakers in 2011 plugged a multibillion-dollar projected state budget deficit with the largest tax increase in state history, along with some reduced spending, introductory efficiency measures, and modest reforms.

\(^1\) U.S. Department of Labor, Bureau of Labor Statistics
Yet even those efforts—including a budgeted but missed $1.6 billion in cost savings identified in a state employee union agreement\(^2\)—fell short. The state experienced a (much smaller) deficit in fiscal year 2012, another budget gap is projected for fiscal year 2013 (although the December 2012 special session closed most of it),\(^3\) and projections are for billion-dollar deficits in fiscal years 2014 and 2015.

Connecticut’s fiscal problems extend beyond the biennial budget. Underfunded obligations for state employee retiree benefits and other long-term commitments weigh heavily on state taxpayers, concern both the business community and national ratings agencies, and divert funding from ongoing programs. Connecticut’s debt-plus-pension liabilities to GDP ratio is the worst in the nation and 11 times worse than the best-performing state.\(^4\)

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**It’s Not Just the Economy**

The quick reappearance of budget deficits in the wake of $1.5 billion\(^5\) in tax increases indicates that the state’s fiscal shortfalls are not simply a function of an underperforming economy but also the product of state spending policy. Connecticut continues to spend beyond its means.

When confronting deficits over the years, the state’s approach has often been to increase or expand taxes, or create or hike fees, or both, to fill the gap. Any “cuts” have been, in reality, usually just a slowing in the rate of spending growth.

The truth is that Connecticut has a spending problem that’s been exacerbated by tax revenues not being used as effectively as possible. Taxpayers, including employers, have seen few efforts to make the tough fiscal decisions in the short term, such as truly reducing spending and evaluating how well tax dollars are being spent. Nor have policymakers implemented long-term, structural changes to improve the state’s fiscal condition.

There are, however, ways to get Connecticut firmly back on the right fiscal track.

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\(^4\) Andrew Bary, “State of the States,” Barron’s, August 27, 2012;  
\(^5\) State of Connecticut, 2012-2013 Budget
Spending Problem

While Connecticut has not experienced significant changes in population or private-sector job growth over the past 20 years, the cost of state government has grown dramatically. Since 1992, Connecticut’s population has increased by 9% while state spending has grown by more than 153%, despite the state’s spending cap. This chart shows how state spending growth has easily surpassed the inflation rate, state population growth, and median household income.

Long-Term Spending

Spending for state employee retiree health benefits has grown an unfathomable 981% since 1992; debt service (paying off state borrowing) has increased 204%; Medicaid spending is up 180%; state employee pensions, 583%; and spending on the state’s corrections system has increased 178%.

While these big-ticket items are growing at a faster rate than the overall budget, other areas of state spending vital to
Connecticut’s economic viability and quality of life have seen disinvestment by the state. 7

When state spending continues to rise, it also drains dollars from our economy and discourages job creation and business investment in the state.

Structural Problem

To be sure, much of the rise in state spending is a response to greater needs for vital, safety-net social services that have been stretched by a poor economy. Healthcare costs also have risen dramatically for the at-risk and aging population served by the state.

Costs have also risen, however, because of agreements made over time to guarantee generous retirement benefits for state employees. These guaranteed benefits have created significant and arguably unsustainable long-term obligations.

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for state taxpayers. Compounding the budget crisis is the fact that the state has failed to adequately fund its long-term commitments, chiefly for state employee and teachers’ pensions and state employee retirement healthcare.

Connecticut has an estimated $63.9 billion in overall long-term obligations. This figure is an improvement over 2010’s long-term obligation valuation of $73.1 billion, due in part to concessions negotiated with state employee unions.\textsuperscript{8}

However, the lower debt total heavily relies on optimism and estimation. The large drop in OPEB liability (other than pension employee benefits) is in part due to a simple change in the discount rate used to calculate obligations; that is, some of the “savings” came from using different assumptions on the rate of return of the state’s invested pension fund, while the balance came from changes negotiated with the state employee unions.

Though the governor and legislature should be credited for taking steps in the right direction, it is likely that the state still has not yet been put on a sustainable path that will consistently lower the baseline in the coming years.

Much more can and needs to be done to bring these benefits and obligations in line with our ability to afford them.
Other Critical Factors

- The state’s income tax has become more volatile and hits small businesses (who pay their business taxes through the tax) particularly hard; this has hurt our economy.

- The recession substantially changed the state’s income tax structure, for example, hitting the financial services industry—a traditionally large source of income tax revenue—particularly hard; many of those jobs, incomes and bonuses did not return.

- Connecticut’s population continues to gray, with more baby boomers heading toward retirement and out of the workforce. This demographic migration will strain the state’s income-producing population to pay the cost of state government.

- A federal budget sequestration would have a profound impact on Connecticut’s finances if a solution is not worked out by Congress before the deadline.9

Under sequestration, non-defense discretionary spending could see across-the-board cuts to the tune of $38 billion, forcing Connecticut to do without grants and state aid that it usually relies on to finance priorities such as education and social programs. For example, both Title I money for disadvantaged children and special education funding for states would be cut by over $1 billion. Large portions of educational spending are mandatory as well; when federal funding does not come, the money must be found elsewhere in the budget, leading to further cuts in other areas.

Federal aid for state social programs would also be significantly cut, seeing state spending on items like the WIC (women, infants, and children) Program, and energy assistance programs drastically reduced.

Policy Changes

Policymakers must create a state budget and develop long-term solutions that will keep spending within taxpayers’ means and restore responsible fiscal policy. State government must become more effective, more accountable, and more affordable.

Several major studies by the Thomas Commission, Harper-Hall Commission, Connecticut Institute for the 21st Century, Commission on Nonprofit Health and Human Services, and others have identified practical solutions for making state government work leaner and better at less cost.

Governor Malloy has committed his administration to finding ways to streamline state government. The state also is beginning to address the largest cost-driving areas of state spending, such as state employee and teacher retirement benefits, the corrections system, medical care, and long-term healthcare.

The overriding need is to act decisively to restore greater fiscal responsibility and scale back the cost and scope of state government. Ideas are at hand; the question is whether policymakers will have the political will to implement them.

“The state’s income tax has become more volatile and hits small businesses (who pay their business taxes through the tax) particularly hard.”

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In the face of new state budget gaps, Office of Policy and Management Secretary Ben Barnes acknowledged that policy changes are needed to address Connecticut’s fiscal challenges. In fact, there are many changes that can be made to address the state’s largest areas of spending and help state government become more efficient, effective, and fiscally responsible.

Progress has been made in some of these areas, but it has been relatively minor and at too slow a pace to have a significant impact on the state’s fiscal condition.

It’s time for a rapid and comprehensive use of proven reforms as recommended by the Connecticut Institute for the 21st Century and state commissions over the years, and as seen in the best practices of other states. Connecticut must:

I. Continue Streamlining State Government
II. Rebalance Long-Term Healthcare
III. Reform the Corrections System
IV. Modify State Employee Retiree Benefits
V. Expand the Use of Quality Nonprofit Providers

Short-Term: The Next State Budget

In addition, the General Assembly must create a new, two-year state budget that:

- **Reduces** the size and cost of state government while improving its effectiveness
- **Balances** without any new tax increases that would harm economic recovery and job creation
- **Adheres** to the state’s Constitutional spending cap
- **Holds** to the phase-in of Generally Accepted Accounting Principles

What’s more, new mandates and other statutory provisions that drive up the costs of municipal services should be rejected. Municipalities should also be encouraged to work together to deliver public services more efficiently in order to reduce the need for property tax increases.
Lean

State spending can be controlled by constantly improving the organization of state government and the way it delivers services. Lean is a tool used often in the private sector to create customer value while using the fewest resources possible. It increases efficiency and removes waste.

Some state agencies have used lean principles to streamline operations but much more could be accomplished if lean were to be adopted government-wide. Connecticut’s DEEP, DOL, and DRS are in various stages of implementing lean practices, with positive results in many aspects of their operations. Lean can help reduce redundant layers of management, restructure functions, and adopt new ways of budgeting to improve efficiency and effect savings.

In September 2012, the Office of Policy and Management issued a report detailing numerous ways state agencies have been reducing their fiscal footprint. For example, since 2011, the administration has reduced the number of state agencies, through consolidations and eliminations, from 81 to 59.

The executive branch trimmed its permanent workforce by approximately 2,500 positions over an 18-month period.

BEST PRACTICES:

Minnesota: “Enterprise Lean” is a coordinated effort with businesses to improve state government. Through it, 200 projects have saved the state $18 million dollars. General Mills has been a key contributor in the effort, training more than 500 state managers on how to optimize their departments. The Minnesota Business Partnership, which represents the 100 biggest companies in the state, pairs interested businesses with state agencies to help them work better and more cost-effectively.11

Washington State: Gov. Christine Gregoire viewed lean as central to her effort to transform state operations, and she reached out to Boeing for help. As a “major employer in the state,” said a statement from the aerospace company, “we pay taxes and our employees pay taxes. Therefore, we have a vested interest in seeing our state and local governments run as efficiently as possible so they can be successful.”12

Iowa: This state was first (2003) to launch lean efforts. It established an Office of Lean Enterprise to “promote and facilitate continuous improvement through the use of a specific set of proven tools and methodologies collectively known as Lean.” Its website provides a clear accounting of specific programs and results.13

Performance-Based Budgeting

Performance-based budgeting rewards efficient, effective programs and alters those that cannot meet specific goals. One tool that can help the state become both more effective and cost-efficient is the Performance Management Framework for State and Local Government.\(^\text{14}\)

The framework, a project of the National Performance Management Advisory Commission, emphasizes achieving improvements through sweeping organizational and cultural changes that enable results-based budgeting. Each of the framework’s Principles of Performance Management supports an overriding principle: “Performance management transforms the organization, its management and the policy-making process.”

Specifically, the desired goal is transformation from a traditional budgeting model that focuses on inputs and outputs to a more effective, result-based management and decision-making model. What’s more, the framework is designed to change an organization’s culture to one that values evidence, learning, and accountability.

**BEST PRACTICES:**

Many states have employed the use of performance measures in the budgeting process. A study by the National Association of State Budget Officers\(^\text{15}\) found that 39 states included performance measures in agency budget requests, and 42 states reported some level of performance measures online.

A more recent report from the National Performance Management Advisory Commission\(^\text{16}\) highlighted programs in Florida, Idaho, Maryland, Oregon, Virginia, Massachusetts, and Washington State.

“Virginia Performs” is the commonwealth’s performance measurement program. It tracks the key performance measures of state agencies and provides critical analysis. State government agencies in Virginia develop and implement strategic and service-area plans to help achieve long-term goals and objectives.\(^\text{17}\)

In Massachusetts, the Executive Office of Health and Human Services (EOHHS) in 2007 launched a performance-management program called EHSResults “to foster transparency, accountability, and cross-agency collaboration” in order to achieve its goals. The office is making “client outcome data a very real part of our day-to-day conversations and using it as a key input for policy and programmatic decisions. EHSResults provides senior staff [and the public] with easy access to meaningful data, enabling more informed decision-making.”\(^\text{18}\)

Washington State’s Transportation Improvement Board has implemented results-based budgeting and created an information dashboard on its website that shows the results the agency has achieved after two years of implementing the program.\(^\text{19}\)

Zero-Based Budgeting

Zero-based budgeting describes a system that begins every budget cycle at zero, avoiding any assumption that activities funded previously will be continued. By comparison, in traditional incremental budgeting, department managers justify increases over the previous year’s budget by making what has been already spent automatically sanctioned.

Zero-based budgeting comprehensively reviews every department’s function and requires approval for all expenditures, requiring the budget request to be justified in complete detail by each division manager starting from the zero-base.

According to the National Council of State Legislatures, zero-based budgeting “appeals to a serious and widespread desire to look at public budgeting in a fresh new way, free of old assumptions, not letting past experiences control the future.”20

NCSL says that 17 states in recent years have used zero-based budgeting in some form, and several more have made serious efforts to do so.

**Actions to Take**

- **Require** lean techniques and other efficiency strategies to be adopted in every major aspect of state government.
- **Require** every major state program and agency to adopt performance-based budgeting systems as a prerequisite for continued funding.
- **Upgrade** the state’s information technology system to create real-time sharing of information across agencies and bring about better coordination of state services.
- **Modify** union rules to allow the redeployment of state employees to meet priority needs.
- **Privatize** certain functions, including inmate healthcare, motor vehicle registration, parts maintenance, and DSS program intake and applications.
- **Increase** the number of workers per manager to 12.
- **Reduce** staffing redundancies in the consolidation of state agencies.

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Aging baby boomers have pushed up Connecticut’s median age, which means that more and more people are, and will be, tapping into Medicaid for long-term care. Over the next 20 years the number of Connecticut residents age 65 and older is expected to increase by more than 300,000, rising to nearly 23% of our state’s population.21

We can’t do much to change our demographics, but there are ways to help control Medicaid spending. Last year, the Connecticut Institute for the 21st Century released a report on long-term healthcare reform. In it they said that making some changes to how the state does long-term healthcare now could save the state nearly a billion dollars annually.22

This can be accomplished, said the Institute, primarily by rebalancing our long-term care equation to deemphasize institutional care and increase the use of quality home-based care—an option that is not only preferable (most people prefer to stay in their homes as they age) but also less expensive.

In fact, the average cost of home- and community-based care is about half the cost of institutional care. (In 2009, 53%...
of Medicaid long-term clients in Connecticut were receiving community-based care at a total cost of $886 million. The other 47% received traditional care at a tab of more than $1.6 billion.)

If Connecticut were to rebalance the equation to 75% home- and community-based care by 2025, says the Institute, it would produce $900 million in annual savings to the state. This would also achieve three big public policy goals: cutting state spending, improving customer satisfaction, and upgrading the delivery of state services. But there would have to be a dedicated change in approach.

Connecticut’s “Money Follows the Person” initiative—designed to promote personal independence and save money—has had some early success. According to the Institute’s 2011 report, average monthly client costs decreased from $2,651 for institutional care to $963 for home- and community-based care.23

BEST PRACTICES:

Rhode Island: Medicaid is the single biggest driver of government spending in most states. For ideas on significant Medicaid reform, one would best look to Rhode Island. The Ocean State has capped Medicaid spending to $12 billion over five years in a block-grant-like fashion. In exchange for capping spending, the federal government allowed Rhode Island to make changes to the program without federal approval or with expedited approval.

The changes, which are projected to save Rhode Island anywhere from $100 million to $146 million, include increased home care, an overhaul of payment systems, the creation of specialty population-specific benefit packages, expansion of managed-care

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23 Money Follows the Person, State of Connecticut

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networks, and increased competition in goods and services contracts.\textsuperscript{24}

Rhode Island’s success has inspired New Jersey, Minnesota, and Mississippi to seek similar block-grant-like waivers.

**Oregon:** The state is using an innovative approach to promote better health, better care, and lower costs for state residents who receive healthcare coverage under the Oregon Health Plan (Medicaid). The state has implemented coordinated care organizations, or CCOs, which are local community-based networks of all types of healthcare providers (physical healthcare, addictions and mental health, and sometimes dental care providers) who have agreed to work together.\textsuperscript{25}

CCOs are:

- Flexible to support new models of care that are patient-centered and team-focused and that reduce health disparities
- Better able to coordinate services and focus on prevention, chronic illness management, and person-centered care
- Accountable for health outcomes of the population they serve and governed by a partnership among healthcare providers, community members, and stakeholders in the health systems that have financial responsibility and risk
- Performance-based: Oregon has committed to meeting key quality measurements for improved health for OHP clients while reducing the growth in spending by two percentage points per member over the next two years. Projected out, this would achieve some $11 billion in total state and federal savings over the next 10 years.

**Illinois:** Taking an aggressive approach to Medicaid reform, the state is eliminating ineligible recipients from the program (100,000-300,000 people who either make too much money or live out of state), which is estimated to save the state hundreds of millions. Also saving hundreds of millions are the push to switch 85% of Medicaid recipients into managed care and limits on prescriptions to five per month. Numerous program cuts also contribute to the savings, and a 6% across-the-board reduction in provider payments would save $500 million. These changes add up to over $2.5 billion in potential savings for Illinois. Many other states have implemented or are attempting to implement similar reforms to Medicaid.\textsuperscript{26}

### ACTIONS TO TAKE

- **REVAMP** procedures so that when clients want home-based care or when home care is a more appropriate level of service, they can easily choose and access those services.
- **SHIFT** to providing a greater proportion of lower-cost but high-quality community-based healthcare for Medicaid recipients to save millions in tax dollars and provide the kinds of services people want.
- **EXPAND** the use of nonprofits by supporting a robust community-based system of care that provides timely, accessible services across a broad continuum.
- **INCREASE** the state’s Medicaid Fraud Control Unit and Social Service fraud prevention staff; transfer DSS staff to the criminal justice division.
- **OBTAIN** a Section 1115 waiver to gain relief from federal mandates and realize savings.

\textsuperscript{24} “Providential Design: A Study Shows that Medicaid Reform Is Working in Rhode Island,” Wall Street Journal, April 5, 2012; \textsuperscript{25} Oregon Health Policy Board, State of Oregon; \textsuperscript{26} “Saving Medicaid: Smart, Targeted Spending on Health Care,” The Chicago Tribune, April 9, 2012
One of the biggest areas of state spending—corrections—offers opportunities to reduce costs, make government work better, and help people rebuild productive lives.

As Connecticut and most other states have found, putting and keeping people in prison comes at a high cost. Total expenditures for state corrections in the United States were an estimated $52 billion in 2011.\(^{27}\)

**IN CONNECTICUT:**
- Approximately 17,600 people are incarcerated.\(^{28}\)
- The state’s annual corrections budget is nearly $700 million.\(^{29}\)
- Connecticut’s corrections system budget has grown 178% since 1990.\(^{30}\)

About 70% of the average daily cost per inmate in 2008-2009 went to the pay and benefits of corrections employees.\(^{31}\)

The average daily expenditure per inmate in Connecticut was $93.29 from 2008 through 2009—which extends to an annual

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per-inmate cost of more than $34,000. That’s thousands more than it costs an in-state resident to attend the University of Connecticut for a year.\textsuperscript{32}

But the actual costs are much higher, says another study, when corrections employee benefits, pension contributions, debt reduction, and statewide administrative costs are added. Connecticut’s 2010 Department of Corrections budget of $613.3 million, said the Vera Institute of Justice, actually ballooned to $929.4 million when those extra costs were added, producing an annual per-inmate tab of $50,262.\textsuperscript{33}

Several states have been able to reduce their corrections costs and achieve better results through treatment, community corrections programs, and rehabilitation. For many offenders, these efforts often work better and more cost-effectively than prison.

Connecticut’s prison population has been declining slightly for a variety of reasons, including that more offenders are being released into community supervision programs. At the same time, our recidivism rate has been decreasing. Our recidivism rate is 47% (with 56% of offenders rearrested within two years).\textsuperscript{34}

According to the Pew Center on the States, if Connecticut were to reduce its recidivism rate by 10%, the state could realize as much as $20 million in annual savings.\textsuperscript{35}

Best results in keeping people from returning to prison, says the Pew Center on the States, are “when evidence-based programs and practices are implemented in prisons and govern the supervision of probationers and parolees in the community post-release.”\textsuperscript{36}

**BEST PRACTICES:**

Serious policy changes would not only relieve significant pressure on the state budget but, as several states are finding, also could lead to better results for many of Connecticut’s nonviolent offenders.

**SUCCESS STORIES FROM THE STATES INCLUDE:**

- **Michigan:** A series of policy changes, including a Prison Reentry Initiative launched in 2003, has turned around its corrections system. By equipping every released offender with the tools needed to succeed in the community, the state has reduced its inmate population by 12%, closed more than 20 correctional facilities, and kept a growing number of parolees from returning to custody.\textsuperscript{37}

- **Oregon:** The state reduced its recidivism rate by 32% between 1999 and 2004, a feat attributable to “a comprehensive approach to reform and a commitment to change that reaches across all levels of government—from the supervisory officer in the field, to the judiciary, through the state corrections department and up the ranks of legislative leadership,” says the Pew Center on the States.\textsuperscript{38}

- **Kentucky:** Legislation diverting certain drug offenders into treatment rather than prison and reserving prison space for violent and career criminals is expected to save the state $422 million over the next decade.\(^{41}\)

Here in Connecticut, CBIA and its members are working with the Connecticut Institute for the 21st Century to promote innovative alternative programs such as the Malta Prison Volunteers of Connecticut, which helps find jobs for qualified ex-offenders.

### ACTIONS TO TAKE

- **EXPAND** the use of nonprofit, character-based programs (such as those used in the women's prison in Niantic) to the system's male population. These programs have reduced recidivism significantly and helped clients achieve more productive lives.

- **EMPLOY** proven re-entry programs for those who have been incarcerated for two years or less.

- **REFORM** job classifications so that corrections personnel who do not have daily or frequent interactions with inmates are correctly classified as performing nonhazardous duty, rather than the more highly compensated hazardous duty.

- **REFORM** work rules to avoid encouraging a greater use of overtime (such as the five-days-on, three-days-off schedule for corrections personnel) that increase costs and decrease effectiveness.

- **ADOPT** and accelerate implementation of the 70-plus reforms cited in the recidivism-reduction report from the Connecticut Sentencing Commission.

- **REFORM** medical retirement benefits to increase the threshold number of years of service for those in hazardous duty (as the state of Massachusetts has done).

### WHAT'S MORE:

- **UNIFY** the oversight of Connecticut's entire corrections system and install a comprehensive data system.

- **STANDARDIZE** risk-assessment tools for better and more consistent decision-making.

- **ENGAGE** Connecticut businesses in helping offenders re-enter the community.

- **ESTABLISH** a faith-based pilot program for incarcerated males to achieve much lower recidivism rates.

- **CONTINUE** to build partnerships with community-based service providers to provide critical support to offenders in the early hours after their release.

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\(^{39}\) Jeffrey S. McLeod, “State Efforts in Sentencing and Corrections Reform,” National Governors Association Center for Best Practices, October 2011; \(^{40}\) Ibid.; \(^{41}\) Ibid.
Connecticut and many other states face a wide gap between the retirement promises made to employees and the money put aside to pay those bills. As the Hartford Courant has urged, “The state’s Cadillac benefits have to be retooled to put them in line with what the state can afford.” Negotiating retiree health and pension benefits to make them more sustainable also would go a long way to renewing private-sector confidence in Connecticut.

Changes to healthcare and pension benefits negotiated with state employee unions in 2011 included an increased penalty for early retirement, increased years of service to be eligible for regular retirement, mandatory contributions to the retirement healthcare trust fund, and a decrease in the minimum cost of living adjustment (COLA) from 2.5% to 2% for retirements after Oct. 1, 2011. There are more steps Connecticut could take.42

### Pension Reforms

Facing similar crises over long-term obligations, many states have modified their pension programs:

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# Policy Changes: High-Reward Reforms

## IV. Modify State Employee Retiree Benefits

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Most frequently, says the Connecticut Institute for the 21st Century, states have either raised employee contribution rates or adjusted state contributions. The changes mostly affect newly hired state workers, but some states are exploring higher contributions and benefit changes from current employees.

Many states have changed the income-averaging period from a three-year average to a five-year average. Some states have also raised threshold retirement ages and frozen cost-of-living adjustments.

Other states have moved away from a defined benefit plan (which provides a monthly benefit to participants at retirement) to a defined contribution plan similar to 401(k) plans offered by private-sector employers. The state plans are either replacing or co-existing with traditional defined benefit plans.43

BEST PRACTICES:

Utah: Utah has taken a moderate approach while eliminating the defined benefit pension for all new employees. New hires may choose between a hybrid plan, where the government contributes up to 10% divided between a defined benefit and defined contribution plan, or a transferrable defined contribution 401(k)-style plan. This brought the plan back to near-full funding, and depending on retirement trends, could save the state up to $10.5 million.44

Rhode Island: In a similar approach to Utah’s, Rhode Island has switched to a hybrid plan and required higher employee contribution to funds. They went a step further, however, in raising the retirement age (to match Social Security), suspending COLAs for all government employees, preventing pension funds from being used for other purposes, and other debt restructuring measures. The plan is estimated to save taxpayers $3 billion over the next decade.45

Florida: Florida also saved nearly $1 billion by increasing employee pension contributions and eliminating COLAs for new retirees.46

Virginia: In addition to increasing employee contributions and creating a mandatory hybrid pension plan, Virginia reduced benefits and eliminated COLAs for those already retired.47

Many other states have adopted various types of pension reform.

Healthcare Benefits

Connecticut’s unpaid obligation to provide healthcare benefits for current and future state and teacher retirees totals just under $21 billion. Paying off the current liability would require $5,820 from every man, woman, and child in the state.48

Connecticut’s pay-as-you-go system means that instead of setting aside money to pay for health benefits promised to future retirees, the state pays only the current costs each year. This system ignores a much more significant long-term price tag as demographic shifts drive up the number of retirees and associated healthcare costs.

Some states are abandoning pay-as-you-go to implement a system that funds benefits in advance through dedicated trust accounts. The idea has been recommended, but not adopted, in Connecticut.
Actions being taken to reduce retiree healthcare obligations include requiring current state employees (and in some cases those who have already retired) to contribute or increase their contributions to the funds.

Eligibility requirements are also being tightened to call for a longer employment tenure before retirees gain access to benefits. In some cases, states are encouraging early retirements in order to increase the number of new hires, and therefore, people contributing to their benefits systems.

Connecticut modified its retiree health eligibility rules in 2009 to require new hires to contribute 3% of pay for the retiree medical plan for their first 10 years of service. They also must have at least 10 years of service (or based on age and service, meet the rule of 75) in order to qualify for the benefits.49

IN OTHER STATES: 50

- Georgia raised health insurance premiums on most of its 225,000 state employees and teachers.
- Michigan requires public school teachers and other state employees to contribute 3% of compensation into an irrevocable trust created for the purpose of holding, investing, and distributing assets for retiree healthcare benefits. The state is also using a defined contribution model and has modified its obligations to certain tiers within the system.
- Pennsylvania reduced its contribution to the state healthcare benefits fund by 20% over the next 15 months.
- Utah raised state employee contributions to health insurance from 2% to 5%.
- Vermont implemented a new tier in 2010 that provides for no subsidy of the insurance premium for employees with fewer than 15 years of service.


### ACTIONS TO TAKE

- **CAP** maximum per-year pension payouts at $100,000.
- **ELIMINATE** use of overtime to spike state employee pensions; **USE** the last five years of salary—not the five highest salary years—to calculate state employee pensions.
- **INCREASE** medical co-pays for all existing retirees beginning in five years.
- **INCREASE** medical co-pays for all future retirees beginning now.
- **INCREASE** normal retirement age from 62 to 65 and index future normal retirement based upon changes in life expectancy. Increase retirement for those in dangerous jobs to age 60, and index.
- **INSTITUTE** a rule of 90 from the current rule of 75.
- For those more than five years from normal retirement, **CONVERT** the existing plan to a federal-type “hybrid” plan—part defined benefit, part defined contribution. In addition, state that medical retirement benefits do not start until age 62 regardless of age at retirement.
- For all new state hires, **SWITCH** from defined benefits to defined contribution plans and eliminate post-retirement medical coverage.
Is it possible to reduce state spending and keep providing the quality services the people of Connecticut need? Yes.

According to the bipartisan Commission on Nonprofit Health and Human Services, Connecticut’s nonprofit community already provides a number of healthcare services to the state at substantially lower cost than if those services were provided by state employees and institutions. By carefully expanding the use of qualified nonprofit providers, Connecticut could deliver quality programs and services at less cost.51

What’s more, Connecticut and many other states have used nonprofit, community programs to reduce corrections system costs and achieve better results through treatment, locally based programs, and rehabilitation.

Governor Malloy recognized the importance of the nonprofit provider community when in 2011 he created a cabinet-level position of Nonprofit Liaison to the Governor, as well as the state’s first public-private Cabinet on Nonprofit Health and Human Services.

Assessing Current Programs

As the demand for services increases, a prerequisite for expanding the use of nonprofit providers should be accurately assessing the effectiveness of current state government efforts.

It’s critically important that results-based accountability (RBA) and other efficiency measures be implemented throughout state government. Only by measuring their results will agencies be able to effectively identify the most appropriate opportunities for engaging the nonprofit community to meet the increasing demand for services. Union work rules should also be modified to more easily allow the interagency redeployment of state employees to bypass the current attrition system of staffing and more effectively address priority services.

Moreover, most state agencies operate in “silos,” working independently of each other. In a recent study, the Connecticut Institute for the 21st Century called for “intentional, aligned, cross-agency efforts that target unified community outcomes.”52

Less Cost

The Commission on Nonprofit Health and Human Services found the cost difference between the state and nonprofit providers so large that even if the wages, benefits, and costs of care were increased in the nonprofits, as the commission recommends, substantial taxpayer savings would remain. The commission analyzed the funding provided to nonprofit providers of health and human services under state Purchase of Service contracts.

Comparing employee wages, benefits, and cost of services between public- and private-sector providers, the commission confirmed what the Connecticut Institute for the 21st Century, the Commission on Enhancing Agency Outcomes, and others have said: The state doesn’t have to spend as much as it does now to provide the people of Connecticut with essential services.

Institutional Costs

In addition to substantial wage and benefit differences, there are also great differences in costs between institutional care and community-based healthcare.

Institutional care is traditionally the method of choice for those requiring a higher level of healthcare. However, “advancements in treatment methodologies, expansion of community-based services” and new drug therapies “have greatly reduced lengths of stay and even negated the need for institutionalization,” says the Commission on Nonprofit Health and Human Services.

More people are now being safely and effectively treated in their local communities and living independently, with their families, or in group homes.

Cost differences between state institutions and nonprofit residential care are obvious: At a Department of Developmental Services residential facility, for example, annual client cost was $297,110, or $814 per day per client. Comparable residential services at a private institution were $136,371, or $373 per day.\(^5^3\)

Thoughtful Planning

“True cost savings can only be generated through a thoughtful and strategic planning process that recognizes and balances...both the risks and benefits that will impact clients and providers across the continuum of care,” says the Commission on Nonprofit Health and Human Services. Among its many recommendations, the commission calls for the state to “support a robust community-based system of care that provides timely and accessible services across a broad continuum.”

### ACTIONS TO TAKE

- **REQUIRE** state agencies to conduct results-based accountability to assess the efficacy of existing state programs and services.
- **ENCOURAGE** thoughtful and strategic planning processes that recognize and balance the risks and benefits of provider options.
- **STREAMLINE** contracting procedures and cut red tape when contracting with nonprofits.
- **MODIFY** procedures to allow health and human services clients to more easily choose and access community- or home-based care as desired or deemed appropriate.
- **WORK** to improve the efficiency of nonprofit service providers.

\(^{53}\) Final Report, State of Connecticut Commission on Nonprofit Health and Human Services, March 2011
In the summer of 2009, as Connecticut struggled to escape the Great Recession and policymakers wrestled with how to erase $8 billion in red ink from the state budget, CBIA called for comprehensive reforms to state government to prevent future fiscal turmoil and spur economic growth.

We argued for decisive action, because a turnaround in the economy alone would not be enough to avoid budget crises down the road.

We said that even if our economic recovery were faster and more robust than economists predicted (it hasn’t been), and income, business, and sales tax revenues rebounded (they haven't), massive unfunded liabilities for state employee pensions and retiree health benefits would put enormous pressure on future budgets (they have).

The challenges—and the opportunity—remain.

Turning the tide means having the political will to make the fiscal changes necessary to control spending to within taxpayers’ means and adopting the innovative reforms that make the most effective, productive use of those tax dollars.

If we do that, we will reap enormous benefits, including the acceleration of Connecticut’s economic growth, which in turn will help keep the state on a sound fiscal footing going forward.

CBIA is calling for state policymakers to adopt substantive policy changes and reforms by the end of 2016.

Doing so will also mean dramatically improving the state’s local, national and international reputation, making us more attractive to the investments needed to continue driving our economy.

Connecticut has tremendous potential for future growth and prosperity as a global leader in 21st century jobs if policymakers confidently and aggressively turn the tide now with these fiscal reforms.
TURNING THE TIDE
Fiscal Policy Changes, Best Practices and Ideas That Work