DELAWARE
DEPARTMENT OF
FINANCE

Retirement Benefit Study Committee

March 9, 2020

Summary of Prior OPEB Presentations

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1) OPEB Liability is the Present Value of Future Retiree Healthcare Benefits

- Medicare – 18,361 plus 6,270 spouses
- Pre-Medicare – 4,502 plus 2,728 spouses
- Enrolled Actives – 30,913 plus 19,750 spouses and dependents
- Inflation Assumptions – Medical (4%-5.4%) Pharmacy (4%-6.85%)
- Discount Rate - Bond Buyer 20 Year Index - 3.5% and falling

2) Rating Agencies (esp. S&P) increasingly concerned about DE's unfunded OPEB

- Per capita - 26x higher than median AAA state
- % of Personal Income – 14x higher than median AAA state
- 8 of 14 AAA states have no retiree health care, none for new hires or charge 100% of the blended active premium

3) Current Fiscal Impacts

- Balance Sheet Liability - $8.7 billion
- No Employee Contributions toward liability
- OPEB Trust -- $0.4 billion (Underfunded through 0.36% of payroll)
- Pay-Go -- $196 million (9.33% of payroll) Annual Door Opener - $12-20 million

Options to Reduce OPEB Liability

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Benefit Changes	Benefit Caps and Account-based Health	Marketplaces/ Exchanges	Funding Strategies	Full Exit
▪ Freeze plan to new hires ▪ Reduce benefits offered to retirees (increase deductibles/copays, etc.) ▪ Change retiree eligibility requirements ▪ Change spousal benefit eligibility	▪ Set defined dollar benefits (e.g., subsidy cap) ▪ Adopt account-based benefits (e.g., retiree HRAs)	▪ Eliminate group plans and facilitate access to Medicare marketplace ▪ Provide HRA subsidy	▪ Reduce liability through funding approach	▪ Eliminate benefits for all retirees

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Some of the Options Modeled

Scenario Label	Description	OPEB Liability Reduction	Retiree/Member Impact
Benchmark	Delaware adopts a Medicare Supplement plan design aligned with Virginia's medical design, which includes a $100 deductible, and similarly increases the deductible by $100 for all pre-65 retiree plans	**<$0.1b**	
All Spouses	Delaware reduces spousal subsidy by 50% for all current and future retirees	**$1.6b**	
HRA (No Increase)	Delaware eliminates Medicfill coverage and moves to individual marketplace structure – retirees receive annual HRA to purchase individual coverage comparable to the value of subsidy received by State of Delaware currently, *with no increase* to HRA amount provided in future years	**$3.5b**	
HRA (1% Increase)	Delaware eliminates Medicfill coverage and moves to individual marketplace structure – retirees receive annual HRA to purchase individual coverage comparable to the value of subsidy received by State of Delaware currently, *with 1%* increase to HRA amount provided in future years	**$3.0b**	
HRA (3% Increase)	Delaware eliminates Medicfill coverage and moves to individual marketplace structure – retirees receive annual HRA to purchase individual coverage comparable to the value of subsidy received by State of Delaware currently, *with 3%* annual increase to HRA amount provided in future years	**$1.5b**	
Eligibility of State Share Schedule A	State Share eligibility schedule for those hired since 1991 to 15 years = 50%, 20 years = 75% and 25 years = 100%	**$0.2b**	
Eligibility of State Share Schedule B	State Share eligibility schedule for those hired since 1991 to 20 years = 50%, 25 years = 75% and 30 years = 100%	**$0.8b**	
Eliminate Term Deferred Vested Benefits A	Effective 7/1/2019 all current and future terminated vested participants would not have access to any state health benefits	**$0.4b**	

Actuarial Value of Options that Continue to be Explored

Scenario Label	Description	Immediate OPEB Liability Reduction	OPEB Liability Reduction Over 30 Years	Retiree/Member Impact
HRA (2% Increase)	Delaware eliminates Medicfill coverage and moves to individual marketplace structure – retirees receive annual HRA to purchase individual coverage comparable to the value of subsidy received by State of Delaware currently, *with 2% annual increase* to HRA amount provided in future years	**$2.4b**	**$22.0b**	
Active Spouses	Delaware reduces spousal subsidy by 50% for future retirees; no impact to current spouses of retirees	**$0.9b**	**$5.9b**	
Eligibility of State Share Schedule C	State Share eligibility schedule for those hired since 1/2007 to 20 years = 50%, 25 years = 75% and 30 years = 100%	**$0.5b**	**$9.6b**	
Eliminate Term Deferred Vested Benefits B	Effective 7/1/2020 future terminated vested participants would not have access to any state health benefits, those that are already terminated could still come back and have access to healthcare	**$0.0b**	**$1.4b**	
Set Minimum Age for healthcare	Minimum age to start healthcare would be age 60 for State Employees and Judges but Public Safety would be age 55	**$0.7b**	**$6.8b**	
Combination starting 1/1/2021*	-$5,100 HRA for Medicare retirees with 2% inflation -Vesting schedule C -Future Retiree Spouses would receive 50% of benefit -Eliminate Term Vested Benefits B -Minimum age for healthcare (60 and 55 for public safety) *with 0.5% funding	**$3.75b**	**$28.4b**	

Recap of current state

Today's scenario

- Retiree and retiree's spouse, upon reaching Medicare eligibility, receives **one option** for health coverage – **a Medical Supplement plan with or without prescription drug coverage.**
- Enrollment for 25,500 retirees and spouses is supported through the Office of Pensions, while administration and procurement of this plan is handled by the State Employee Benefits Committee and the Statewide Benefits Office
- An employee can retire after **25 years of service at any age** and immediately begin collecting a pension and receive **100% of the "State Share" of health care costs**. Employees who retire with less than 20 years of service may retire, collect a pension and receive less than 100% of "State Share" based upon date of hire and the below service schedule:

Hired prior to Jan 1, 2012, may retire:	**Hired on or after Jan 1, 2012, may retire:**
• Age 55 with at least 15 years of service (ERO) • Age 62 with at least 5 years of service	• Age 55 with at least 15 years of service (ERO) • Age 65 with at least 10 years of service

"State Share" paid by State of Delaware is based on date of hire:				
Prior to July, 1, 1991:	**On or after July 1, 1991:**		**On or after January 1, 2007:**	
Health insurance is available with 100% of the "State Share" being paid by the State of Delaware	Less than 10 years	0%	Less than 15 years	0%
	10 years – 14 years 11 months	50%	15 years – 17 years 5 months	50%
	15 years – 19 years 11 months	75%	17 years 6 months – 19 years 11 months	75%
	20 years or more	100%	20 years or more	100%

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Recap of current state

Coverage and out-of-pocket expenses

- **Supplement plan (Medicfill)** has **no deductible or copays** for **in-network medical services** while the **prescription drug copays** are **no more than the copays in place for the State of Delaware active employees and covered dependents**
- Prescription drug monthly copays range from $8/generic to $28/preferred brand

Retiree Costs	
Monthly Premium	• $0 - $459.38 based upon date of hire and years of service • Of retirees receiving 100% state share, 95% are paying $0 and 5% are paying no more than $22.95 per retiree and spouse/month
Medicare Part B	• $144.60 – deducted from social security
Spouse Coverage / Out-of-pocket costs	• Same as retiree
Spousal Premium Costs	• Same as retiree
Spousal Other Monthly Retiree Costs	• Same as retiree

- The **maximum monthly State health care cost** for retirees and spouses receiving 100% of state share is a maximum of $918.76 *($459.38 x 2*) – for retiree and spouse.

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Future Considerations / Scenarios

Scenario: Reduce “State Share” to 50% for Spouses

Delaware reduces spousal “State Share” subsidy by 50% for spouses of Medicare Retirees	Coverage / Cost Impact	
	▪ Retiree Coverage / Out of Pocket (OOP) Expenses	Same as current
	▪ Retiree Monthly Costs	Same as current
	▪ Retiree other Monthly Costs	Same as current
	▪ Spouse Coverage / OOP Expenses	Same as retiree
	▪ Spouse Monthly Premium Cost	**50% more than current – up to $229.69**
	▪ Spouse Other Monthly Retiree Costs	Same as current

Monthly State Costs: same for current retirees and 50% of current for spouses – for retiree receiving 100% of state share and spouse receiving 50% - savings to the State of up to $229.69 ($459.38 + $229.69 = $689.07) for retiree and spouse

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Future Considerations / Scenarios

Scenario: Reduce “State Share” to 50% for Spouses (cont.)

Considerations, Challenges. Implementation Timeline

- Requires legislative change
- Can apply solely to future retiree spouses to minimize impact upon existing retirees/spouses but creates implementation/system challenges for the Office of Pensions
- Can be implemented in 6 months or less following statutory change
- Delayed effective date could increase retirements to avoid impact to spouse coverage and minimize savings to State

Questions and Outstanding Considerations

- Apply changes to pre-65 retirees and Medicare retirees? Medicare retirees only?
- How to handle child dependents?
- How to handle former employees on long term disability?
- How to handle post-retirement family additions?
- Should double state share be revisited?

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Future Considerations / Scenarios

Scenario: Modify Years of Service & Percentage of State Share

Modify Eligibility to earn State Share for retiree health and prescription coverage for those hired since 2007 as follows:

- **Less than 20 years 0%**
- **20 years – 25 years 50%**
- **25 years – 30 years 75%**
- **30 years or more 100%**

Eligibility for State Share would apply to both the retiree and spouse.

Coverage / Cost Impact	
▪ Retiree Coverage / OOP Expenses	Same as current
▪ Retiree Monthly Costs	Same as current except for employees hired since 2007, based on years of service
▪ Retiree other Monthly Costs	Same as current
▪ Spouse Coverage / OOP Expenses	Same as current
▪ Spouse Monthly Premium Cost	Same as current except for employees hired since 2007, based on years of service
▪ Spouse Other Monthly Retiree Costs	Same as current

State Costs: Same as current for retirees. For employees hired after 2007 and not yet retired, future retiree state cost would be reduced from 100% to 50% state share for employees with 20-25 years of service and to 75% for employees with 25-30 years of service.

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Future Considerations / Scenarios

Scenario: Modify Years of Service & Percentage of State Share (cont.)

Considerations, Challenges. Implementation Timeline

- Requires legislative change
- Affects current and future retirees
- Can be modified to adjust both state share and/or retirement date to receive state share
- Can be implemented in 6 months or less following statutory change

Questions and Outstanding Considerations

- Will this have impacts on recruiting and retaining employees? And, will those impacts be different for different ages?
- How would the effective date of this option impact employees closer to retirement? And, can this impact be smoothed?

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Future Considerations / Scenarios

Scenario: Establish Minimum Age & Years of Service to Receive Healthcare

	Coverage / Cost Impact	
Set a minimum age for employees to receive healthcare at age 60 for State (and school) Employees and Judges; Public Safety would be age 55.	▪ Retiree Coverage / OOP Expenses	Same as current
	▪ Retiree Monthly Costs	Same as current except for employees less than age 60 (age 55 for Public Safety), no healthcare coverage through State
	▪ Retiree other Monthly Costs	Same as current
	▪ Spouse Coverage / OOP Expenses	Same as current except for employees less than age 60 (age 55 for Public Safety), no healthcare coverage through State of Delaware for Spouse
	▪ Spouse Monthly Premium Cost	
	▪ Spouse Other Monthly Retiree Costs	

State Costs: Same as current for retirees; except for less than age 60 (age 55 for public safety) who retire. Savings to the State of up to $918.76 per month for each individual that is no longer eligible for coverage.

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Future Considerations / Scenarios

Scenario: Establish Minimum Age & Years of Service to Receive Healthcare (cont.)

Considerations, Challenges. Implementation Timeline

- Requires legislative change
- Can be modified to adjust minimum age and years of service to receive state share for both retiree and spouse
- Can be implemented in 6 months or less following statutory change
- Delayed effective date could increase retirements to avoid impact to retiree and spouse coverage and minimize savings

Questions and Outstanding Considerations

- Should this option be limited to only a minimum age with no association to years of service (Rule of 90)?
- Will this have impacts on recruiting and retaining employees? And, will those impacts be different for different ages?
- How would the effective date of this option impact employees closer to retirement? And, can this impact be smoothed?
- Could having employees remaining in the workforce longer have negative impacts on other benefits and costs?

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Future Considerations / Scenarios

Scenario: Eliminate Term Deferred Vested Benefits

	Coverage / Cost Impact	
Terminated deferred vested participants would not have access to any state health benefits even when eligible to collect a pension.	▪ Retiree Coverage / OOP Expenses	Same as current
	▪ Retiree Monthly Costs	Same as current except for future term vested participants, no healthcare coverage through State
	▪ Retiree other Monthly Costs	Same as current
	▪ Spouse Coverage / OOP Expenses	Same as current except for future term vested participants, no spouse healthcare coverage through State
	▪ Spouse Monthly Premium Cost	
	▪ Spouse Other Monthly Retiree Costs	

State Costs: Same as current for retirees; except for future term vested participants. No immediate savings, but savings of up to $918.76 per month for each individual that does not become eligible for coverage in the future.

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Future Considerations / Scenarios

Scenario: Eliminate Term Deferred Vested Benefits (cont.)

Considerations, Challenges. Implementation Timeline

- Requires legislative change
- Can be implemented in 6 months or less following statutory change
- Terminated vested participants who return to work for the State in a pension creditable position and retire would be eligible for health care benefits based upon the benefit program and service requirements in effect

Questions and Outstanding Considerations

- Will this potentially improve recruitment and retainment of employees? And, will those impacts be different for different ages?
- How would the effective date of this option impact employees closer to retirement? And, can this impact be smoothed?

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Future Considerations / Scenarios

Scenario: Health Reimbursement Arrangement (HRA)/Individual Marketplace

Eliminate enrollment in retiree coverage and give retirees and spouses an annual HRA of $5,100 (comparable to value of current "State Share" of $5,512[2]). HRA used to purchase health and Rx in individual marketplace. HRA is a tax-free arrangement that can be used to pay for premiums and/or supplemental plan as well as qualified OOP expenses, and can be rolled over each year.

Coverage / Cost Impact	
▪ Retiree Coverage / OOP Expenses	**Wide variety of plan choices**. Comparable plans available including plan option with $0 premium available to 95% of retirees (Medicare Advantage).
▪ Retiree Monthly Costs	Average monthly **premium cost of $225.25[1]**. Varies based on choice of plan monthly HRA amount funded by State
▪ Retiree other Monthly Costs	Potential to **eliminate Part B premium** depending on plan choice
▪ Spouse Coverage / OOP Expenses	Same as retiree
▪ Spouse Monthly Premium Cost	Same as retiree
▪ Spouse Other Monthly Retiree Costs	Same as current for retirees/spouses receiving 100% of state share

Monthly State Costs: Same as current for retirees and spouses receiving 100% of state share. State cost would be capped allowing for reductions in retiree healthcare obligation and liability.

1 Average premium for 75 year-old male choosing Medigap G/PDP Option

2 Medicfill population is pooled with GHIP active/pre-65 retiree population for rating purposes – Medicfill projected expenses (claims, fees, rebates, etc.) projected to be $4,800 in calendar year 2020

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Future Considerations / Scenarios

Scenario: HRA/Individual Marketplace (cont.)

Considerations, Challenges. Implementation Timeline

- Requires legislative change
- Can allow for increase in HRA funding based upon healthcare trend, pension cost of living increases or other benchmarks, e.g. 1%, 2%, etc.
- Requires an 18-24 months implementation runway – from announcement to effective date – allowing for extensive communications and outreach to existing retirees
- Gives the majority of existing retirees and spouses the ability to purchase coverage comparable to the current coverage with additional funds to invest in other coverage
- Shifts both risk and administration of Medicare retiree health coverage away from the State of Delaware (Office of Pensions and Statewide Benefits/DHR).

Questions and Outstanding Considerations

- How/will implementation of the HRA impact the State dental and vision benefits and premiums for these benefits if they can be purchased by Medicare retirees in the Marketplace?
- Should consideration be given to moving pre-Medicare retirees to the Marketplace and if so, what is the ideal timing transition for this population?
- How does a move the Marketplace impact non State of Delaware retirees and Long Term Disability participants receiving health care through the State Group Health Insurance Program?
- How does an HRA impact the eldest current retiree population? Is a safety net necessary? And, if so, how would it be structured?

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Individual Marketplace with HRA scenario – benchmarking

	Date Implemented	Health Reimbursement Arrangement (HRA) Allotment
State		
Ohio	2015	Retirees receive an annual allowance in the form of a Health Reimbursement Arrangement (HRA) to purchase coverage; annual amounts range $2,754 to $5,130 based on age/years of service at retirement
Rhode Island	2014	A benchmark Medicare Supplement plan is used to set HRA allocations; retiree's subsidy percentage is applied to the age-based rate of the benchmark plan. Currently, the benchmark plan is the AARP Plan F underwritten by UnitedHealthcare.
Louisiana	2015	Annual HRA contribution for single coverage is $2,400 and retiree + spouse coverage is $3,600
Nevada	2010	Annual HRA contribution of $156 per year of service ($780 for 5 years of service up to $3,120 for 20 years of service). Employees hired after 1/1/2012 not eligible for HRA, but may enroll in coverage through Medicare Exchange

- 41% of large private sector employers* offer health benefits to current retirees through an individual Medicare Marketplace, including DuPont, Kraft, IBM, and JPMorgan Chase

*Source: 2019 Willis Towers Watson Best Practices in Health Care Employer Survey

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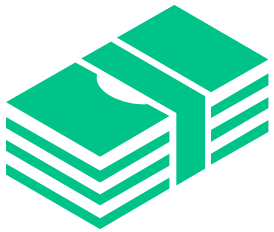
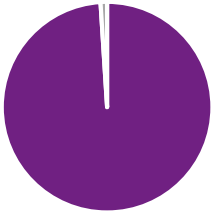
Individual Marketplace with HRA scenario – household impact



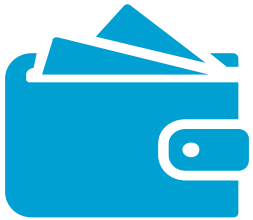
$5,100

is the HRA amount modeled per individual (pensioner or spouse)



>99%

of GHIP retirees would be better off financially in the individual marketplace (compared to current Medicfill plan)



$3,300

is the average annual savings per individual retiree

More choice

Meaningful variety of plan choices and carriers

95% **GHIP retirees would have access to a $0 premium MAPD plan**

40 million retirees enrolled in individual Medicare supplement and Medicare Advantage plans nationally

* Source: Kaiser Family Foundation, 2018

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Why the Individual Medicare marketplace is more affordable

Huge Risk Pools… and Growing

- Large market ~40 million retirees are enrolled in individual plans
- 10,000 baby boomers turn 65 every day for the next 15 to 20 years

Guaranteed Issue… no adverse selection issue

- Virtually everyone can join at 65 (or when you end your group plan): healthy, episodic, chronic and catastrophic

Best-in-Market Plans and Providers

- Retiree picks plan/carrier
- Can choose to see any provider who accepts Medicare patients

Carriers Compete on Price

- File rates every year
- Standardized plans
- Low premiums rates

CMS/Pharmaceutical Industry *Subsidies for ALL*

- Medicare Advantage
- Part D RX Plans

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Individual marketplace overview

Best in Market Medicare Plans to Choose From

Technology and Live Support to Help Retirees Select and Enroll in a Plan

Participation Education

HRA Reimbursement

State of Delaware Provides Subsidy

Ongoing Advocacy Services

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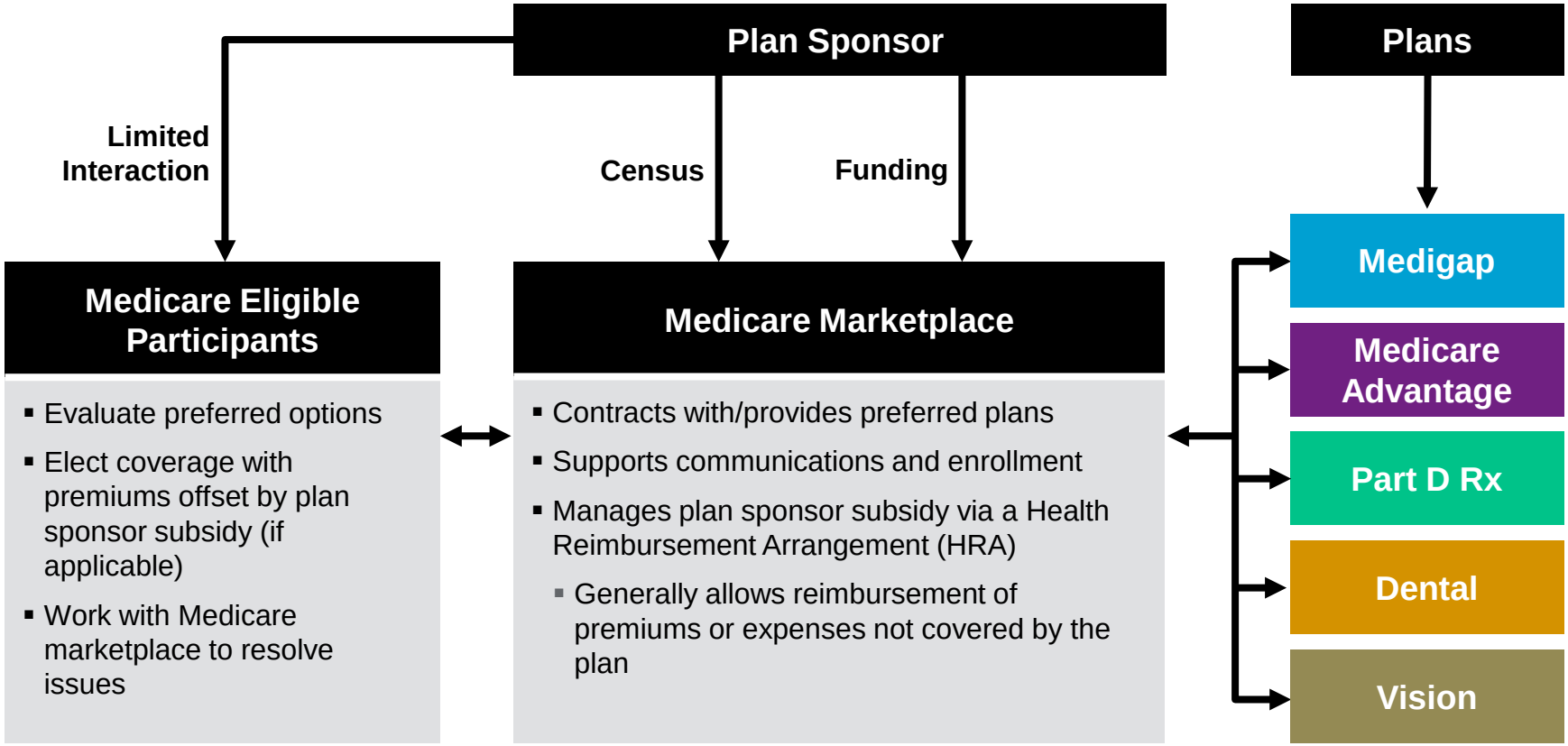
Individual Medicare marketplace: how it works



- HRA: "Health Reimbursement Arrangement" under which employer subsidy is provided on a tax free basis to reimburse retirees for premium and OOP expenses eligible under the plan
- Individual coverage purchased through the marketplace costs exactly the same as identical coverage purchased directly from the insurer
- Unlike a Flexible Spending Account, unused HRA amounts can be rolled over to use in a future year (no "use it or lose it" provision)
- Individual plan rates may vary by geography, age, gender and benefits

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Health Reimbursement Arrangement (HRA) overview

	Health Reimbursement Arrangements (HRAs)	Health Savings Accounts (HSAs)	Health Flexible Spending Accounts (FSAs)
Funding Requirements	Can be funded, but not required; commonly designed as **notional accounts** with reimbursements made from employer's general assets	Must be funded in a trust or custodial account	Can be funded, but not required; commonly designed as notional accounts with reimbursements made from employer's general assets
Reimbursable Expenses	May reimburse for IRC §213(d) **medical care expenses**, which includes OTC drugs *with a prescription*, and amounts paid for **health plan premiums**, e.g., employer-sponsored retiree health coverage, Medicare premiums, COBRA, long-term care insurance premiums HRA is not required to reimburse all type and categories of IRC §213(d) medical care expenses; employer can design HRA to reimburse and/all IRC §213(d) expenses	May reimburse for IRC § 213(d) medical care expenses, which includes OTC drugs *with a prescription* and long-term care services	May reimburse for IRC §213(d) medical expenses, which includes OTC drugs *with a prescription*
Carryover of Unused Balances	**Unlimited carryover permitted**, subject to any limits set by the employer plan sponsor in plan documents	Unlimited carryover required	Carryover up to $500 permitted or "grace period" of up to 2 1/2 months permitted (cannot offer both)
Tax Treatment of Employer Contributions	Employer contributions are **excludable from employees/retirees' taxable gross income**	Employer contributions are excludable from employee's taxable gross income (within contribution limits)	Employer contributions are excludable from employee's taxable gross income
Tax Treatment of Distributions	Reimbursements of IRC §213(d) medical care expenses are **exempt from taxable gross income** Reimbursements for non-medical expenses are prohibited	Reimbursements of IRC §213(d) medical care expenses are exempt from taxable gross income Non-qualified distributions are includible in taxable gross income & additional penalty tax	Reimbursements of IRC §213(d) medical care expenses are exempt from taxable gross income Reimbursements for non-medical expenses are prohibited

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Individual Marketplace with HRA scenario – safety net considerations

Some employers establish plan design features and/or policies to protect retirees from potential negative financial impact. Potential considerations include:

- Reimburse members for the 5% coinsurance on drug claims in excess of the Part D donut hole, providing an annual cap on the amount an individual retiree would have to pay out-of-pocket for prescription drugs
- Provide additional one-time HRA funding at implementation; potentially vary one-time funding by age
- Establish appeals process for review of individual circumstances and potential award of additional HRA funding

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Retiree household impact analysis – Average Age, Average Utilizer

100% State Share Group: Highmark/Express Scripts with $5,100 HRA

Cost Comparisons	Current Medical Plan	Medicare Supplement + Part D								MAPD
Retiree Costs		Plan HiF		Plan N		Plan G				
Premium Cost Comparison										
Plan Premium	$ 4,800	$ 1,144		$ 2,342		$ 2,703		$ -		
Employer subsidy/suggested HRA	$ (4,800)	$ (5,050)		$ (5,050)		$ (5,050)		$ (5,050)		
Cost to retiree	$ -	$ (3,906)		$ (2,708)		$ (2,347)		$ (5,050)		
Annual Retiree point-of-care costs										
Projected Medical	$ 24	$ 1,326		$ 480		$ 176		$ 2,017		
Projection Rx	$ 454	$ 858		$ 858		$ 858		$ 858		
Total	$ 478	$ 2,184		$ 1,338		$ 1,034		$ 2,875		
Average total retiree cost	$ 478	$ (1,722)		$ (1,370)		$ (1,313)		$ (2,175)		
Average retiree savings		$ 2,200		$ 1,847		$ 1,791		$ 2,653		

- Medicfill expenses (claims, fees, rebates, etc.) projected to be $4,800 in calendar year 2020 – lower than current Medicfill rate of $5,512 due to experience pooling
- Illustrative retiree with average utilization would save up to $2,653, with a potential HRA balance to roll over to the next year
- If retiree covers a spouse, the spouse would also receive $5,100 HRA

Note: $5,100 HRA assumes $5,050 HRA with $50 average reimbursement for drugs exceeding the true out-of-pocket maximum. Medicare Supplement and MAPD rates based on average 2020 premium for GHIP retirees based on demographic and geographic profile. Part D rate based on SilverScript Choice Plan PDP

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Retiree household impact analysis – Low, average, high utilizer

100% State Share Group: Highmark/Express Scripts with $5,100 HRA

Low Utilizer

Retiree Costs	Current Medical Plan	Medicare Supplement + Part D			MAPD
		Plan HiF	Plan N	Plan G	
Net Retiree Premium	$ -	$ (3,906)	$ (2,708)	$ (2,347)	$ (5,050)
Projected Medical	$ 1	$ 203	$ 190	$ 136	$ 52
Projected Rx	$ 73	$ 107	$ 107	$ 107	$ 107
Total Retiree Cost	$ 74	$ (3,596)	$ (2,411)	$ (2,104)	$ (4,892)
Retiree Savings		$ 3,671	$ 2,486	$ 2,179	$ 4,966

Average Utilizer

Retiree Costs	Current Medical Plan	Medicare Supplement + Part D			MAPD
		Plan HiF	Plan N	Plan G	
Net Retiree Premium	$ -	$ (3,906)	$ (2,708)	$ (2,347)	$ (5,050)
Projected Medical	$ 24	$ 1,326	$ 480	$ 176	$ 2,017
Projected Rx	$ 454	$ 858	$ 858	$ 858	$ 858
Total Retiree Cost	$ 478	$ (1,722)	$ (1,370)	$ (1,313)	$ (2,175)
Retiree Savings		$ 2,200	$ 1,847	$ 1,791	$ 2,653

High Utilizer

Retiree Costs	Current Medical Plan	Medicare Supplement + Part D			MAPD
		Plan HiF	Plan N	Plan G	
Net Retiree Premium	$ -	$ (3,906)	$ (2,708)	$ (2,347)	$ (5,050)
Projected Medical	$ 71	$ 2,371	$ 787	$ 187	$ 6,291
Projected Rx	$ 1,022	$ 1,762	$ 1,762	$ 1,762	$ 1,762
Total Retiree Cost	$ 1,093	$ 228	$ (158)	$ (398)	$ 3,003
Retiree Savings		$ 865	$ 1,251	$ 1,491	$ (1,910)

Illustration of plans chosen for selected utilization levels.

Extrapolated across every utilization level for retiree savings analysis modeled on next slide

Note: $5,100 HRA assumes $5,050 HRA with $50 average reimbursement for drugs exceeding the true out-of-pocket maximum

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Retiree household impact analysis – Age 85, High Utilizer, Wilmington

100% State Share Group: Highmark/Express Scripts with $5,100 HRA

Cost Comparisons	Current	Medicare Supplement + Part D									
Retiree Costs	**Medical Plan**	**Plan HiF**		**Plan N**		**Plan G**			**MAPD**		
Premium Cost Comparison											
Plan Premium	$ 4,800	$ 1,720		$ 3,026		$ 3,555			$ -		
Employer subsidy/suggested HRA	$ (4,800)	$ (5,050)		$ (5,050)		$ (5,050)			$ (5,050)		
Cost to retiree	$ -	$ (3,330)		$ (2,024)		$ (1,495)			$ (5,050)		
Annual Retiree point-of-care costs											
Projected Medical	$ 71	$ 2,371		$ 787		$ 187			$ 6,291		
Projected Rx	$ 1,022	$ 1,762		$ 1,762		$ 1,762			$ 1,762		
Total	$ 1,093	$ 4,133		$ 2,549		$ 1,949			$ 8,053		
Average total retiree cost	$ 1,093	$ 803		$ 525		$ 454			$ 3,003		
Average retiree savings		$ 290		$ 568		$ 639			$ (1,910)		

- Medicfill expenses (claims, fees, rebates, etc.) projected to be $4,800 in calendar year 2020 – lower than current Medicfill rate of $5,512 due to experience pooling
- Illustrative age 85 retiree in Wilmington with higher utilization would save up to $639
- If retiree covers a spouse, the spouse would also receive $5,100 HRA

Note: $5,100 HRA assumes $5,050 HRA with $50 average reimbursement for drugs exceeding the true out-of-pocket maximum. Medicare Supplement and MAPD rates based on average 2020 premium for 85 year old male in Wilmington/Philadelphia MSA. Part D rate based on SilverScript Choice Plan PDP

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Retiree household impact analysis – Age 85, High Utilizer, Dover

100% State Share Group: Highmark/Express Scripts with $5,100 HRA

Cost Comparisons	Current	Medicare Supplement + Part D			
Retiree Costs	**Medical Plan**	**Plan HiF**	**Plan N**	**Plan G**	**MAPD**
Premium Cost Comparison					
Plan Premium	$ 4,800	$ 1,597	$ 2,444	$ 2,891	$ -
Employer subsidy/suggested HRA	$ (4,800)	$ (5,050)	$ (5,050)	$ (5,050)	$ (5,050)
Cost to retiree	$ -	$ (3,453)	$ (2,606)	$ (2,159)	$ (5,050)
Annual Retiree point-of-care costs					
Projected Medical	$ 71	$ 2,371	$ 787	$ 187	$ 6,291
Projected Rx	$ 1,022	$ 1,762	$ 1,762	$ 1,762	$ 1,762
Total	$ 1,093	$ 4,133	$ 2,549	$ 1,949	$ 8,053
Average total retiree cost	$ 1,093	$ 680	$ (57)	$ (210)	$ 3,003
Average retiree savings		$ 413	$ 1,150	$ 1,303	$ (1,910)

- Medicfill expenses (claims, fees, rebates, etc.) projected to be $4,800 in calendar year 2020 – lower than current Medicfill rate of $5,512 due to experience pooling
- Illustrative age 85 retiree in Dover with higher utilization would save up to $1,303
- If retiree covers a spouse, the spouse would also receive $5,100 HRA

Note: $5,100 HRA assumes $5,050 HRA with $50 average reimbursement for drugs exceeding the true out-of-pocket maximum. Medicare Supplement and MAPD rates based on average 2020 premium for 85 year old male in Dover MSA. Part D rate based on SilverScript Choice Plan PDP

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Retiree household impact analysis – Age 65, Low Utilizer, Wilmington

100% State Share Group: Highmark/Express Scripts with $5,100 HRA

Cost Comparisons	Current	Medicare Supplement + Part D							
Retiree Costs	**Medical Plan**	**Plan HiF**		**Plan N**		**Plan G**			**MAPD**
Premium Cost Comparison									
Plan Premium	$ 4,800	$ 1,035		$ 1,793		$ 2,112			$ -
Employer subsidy/suggested HRA	$ (4,800)	$ (5,050)		$ (5,050)		$ (5,050)			$ (5,050)
Cost to retiree	$ -	$ (4,015)		$ (3,257)		$ (2,938)			$ (5,050)
Annual Retiree point-of-care costs									
Projected Medical	$ 1	$ 203		$ 190		$ 136			$ 52
Projected Rx	$ 73	$ 107		$ 107		$ 107			$ 107
Total	$ 74	$ 310		$ 297		$ 243			$ 159
Average total retiree cost	$ 74	$ (3,705)		$ (2,960)		$ (2,695)			$ (4,891)
Average retiree savings		$ 3,779		$ 3,034		$ 2,769			$ 4,965

- Medicfill expenses (claims, fees, rebates, etc.) projected to be $4,800 in calendar year 2020 – lower than current Medicfill rate of $5,512 due to experience pooling
- Illustrative age 65 retiree in Dover with low utilization would save up to $4,965
- If retiree covers a spouse, the spouse would also receive $5,100 HRA

Note: $5,100 HRA assumes $5,050 HRA with $50 average reimbursement for drugs exceeding the true out-of-pocket maximum. Medicare Supplement and MAPD rates based on average 2020 premium for 65 year old male in Wilmington/Philadelphia MSA. Part D rate based on SilverScript Choice Plan PDP

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Retiree household impact analysis – Age 65, Low Utilizer, Dover

100% State Share Group: Highmark/Express Scripts with $5,100 HRA

Cost Comparisons	Current	Medicare Supplement + Part D									
Retiree Costs	**Medical Plan**	**Plan HiF**		**Plan N**		**Plan G**			**MAPD**		
Premium Cost Comparison											
Plan Premium	$ 4,800	$ 940		$ 1,571		$ 1,827			$ -		
Employer subsidy/suggested HRA	$ (4,800)	$ (5,050)		$ (5,050)		$ (5,050)			$ (5,050)		
Cost to retiree	$ -	$ (4,110)		$ (3,479)		$ (3,223)			$ (5,050)		
Annual Retiree point-of-care costs											
Projected Medical	$ 1	$ 203		$ 190		$ 136			$ 52		
Projected Rx	$ 73	$ 107		$ 107		$ 107			$ 107		
Total	$ 74	$ 310		$ 297		$ 243			$ 159		
Average total retiree cost	$ 74	$ (3,800)		$ (3,182)		$ (2,980)			$ (4,891)		
Average retiree savings		$ 3,874		$ 3,256		$ 3,054			$ 4,965		

- Medicfill expenses (claims, fees, rebates, etc.) projected to be $4,800 in calendar year 2020 – lower than current Medicfill rate of $5,512 due to experience pooling
- Illustrative age 65 retiree in Dover with low utilization would save up to $4,965
- If retiree covers a spouse, the spouse would also receive $5,100 HRA

Note: $5,100 HRA assumes $5,050 HRA with $50 average reimbursement for drugs exceeding the true out-of-pocket maximum. Medicare Supplement and MAPD rates based on average 2020 premium for 65 year old male in Dover MSA. Part D rate based on SilverScript Choice Plan PDP

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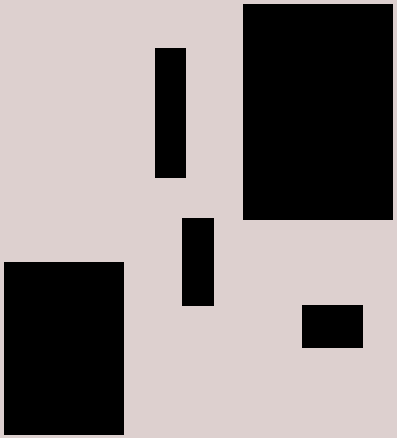
Appendix



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Retiree household impact analysis – Methodology

Individual Marketplace with HRA scenario

Analysis examined total retiree costs:

Total retiree costs = **Out-of-pocket costs**
- Deductibles
- Co-pays
- Coinsurance

\+ **Fixed premiums**
- Medicfill plan
- Medicare Part D
- Medigap/MAPD

Retiree costs reflect the following variables:

Utilization	Choice	Geography	Age
Amount of services a retiree uses	Costs will depend on level of benefit chosen by retiree	Individual insurance rates vary by location	Individual Medicare Supplement rates vary by age

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Retiree household impact analysis – Methodology

Individual Marketplace with HRA scenario

- State of Delaware retirees have access to a meaningful variety of plan choices in the individual marketplace
- 95% of State of Delaware retirees have access to a $0 premium MAPD plan
- Average Medigap Plan G plus PDP premium is significantly less than Medicfill annual cost

MSA	Eligibles	# of plan options available			Maximum annual premium		
		MAPD	Medigap	PDP	Min MAPD	Medigap [1]	PDP [2]
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA	10,717	0-56	17-35	18-21	$0	$2,631	$323
Dover, DE MSA	4,681	8-10	29	18	$0	$2,106	$323
DE NONMETROPOLITAN AREA	4,623	0-8	17-29	18	$0	$2,403	$323
MD NONMETROPOLITAN AREA	195	0-2	17	18	$0	$2,403	$323
Salisbury, MD MSA	147	0	17	18	n/a	$2,403	$323
Rates for Average Retiree Modeling[3]	20,363				$0	$2,380	$323

1. Medigap premium(s) displayed show the maximum premium available to a 75-year old male for Plan G, or G equivalent. (richest Medigap plan)
2. Part D plan rates reflect the SilverScript Choice Plan PDP
3. Rates to be used in modeling that reflect actual age band distribution for top 5 areas (age 74 for supplement plans)

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Retiree household impact analysis – Methodology

Individual Marketplace with HRA scenario

Medigap (Medicare Supplement) plans evaluated:

Rates modeled reflect the avg. of lowest rates available in the top retiree locations, weighted by age distribution of population.

High Deductible F (HiF)

(Low)

Provides 100% coverage but requires the participant to fulfill a $2,300 annual deductible first

Plan N

(Med)

Benefits include office visit copay of $20, ER copay of $50 and Part B deductible ($185 in 2019). All other Medicare covered services covered at 100%

Plan G

(High)

Benefits offer 100% coverage for all Medicare covered Services after the Part B deductible

Medicare Part D: PDP plan rates are based on the SilverScript Choice PDP plan and modeled benefits (for PDP and MAPD) are based on Standard Part D Parameters.

Medicare Advantage Prescription Drug Plan (MAPD) plans evaluated:

Philadelphia, PA-NJ-DE-MD MSA (High Area):

Aetna Medicare Value (PPO) H5521-262 4 1/2 Stars

Dover, DE MSA (Low Area):

Aetna Medicare Value (PPO) H5521-262 4 1/2 Stars

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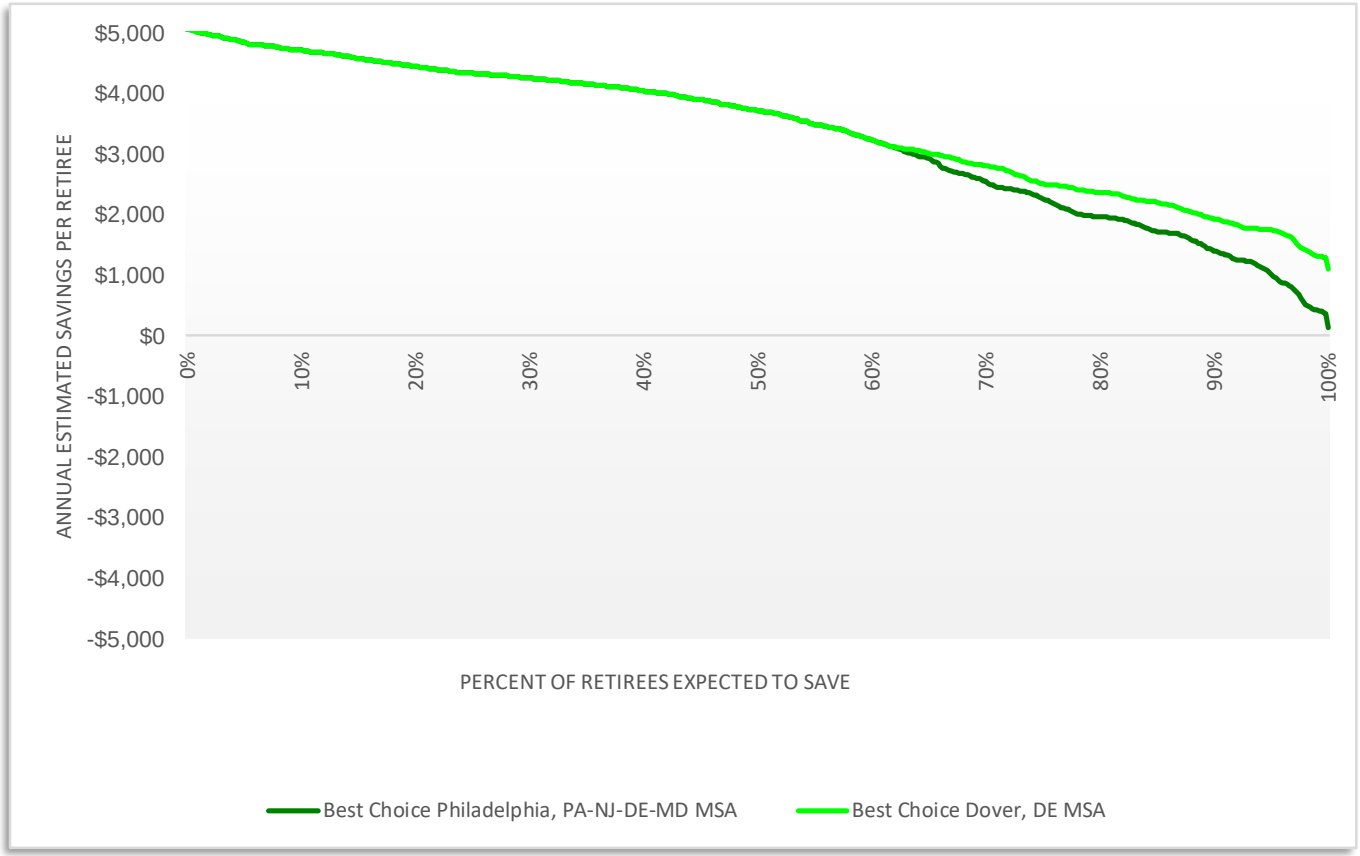
Retiree household impact analysis – Summary

100% State Share Group: Highmark/Express Scripts with $5,100 HRA



BEST CHOICE

Lowest Cost Plan of:

- MAPD
- Plan G + PDP
- Plan N + PDP
- Hi Plan F + PDP

High Area

Philadelphia, PA-NJ-DE-MD MSA

	Best
Avg. Loss	$0
Avg. Win	$3,310
% Loss	1%
% Win	**99%**

Low Area

Dover, DE MSA

	Best
Avg. Loss	$0
Avg. Win	$3,469
% Loss	1%
% Win	**99%**

Over 99% of GHIP retirees and their spouses would be better off financially in the individual marketplace, with average first year savings to the retiree of $3,300 per individual

Note: $5,100 HRA assumes $5,050 HRA with $50 average reimbursement for drugs exceeding the true out-of-pocket maximum

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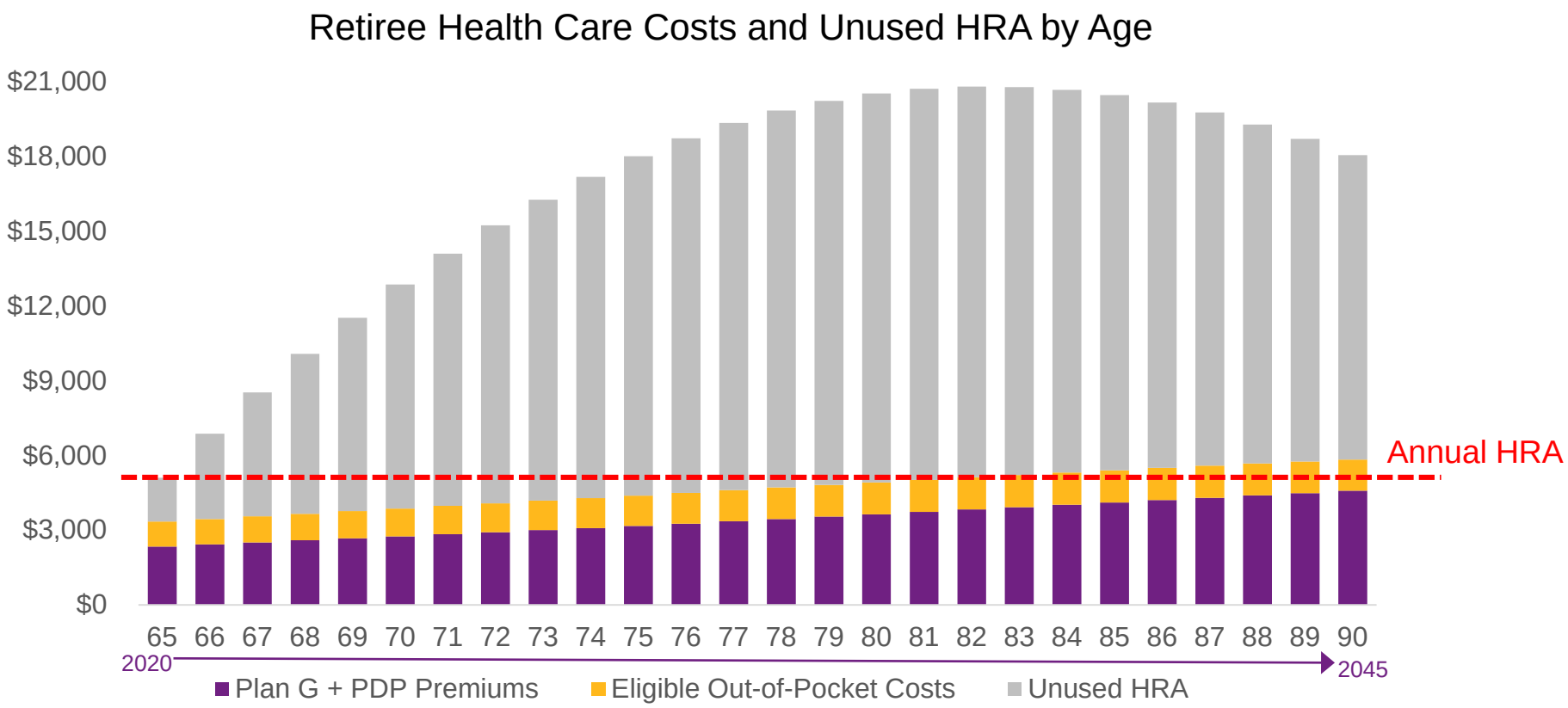
Retiree impact analysis – Long term view (illustrative)



- Medigap premiums and average out-of-pocket expenses increase with age
- Retiree may not use full HRA allotment in certain years; unused HRA amount rolls over and accumulated HRA balance can be used to pay for qualified premiums and out-of-pocket expenses in future years

Note: long term illustration assumes retiree is age 65 in 2020, located in Philadelphia/Wilmington MSA and elects Medigap Plan G with PDP; $5,100 HRA per individual provided annually; $1,000 in qualified out-of-pocket expenses at age 65; HRA not indexed and analysis excludes impact of health care trend.

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Review and Approve DEFAC presentation

DELAWARE
DEPARTMENT OF
FINANCE

DRAFT Presentation to DEFAC – For RSBC approval

March 16, 2020

Delaware's Fiscal House is in Order…

- **1971:** Established Pension trust and funded shortly after
- **1977:** Initiated DEFAC revenue forecasts
- **1979:** Instituted Constitutional budget protections:
  - Rainy Day Fund– never drawn
  - Consistently budget to 98% of revenue
- **1981:** Established the Cash Management Policy Board
- **1992:** Enacted Statutory 3-part debt tests that are fully enforced
  - Issuance follows responsible maturity and amortization limits
- **2018:** Established Budget Stabilization Fund

Fund long-term obligations consistently, **EXCEPT for…**

Delaware's Retiree Healthcare Liability

OPEB Liability is largely unfunded and growing

- Balance Sheet Liability in 2019 is $8.7b
- Takes DE's net position to -$5.9b
- Pay-go costs expected to create a $12m - $20m average annual door opener
- Crowds out other budget needs

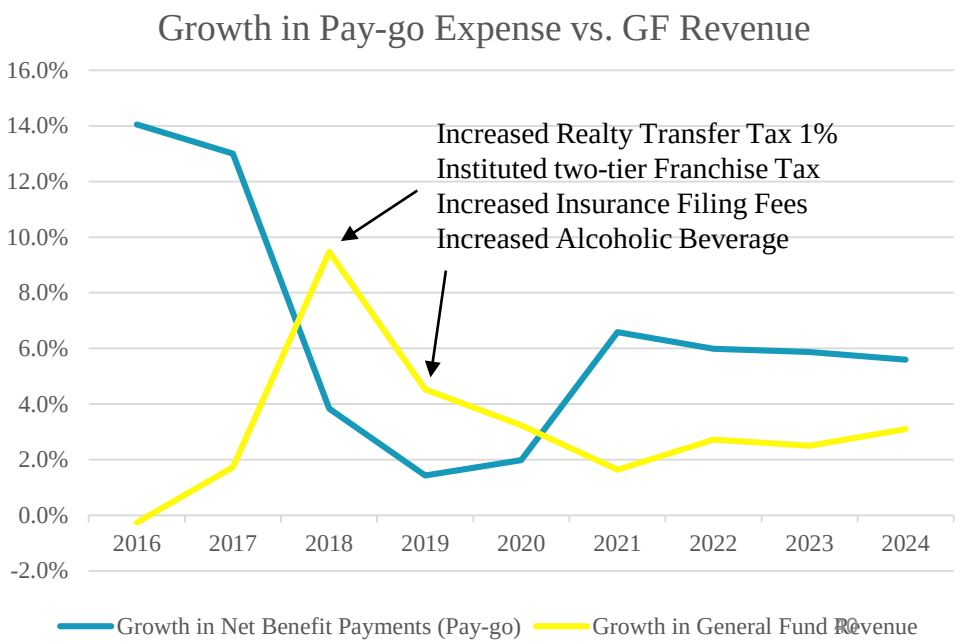
Some modest efforts to fund the liability and modify the benefits have been taken-

- 2007 OPEB Trust created
- Percentage of payroll budgeted
- Additional one-time deposits
- 2012 Changes to eligibility for new employees and post-retirement contributions

Comparison of State Employee Pension Plan vs. OPEB as of June 30, 2019

	Pension	OPEB
Total Assets	$9.1 billion	$0.4 billion
Actuarial Liability	$10.7 billion	$8.7 billion
Unfunded Liability	$1.6 billion	$8.3 billion
Actuarial Funding Ratio	85.5%	4.7%
State Funding as a % of Payroll	13.06%	
Retiree Health Insurance costs (Pay-go)		9.33%
OPEB Trust Fund		0.36%
Employee Contribution (% of pay)	3% or 5%*	

*Correctional Officers pay 5% or 7%



Rating Agencies View of OPEB Liability

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S&P Global Ratings

By far, the most critical of the State's OPEB liability…

"Delaware's unfunded OPEB liabilities have grown significantly despite the implementation of various reforms over the past two decades. …Looking ahead, we expect annual contribution requirements will escalate given that contributions are funded on a pay-as-you-go-basis, which effectively defers contributions until the moment benefits are due…implementation of new reforms for OPEBs last occurred in 2013.

In addition, strong management will be essential to control the state's OPEB liabilities, which are significant in our opinion.

Furthermore, inaction in addressing the state's elevated OPEB liabilities over the our two-year outlook horizon could pressure the rating. In our view, the governor's recently established retirement benefit study committee could lead to the implementation of additional OPEB reforms aimed at reducing the state's net OPEB liability."

Moody's Investors Service

	Adjustments Down: Pension or OPEB Characteristics	-0.5	
Rating:			
	a) Scorecard-Indicated Outcome		Aa1
	b) Actual Rating Assigned		Aaa

Fitch Ratings

"While Fitch views the OPEB liability as a more flexible obligation as compared to pensions, the relative size of the liability in the context of its relation to personal income and already above average long-term liabilities is a concern."

How does Delaware OPEB liability compare?

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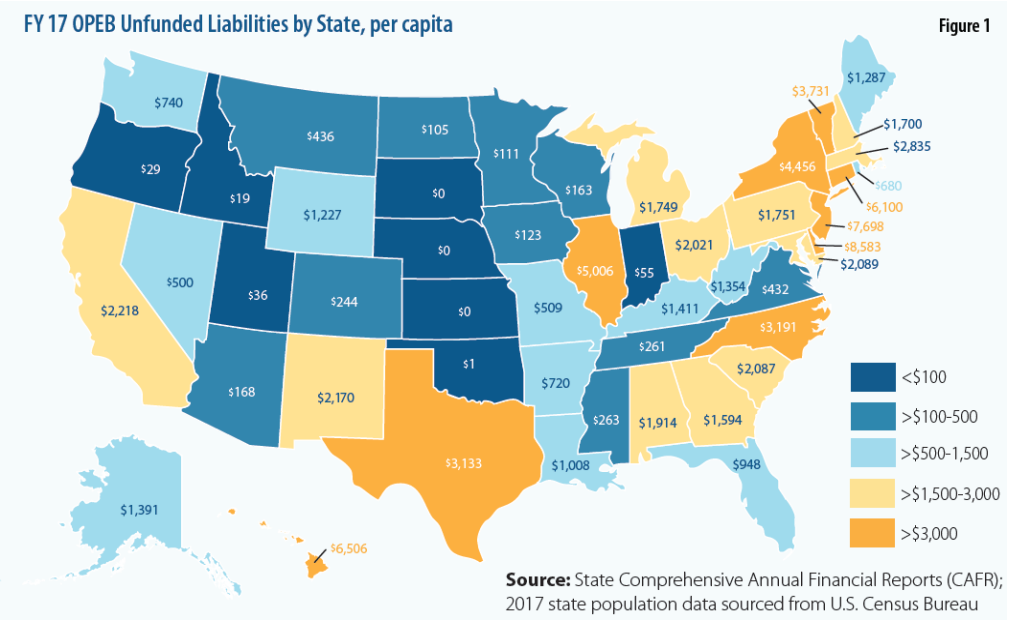
Considerably higher than MOST States in almost all measures

AAA States

- Moody's DE Unfunded liability per capita = $7,450
  - **3x** higher than TX, the 2nd ranked AAA State
  - **26x** higher than the median AAA state
- % of DE Personal Income = 14.5%
  - **2.8x** higher than TX at 5.1%
  - **14x** higher than the median AAA state
- % of DE GDP = 9.6%
  - **2.3x** higher than TX 4.1%
  - **8x** higher than the median AAA state
- 8 of 14 AAA states have no retiree health care, none for new hires or charge 100% of the blended active premium



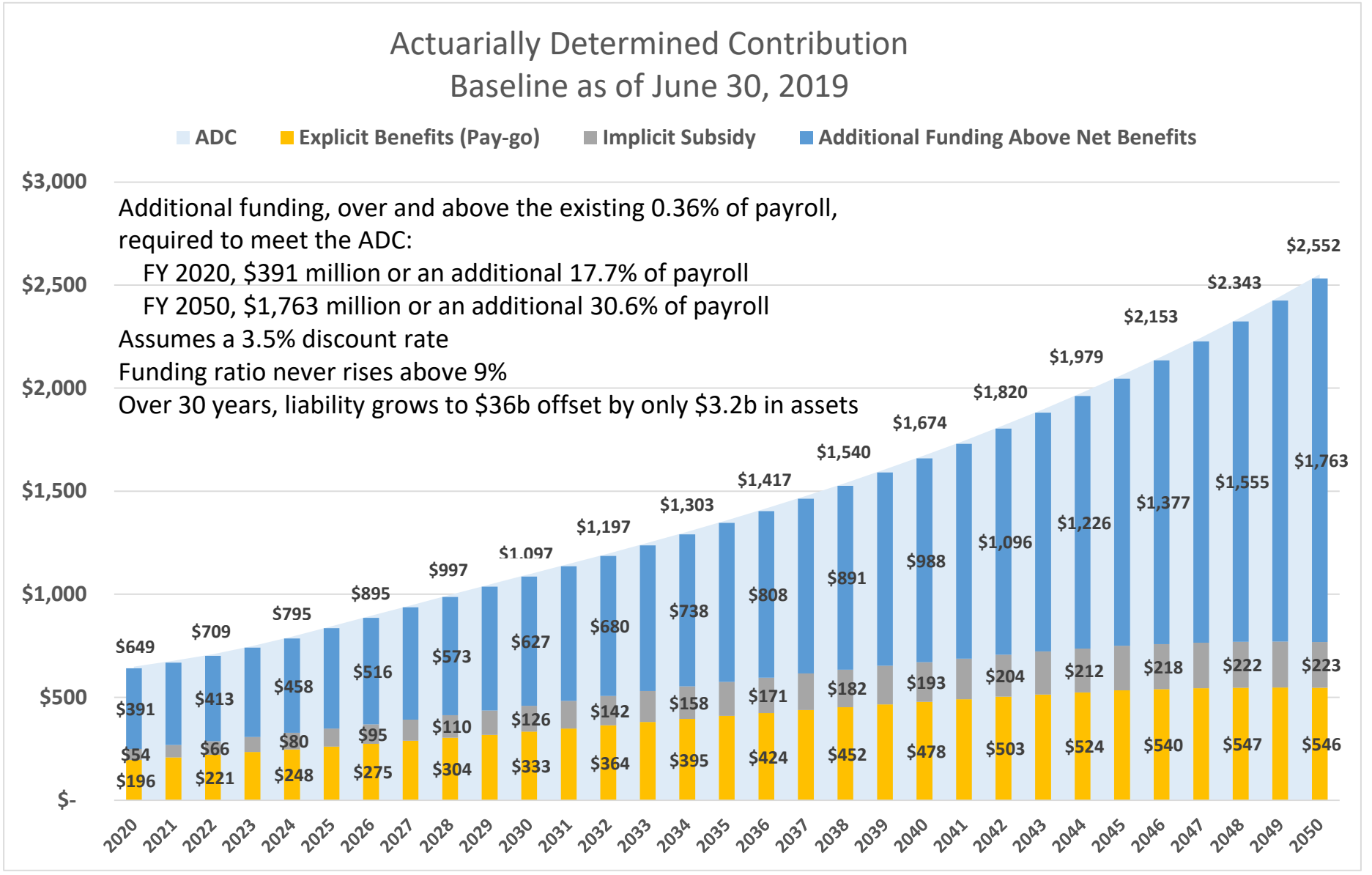
Vs. Regional States, Delaware is…

- Exceeded only by NJ at $9,649 per capita
- Between 3 - 4x higher than PA, the next ranked state, at $1,961

Delaware Retiree Benefits – Basic Structure

- Retiree share of premium (pre-Medicare) effective 7/1/2012:
  - If hired before 7/1/1991 or on disability retirement, no employee contributions; 100% State funded
  - Otherwise, with 20 or more years of state service: 4.0% for the Basic plan, 5.0% for the CDH, 6.5% of the HMO, and 13.25% for the Comprehensive PPO
  - State contribution is reduced for retirees with <20 years of service (varies by date of hire and years of service), and no state contribution if <15 years of service for those hired on or after 1/1/2007 (10 years of service if hired earlier)
- Medicare-eligible pensioners who retired after 1/1/2012 contribute 5.0% of the Medicare supplement (Medicfill) offered by the State. Retirees prior to 1/1/2012 do not contribute. In network services, require no co-pays or deductibles.

Funding Scenario – Baseline – Unabated Growth



Options to Reduce OPEB Liability

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Benefit Changes	Benefit Caps and Account-based Health	Marketplaces/ Exchanges	Funding Strategies	Full Exit
▪ Freeze plan to new hires ▪ Reduce benefits offered to retirees (increase deductibles/copays, etc.) ▪ Change retiree eligibility requirements ▪ Change spousal benefit eligibility	▪ Set defined dollar benefits (e.g., subsidy cap) ▪ Adopt account-based benefits (e.g., retiree HRAs)	▪ Eliminate group plans and facilitate access to Medicare marketplace ▪ Provide HRA subsidy	▪ Reduce liability through funding approach	▪ Eliminate benefits for all retirees

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Actuarial Value of Options that Require Further Analysis

Scenario Label	Description	Immediate OPEB Liability Reduction	OPEB Liability Reduction Over 30 Years	Retiree/Member Impact
HRA (2% Increase)	Delaware eliminates Medicfill coverage and moves to individual marketplace structure – retirees receive annual HRA to purchase individual coverage comparable to the value of subsidy received by State of Delaware currently, *with 2% annual increase* to HRA amount provided in future years	**$2.4b**	**$22.0b**	
Active Spouses	Delaware reduces spousal subsidy by 50% for future retirees; no impact to current spouses of retirees	**$0.9b**	**$5.9b**	
Eligibility of State Share Schedule C	State Share eligibility schedule for those hired since 1/2007 to 20 years = 50%, 25 years = 75% and 30 years = 100%	**$0.5b**	**$9.6b**	
Eliminate Term Deferred Vested Benefits B	Effective 7/1/2020 future terminated vested participants would not have access to any state health benefits, those that are already terminated could still come back and have access to healthcare	**$0.0b**	**$1.4b**	
Set Minimum Age for healthcare	Minimum age to start healthcare would be age 60 for State Employees and Judges but Public Safety would be age 55	**$0.7b**	**$6.8**	
Combination starting 1/1/2021*	-$5,100 HRA for Medicare retirees with 2% inflation -Vesting schedule C -Future Retiree Spouses would receive 50% of benefit -Eliminate Term Vested Benefits B -Minimum age for healthcare (60 and 55 for public safety) *with 0.5% funding	**$3.75b**	**$28.4b**	

Funding Scenarios (Goal – Higher Discount Rate)
Funding (0.5% of Payroll) Benefits (All Options)

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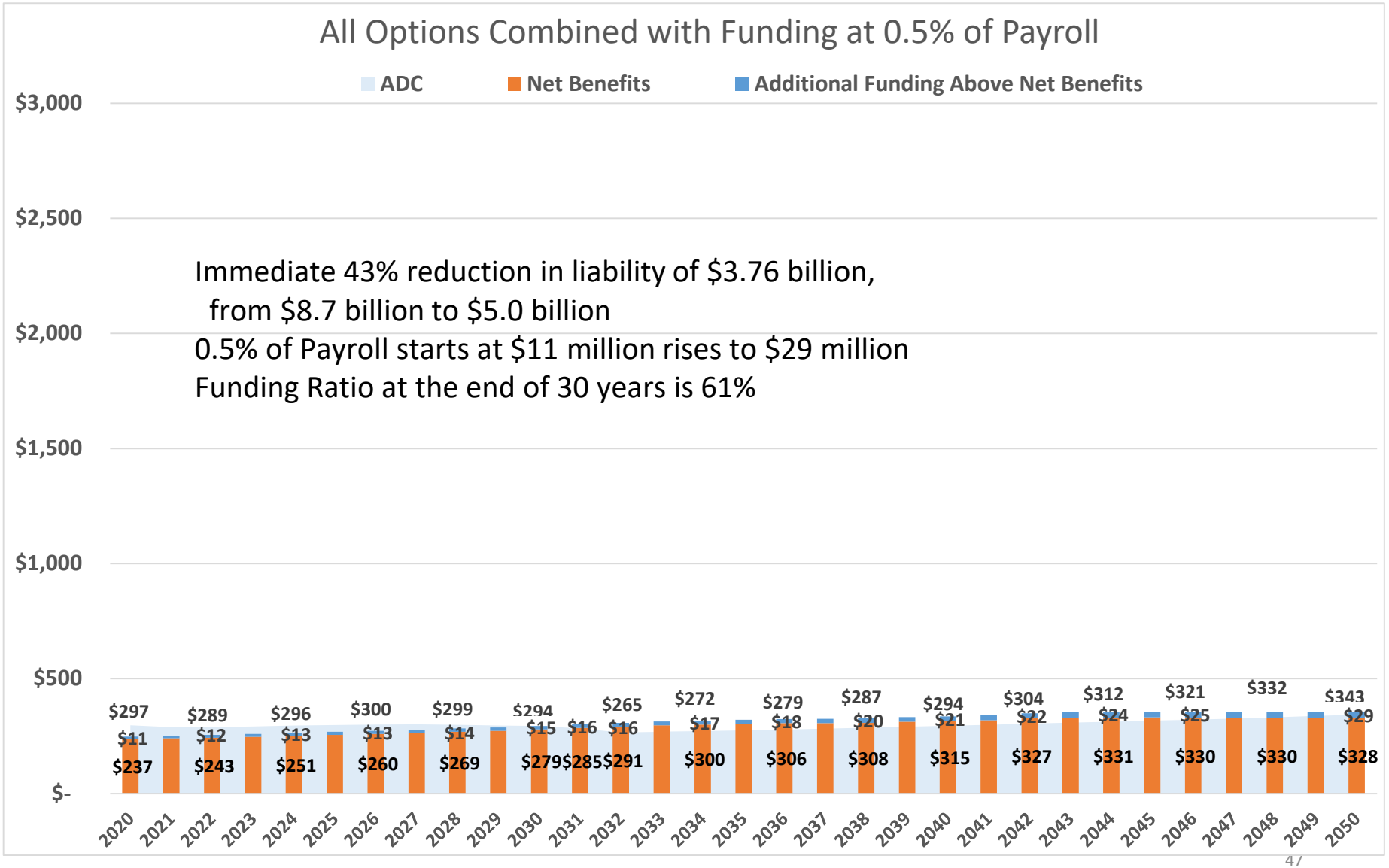

Funding Scenarios (Goal – Higher Discount Rate)
Funding (Ramp-up over 5 years) Benefits (HRA with 2% Index)

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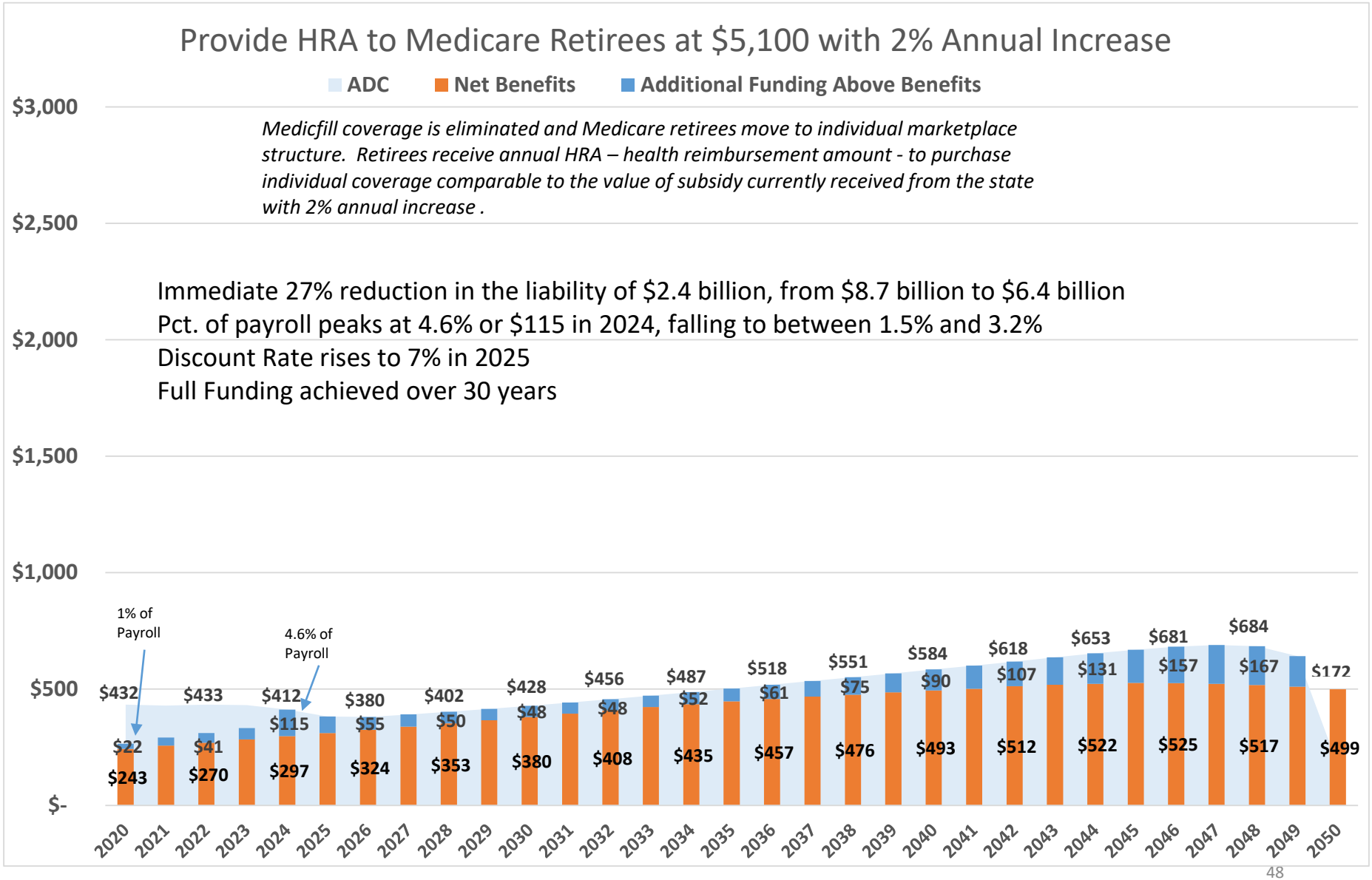
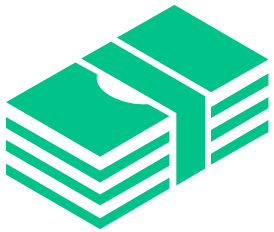
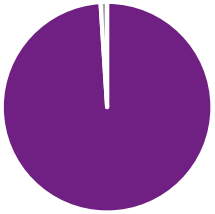


Individual Marketplace with HRA scenario – household impact



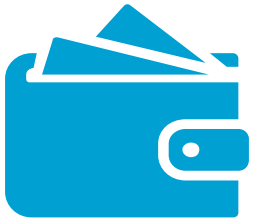
$5,100

is the HRA amount modeled per individual (pensioner or spouse)



>99%

of GHIP retirees would be better off financially in the individual marketplace (compared to current Medicfill plan)



$3,300

is the average annual savings per individual retiree

More choice

Meaningful variety of plan choices and carriers

95% **GHIP retirees would have access to a $0 premium MAPD plan**

40 million retirees enrolled in individual Medicare supplement and Medicare Advantage plans nationally

* Source: Kaiser Family Foundation, 2018

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Why the Individual Medicare marketplace is more affordable

Huge Risk Pools… and Growing

- Large market ~40 million retirees are enrolled in individual plans
- 10,000 baby boomers turn 65 every day for the next 15 to 20 years

Guaranteed Issue… no adverse selection issue

- Virtually everyone can join at 65 (or when you end your group plan): healthy, episodic, chronic and catastrophic

Best-in-Market Plans and Providers

- Retiree picks plan/carrier
- Can choose to see any provider who accepts Medicare patients

Carriers Compete on Price

- File rates every year
- Standardized plans
- Low premiums rates

CMS/Pharmaceutical Industry *Subsidies for ALL*

- Medicare Advantage
- Part D RX Plans

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Next Steps

- **For discussion at RBSC March 9**

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Presentation to DEFAC

Thank you!

Next Steps

- **Requirements of EO 34**
  - Present Preliminary Findings to DEFAC
  - Submit Written Report March 31 to Governor, General Assembly and DEFAC
  - Dissolve April 15, 2020 unless extended
- **Options (not mutually exclusive, nor inclusive of all options)**

  1) Issue final report with no recommendations and dissolve

  2) Recommend Governor extend RSBC for staff to develop detailed answers and solutions to Considerations, Challenges, Timelines and Questions

  3) Recommend developing a Joint Resolution (JR) for consideration by the General Assembly before June 2020 endorsing reasons for and continuation of RSBC's work. Final recommendations by December 1, 2020 in time for inclusion in the Governor's Recommended Budget for fiscal 2022/2023.

  4) Recommend JR require intensive outreach with impacted employee and retiree groups beginning Summer 2020
- **Discussion and Next Steps**

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Thank you!