Minutes of the
Retirement Benefits Study Committee

January 7, 2020 - 1:00 p.m.
JFC Hearing Room, Legislative Hall
Dover, DE

Committee Members Represented or in Attendance:

Rick Geisenberger	Chair, Secretary of the Department of Finance
Mike Jackson	Vice Chair, Director of the Office of Management and Budget
Mike Morton	Controller General
Joanna Adams	Director of the State Office of Pensions
Faith Rentz	Director of the Office of Statewide Benefits and Insurance Coverage
Colleen Davis	State Treasurer
Ruth Briggs-King	Delaware House of Representatives
David Sokola	Delaware State Senate
Mike Begatto	Executive Director, AFSCME, Council 81
Aaron Klein	Senior Vice President & Director of Performance and Analysis, WSFS
Jeff Taschner	Executive Director, Delaware State Education Association

Others in Attendance:

Judy Anderson	Rich Phillips
Jane Cole	Geoff Stewart
Liza Druck Davis	Margaret Tempkin
Kevin Fyock	Rebecca Scarborough
Jamie Johnstone	Bert Scogletti
Adele L. Jones	Stephanie Scola
Maureen Keeney	Jim Testerman
Michael Nadol	Rebecca Warnkin
Bill Oberle	Dom Zaffora

I. Call to order

Secretary Rick Geisenberger called the meeting to order at 1:00 p.m.

a. Introductions

Secretary Geisenberger asked the non-member attendees to introduce themselves.

b. Approval of the Minutes of the Meeting of December 10th, 2019:

Minutes Approved

II. Review of the Significance of the OPEB Liability

Rick Geisenberger, Secretary of Finance and Study Committee Co-chair presented slides reviewing the issues the Committee is considering and the evidence presented in prior meetings.[1]

a. Measuring the OPEB liability: Secretary Geisenberger reviewed the growth in Pay-go OPEB liability versus revenue growth in Delaware and noted that Pay-go growth remains firmly above revenue growth except for years with significant changes to revenue policy. Funding differences between Delaware's actuarial liability for its pension and OPEB were noted. Slide 5 provides specifics for the OPEB Actuarial liability and funding ratio.

b. Interstate OPEB comparison: Secretary Geisenberger reviewed prior discussion on how Delaware's OPEB liability per capita compares to other states in the region and other triple-A rates states. Mr. Geisenberger noted that each of the bond rating agencies provided specific feedback on Delaware's outstanding OPEB liability.

Geoff Stewart of PFM commented that the rating agencies routinely check in on pension and OPEB liabilities and payment practices to gauge each state's handling of its long-term fiduciary obligations. OPEB liabilities have been a national concern for over a decade and Delaware has historically done well at addressing these tough decisions despite any political inconvenience. Delaware was initially a leader in addressing OPEB liability issues when it established the OPEB Trust, but other states have further addressed the liability during the past 10 years. Delaware's OPEB funding policy is now viewed as average to trailing national best practices. Mr. Stewart noted specific feedback from S & P who were encouraged to hear about the taskforce's effort but expected a plan for material reform.

Secretary Geisenberger noted that S & P stated a specific timetable for reform and that Delaware could expect some sort of negative ratings outlook from S & P if a plan for material reform is not developed within the next year.

Stephanie Scola, Director of Bond Finance for Delaware, added that a ratings downgrade would be increase interest costs around the same time OPEB Pay-go expenses are increasing. This represents a perfect storm of mandatory operating budget increases.

c. Funding History: Secretary Geisenberger reviewed Delaware's history of trust fund contributions with annual contributions ranging from 0% to 0.9% of payroll contributed annually since 2007. Under the current system, fully funding the OPEB trust would require double digit annual contributions. Secretary Geisenberger commented that the spiky pattern in Pay-go expenses, seen particularly between 2010 and 20011 and 2015 and 2017, suggests benefit changes may help control cost growth for a few years, but that something outside of State control always seems to cause expense growth to rebound.

Margaret Tempkin of Cherion commented that the EGWP program was implemented in 2014/2015 and this was the driver of short-term cost stability before Pay-go costs rebounded in 2016 and 2017.

III. Consideration and Discussion of Goals

Mike Nadol of PFM presented slides regarding goal setting which were informed by PFM's experience with OPEB reform in Oakland[1]

Mr. Nadol discussed the specifics of the City of Oakland case which can be seen on Slide 9. Oakland sought a balanced approach that mixed funding increases and benefits changes and had the concrete goal of achieving a stable funding position over the course of several decades. An important target was to fully pre-fund their trust for the explicit subsidy benefit while sustaining the implicit subsidy cost, derived from typical healthcare cost inflation, as a part of their operating budget.

Secretary Geisenberger presented a list of sample funding and benefits goals for discussion by the members as seen on Slide 10.

Secretary Geisenberger and Senator Sokola both note that Delaware's mix of employees is unique compared to other states as Delaware's OPEB covers teachers, local government employees, and correction officers that are largely or entirely covered by municipal OPEB plans in other states. However, this difference is not so unique that it can explain the substantial difference between Delaware and other states in terms of per capita OPEB liability.

Representative Briggs-King expressed concern that a benefits goal of providing portable retiree health care might conflict with the goal of encouraging non-career employees to consider other healthcare options besides those offered by the State. Secretary Geisenberger suggested that Health Reimbursement Accounts (HRAs) might be a feature that could remove the conflict between those two goals.

Jeff Taschner, Executive Director of the DSEA, expressed concern about endorsing any goals without spending more time on the issue or getting more specifics.

Mike Jackson, Director of the Office of Management and Budget, emphasized the importance of considering conversations with the ratings agencies and the potential impact policy changes could have on Delaware's financial architecture. Goals with longer time horizons are preferable given the other demands on the State's budget. Recognizing the importance of longer time horizons, Director Jackson preferred goals that enable a combination of policy choices around the structure of annual and one-time funding, benefit delivery mechanisms, and the benefit qualification requirements.

Secretary Geisenberger stated that the goals being discussed ought to give this committee a charge that can narrow options for the legislature and the Governor. In answering Mr. Taschner's question concerning how much more these goals are likely to develop in the next few months, Secretary Geisenberger noted that recent conversations suggest the risks associated with only stating broad goals in the next few months have increased, but the complexity of the issue may require an extension before considering something more specific.

Director Jackson, Secretary Geisenberger, and Ms. Tempkin discussed the relative importance of emphasizing different funding goals from the list on Slide 10 and concluded that emphasis on any goal on the list is likely to have simultaneous positive impacts on the other goals.

Rep. Briggs-King stated doing nothing is not an option and that funding goals are the more important point of emphasis. She recommended each goal be time limited.

IV. Cost Management

Kevin Fyock and Rebecca Warnken of Willis Towers Watson presented slides on the Cost Management experiences of Delaware's State Employee Benefits Commission (SEBC) and an overview of Medicare's Cost Management strengths.[1]

Mr. Fyock began by highlighting the process used by the SEBC to review health care benefits. The SEBC aims to "shrink the pie" in five core areas as detailed on Slide 12 and follows a strategic framework as outlined on Slide 13. Mr. Fyock noted that the SEBCs goals are updated every 3 to 5 years and that the SEBC is currently undertaking such an update before reviewing the existing goals and how they related to the SEBC's mission statement. A sampling of recent program improvements and associate cost savings can be seen on Slide 15. The largest savings discussed—the renegotiation of a pharmacy benefits manager contract—saved $17.1m or 2.0% of FY 20 annual claims costs. Other programs listed each saved less than 1% of FY 20 annual claims costs.

Ms. Warnken reviewed the brief history of the Medicare program, Medicare's eligibility requirements, and the components and recent cost history of Medicare.

Mr. Fyock continued with an illustrative example comparing active employee costs to retired member costs. This example was derived from the testimony of researchers from the Johns Hopkins Bloomberg School of Health. Details can be seen on Slide 17. The outcome is the active employee and her employer paying $35,459 for the same knee replacement that costs a Medicare eligible retiree and his former employer $2,500.

Secretary Geisenberger clarified for the purposes of the committee's discussion that the active employee example is also indicative of what costs look like for Delaware's pre-65 retiree populace and asked if data existed to indicate whether Delaware's Medicare costs are significantly different than regional or national Medicare costs.

Mr. Fyock stated that Medicare costs are formulaic and based on case mix, severity, and geography. Secretary Geisenberger stated and Mr. Fyock agreed that relatively higher local healthcare costs may impact the pre-Medicare population, but are unlikely to significantly impact the Medicare population's healthcare costs.

Secretary Geisenberger returned to slide 15 and highlighted that three of the five recent SEBC program improvements impacted only the active and pre-65 retiree plan and that, for example, Surgery Plus centers of excellence resulted in less than 0.1% savings over the FY 20 annual claims cost. Mr. Fyock noted that the SEBC assumes that the values of Surgery Plus will grow over time and Ms. Warnken added that even several million dollars in increased savings would still be a less than 0.1% savings.

Bill Oberle, member of the public from the Delaware State Troopers association, suggested that the Johns Hopkins Bloomberg School of Health report indicates Delaware is overpaying for medical service in the commercial market.

Mr. Fyock stated the commercial market typically sees cost multipliers of 150% or 200% in comparison with Medicare, but that the report did note that Delaware's multiplier is on the higher end of the range. Sec Geisenberger noted that saving may be available on the commercial side, but this would only impact the OPEB liability calculation if savings were directed expressly to retiree healthcare costs.

V. OPEB Reduction Opportunities

Rebecca Warnken of Willis Towers Watson reviewed previously presented policy scenarios for reducing the existing OPEB liability with a summary on slide 19.[1]

Secretary Geisenberger emphasized that these scenarios are not intended to be direct recommendation but demonstrate the scale of impact provided by a variety of options.

Ms. Warnken reviewed the range of options for reducing the State's OPEB liability broadly including Benefits Changes, Benefit Caps or Health Accounting, Marketplaces, Funding Strategies, and Full Exit with details on Slide 20. [1]

VI. Additional Modeling

Margaret Tempkin of Cherion presented six additional policy scenarios for reducing the existing OPEB liability including changes to the Vesting Schedule, methods for eliminating Term Vesting, adding a minimum age requirement, and a combined option including some form of these policies and an HRA for Medicare eligible retirees. The complete details for each additional policy scenario and their projected impact on the long-term OPEB liability can be found on slides 22 and 23.[1]

Secretary Geisenberger, Ms. Tempkin, and Ms. Adams outlined the progress of the vesting schedule of OPEB beginning with eligible pensioners hired before July 1, 1991 receiving 100% benefit after 5 years of service and progressing to the current schedule where eligible pensioners hired on or after January 1, 2007 are eligible for a 50% benefit after 15 years, a 75% benefit after 17.5 years, and a 100% benefits after 20 years.

Secretary Geisenberger noted that none of the modeling scenarios are adjusted to account for behavioral responses that might follow from policy proposals being considered.

Director Jackson noted that the HRA options could be viewed as an alternative delivery option and asks if the package of benefits under the HRA is largely the same as the benefits pensioners receive today.

Ms. Warnken confirmed that, while you cannot purchase the exact Medicfill plan the State offers, the market offers comparable benefits.

Ms. Tempkin also modeled several of the policy options discussed with some, or all, of the savings from the benefits reductions being modeled to consistently make OPEB Trust Fund payments. The complete details for each benefits and funding scenario and the projected impact on the long-term OPEB liability can be found on slides 25 and 26.[1]

Secretary Geisenberger summarized the modeling, noting the task of solving a $36 billion future liability seems daunting. However, even if more modeling changes and ideas need to be considered, the models presented so far suggest that success is achievable.

VII. Retiree Household Impact Analysis

Rebecca Warnken of Willis Towers Watson presented slides on household level impacts from an HRA for Medicare eligible retirees. The slides presented outline the private Medicare marketplace and the methodology used to model household level impacts with assumptions around plan access and relative use of health services. The policy option considered assumes an HRA covering $5,100 in expenses annually, where unused portions of the annual allocation may be rolled over in the HRA each year. Complete details, methodology, and household level impacts can be found on slides 28 through 36.[1]

Secretary Geisenberger asked about the summary of plan options and maximum annual premia presented on slide 31 and whether the selected metropolitan areas encompassed all the places retired State employees reside. Ms. Warnken noted that there is not a guarantee of access to the types of options present nationally, but that national access to the Medicare marketplace is robust.

Ms. Warnken noted the analysis of net household impact assumes $5,100 only for retirees eligible for 100% of State share. Other retirees HRAs would be pro-rated parallel to what is currently done with Medicfill premiums. In the household models shown marketplace plans have significantly lower premiums and higher out of pocket costs, but the total of premiums and out of pocket costs is $1,300 or more below the value of the HRA.

Mr. Fyock emphasized that currently the average retiree pays $478 out of pocket annually. Under the HRA, most years the average retiree would save $1,300 or more in healthcare funds which could be used in future years where expenses are above average.

Secretary Geisenberger asked if a healthcare advisory tool, like the one currently available to active employees, is available in the Medicare marketplace. Ms. Warnken stated that a Medicare Connector would provide a call-in option with a marketplace representative to provide support in the decision-making process.

Secretary Geisenberger noted that the scale of the national and regional Medicare marketplace is significantly larger than the Delaware pool alone. This relative scale might explain why the State's purchasing leverage for OPEB benefits is weaker than its leverage commercially for active employees. Mr. Fyock added that the national Medicare marketplace represents significantly more competitive plans than those available to Delaware OPEB recipients. Ms. Warnken stated that the Medicare marketplace is much more robust than the individual marketplace for active employee plans.

Mr. Taschner asked about the relative percentage of current retirees in each of the Low, Average, and High Utilizer scenarios on Slide 34. Ms. Warnken suggested that the distribution likely follows an 80-20 sort of rule and promised to follow up with specifics.

Mr. Taschner asked whether modeling assumes the cost of Medicare marketplace plans will grow in future years. Ms. Warnken stated that Medicare spending has been growing at a rate of 1.7% since 2010. Secretary Geisenberger stated that the General Assembly always has the option to increase the growth rate of the HRA benefit. Mr. Taschner noted concerns that the General Assembly does not have a history of enacting increases for pensions and that the transition to an HRA benefit may be difficult.

Secretary Geisenberger asked about the potential to budget for 2% growth in the HRA but deposit the potential savings in the OPEB trust fund in years where Medicare Marketplace expense grows at a rate below 2%.

Treasurer Davis mentioned the idea of personal budget smoothing within the HRA accounts and whether the investment proceeds from unspent HRA funds could be attributed to individual HRA accounts. Mr. Taschner asked if administering individual accounts in this manner would create significant burdens. Secretary Geisenberger stated that these mechanics could be further researched for the next meeting, but that the bottom line is that the economies of scale available by going to the Medicare marketplace offer a significant savings over current practices. Mr. Taschner highlighted the difficulties seen in Delaware during the move from the disability pension to a disability insurance plan as the source of his concerns around the transition to an HRA for Medicare eligible retirees. The transition should have a structure which is seamless, understandable, and the retirees need access to information that enables optimal decisions.

Secretary Geisenberger asked if we can learn from the transition experiences of other jurisdictions. Mr. Fyock responded that the HRA model is proven in the private sector, both nationally and in Delaware. This transition has also been made by many public sector organizations including Ohio.

Secretary Geisenberger asked where the HRA value ends up when a retiree is deceased. Ms. Warnken stated the notional account could revert to the spouse or the State. Faith Rentz, Director of the Office of Statewide Benefits, asked if investment earnings from the accounts would also revert to the State. Ms. Warnken stated that, as the HRA is a notional account, to the extent investments are made with funds intended to cover HRA spending, the investment returns should benefit the State rather than the retiree.

Mr. Taschner asked if the increase in premiums over the lifetime of a hypothetical retiree shown on Slide 36 represents the trend in increasing Medicare costs. Ms. Warnken answered that the increase in premiums represents the relative increase in Medicare premiums seen as an individual age and not the trend in average Medicare prices.

VIII. Next Steps

Secretary Geisenberger noted that the next meeting of the Committee is scheduled for March 9, 2020 at 9 a.m. in the Joint Finance Committee Hearing Room. A preliminary report is due to be presented to DEFAC on March 16. The committee should consider on March 9 the outline of the final report to be delivered to the Governor and the General Assembly on March 31, 2020.

Secretary Geisenberger suggested he'd have individual meetings with committee members to consider language the committee could provide to the Governor as a charge to help define future meetings. These meetings would offer the committee time to consider further modeling and detail more comprehensive options and the processes for implementing those options.

Representative Briggs-King asked if the Governor's recommended budget would include additional funding for OPEB in the FY 21 budget. Secretary Geisenberger answered that current Governor's proposal is not going to make any recommendations that would significantly improve the long-term liability. The Joint Finance Committee may still decide to make a one-time contribution to the OPEB trust. Secretary Geisenberger stated that entities concerned about the long-term liability are unlikely to be swayed by incremental or one-time measures that do not address the structural issue.

Secretary Geisenberger requested that the committee members e-mail him about any issue or model that should be considered at the next meeting and thanked the staff of Cheiron, Willis Towers Watson, PFM, and various state organizations for the work they have been doing for the committee.

IX. Public Comment

There was no public comment

X. Adjournment

A motion to adjourn was made and seconded and passed unanimously. The meeting adjourned at 3:35 p.m.

Respectfully Submitted by Jamie H. Johnstone

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[1] Presentation slides are available the Department of Finance's website at: https://finance.delaware.gov/financial-reports/committee-reports/ under Retirement Benefit Study Committee.