



Classic Values, Innovative Advice

Health Benefits for Retirees of the State of Delaware

Retirement Benefits Study Committee



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Delaware State Retiree Healthcare



- Retirees receive access to health care once retired under early or normal requirements, or terminated with a vested benefit
 - (5 years, 10 years after 2012)

	Early Eligibility	Normal Eligibility
State Employees	55/15 or Any/25	Pre 2012; 62/5, 60/15, or Any/30 Post 2012; 65/10, 60/20, or Any/30
Judges		62/12 or Any/24
State Police		55/10, Any/20, or Rule of 75 with min 10 years service

- Spouses receive same coverage as retirees and continue coverage after retiree dies

Delaware State Retiree Healthcare



Eligible members can choose from the same plans offered while active:

1. First State Basic
2. CDH Gold Plan
3. HMO Plan
4. Comprehensive PPO Plan
5. Medicare Plans (65 and older)
 - Special Medicfill with Prescription
 - Special Medicfill without Prescription



Delaware State Retiree Healthcare



- State pays same share of premium for retiree as active employee

	State Share	Retiree Share
First State Basic	96.0%	4.0%
CDH	95.0%	5.0%
HMO	93.5%	6.5%
Comprehensive PPO	86.75%	13.25%

- If hired on or after January 1, 2007 (and not retired on disability), premium depend on years of service, as shown in the table below:

Years of Service	State Share	Retiree Share
Less than 15	0%	100%
15 – 17.5	50%	50%
17.5 – 19	75%	25%
20 or more	100%	0%

- Pensioners who retire after July 1, 2012 and who become eligible for Medicare will pay in addition to their percentage above, an additional 5% of the Medicare supplement offered by the State

Delaware State Retiree Healthcare



- Current Monthly Premiums effective July 1, 2019

	Employee Premium	Retiree Share	State Share	Retirees Enrolled
First State Basic	\$695.36	\$27.84	\$667.52	169
CDH	719.68	35.98	683.37	149
HMO	725.94	47.16	678.78	1,340
Comprehensive PPO	793.86	105.18	688.68	2,754
Pre 7/1/2012 pensioners				
Medicfill w/Rx	459.38	0	459.38	14,965
Medicfill w/o Rx	260.44	0	260.44	382
Post 7/1/2012 pensioners				
Medicfill w/Rx	459.38	22.96	436.42	3,043
Medicfill w/o Rx	260.44	13.00	247.44	61
				22,863

Retiree Distribution by Age



Age	Retirees, Disables and Beneficiaries with Coverage					Total
	State Employees	Judges	Closed State Police	Open State Police		
Under 50	108	0	0	14	122	
50 to 55	368	1	0	30	399	
55 to 60	1,149	0	2	91	1,242	
60 to 65	2,660	0	21	58	2,739	
65 to 70	4,444	2	77	12	4,535	
70 to 75	4,926	13	127	0	5,066	
75 to 80	3,583	7	91	0	3,681	
80 to 85	2,329	6	57	0	2,392	
85 to 90	1,581	5	25	0	1,611	
Over 90	1,058	2	16	0	1,076	
Total	22,206	36	416	205	22,863	

How are OPEB Liabilities Determined

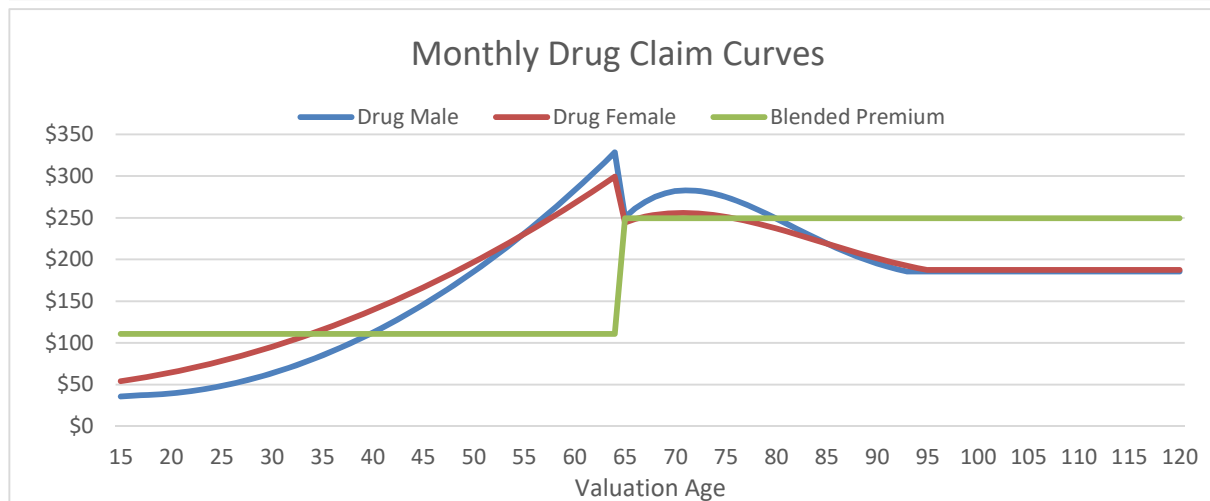
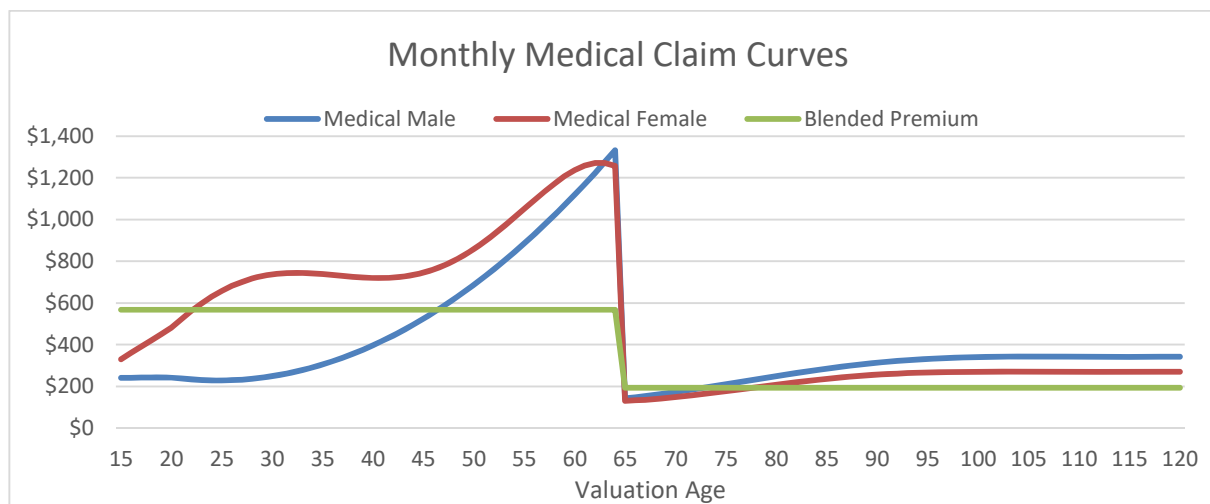


- The valuation has to project the snapshot population into the future to see who will ‘survive’ long enough to earn a benefit, how much that benefit will be worth, and for how long they are expected to receive the benefit.
- Health care related assumptions include:
 - Per person claims by age
 - Future trends
- Need to consider the following demographic assumptions:
 - Incidence of termination, disability, retirement and mortality, and salary increase rates (same as pension plan assumptions)
 - Probability of electing coverage once retired and eligible
 - Spouse characteristics at time of retirement, including spouse age
- Economic assumptions include
 - Discount rate

Healthcare Assumptions – Claim Curves



- Sample claim curves



Healthcare Assumptions – Trends



- Trends are used to bring claim curves and blended premiums forward into the future
- Trends are based on real GDP, underlying inflation plus a margin for excess healthcare growth
- Current liability \$8.7 B
- At 2% inflation, \$6.7 B

Date To Year Beginning July 1	Annual Increase		
	Pre-65 Medical	Post-65 Medical	Pharmacy
2019	5.43	4.00	6.85
2020	5.35	4.00	6.70
2021	5.28	4.00	6.55
2022	5.20	4.00	6.40
2023	5.13	4.00	6.25
2024	5.05	4.00	6.10
2025	4.98	4.00	5.95
2026	4.90	4.00	5.80
2027	4.83	4.00	5.65
2028	4.75	4.00	5.50
2029	4.68	4.00	5.35
2030	4.60	4.00	5.20
2031	4.53	4.00	5.05
2032	4.45	4.00	4.90
2033	4.38	4.00	4.75
2034	4.30	4.00	4.60
2035	4.23	4.00	4.45
2036	4.15	4.00	4.30
2037	4.08	4.00	4.15
2038	4.00	4.00	4.00

Healthcare Assumptions – Demographic



- Follows the pension plan's demographic assumptions except:
 - Retiree election rates
 - Marriage percentage
 - Spousal election rates
 - Term Vested election rates
 - These are based on actual experience
 - They typically are higher when benefits are basically “free” to retirees

The Discount Rate



- Discount rate for determining the liability is based on cash flow projections
 - Expected return on assets for period assets projected to be sufficient to make projected benefit payments for current employees
 - 20-year, tax-exempt general obligation bond rate with an average rate of at least AA/Aa for period assets projected to be insufficient to make projected benefit payments for current employees
- GASB “single rate” used for the liability is the rate for entire projected period equivalent to the two rates used for the applicable periods
- Decision made that the System is substantively unfunded and so the 3.50% bond rate currently used for all periods

Sample Retiree



- Retiree retires at age 55 with 20 years of service
- Retiree elects single coverage under the comprehensive PPO plan
- Premium for single is \$793.86 per month
- Based on the retiree's service
 - the State covers 100% of the State share
 - State share = \$688.68/month
 - and the retiree pays the rest, or the premium minus the State share
 - Employee share = \$105.18/month

Delaware Retiree's Medical Plan



Example **Age 55** Retiree with Single Coverage in Comprehensive PPO Plan with a Blended Premium of \$793.86/month, State share of \$688.68

86.75% of Premium Paid by State of Delaware, State share = \$688.68/mo

GASB
75
Liability
Explicit

13.25% of Premium = Retiree share, or \$105.18/mo

Real Value of \$1,540 for retirees; Extra value of \$746.14/mo

GASB
75
Liability
Implicit

*Blended refers to pooling active + retired health costs together, as required by Delaware law.

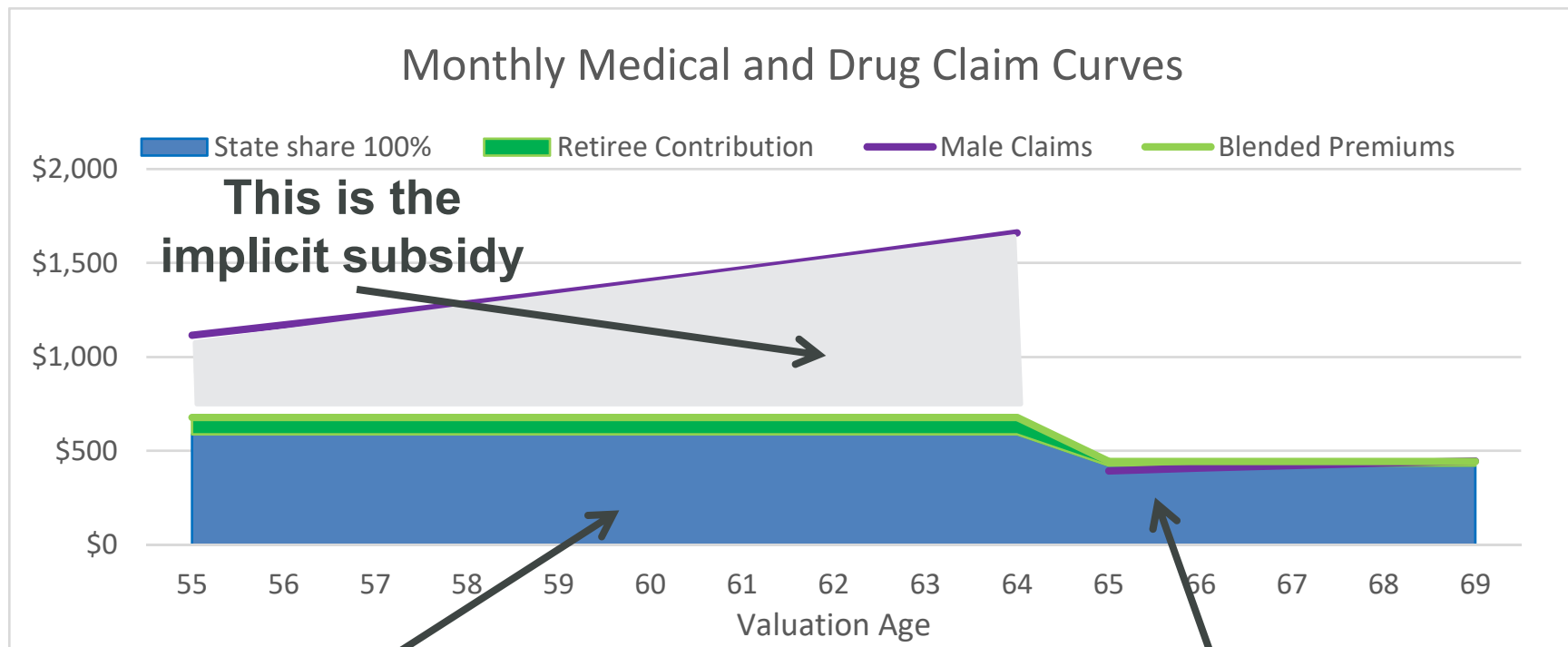
Example of Cost



Combined medical and drug claim curves by age

Blended premiums by age

As of 2019 only, in 2020 we would apply trends and aging

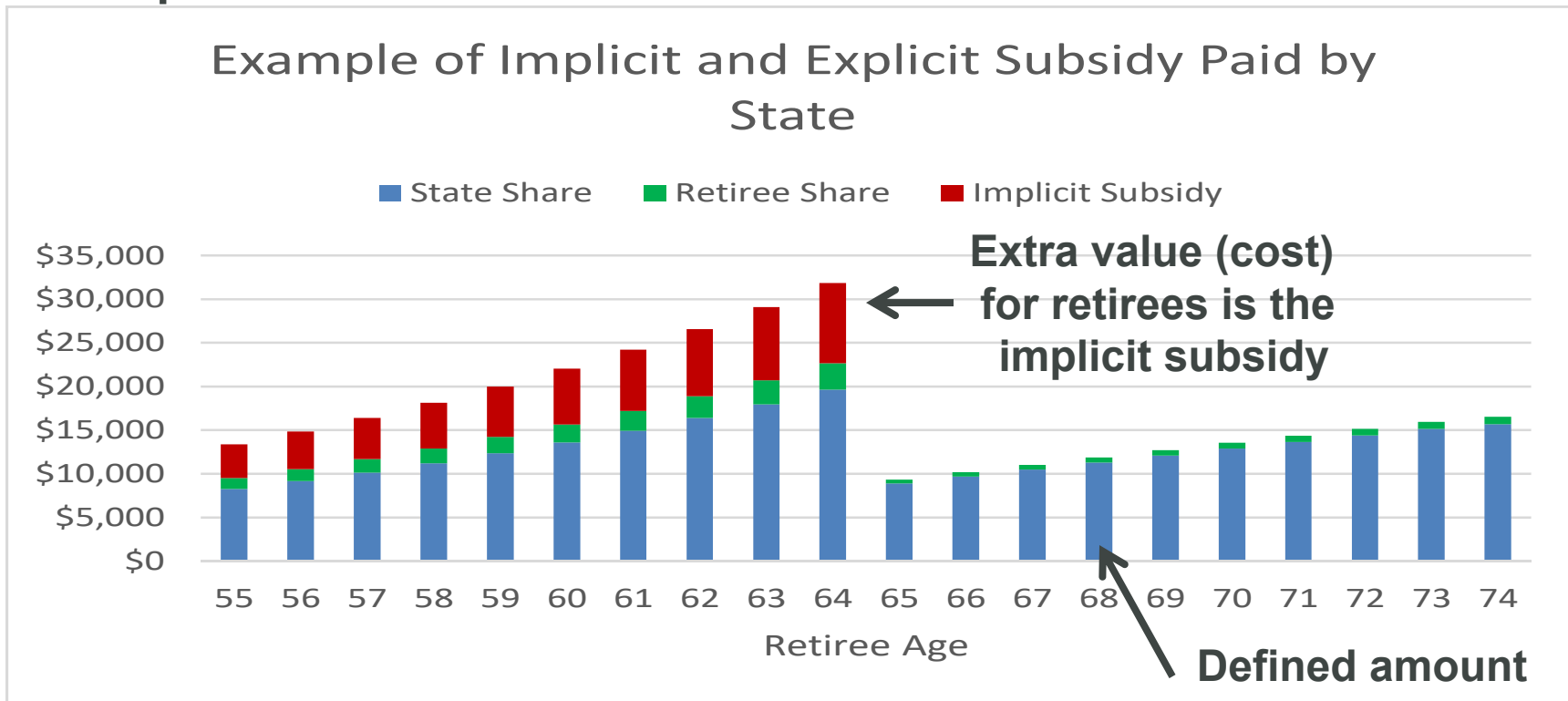


Example Age 55 Retiree



What is the explicit subsidy? It is the defined amount of reimbursement paid by the plan sponsor.

What is the implicit subsidy? It is the additional value (cost) of the plan that is not paid by the blended premiums, but subsidized by active premiums.



← Extra value (cost) for retirees is the implicit subsidy

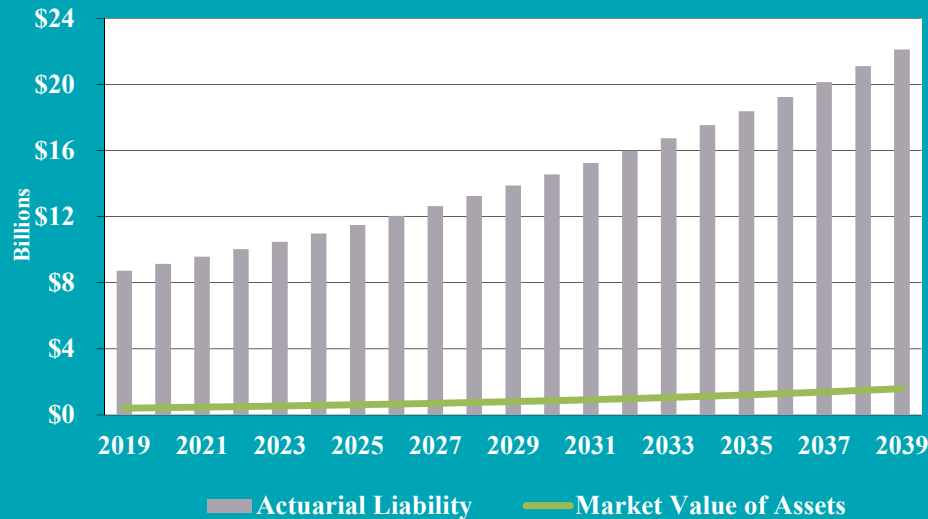
Defined amount explicit subsidy

This shows the expected cost at current age 55 and all future ages

Current Projections



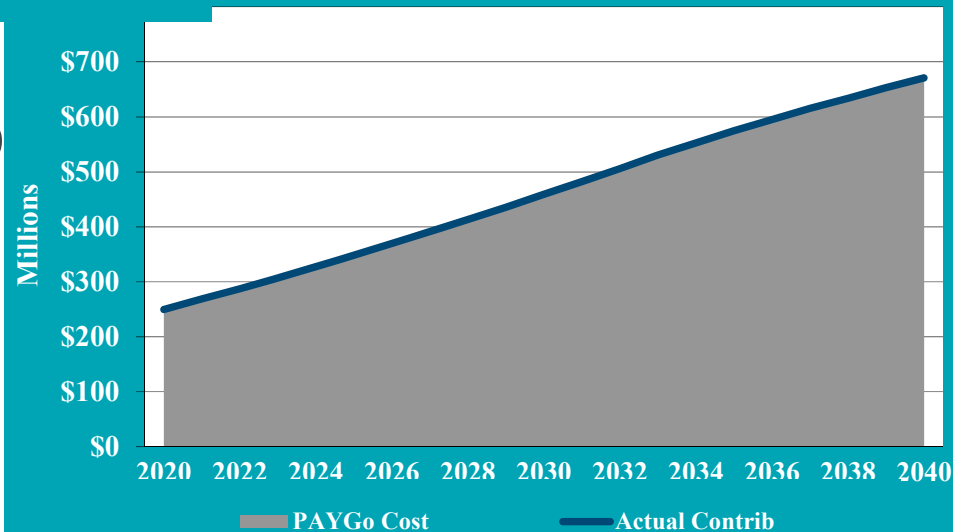
Assets and Liabilities



- Liability expected to grow from \$8.7 billion to over \$22.1 billion by 2039

- Benefits expected to grow to over \$670 million by 2040

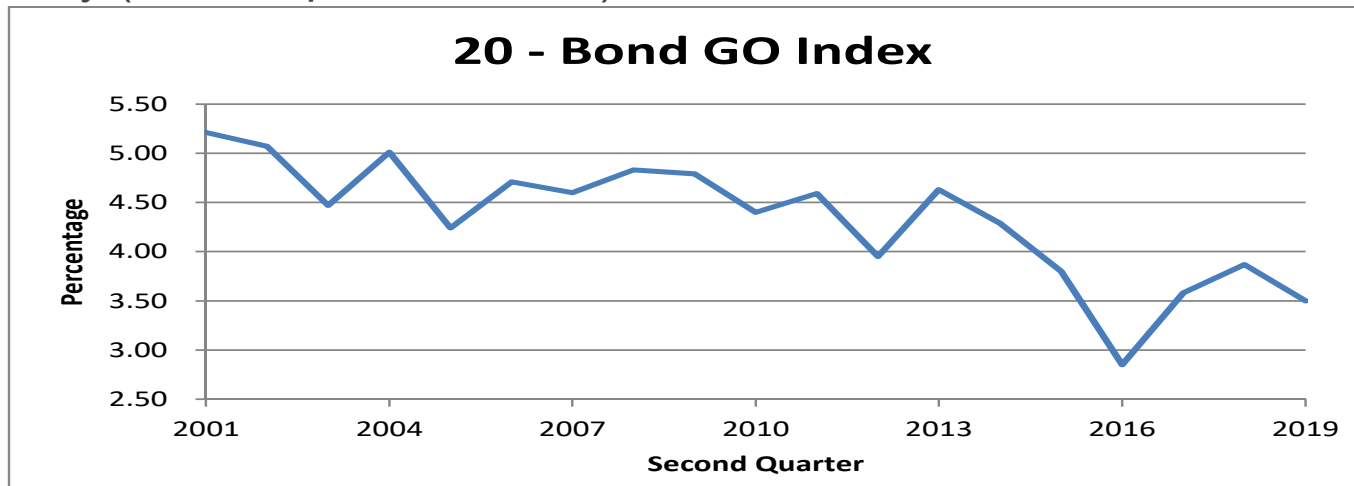
Plan Funding



The State's Liability



- To determine the OPEB liability we discount expected benefit payments to today (bars on previous slide)



- Discount rate = 3.5% as of 6/30/2019
- Current rate as of October 31, 2019 = 2.79%
- State is not funding, thus uses the Bond Buyer rate
- The State's liability is the present value of:
 - The State's share plus the implicit subsidy
 - Valued at the Bond Buyer rate
 - Expected next year to have a large increase due to decreasing rates

Issues for the Committee's Consideration



- Funding policy
 - Adhere to a funding policy would allow the State to increase discount rate to pension level
 - Could either happen over time or immediately
- Pre-Medicare retirees are blended with actives
 - If such retiree premiums are separated from active employees, most of the implicit subsidy could be eliminated
- Sample benefit eligibility outliers
 - Terminated vested receive medical benefits at same cost as a new retiree, based on service
 - Spousal coverages
 - Pensions have an early retirement reduction; the medical plan does not
 - Retirees tend to opt into the higher cost plan