DRAFT

Minutes of the
Retirement Benefits Study Committee
DRAFT

March 24, 2022 - 10:30 a.m.
Anchor Location: JFC Hearing Room, Legislative Hall, Dover, DE
and Virtual

Committee Members Represented or in Attendance:

Rick Geisenberger	Chair, Secretary of the Department of Finance
Cerron Cade (virtual)	Vice Chair, Director of the Office of Management and Budget
Ruth Ann Jones	Controller General
Joanna Adams	Director of the State Office of Pensions
Faith Rentz (virtual)	Director of the Office of Statewide Benefits and Insurance Coverage
Michael Begatto (virtual)	Executive Director, AFSCME, Council 81
Dan Madrid (virtual) for Colleen Davis	State Treasurer
Ruth Briggs King	State Representative
Trey Paradee	State Senator
Jeff Taschner (virtual)	Executive Director, Delaware State Education Association

Others in Attendance:

Chris Giovannello, Willis Towers Watson
Rebecca Warnkin, Willis Towers Watson
Margaret Tempkin, Cheiron
Bert Scoglietti, Controller General Office
Wayne Emsley, Delaware Retired School Personnel Association (DRSPA)
Judy Anderson, Delaware State Education Association
Marion Coker
Jeannette Hammon
Jason Smith
Stephanie Tatman
Sean McNeeley, Dept. of Finance (DOF)
Bobbi DiVirgilio, DOF

I. Call to order

Secretary Rick Geisenberger called the meeting to order at 10:31 a.m.

a. Introductions

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

b. Approval of the Minutes of the Meeting of February 28, 2022:

Minutes were approved with amendments

II. SEBC Update

Director Rentz provided the SEBC update stating that Highmark has been awarded the Medicare Advantage contract effective 2023. They are currently in discussion regarding the education portion of this change. The initial communication regarding this change will be issued in late Spring with notices to retirees. Communications will provide dates and times for sessions for retirees to attend. These sessions will be led with the Pensions Office, Benefits Office and Highmark. These will shift to specific enrollment information sessions around the Medicare Open Enrollment period. Fact sheets will be made available for members of the SEBC, RBSC and General Assembly which will include a cross section of information. The CVS Silverscript Medicare Part D prescription plan will remain.

Senator Paradee suggested that they work with the communications department for the four caucuses of the General Assembly. He also suggested an information session for the General Assembly, so they know and are aware of the changes.

Representative Briggs King asked what some of the pensioner advantages are with this change. Director Rentz responded that pensioners that pay no premiums will see no change in premium costs. However, those pensioners subject to a 5% cost share (persons who retired after 2011) will see a modest reduction in their out-of-pocket premiums. And pensioners that did not fully vest in a 100% State share benefit will see significant reductions in their premiums that will make the Medicare Advantage plan far more affordable and accessible than the Medicfill plan. Other advantages for pensioners will include access to fitness plans and assistance with managing health and wellness.

III. Review of Benefit Options: Additional Actuarial Estimates

Secretary Geisenberger presented slides 3 through 8 providing a review of additional actuarial estimates.[1] Secretary Geisenberger began by reading through the charts on slides 4 and 5 that were presented at past meetings (November 2021 and February 2022). These charts show how the funding ratio can be affected over a 30-year period of time with the different changes that could be made. The goal is to have something that looks more like the pension fund over a period of time. Secretary Geisenberger went on to review slide 6 which provides a table that shows what would happen without the budget carveout of 1% in comparison to annually funding the 1% budget carveout. The budget carveout was included in the Governor's FY23 Recommended Budget but is subject to the General Assembly's approval of the language in the final budget.

Secretary Geisenberger went on to review the chart on slide 7 which was designed to show what happens with or without the carveout and including and excluding terminated vested. Director Adams provided that in pensions, a "terminated vested" is a person who worked long enough for the State to be eligible for a pension in the future. When that person left State service, they weren't eligible to immediately collect their pension, but they are eligible to receive their vested pension at age 62 or 65. Secretary Geisenberger provided an example of an 18-year-old who was hired in 2012. After 10 years of service, by this year they would become vested for a pension. If they worked another 5 years for the State until the age of 33, the person would "vest" in a 50% state share of healthcare. If they worked 10 years more for the State until the age of 38, they would vest in a 100% state share of healthcare. If they left state service at either of those young ages, they would not get healthcare at that time, but would be "terminated vested" and become eligible when they can begin to draw their pension for either the State's Medicare plan or the State's pre-Medicare plan -- that is, eligible to get a very rich health benefit at minimum cost for a job that they held many years prior. The idea is to look at how much the State wants to lock in a permanent liability for a person who only works for the State for shorter periods early in their career. At this time, younger generations appear to be looking for more money in their base salary and are not as concerned about what health benefits they may get 30 years from now. It would actually be more cost-effective for the State and its taxpayers to pay the employee more money today rather than pay such a significant healthcare liability in the future. The chart on slide 7 shows how much this would move the "needle" within these various changes. Director Adams emphasized the fact that part of the goal in the OPEB liability is to minimize the impact to pensioners and current employees. By eliminating healthcare benefits for the vested employees, since they no longer work for the State, you are not affecting the current employee and retirement population. Such a policy change could also leave open the opportunity (and incentive) for persons to return to state service to earn a healthcare benefit when they retire.

Secretary Geisenberger went on to review slide 8 which was designed to show the impact on the OPEB liability with the funding and benefits options (previously discussed) and when we might see to that effect. The question is when you get to switch from the current OPEB discount rate that reflects a massive unfunded liability (using the current 20-year bond rate of 2.16%) to being able to use the current discount rate of 7% used by the pension fund reflecting a well-funded liability. Once you switch to the 7% discount rate because the liability is a lot closer to being properly funded, that is when you see a big drop, and this is when it will show that we really flattened the curve. With some of these options, it will take 13-14 years of consistent effort and some of the options it could happen in less time.

IV. 2005 Retirement Benefits Study Report

At a previous meeting, some members of this Committee questioned if we did some of things that were recommended in the 2005 report, why is the OPEB liability four times bigger than it was when this report was completed. Secretary Geisenberger provided that when the analysis for this report was completed, they used an 8% discount rate, they did not use the 20-year bond rate. They knew that this might happen under the future GASB Accounting Rules, but they did not know for sure. Their estimate of the liability in 2005 was $3.1 Billion and there was mention in this report that if you could not use the 8%

discount rate, they thought the liability might become three times higher (which would be $9.3 Billion). In other words, the gap between that $9.3 Billion estimate and our current $10.8 Billion liability is not as big as what we originally thought.

The 2005 Committee used the 8% rate and essentially recommended no single solution. The 2005 Committee did come to conclusions that are not inconsistent with this current Committee. For example, 1) they agreed as a Committee that "pay-go" funding was not viable for the long term; 2) that the pension fund methodology of partial funding was acceptable as long as the "ramp up" period would not be excessive; 3) they concluded that a State appropriation to fund a portion of the Actuary Required Contribution (ARC) should be a large part of the solution; 4) they recommended that a multi-year plan be put into place; and 5) they recommended that the SEBC should take the OPEB liability into account when making changes to retirees healthcare. These are all consistent to what this Committee is in agreement with.

Secretary Geisenberger reiterated that no actual recommendations were made in the 2005 report. However, there have been some changes since this last report. For example, healthcare vesting of 50%, 75% and 100% state share that previously occurred at 10, 15 and 20 years respectively is now at 15, 17.5 and 20 years respectively. The General Assembly formally created the OPEB Trust Fund and began making a modest .36% of payroll contribution. Since that time, there has been deposits of over .36% and there have also been times when the .36% has been waived entirely, along with occasional one-time deposits. However, there's been no meaningful and consistent share of the budget allocated to this liability – as is suggested in the FY23 Governor's Recommended Budget and has been supported by this Committee.

The other major change since 2005 is that the Rating Agencies concerns outlined in 2005 were prospective. Today, this liability is on the State's balance sheet and Rating Agencies treat the liability as a very real current and long-term liability just like debt issued by the State and the unfunded portion of the State's pension fund.

Secretary Geisenberger went on to surmise other reasons the State has not made more progress toward bending the curve. For example, the State did not change 100% coverage of State share vesting at 20 years of service. Mr. Taschner pointed out that the changes to the 10, 15 and 20-years occurred in 2011 and it also included other things, like a 2% increase in the Pension contribution. He pointed out that it wasn't a "stand alone" action but part of a broader action that culminated in House Bill 81 which dealt with both healthcare for active employees, pre-retirees and retirees. Secretary Geisenberger agreed with this statement and went on to surmise that creating the OPEB Trust Fund was good, but funding at .36% has been insufficient. He also stated that the 5% premium that was added in 2012, while a good step to have the retirees have some responsibility, is also not material enough to really move the needle in terms of the OPEB obligations.

Secretary Geisenberger stated that, in his opinion, that the current Committee's recommendations reflect a firmer understanding of what it takes to meaningfully address the OPEB Liability over a period of years in order to maintain the long-term viability of these benefits for pensioners both now and in the future. Representative Briggs King provided that she thought the 2005 report didn't come out with any "hard" recommendations and that there were some things that they couldn't agree on. She went on to state that she thinks that this group will be able to come to a consensus on some recommendations. Senator Paradee agreed with this statement.

V. Discuss Survey

Secretary Geisenberger reported that although the Committee originally discussed conducting an employee survey in June 2022, he wants to be mindful that such a survey not overlap with the Medicare Advantage education process by the State Benefits Office and SEBC for Medicare-eligible pensioners. He added that this survey will only need to be sent to active employees, since none of the potential changes under consideration by the RBSC to future eligibility (around spousal coverage, years of service, etc.) would effect current pensioners. The Committee agreed with the process of the survey going out in June/July with results in back in September, which this Committee could then review in October/November, so that potential recommendations can be made for the Governor's recommended budget or for legislative action for the General Assembly in January 2023, with changes not taking effect until January 1, 2024, or later.

Mr. Taschner commented that he thinks it's important for the members of the Committee to understand the difference between a survey and a poll that is scientifically reliable based upon the population you are surveying. If we are going to do a survey it is important to get the demographic information, so that it can be tied back to the other data, which can then be segmented into sections (for example, early career, mid-career, late career, etc.). He also recommended possibly holding focus groups for employees under 35, 35-50 and over 50 years of age, with a researcher guiding the groups in back-and-forth discussions. This would give credible sources of data that can then be used to do a survey of employees. He added that he wasn't sure if resources are available to do focus groups. If we just do a survey, having the demographics would give a better picture of what different groups are telling us. Mr. Begatto added that some of the union members he represents may be less likely to participate in this survey for a variety of reasons. A focus group might provide a better venue to ensure that the voice of these employees is heard. Secretary Geisenberger added that he was not opposed to doing focus groups as well as a survey, if it can be done at a reasonable cost. He then asked if Mr. Taschner could help with this. Some further discussion was had by the Committee on focus groups.

Secretary Geisenberger suggested that the next meeting be held in September or October. Director Rentz provided that by September, they should be able to provide an update on the information sessions and be able to share updates on SEBC actions.

VI. Review of Draft of Committee Report Due March 2022

Secretary Geisenberger reminded the Committee that the report to the Governor is due at the end of this month (March 2022) and the final report is due at the end of March 2023.

DRAFT

The draft of the March 2022 report was provided to the Committee prior to the meeting for their review and discussion at this meeting. The following discussion and remarks were made by the Committee:

- Senator Paradee questioned if there were specific industry standard benchmarks and, if not, what are the Rating Agencies looking for? Secretary Geisenberger stated he thinks the Rating Agencies are looking for OPEB to look more like the pension fund in terms of its funded ratio. The Rating Agencies don't necessarily care what benefits the State offers, they just want to know that they are, will and can be funded. This analysis needs to take into account the ability of a State's economy and taxpayers to afford to fund such benefits. He added that if we show the Rating Agencies that over a set number of years, the OPEB liability will look more like the pension fund, then they will be happy.
- Representative Briggs King concern with Section III – b (State share eligibility) was to make sure that we are consistent with the laws and/or collective bargaining agreements with any change in eligibility of benefits. Keeping in mind the early retirement options for some groups and making sure that they are not penalized for that early retirement. Director Adams pointed out that we are still in the exploring stage and are not at the point of making any recommendations at this time. In addition, it's important to note that all of these eligibility requirements are set forth in statute and are not a subject of collective bargaining.
- Mr. Begatto' s concern is with the effective dates of any changes for current employees. Secretary Geisenberger responded that these are the types of concerns that will come out of the survey and/or focus groups and the Committee can address. Generally, there has been consensus on the Committee that changes should not unduly impact persons that are closing in on retirement. At the same time – and similar to the changes adopted a decade ago, there might be impacts on newer employees with few years of service and/or further away from retirement age.

At this time, Secretary Geisenberger asked the Committee about the following sections of the Report to the Governor that have been modified:

Committee Principals for Reform:

- Section VII: Is the Committee in agreement with setting a higher goal?
  No Objections
  The Committee agreed to this

Committee Recommendations:

- Sections I thru III: No real changes from the November 2021 report
- Section IV: Is the Committee in agreement with looking at this issue?
  No Objections
  The Committee agreed to this
- Section V: Will add that we will explore a focus group but cannot commit until the cost is known.

Secretary Geisenberger asked the Committee if they are in agreement with submitting this report with these changes:
No Objections
The Committee agreed to this

VII. Next Steps

Secretary Geisenberger provided the next steps as:

- Submit and publish the March 2022 Report[2].
- Survey questions to be sent to the Committee prior to being sent out.
- Continue discussion on focus group.
- Convene the next meeting in the fall with an update from Director Rentz along with updated actuarial information on feedback from the survey.

VIII. Public Comment

Wayne Emsley of DRSPA had no comments other than to thank the Committee for their continued efforts and looking forward to working with Director Rentz on rolling out the Medicare Advantage.

IX. Adjournment

A motion to adjourn was made and seconded and passed unanimously.
The meeting adjourned at 12:03 p.m.

Respectfully Submitted by Bobbi DiVirgilio

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[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.

[2] Once finalized, Retirement Benefit Study Committee Reports are available the Department of Finance's website at: https://finance.delaware.gov/financial-reports/committee-reports/ under Retirement Benefit Study Committee.