# State of Delaware
## Retirement Benefit Study Committee

## OPEB Funding/Comprehensive Approaches

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## Overview

- In a companion presentation, the State of Delaware Department of Human Resources and Willis Towers Watson have provided detailed benchmarking information regarding retiree healthcare benefit structures across a regionally oriented grouping of state employers
- This presentation provides additional context for these comparisons by outlining the funding status and approach across these same benchmark states, and providing summary-level indication of plan adjustments
- In addition, we highlight the range of approaches used by other AAA-rated states nationally (note: AAA-rated MD and VA are already captured in the primary benchmark grouping)
- While there is no "one-size fits all" approach – as states have very different starting points, structures, and constraints – the better positioned states that still provide significant OPEB programs have generally addressed both funding and benefit costs
- As case studies of multi-pronged approaches, VA and OH are also summarized in greater depth

| Willis Towers Watson Regional Grouping | AAA-Rated States |
|---|---|
| Maryland (AAA) | Iowa |
| New Jersey | Indiana |
| Pennsylvania | Florida |
| Virginia (AAA) | Georgia |
| West Virginia | Minnesota |
| North Carolina | Missouri |
| Ohio | South Carolina |
| | South Dakota |
| | Tennessee |
| | Texas |
| | Utah |

*Minnesota and South Carolina are rated AAA by S&P and Fitch, AA1 by Moody's. Both are included.*

*Nebraska is rated AAA by S&P and Vermont is rated AAA by Fitch, however, neither is rated AAA by more than one agency. Both are excluded.*

# Regional States: Structure and Liability Management

| No OPEB (All Retirees) | No OPEB (New Hires) | Retirees Pay 100% of Blended Premium (Implicit Subsidy) | Other Retiree Premium Cost Sharing Structures |
|---|---|---|---|
| -- | **NC**<br>to be closed to new hires 1/1/2021<br><br>**WV**<br>Closed to new hires since 7/1/2010; prior employee contributions based primarily on years of service (YOS) | -- | **MD**<br>Same contributions as actives Pre-Medicare eligibility (varies by plan; 15-20% for Medicare plans (varies by plan)<br><br>**NC (current)**<br>Retirees hired since 2006 to contribute 100% of premium if <10 YOS, 50% if 10-<20 YOS, no contribution if 20 or more YOS (pre-2006 hires have no contribution for base plans, but do contribute toward spousal coverage and/or higher cost options)<br><br>**NJ**<br>Retirees pay same % of premium as actives, but costs are higher due to separate pools; 25 YOS required to receive retiree healthcare<br><br>**OH**<br>Benefits provided through the pension system. Must have 20 YOS and be age 60 (or 30 YOS for some groups). Retirees pay 1-49% of premiums, varying by age and YOS. Spouses pay full cost.<br><br>**PA**<br>Post 2005 retirees pay a % of final salary, generally 3% Pre-Medicare for those retiring on or after 2011<br><br>**VA**<br>Retirees receive a fixed dollar subsidy that can be used toward remaining in plans for actives at the blended rate. Subsidy is $4/month per year of service (minimum 15 YOS for eligibility) |

Sources: NASRA 2019 State OPEB Plan Design Summary; Individual States

## Regional States: OPEB Funding Context

| State | Moody's Adjusted Net OPEB Liability (ANOL) Per Capita FY2018 | Moody's ANOL as a % of Personal Income FY2018 | Moody's ANOL as a % of State GDP FY2018 | OPEB Trust | Funded % FY2016 | Assets (millions) FY2016 | OPEB Actual Contribution (millions) FY2016 | % ADC Contributed FY2016 | Contribute > Pay-Go |
|---|---|---|---|---|---|---|---|---|---|
| **NJ** | $9,649 | 14.3% | 13.8% | - | 0.0% | $0 | $2,274 | 27.9% | - |
| **DE** | **$7,450** | **14.5%** | **9.6%** | **Y** | **4.2%** | **$310** | **$217** | **51.0%** | **Y** |
| **PA** | $1,961 | 3.5% | 3.2% | Y | 2.2% | $526 | $1,066 | 64.6% | Y |
| **MD** | $1,774 | 2.8% | 2.6% | Y | 2.3% | $291 | $506 | 71.6% | - |
| **WV** | $1,743 | 4.3% | 4.1% | Y | 20.6% | $705 | $187 | 65.7% | Y |
| **NC** | $580 | 1.3% | 1.1% | Y | 4.1% | $1,401 | $943 | 36.6% | - |
| **VA** | $262 | 1.2% | 1.0% | Y | 25.4% | $1,845 | $441 | 66.0% | Y |
| **OH** | $247 | 0.5% | 0.4% | Y | 60.7% | $15,464 | $290 | 30.3% | - |

Sources: The Pew Charitable Trusts' 50-State Survey of Retiree Health Care Liabilities - December 2018; CSLGE/NASRA OPEB Snapshot FY2017 - July 2019; Moody's Investors Service, "Medians – Adjusted net pension liabilities decline; OPEB liabilities vary widely," September 2019. Pay-Go analysis based on FY2017 CAFR review.

# AAA-Rated States: Structure and Liability Management

| No OPEB (All Retirees) | No OPEB (New Hires) | Retirees Pay 100% of Blended Premium (Implicit Subsidy) | Other Retiree Premium Cost Sharing Structures |
|---|---|---|---|
| **SD** | **TN**<br>closed to new hires 7/1/2015<br>**UT**<br>Closed to new hires 1/1/2006 | **FL**<br>**IN**<br>**IA**<br>**MO**<br>**MN** | **GA**<br>For individual coverage, retirees contribute 100% if <10 years of service (YOS); declining incrementally to a minimum of 25% with 30 YOS; for dependent, retirees contribute a minimum of 45% up to 100%, depending on YOS (increased from approx. 25% for all prior to 2012)<br>**SC**<br>Retirees hired since 2008 to contribute 50% of premium if 15-24 YOS, no contribution if 25 or more YOS (pre-2018 hires eligible after 10 YOS)<br>**TX**<br>Future retirees with <5 YOS as of 9/1/2014 to contribute 50% of premium if <15 YOS at retirement, 25% if 15-19 YOS, no contribution if 20+ YOS. Retirees pay 100% of dental. Grandfathered retirees have no medical contribution. |

Notes:
- South Dakota had an implicit subsidy until 2014 adjustments shifted all retirees into a separately rated plan.
- Utah coverage for grandfathered employees is based on conversion of accrued, unused sick leave on retirement.
- Indiana has a defined contribution benefit that can be used to offset cost of 100% premium. State contributes $500-$1,400 to an employees account annually, with the amount varying by age, plus a larger one-time amount on retirement ($1,000*YOS) if minimum YOOS eligibility requirements are met.
- Tennessee hires prior to 2015 retiring from the State with 30 YOS to receive $50 subsidy per month; 20-29 YOS, $37.50; and 15-19 YOS, $25; retired teachers contribute 40% if <20 YOS, 30% if 20-29 YOS, 20% if 30+ YOS

Sources: Review of states' respective annual CAFRs; The Pew Charitable Trusts' 50-State Survey of Retiree Health Care Liabilities - December 2018; The Pew Charitable Trusts' State Retiree Health Care Liabilities - May 2016; NASRA 2019 State OPEB Plan Design Summary; Moody's 9/17/19 Medians - Adjusted net pension liabilities decline; OPEB liabilities vary widely; National Conference of State Legislators 2010 and 2013 Pension and Retirement Plan Enactments in 2010 State Legislatures.

# AAA-Rated States: OPEB Funding Context

| State | Moody's Adjusted Net OPEB Liability (ANOL) Per Capita FY2018 | Moody's Adjusted Net OPEB Liability (ANOL) as a % of Personal Income FY2018 | Moody's Adjusted Net OPEB Liability (ANOL) as a % of State GDP FY2018 |
|---|---|---|---|
| **DE** | **$7,450** | **14.5%** | **9.6%** |
| **TX** | $2,515 | 5.1% | 4.1% |
| **MD** | $1,774 | 2.8% | 2.6% |
| **GA** | $747 | 1.6% | 1.3% |
| **VA** | $727 | 1.2% | 1.0% |
| **MO** | $634 | 1.4% | 1.2% |
| **SC** | $529 | 1.2% | 1.2% |
| **FL** | $352 | 0.7% | 0.7% |
| **TN** | $225 | 0.5% | 0.4% |
| **MN** | $109 | 0.2% | 0.2% |
| **IN** | $70 | 0.1% | 0.1% |
| **IA** | $58 | 0.1% | 0.1% |
| **UT** | $31 | 0.1% | 0.1% |
| **SD** | $0 (no employer funded OPEB) | -- | -- |

Sources: Moody's Investors Service, "Medians – Adjusted net pension liabilities decline; OPEB liabilities vary widely," September 2019.

# AAA-Rated States: OPEB Funding Context

| State | Moody's Adjusted Net OPEB Liability Per Capita FY2018 | OPEB Trust | Funded % FY2016 | Assets (millions) FY2016 | OPEB Actual Contribution (millions) FY2016 | % ADC Contributed FY2016 | Contribute > Pay-Go |
|---|---|---|---|---|---|---|---|
| **DE** | **$7,450** | **Y** | **4.2%** | **$310** | **$217** | **51.0%** | **Y** |
| **TX** | $2,515 | Y | 0.7% | $641 | $1,630 | 22.8% | |
| **GA** | $747 | Y | 9.1% | $1,643 | $1,118 | 78.3% | Y |
| **MO** | $634 | Y | 4.8% | $154 | $122 | 58.0% | |
| **SC** | $529 | Y | 9.2% | $1,063 | $465 | 60.9% | Y |
| **FL** | $352 | - | 0.0% | $0 | $148 | 20.6% | |
| **TN** | $225 | Y | 0.0% | $0 | $74 | 56.6% | |
| **MN** | $109 | - | 0.0% | $0 | $54 | 44.0% | |
| **IN** | $70 | Y | 28.8% | $137 | $42 | 115.8% | Y |
| **IA** | $58 | - | 0.0% | $0 | $25 | 36.2% | |
| **UT** | $31 | Y | 54.4% | $220 | $37 | 122.2% | Y |
| **SD** | $0 (no employer funded OPEB) | N/A | N/A | N/A | N/A | N/A | N/A |

Sources: The Pew Charitable Trusts' 50-State Survey of Retiree Health Care Liabilities - December 2018; CSLGE/NASRA OPEB Snapshot FY2017 - July 2019; Moody's Investors Service, "Medians – Adjusted net pension liabilities decline; OPEB liabilities vary widely," September 2019. Pay-Go analysis based on FY2017 CAFR review.

# Case Study: State of Ohio (AA1/AA+); On and Off Track

*"Strong legal flexibility regarding, and* ***demonstrated history of, managing long-term pension and OPEB liabilities*** *by adjusting benefits"*

*"****Ohio's low pension and OPEB costs will continue to be a relative strength****…[u]nlike most states, which fund other post-employment benefit (OPEB) obligations on a pay-as-you-go basis, Ohio's five* ***OPEB programs have substantial assets…pledged to cover liabilities*** *for state and local government participants."*

- Moody's Investors Service, Update to credit analysis, April 30, 2019

- OPEB benefits are part of the State pension system (OPERS), and are not guaranteed. The State first established OPEB prefunding in 1974
- OPEB is funded with dollars allocated by the OPERS Board from employer contributions to the overall retirement system on a discretionary basis
- After decades of contributions, the OPEB trust was 39% funded as of 2010
- In 2012, the State adopted benefit changes that reduced its unfunded OPEB liability from $18.9B to $7.0B and increased funded status to 63% by 2013. Changes included:
  - Increased service eligibility: to age 60 with 20 YOS (from 10 YOS), or 30 YOS at any age (31 YOS and 32 YOS for certain employee groups) – active employees were not grandfathered. Spousal allowances also phased out with no grandfathering
  - Reduction in the maximum allowance from 75% to 71% after 30 years of service (members may use the allowance toward pre-65 health care or to select a Medicare advantage or supplemental plan)
- As of 1/1/2019, the Police & Fire Pension fund also replaced a defined benefit program for retiree health insurance with a fixed monthly stipend
- Due to pension funding challenges in recent years, however, the OPERS Board has sharply reduced its allocation toward retiree healthcare. As a result of this movement away from steady funding, Ohio's OPEB funded ratio had declined to 46% by year-end 2018

# Case Study: Commonwealth of Virginia (Aaa/AAA)

- Total OPEB liabilities for the Commonwealth of Virginia include a mix of benefits for different employee groups and participating governments, including: retiree life insurance; certain post-employment disability coverages; and a Retiree Health Insurance Credit (RHIC) program that represents the primary medical benefit for retired state employees
  - The RHIC provides $4/month for each year of service (minimum eligibility of 15 years, no limit) as a credit reimbursement against monthly health insurance premiums (charged at the blended "implicit subsidy" rate)
- Previously funded on a pay-go basis, the Commonwealth has increased its contribution rates to now fully fund the RHIC for state employees on an actuarial basis, including amortization of the unfunded liability
  - This funding policy has increased the Health Insurance Credit Program funded ratio for state employees (one component of the total State OPEB liability) from 5.8% to 9.7% over the last five years for which a valuation is complete (FY2013 – FY2018)
  - This unfunded liability is being paid down over 30 years (closed period beginning 7/1/2013) using a level % of pay amortization
  - Payments are converted to a percentage of payroll for budgeting purposes (FY2018: 1.15%)
- As part of an overall approach, the Commonwealth has also restricted retiree benefits eligibility, impacting OPEB:
  - Effective 1/1/2013, active, non-vested members of the State's traditional pension Plan 1 must satisfy Rule of 90 or reach SS normal retirement age to be eligible for unreduced retirement (previously age 65 with 5 years of service or age 50 with 30 years for most employee groups). New hires now enter a hybrid retirement plan, which also uses the Rule of 90

## Observations

- Delaware has a much higher OPEB liability than other AAA-rated states, many of which provide only an implicit subsidy
  - This leads directly to the rating agencies' much sharper focus on Delaware's liability management and funding practices and plans
- Approaches in other states suggest possible options for reducing an OPEB liability, while still providing quality coverage for career employees, for example:
  - Linking the amount of the State subsidy toward premiums to years of service, with a reduced benefit for those who have not served for a full career (potentially decoupling retiree healthcare eligibility from pension eligibility)
  - Providing a defined contribution healthcare savings vehicle, helping retirees with second careers elsewhere to obtain affordable coverage without automatically defaulting to continued state coverage
  - Limiting the subsidy for spousal coverage, as many spouses can obtain coverage and/or provide for eventual coverage through their own employers
  - Increasing employee / retiree contributions as part of an overall OPEB funding plan
- Some states have adopted new tiers or closed access to coverage for future hires only, however, other states have modified benefits for active employees not yet retired. Modifying benefits only for future hires will have a much more limited and slower impact on the liability
- Those states and major local governments that are successfully on a path toward sustainable OPEB plans do not rely on benefit adjustments alone. While benefit cost containment is very often a part of the solution, consistent funding above pay-go levels – preferably on a full actuarial basis – is also important where meaningful coverage is to be maintained

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