Minutes of the
Retirement Benefits Study Committee

September 27, 2021 - 10:00 a.m.
Anchor Location: JFC Hearing Room, Legislative Hall, Dover, DE
and Virtual

<u>Committee Members Represented or in Attendance:</u>

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

Others in Attendance:

Chris Giovannello, Willis Towers Watson
Rebecca Warnkin, Willis Towers Watson
Margaret Tempkin, Cheiron
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
Sean McNeeley, Dept. of Finance (DOF)
Bobbi DiVirgilio, DOF

I. Call to order

Secretary Rick Geisenberger called the meeting to order at 10:05 a.m.

a. Introductions

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

Secretary Geisenberger advised the Committee Members that there is a report due to the Governor at the beginning of November 2021. This meeting will focus on options both for funding and benefit modifications, with the goal of reaching consensus around what the Committee's goals are in reducing the OPEB liability.

Secretary Geisenberger introduced Sean McNeeley, the Director of Bond Finance in the Department of Finance, to the Committee.

b. Approval of the Minutes of the Meeting of August 30, 2021:

Minutes were approved

II. Discuss OPEB Funding Goals

Sean McNeeley presented slides 3 thru 5 regarding the goal setting for the OPEB Funding. Director McNeeley began by providing that the criteria specified in the Executive Order is in "broad" terms about reducing the OPEB liability, addressing the Rating Agency concerns and the increasing share of the budget attributable to health care benefits, while also making changes that are transparent to employees and retirees. Therefore, they wanted to revisit goals, because setting more specific goals can help provide context for deciding on specific reform actions. He went on to read through slide 3 providing the example from the City of Oakland. The following questions were asked of this slide by the Committee Members:

- Representative Briggs-King questioned whether the term "career employee" has been defined for Delaware. Director McNeeley provided that it would be a discussion based on the State, what's the State's benefits have been and who receives coverage going forward. Not necessarily so much following the City of Oakland but following the State's model and the benefits that have been provided in terms of years of service and minimum age, which is definitely something that should be considered. Secretary Geisenberger provided that the Pension Plan has defined what a "career employee" is as related to receiving pension benefits, and we would have to decide on this same thing for eligibility for medical benefits as well.

Secretary Geisenberger asked the Committee whether they were comfortable with the objective statement listed on slide 3, recognizing that certain things may require additional clarification as to what is meant by a career employee, etc.

- Senator Paradee questioned that in a past meeting it was intimated the bond rating agencies had expressed concerns about where we are, have these agencies made any suggestions or recommendations on this, i.e., here is where you are and here is where we would like to see you at 5, 10 years down the road? Secretary Geisenberger answered that although they have asked the bond agencies this question, they will not answer it specifically. Basically, the bond agencies look at all 50 States' ratios of OPEB costs relative to population, personal income and GDP and Delaware's numbers are substantially higher. They still have us at a AAA rated State, but that rating is at risk because of the overall liability levels. This is because our debt is modestly higher than most other States, the unfunded pension liability is relatively small, but the OPEB liability is very high. The bond agencies look at this trend and basically say that if this is not addressed, eventually our rating will be downgraded because it adds risk to our ability to pay for our debts.

- Representative Briggs-King added that this is likely to become a bigger challenge looking to the future as Delaware has a significantly older population. When you take this out a few years, you will see that there are far more retirees at this time (State and non-State employees) and a much smaller workforce, which puts pressure as well on wages and benefits. One of the things that she sees is that the State needs to be more diligent in making more and regular contributions to this.

Director McNeeley continued his presentation by reading through slide 4. Secretary Geisenberger commented on slide 4, that it has been proven over these many meetings is that the goal of reducing the unfunded liability is very hard to achieve with any one single action unless that single action were to be "radical" which is neither desirable nor feasible. However, the scenarios that do get you to the goal can be achieved through more modest changes that attack the issue by a significant funding increase and make one or more changes to eligibility or plan design to get to this goal.

Senator Paradee asked whether the funding goal is to be 100 percent or to be at an average funded ratio, and what is the average funded ratio. Secretary Geisenberger answered that it depends on what benefits are offered and not offered. There are many States and jurisdictions that because they don't offer a benefit or that benefit is offered as access only but not paying 100% of the active employee's premium, the liability is relatively low and therefore the funded ratio is relatively high. Then other States that have the same general benefit levels as Delaware generally have a very low funding ratio like we do. Senator Paradee stated that he is looking for the advice and opinions on what the goals should be. Secretary Geisenberger added that at a minimum we should have a goal of reaching a point where the fund would not be fully depleted over a 30-year actuarial life. That is where actuarially you have enough set aside in advance in the OPEB trust fund to begin to assume a higher return (discount rate) on the funds/liability. Being able to assume a higher discount rate is a major key to reaching the goal of lowering the net liability.

Director McNeeley added that the benefits for OPEB across the county are typically easier legally to modify than for pensions, so that gives you more flexibility in the event of an emergency. In the last few years, the Government Finance Officers Association did adopt a best practice funding policy that set for OPEB a goal should be set off 100% over 30 years. In terms of where most States are, the average funding ratio for all States is calculated through fiscal 2020 at about 22%, with some States much higher and a lot of States in the zero to 10% range that they want to see starting to get on a path to progress. Secretary Geisenberger added that our State's funding ratio is around 4 ½%.

Director McNeeley went on to review slide 4 providing some draft goals and scenarios that have been discussed in the recent months. Looking at the 1% additional funding that has been discussed with some benefit reform options and a combination of those can hit these targets over time. This would be an achievable goal of setting a path to reach a 40% funded ratio and employer contributions to 100% in 20 years. As part of this objective, we want to discuss whether we want to formalize the approach that we are addressing this with both funding and benefit changes.

- Bert Scoglietti asked if there are clear criteria for when higher discount rates can be applied to the actuarial calculations. Director McNeeley stated that yes, the actuary is able to apply higher discount rates when there is a history and policy of contributing a certain amount of funding, and in addition to the contributions there are assets available in the fund to cover benefit costs. Secretary Geisenberger added that this reflects that it is more important over time to consistently be at a point where you are funding 100% of the contribution than it is to actually reach a 100% funded ratio. He stated that he thought there was a consensus of everyone on the committee from the very beginning that actuarially the State will have to approach this from both angles (increase funding along with some benefit modifications) and the commitment should be matched on both sides.
- Judy Anderson asked for clarification on the annual savings bullet point on slide 5, which Director McNeeley and Secretary Geisenberger provided.
- Bert Scoglietti asked whether there is a threshold that we need to meet on increasing funding ratios. Director McNeeley stated that these would be more of an incremental increase over time. Secretary Geisenberger added that he is unsure whether these objectives are sufficient on their own, in terms of how they will be viewed if they were looking at the OPEB trust fund on standalone basis. He does think that this level of a goal is feasible. In combination with the conservativeness of how Delaware handles the pension fund (annual funding of 100% of the Actuarially Determined Contribution) and debt (consistently following statutory rules that limit debt service), these goals for OPEB would create a good and fiscally sound story that would likely continue to maintain a AAA bond rating.

Director McNeeley continued with his review of slide 5 with regard to the benefit eligibility changes applying to employees not yet retired. Anyone who retired as of a certain effective rate would not be impacted by a change in spousal coverage.

- Representative Briggs-King stated that we also need to look at how does this look for those retire from one state job and go to another. An example of this would be a State Police Officer who retires from the State Police but is young enough to start another job within the State. Secretary Geisenberger clarified that we are not looking at changing anything with the pension fund, this is to look at the healthcare funding. Representative Briggs-King asked for a clarification on the information Director McNeeley discussed earlier regarding the local school districts. How is the funding for the healthcare and other benefits occurs after an educator retires, does the State pay the same portion as to when they are active? Director McNeeley answered that the State generally is paying all of the costs after retirement.

Director McNeeley reviewed the remaining draft goals that are up for discussion. The things that have not been discussed as much in past meetings is the different populations impacted by the reform options – the individual marketplace and HRA concept addresses just the Medicare population and coverage, the minimum age addressed pre-Medicare. The amount of people that are in the pre-Medicare group is much smaller than the Medicare group, yet the costs/premiums are much higher for the pre-Medicare, per-person. That pre-Medicare coverage is equivalent to one third of the liability over time. Therefore, the question is whether we want to consider a more balanced approach that addresses both Medicare and pre-Medicare coverage. The last draft goal asks whether it would make sense to consider some type of way of limiting the cost or growth in cost overall, which in addition to the marketplace / HRA concept for Medicare would imply some type of design change for the pre-Medicare group. There is an example of a cost threshold in the City of Oakland's approach that triggers consideration of benefit changes. State Treasurer Davis commented that setting a limit/threshold is a good concept to consider, but her question is what that would look like.

Secretary Geisenberger explained that we have a report due to the Governor November 1st to help instruct the Governor's recommended budget and there is another report due in March to the General Assembly. Sometime in the next month we need to figure out a rough framework for this report. He added that he was unsure as to what the best methodology is to do this – should it be done in the meeting, he can have one-on-one meetings with each member or circulate language and then let each member respond, etc. State Treasurer Davis thought that it would be helpful for language to be circulated to each member and let everyone provide feedback on it.

Secretary Geisenberger asked the committee members if they have any concerns with regard to the overall objective as stated on slide 3. He added that he thinks this reflects the general consensus of the committee that whatever we do is something we need to be able to afford, needs to be something we can do each year for sustainability, need to be competitive in the workforce, secure retiree healthcare (not eliminate it), etc. He asked whether the committee agrees with this as a statement for the broad objective, providing that they do not have to answer now. He also asked whether anyone was concerned about the idea of setting a goal as listed on slide 5 in that 20-year period, so that we are progressively making our way toward it, with a trigger that if you are not meeting it, you reconvene this committee to address it. Secretary Geisenberger added that everyone can also agree that a benefit eligibility change to someone who is already retired is not something the committee wants to do.

- State Treasurer Davis added that those are reasonable expectations.

III. GHIP Plan Design Options

Chris Giovannello of Willis Towers Watson presented slide 6 which shows some plan design considerations for the Medicfill plan. This was modeling that was requested during last month's meeting. Secretary Geisenberger pointed out that all of these things are not up to this committee, as they may be up to the State Employee Benefit Committee

("SEBC") which designs the benefit plans. These are not eligibility issues, these are "how does the current plan work" and "how is it designed". Mr. Giovannello confirmed that each of the numbers listed under the Plan Design Change deductible, with the exception of Rx, are currently zero. He also confirmed that these numbers factor in utilization.

IV. Additional Review of Benefit Options

Secretary Geisenberger read through presented slides 7 through 11 to get a discussion around each of these various alternatives that we have talked about -- who would be impacted, when would they impacted and what are the potential ranges. The following is the discussions/questions that were made by the committee members:

Reduce Spousal Subsidy (slide 7)

- Representative Briggs-King: When talking about future retirees, what percentage of that is our workforce? Secretary Geisenberger provided that the State has 30,000 active employees, with 20,000 who have spousal coverage. Representative Briggs-King stated that maybe we need to find out the exact number of employees whose spouse may choose to get coverage at one point even though they don't have it now. Director Rentz provided that they can follow up on the specifics of this question. She also stated that she would agree that we currently have approximately 36,000 benefit eligible active employees (including executive branch and school districts), so that is probably why only we cover only about 60%. They can follow up on the spousal policy and what that looks like on the primary and secondary coverage.
- Bert Scoglietti asked whether if a spouse passes away and the employee remarries, do we cover the new spouse. Secretary Geisenberger answered that we cover any spouse that an employee has. Mr. Scoglietti stated that on the pension side, when a retiree passes away, the survivor's benefit is reduced. Not sure if that option would be applicable here. The spouse would still be eligible but at a reduced rate.

Graduated State Share/Years of Service (slide 8)

- Jodi Wedel added that in January 2007 the pension changed time periods of tiers of coverage. Which if this date is picked for the benefits side, it would coincide with the pension plan.
- Senator Paradee stated that this would have it more aligned with the State's pension plan.

Eliminate Future Term Vested (slide 9)

- Secretary Geisenberger added that this option would keep employees from retiring from State employment and going to another employer and keeping their healthcare with the State.

Minimum Age Required (slide 10)

- Secretary Geisenberger added that this option targets the pre-Medicare eligibility changes.

Secretary Geisenberger asked the committee members what the process for further discussion on these options would be:

- Senator Paradee asked whether any of the changes would need legislation. Secretary Geisenberger answered that all of these would require legislation. This is the opportunity to make the recommendations to the Governor, so the Governor can make a proposal to the legislature.
- Representative Briggs-King provided that we need to be thinking strategically as well as she mentioned earlier on the workforce and retention rate; thinking about the potential impact this may have because there are many employees who will work for a less salary for the better benefits. She also asked whether there have been any employee satisfaction surveys done regarding employee benefits. Director Rentz stated that they have not surveyed employees or had discussions with other Delaware employers specific to the employee satisfaction. But does think it is something that potentially can be considered recommending that we do it to evaluate the benefit options. Secretary Geisenberger added that there have been wage surveys that show State wage salaries are not comparable to the private sector, but with benefits (total compensation) is more than comparable (health, pension, etc.).
- Judy Anderson stated that she thinks the employer would have the responsibility to educate the employees on this. Secretary Geisenberger stated that you could undertake these efforts through focus groups not an individual survey to each employee. At the end of the day, what makes the most sense to understand how these changes impact recruitment and retention of as much of the workforce as possible.

Mr. Giovannello presented slide 11 which shows a long-term illustration of a 65-year-old retiree in the individual Medicare marketplace. Secretary Geisenberger added that this illustration is assuming that everyone purchases the most expensive plan, a lower utilizer/younger retiree can choose a cheaper plan.

V. RBSC Presentation to State Employee Benefit Committee (SEBC)

Secretary Geisenberger reviewed the presentation that he is planning on presenting to the SEBC at their meeting in October 2021. This same presentation can be used for the Retired/Active Employee Groups as well.

VI. Next Steps

Secretary Geisenberger discussed the next steps for the Retirement Benefits Study Committee as follows:

- A draft preliminary report for November will be circulated for discussion at the October 25 meeting. The funding piece could potentially be part of the Governor's recommended budget for FY2023. The SEBC will ultimately calculate what the current pay go costs are for active and inactive employees in healthcare for inclusion in the FY2023 budget. The OPEB portion is up to the Governor's budget as there is no state law. These are the two pieces that need to be part of the Governor's recommendations.

VII. Public Comment

Wayne Emsley – First he commended Secretary Geisenberger and the committee members for what he thinks is a very clear presentation of the situation and a number of alternatives for the long term. He would like to continue to offer an invitation for Secretary Geisenberger to come to their Board meeting and do a presentation. He asked whether there has been an opportunity to consider legislative changes that would reduce the long-term actuarial contributions.

Secretary Geisenberger stated that he would be happy to present at their Board meeting. As far as removing the liability, he does not think that you can statutorily get rid of it as it is required by Generally Accepted Accounting Practices (GAAP). The efforts of the RSBC will hopefully guide legislative changes to reduce the long-term liability or at least its exponential rate of growth.

VIII. Adjournment

A motion to adjourn was made and seconded and passed unanimously.
The meeting adjourned at 12:20 p.m.

Respectfully Submitted by Bobbi DiVirgilio