

Minutes of the Retirement Benefits Study Committee

November 29, 2021 - 10:00 a.m.

Anchor Location: JFC Hearing Room, Legislative Hall, Dover, DE
and Virtual

Committee Members Represented or in Attendance:

Rick Geisenberger (virtual)	Chair, Secretary of the Department of Finance
Cerron Cade (virtual)	Vice Chair, Director of the Office of Management and Budget
Ruth Ann Jones (virtual)	Controller General
Joanna Adams	Director of the State Office of Pensions
Faith Rentz (virtual)	Director of the Office of Statewide Benefits and Insurance Coverage
Colleen Davis	State Treasurer
Ruth Briggs King	State Representative
Trey Paradee	State Senator
Judy Anderson for Jeff Taschner (virtual)	Executive Director, Delaware State Education Association

Others in Attendance:

Chris Giovannello, Willis Towers Watson
Marianne Steger, Willis Towers Watson
Rebecca Warnkin, Willis Towers Watson
Margaret Tempkin, Cheiron
Bert Scoglietti, Controller General Office
Jordan Seemans, Office of the State Treasurer (OST)
Wayne Emsley, Delaware Retired School Personnel Association (DRSPA)
Liza Davis, OST
Matthew Rosen, OST
Courtney Stewart, OMB
Kristin Dwyer, DSEA
Ned Landis
Steve Schwartz
David Taylor
Sean McNeeley, Dept. of Finance (DOF)
Bobbi DiVirgilio, DOF

I. Call to order

Secretary Rick Geisenberger called the meeting to order at 10:06 a.m.

a. Introductions

Secretary Geisenberger welcomed everyone to the meeting. Roll call was taken.

b. Approval of the Minutes of the Meeting of October 25, 2021:

Minutes were approved

Representative Briggs King shared the following comments: Over the past few weeks, she has had the opportunity to meet with a few current and retired State employees about their benefits. She pointed out how the employees do realize just how good the State benefits package really is.

II. State Employee Benefits Committee (“SEBC”) Status Update

Secretary Geisenberger provided that the Retirement Benefits Study Committee (“RBSC”) can only make suggestions and recommendations to the SEBC on Medicare plan selection and other plan design options, as the SEBC are the ones who ultimately make the changes. He also pointed out that there are five “crossover” members between the SEBC and RBSC inclusive of the Department of Human Resources represented by the Director of Office of Statewide Benefits and Insurance Coverage on the RBSC.

Director Cade provided that there has not been a determination made by the SEBC at this time and they are continuing to have conversations on these matters.

Director Rentz provided that specific recommendations for the Medicare plan options will be made to the SEBC during the December 2021 meeting. These recommendations will be that the committee consider further evaluation of the Medicfil and Medicare Advantage Plan to reach a conclusion on what plan and which plan administrator (either Aetna or Highmark Delaware) will administer the benefits for January 1, 2023, or January 1, 2024. They would like this be decided upon by the end of February or March 2022.

Secretary Geisenberger added SEBC is looking at an RFP that included some pricing of what Medicare Advantage would look like. The difficult question for the SEBC is if you are going to make one change, should they make all of the changes at the same time. The SEBC will need to decide on this one way or another by March 2022 if there are going to be certain changes.

III. 2021 Actuarial Valuation Review

Secretary Geisenberger introduced Margaret Tempkin of Cheiron, who presented slides related to the 2021 Actuarial Valuation Review. Secretary Geisenberger added that Cheiron updates its core set of demographic assumptions, which was done this year (first time in five years).¹

Ms. Tempkin read through the slides (19 through 25) providing the following highlights:

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

- OPEB Changes Since 2020 Valuation: When Cheiron does the valuation of participation data, they do a comparison between the prior and current year. Part of the reason of the 1.8% increase in the inactive counts is probably caused by employees retiring due to COVID earlier than what was initially expected, and those positions not being replaced quickly, in part due to the challenges of COVID. Next year, we may see an increase in the Active counts because of this. Claim curves are done every two years and this year they just did a roll forward assuming what the trend would be, and these will be updated next year. One of the bigger changes in the demographic assumptions is that the updates to the mortality table used public sector employee mortality data rather than all workers. She reminded the group that a lower Discount Rate also increases the liability.
- Key Results – State OPEB: We are currently 6% funded on the Market Value Ratio due to extraordinary returns in the equity markets for the OPEB Trust Fund which is managed through the State Pension Board. This is an improvement from the previous year of 4.5%. The plan is currently covering almost 76,000 retired employees.
- OPEB Historical Review – Assets & Liabilities: The table under the graph shows what the Discount and Funding Rates are for analysis. The Discount Rate now is based on the Bond Buyer Rate for 20-year bonds. If the OPEB Trust Fund had enough assets and future contributions, then we could use a higher Funded Rate, similar to the pension plan assumption. The graph shows how the value of the Discount Rate effects the Liabilities.
- Baseline Projection – Funding Valuation: This slide shows where the fund is expected to go. The liabilities are expected to grow over the next 20-year period to approximately over \$24 Billion and the assets barely reach \$4 Billion. This shows that in 20 years, barring any changes to funding, plan design or eligibility, the State can be expected to have a \$20 Billion unfunded liability. The Assumed Healthcare Trend cost growth numbers are conservative.
- GASB 74 FY2021/GASB 75 FY2022: This is financial information that is provided to the Dept. of Finance that shows a reconciliation from one year to the next year.

IV. Updated Reform Estimates

Secretary Geisenberger presented the slides regarding “Updated Funding and Benefit Options” (slides numbered 5 through 7). The table shown on slide 6 represents what the valuations would be 30 years from now doing these different funding and benefit options. What we have determined over the last several meetings is that if we looked at additional funding of a 1% carveout against the Budget Benchmark of the prior year, set aside each year for the OPEB Trust Fund, and applied this over the 30 years, OPEB would be 51% funded. If all of the funding, benefit and eligibility design changes were adopted (a scenario unlikely to occur), not only would we solve the problem of a severely underfunded OPEB Liability, but it would be pretty much resolved “overnight”. The chart on slide 7 shows the timing of when the funding ratio would reach levels where the State could begin to assume the lower Discount Rate.

Treasurer Davis added that as a Bond Issuing Officer she is concerned by the rating agency views on the State's OPEB liability and AAA rating. Her focus is on being financially responsible, but she also thinks that the projections appear that achieving a significant improvement to the unfunded liability is actually achievable. She went on to add that for her, the details on how to get this done are going to be important, and the "human" factor needs to be considered, who are the people that this will impact and how. Secretary Geisenberger responded that the potential impacts on employees are things that have been discussed in previous meetings and items that we can discuss in more detail at future meetings.

Secretary Geisenberger provided that there will not be a meeting December 2021 and plan to have the next meeting in January 2022. Hopefully will have more decisions from the SEBC by that time.

Representative Briggs-King inquired whether bargaining units have contracts containing language regarding pension or benefits, although there is no legal requirement for Delaware to maintain healthcare coverage. Secretary Geisenberger responded that his understanding is that healthcare benefits are determined for retirees from year to year and design is determined by the SEBC and that the eligibility is determined by State law. Nothing that has been discussed in these meetings will change without the State law, plan design and budget policy changing. Some further discussion was had on this matter.

**V. Guest Speaker: Wayne Emsley
Delaware Retired School Personnel Association (DRSPA)**

Wayne Emsley read through the DRSPA slide presentation providing their position on this matter. Mr. Emsley also provided a copy of the DRSPA "Position Paper – Long Term Retiree Benefits Changes" to be provided to the RBSC.²

Treasurer Davis' comment was around the challenge of hiring new employees – what impact do we see on the overall funds if the number of employees drop over time. This is another piece that is hard to put a number and really "pin" down, but definitely another consideration.

Joanna Adams asked Mr. Emsley if he could clarify the number 8 under "Further Areas/Items" in his presentation – the rate listed in that statement is the healthcare rate, not the pension rate. Mr. Emsley stated that was correct.

Secretary Geisenberger thanked Mr. Emsley for his presentation and provided that the committee will take a look at all of the various recommendations that DRSPA made and will pull together some reactions. These reactions would range from "yes we will take a look at these and understand the financial impact would" but some of these are not administratively feasible and some are not feasible from a budget perspective. But many

² DRSPA Presentation slides and handout are available the Department of Finance's website at: <https://finance.delaware.gov/financial-reports/committee-reports/> under Retirement Benefit Study Committee.

are of them are things that they can and should look at as alternatives. This was an agreeable plan to the Committee.

VI. Next Steps

By the January meeting, the RBSC will have information on the Governor's Recommended Budget and some additional updates on the SEBC's progress – both of which could have material impacts on future RBSC recommendations.

Secretary Geisenberger added that at the last meeting there were discussions around doing an employee/retiree survey. This will be further discussed at the next meeting including the idea of using Survey Monkey as a potential tool. We will also work with Maryann Steger to learn how Ohio did its survey. We do not want to create a huge job for the Pension or Benefits office or create any unnecessary concern for retirees or active employees, so clarity about the reasons for any such survey will be important.

VII. Public Comment

No Public Comment

VIII. Adjournment

A motion to adjourn was made and seconded and passed unanimously.
The meeting adjourned at 11:42 a.m.

Respectfully Submitted by Bobbi DiVirgilio