

Minutes of the Retirement Benefits Study Committee

December 10, 2019 - 1:30 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
David Craik	Director of the State Office of Pensions
Faith Rentz	Director of the Office of Statewide Benefits and Insurance Coverage
Colleen Davis	State Treasurer
John Mitchell	Delaware House of Representatives
Ruth Briggs-King	Delaware House of Representatives
David Sokola	Delaware State Senate
David Lawson	Delaware State Senate
Mike Begatto	Executive Director, AFSCME, Council 81
Aaron Klein	Senior Vice President & Director of Performance and Analysis, WSFS
Jeff Taschner (Represented by Judy Anderson)	Executive Director, Delaware State Education Association

Others in Attendance:

Joanna Adams	Bill Oberle
Jane Cole	Stephanie Scola
Kevin Fyock	Margaret Tempkin
Jamie Johnstone	Rebecca Warnkin
Michael Nadol	

I. Call to order

Secretary Rick Geisenberger called the meeting to order at 1:30 p.m.

II. Introductions

Secretary Geisenberger asked the attendees to introduce themselves.

Secretary Geisenberger added that David Craik is retiring after 32 years of service to the State of Delaware. Mr. Craik added that at the next meeting, Joanna Adams, who has been appointed the new Pension Administrator, will be attending the next meeting.

III. Approval of the Minutes of the Meeting of November 12, 2019:

Minutes Approved

Secretary Geisenberger introduced the information that would be presented during this meeting. He stated that the information that is being provided at this meeting is to try to give members a “sense of scale” of what changes the needle on the OPEB liability a little versus a lot.

Faith Rentz, Director of the Office of Statewide Benefits and Insurance Coverage, introduced Rebecca Warnkin of Willis Towers Watson and Margaret Tempkin of Cheiron providing that they would be presenting the slides for this meeting.¹

Secretary Geisenberger started the slide presentation by reviewing slide 3 showing the national averages of the evolving “traditional” household over the last 50 years. He pointed out that current retirement benefits were designed to reflect the demographics of households back in the 1970s. Today, there are more women in the workforce, greater higher education attainment by both men and women, more two-earner households, fewer married households, and lower birth rates. These demographics and trendlines are important to consider when looking at how the retirement healthcare benefit systems are set up and any changes that may be necessary.

IV. Demographics of Existing Coverage

Ms. Warnkin started the presentation by reviewing the Demographics of Existing Coverage breaking down the State share that is paid by retirees and their spouses. Ms. Tempkin added that our current retirement plan provides 100% state share after 20 years of service. The graph at the bottom of slide 5 shows the number of service years and the number of employees who retire at those service years. The chart shows a large percentage of retirees that receive retiree healthcare benefits with less than 30 years of career service. Slide 6 reviews the age distribution of retirees and spouses and shows that spouses are generally younger on average than retirees. Slide 7 highlights that 80% of retirees have a Delaware address, nearly 4,000 persons are eligible terminated vested, and a large percentage of spouses are enrolled in pre-Medicare retiree benefits.

V. Spousal Coverage Benchmarking

Ms. Warnkin reviewed slides 9 and 10 which are a “deeper dive” into spousal coverage benchmarking. The top part of slide 9 looks at the eligibility for spousal coverage and eligibility limitations in nearby states.

Director Rentz explained that Delaware’s spousal coverage is driven by the coordination of benefits policy. This policy provides that a spouse who has access to other employer coverage and is responsible for 50% or less of the premium, then must enroll in that other employer coverage. That coverage is primary to the state coverage that the spouse may

choose to enroll in. This does not refuse spousal coverage but determines “who pays first”. Some spouses do not enroll in the state plan while employed elsewhere but may find that Delaware’s coverage is better when they retire. Director Rentz went on to explain that fewer and fewer employers are offering coverage to their retirees and, if they do, the premiums may be high. Therefore, we can expect more and more spouses of retirees to enroll in coverage post retirement.

Ms. Warnkin pointed out some of the variation in spousal benefits among regional states. Pennsylvania does not allow dependent spouses of retirees to enroll in State coverage if they are eligible for coverage through their own employer or retirement plan – regardless of the premium cost. In North Carolina, spouses can enroll but they must pay the full cost of the premium share. In Ohio, pre-65 spouses of retirees pay the full cost of the premium share and Medicare-eligible spouses are not eligible to receive the HRA allowance that retirees receive. Spouses in Maryland and New Jersey generally pay the same premium contribution as retirees – similar to Delaware.

Ms. Warnkin reviewed spousal coordination of benefit detailed counts on slide 10. The slide shows that many spouses with of both Active and Pre-Medicare pensioners are self-employed, part-time employed without insurance, or not employed. Some are also State employees or State of Delaware retirees. Director Rentz explained that the “Research in Progress” column reflects the number of spouses where additional research is required to properly determine spousal eligibility. A Committee member asked how the Benefits Office determines that the retiree/spouse are answering the questions truthfully. Ms. Rentz answered that her office maintains information on many other employers in Delaware and their health plan. However, if they do not have the information on an employer, the Benefits Office requires the spouse to provide a form that must be completed by their employer. Absent submission of appropriate forms, spouses have their coverage reduced to a 20% medical benefit and no prescription coverage.

VI. Sample Actuarial Calculations and their effect on the Liability

Ms. Warnkin went on to review slides 11 thru 20 that provided a detailed overview on the Medicare Marketplace and some illustrative scenarios to reduce the OPEB liability. Illustrative scenarios are summarized in slide 15 which shows a very large increase in the OPEB liability from \$8.7 billion to \$36 billion over the next 30 years without program changes. Program changes such as Medicare Health Reimbursement Arrangements (HRAs) could have significant impacts toward immediately reducing the liability and limiting its future growth. The same holds true for changing spousal subsidies with smaller impacts. Program changes to add small deductibles have little to no impact on the liability.

Once Ms. Warnkin finished reviewing these slides, the Committee Members were asked whether they had any thoughts, questions, etc. on these scenarios that were just reviewed.

Some of the scenarios were questioned as to whether it was worth showing as they either didn’t have much of impact or seemed difficult to implement. Secretary Geisenberger

responded that these are still things that need to be discussed. Anything that takes us from one type of a slope to another type over time as other measures grow, he believes would ultimately be viewed positively. Obviously, some of these scenarios don't change the slope in a dramatic way and some change it dramatically. Ms. Tempkin added that these scenarios were run at the mandated 3.5% discount rate. If the State gets to specific funding and design decisions, it eventually would be allowed to use a much higher discount rate which lowers the liability even more.

Another Committee Member noted that this must be a multifaceted process and that today's presentation is focused on benefit design. She looks forward to seeing some of the other types of scenarios as well. Secretary Geisenberger agreed that there are many facets to this process -- benefit eligibility, benefit design, funding, the allowed actuarial discount rate etc. By taking actions in each of these areas, the overall reduction in the liability would be easier to achieve.

A Committee Member asked about the demographics slide that was shown at the beginning showing trends and asked if we are making assumptions that all these types of trends will be continuing. Ms. Tempkin confirmed that yes, the population is assumed to follow the same assumptions that the pension plan uses -- that is, the actuarial calculations are based on actual experience and the most current estimates of life expectancy.

VII. Work-in-Progress Items for Future Meetings

Ms. Warnkin continued with the presentation of slides 22 and 23 regarding the work-in-progress items. She also stated that these could be considered in combination with each other. With respect to "increasing the minimum age..." under eligibility changes, one way that has been discussed is some sort of healthcare premium share that changes with age when retired similar to the pension plan reduction with early retirement. Ms. Tempkin added that the "retiree subsidy formula changes" is like the HRA that has been previously modeled for post-65 retirees, but this would be for pre-65/pre-Medicare retirees.

Ms. Tempkin also spoke about "Funding Changes" and demonstrating an example where if you made changes to benefits today, you could take the savings from that change and commit to deposit the savings into the OPEB trust. This concept will be modeled at one of the future meetings.

Secretary Geisenberger asked the Committee members whether they were comfortable with these being the next items to be modeled for the next meeting. He also asked if there were any other specific items that members would like to see modeled and requested that members provide any suggestions in an email to Secretary Geisenberger.

Representative Mitchell stated that he would like the Committee to hear a presentation by SurgeryPlus and the group from Johns Hopkins, that was presented to the State Employee Benefits Committee ("SEBC") previously. He added that as part of this the Committee Members must make an informed decision and he thinks having these two groups come

in would be helpful. As Chair of the SEBC, Director Jackson advised that he does not oppose having a short presentation on the SurgeryPlus program or other cost-containment initiatives at a future meeting. But he also pointed out that these programs are under the purview of the SEBC. To the extent that health care cost-containment programs can help with healthcare inflation it certainly helps OPEB. But as shown at previous meetings, healthcare inflation is not the largest contributor to our current or future OPEB liability. If this Committee wants to consider cost-containment factors, the Committee should also consider other factors that impact costs such as cost sharing.

Secretary Geisenberger said he would work with Director Jackson and Director Rentz on a presentation on SurgeryPlus and other cost-containment initiatives.

Representative Briggs King asked whether there are any of the models that all the Committee members would agree could come “off the table” now. For example, the scenario on slide 19 showing an HRA with no annual increase was one she felt all could agree could be removed at this time. Director Jackson disagreed with removing any of the scenarios at this time as it may be good to see these different models at least for illustrative reasons, which helps see how big this challenge really is. Further discussion was had on this matter and no decision was made to remove any models at this time.

Treasurer Davis stated it would be helpful to better understand how each model affect an individual household. Ms. Warnkin added that if it would be helpful for the Committee (as they only showed high level numbers today), they could come back with the entire spectrum of the State of Delaware retirees and what they would be paying under those types of configuration across the full spectrum of ages. Secretary Geisenberger added that he would like to see “what this means to someone who is 65 to 95 years old”. Ms. Tempkin added that these numbers were done in the last presentation, but they could put in the HRA plan and see how that would impact the retiree.

Secretary Geisenberger wrapped up this discussion and stated that at the next meeting they would show additional models. Household and lifestyle impacts would be modeled for future presentations.

There were no further comments from Committee members.

VIII. Remaining Committee Meetings

January 7th at 1:00 p.m.

March 9th at 9:00 a.m. – preliminary report draft review

IX. Public Comment

No public comments

X. Adjourn

A motion to adjourn was made and seconded and passed unanimously.
The meeting adjourned at 2:58 p.m.

Respectfully Submitted by Bobbi DiVirgilio

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