Mr. Chairman, members of the Committee:

My name is Stuart Greenfield and I appreciate the opportunity to testify in behalf of HB 2004 and applaud your efforts to improve State employee benefits.

I have been a State employee for over 10 years and am currently employed by the TEC. My testimony in no way reflects the position of the agency. In fact, I have taken annual leave in order to testify.

Over the last two to three years, I have tried to promote a full fledged "cafeteria plan" as a means to improve State employee compensation. As you will note from the handout before you, there would be measurable savings to both the State and its employees by implementing a qualified IRC125 type plan. Not only would this plan be cost-effective, but under such a plan additional tax-free benefits could be provided to State employees, at no cost to the State. The State will find the total cost of employee compensation decreasing as more employees participate and more benefits are added. Besides health and group life insurance, other benefits which could be included in an IRC 125 plan include: dependent care, group legal benefits, dental care.

In addition to the cost savings to both the State and its employees, there are a number of other reasons this legislation should be enacted. One is the changing workforce. Traditional benefit plans were designed and implemented when 40-50% of the workforce was composed of working males who had a wife at home. Today, dual income familes compriise 45-50% of the workforce and another 20-25% is made up of single parent female-headed households. A flex plan is a good way in which to tailor benefits to the needs of the workforce. A well designed plan could ease pressure for additional benefits. With such a plan, benefits are designed so people can pick and choose benefits and benefit levels based on their own personal needs. For these reasons, a cafeteria plan can improve employee morale (and productivity), since employees will appreciate the efforts and concern demonstrated by their employer.

I have a concern with Sec. 16B (2) (b) of the legislation, a monthly charge that may be levied on each participating employee. Given the savings that will accrue to the State in reduced FICA payments ($4-7 million) and the interest that will be earned on the cafeteria plan trust fund balance ($400-500 thousand), I do not believe it is necessary to have State employees finance this operation.

By integrating the legislation embodied in HB 2252, into this bill an additional savings of $10 million might be realized by both the State and its employees. This legislation would allow employee contributions to the Employee Retirement System to be picked up by the employer. Under the Internal Revenue Code [Section 414(h)], this employer pickup would not be treated as taxable income to the employee. Since $133 million was contributed to ERS in FY 86, a $10 million reduction in FICA contributions by the State might result.

Much has been written lately, about the fiscal problems facing the State. By passing HB 2004, with amendments to incorporate HB 2252, an immediate and direct savings of over $15 million would be obtained by the State. A comparable savings would be obtained by State employees. At a time when there is much need for additonal revenue, this bill would, at little direct cost, result in an immediate cash saving equal to 1% of what Speaker Lewis says will be the additional revenue needed to finance this coming biennium's budget. This legislation would also demonstate to State employees your concern for them. After losing this year's pay raise and with none being planned for the coming biennium, redesigning an employee compensation package with a cafeteria plan and Section 441(h) pickup would result in all State employees having a greater take-home pay at little cost to the State.