

# Minutes of the Retirement Benefits Study Committee

November 12, 2019 - 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 (Represented by Bert Scoglietti)	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:

Jane Cole	Michael Nadol
Liza Druck Davis	Bill Oberle
Dorothy Emsley	Rebecca Scarborough
Wayne Emsley	Stephanie Scola
Kevin Fyock	Hugh Scott
Leighann Hinkle	Jim Testerman
Jamie Johnstone	Jenevieve Worley
Geoff Klopp	Rebecca Warnkin
Mary Lou Landis	Michael Nadol

## **I. Call to order**

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

## **II. Introductions**

Secretary Geisenberger asked the attendees to introduce themselves.

### III. Approval of the Minutes of the Meeting of September 26, 2019:

Minutes Approved

### IV. Cherion's Actuarial Summary of Delaware's Retiree Healthcare Liability

Margaret Tempkin of OPEB presented the slides from Cherion.<sup>1</sup>

- a. Delaware State Retiree Healthcare: Ms. Tempkin reviewed the State's current retiree healthcare plan providing the eligibility requirements along with the types of plans that eligible members can choose from. She went on to review the state and retiree share of costs based upon the plan and years of service. Slide 4 provides the monthly premiums effective July 1, 2019, breaking down the employee premium by retiree share and state share along with the number of current retirees enrolled in each plan.
- b. Retiree Distribution by Age: Ms. Tempkin reviewed the number of retirees, those that have retired due to disability and beneficiaries by age that are currently on the state's retirement healthcare plan. This chart did not show the number of spouses that are also on the plan. A request was made by a Board Member to add spouses and maybe "break down" the list showing the employees, beneficiaries and spouses separately.
- c. How are OPEB Liabilities Determined: Ms. Tempkin explained that the OPEB liability is determined by projecting, in a snapshot of the future, those who will survive long enough to earn a benefit, how much that benefit will be worth and how long they are expected to receive the benefit. This is done by using Healthcare, Demographic and Economic Assumptions
- d. Healthcare Assumptions: Ms. Tempkin reviewed the different Healthcare Assumptions as follows:
  - Claim Curves – Slide 8 provided a sample of claim curves. Ms. Tempkin explained that the blue and red lines on the graph represent the true cost of care. As people age, the cost gets higher until the age of 65 when the cost line "flattens out" as Medicare begins. The premiums charged to active employees and retirees are the same regardless of age 25 or 65.
  - Trends – Trends in healthcare costs are used to bring claim curves and the blended premiums into the future. Costs are based on real GDP, underlying inflation plus a margin for excess healthcare growth. The chart on slide 8 shows that pre-Medicare costs are forecast to rise between 5.43% and 4% over twenty years and pharmacy costs are expected to rise by 6.85% to 4% over the same period. The forecast for annual increases in Medicare costs are a static 4%. Secretary Geisenberger added that even if the forecast used an assumption of 2% annually, the OPEB liability would still be very large. Therefore, to resolve this

matter we must look at multiple approaches to try to resolve the OPEB liability. Demographic – Calculation of the OPEB liability follows the pension plan’s demographic assumptions except for retiree election rates, marriage percentage, spousal election rates and term vested election rates. Term vested refers to an employee that worked for the state and ended their employment but remains vested in both the pension plan and for health care coverage.

- e. The Discount Rate: Ms. Tempkin went on to explain how the discount rate is determined to calculate the OPEB liability. Since our plan is currently unfunded, GASB requires a high-grade municipal bond rate be used, currently 3.50%, which is half of the 7% investment rate the pension plan uses. This makes the liability even greater.
- f. Sample Retiree: Ms. Tempkin provided an example of how the premium would work for an employee who retires at the age of 55 in 2019. The example shows that the true cost of care for an employee aged 55 is higher than the state’s premium which is subsidized by active employees. This is known as the implicit subsidy, defined as “the additional value (cost) of the plan that is not paid by the blended premiums, but subsidized by active premiums”. Once the retiree turns 65 and Medicare is available, then the premium is relatively equal to the cost of care. The chart on slide 15 shows the explicit and implicit subsidy, with the red and blue on each bar representing the actual cost of the healthcare to the state.
- g. Current Projections: Ms. Tempkin reviewed the charts on slide 15. The top chart shows that the OPEB liability is expected to grow from \$8.7 billion to over \$22.1 billion by year 2039 and the projection of assets does not rise as significantly. This chart reflects the 3.5% discount rate (today’s rate). If the discount rate drops, the liability will increase.
- h. The State’s Liability: Ms. Tempkin stated that to determine the OPEB liability we discount the expected benefit payments (shown on previous slides). The state’s liability is the present value of the State’s share plus the implicit subsidy valued at the municipal bond rate. As bond rates decrease, the liability will increase.
- i. Issues for the Committee’s Consideration: Ms. Tempkin suggested the following issues for the Committee to consider helping reduce the OPEB liability, which could be done either immediately or could happen over time:
  - Adherence to a Funding Policy will allow the State to increase the discount rate to a rate similar to the pension plan rate.
  - Pre-Medicare retirees are blended with actives – if retiree premiums are separated from active employees, the implicit subsidy could be eliminated.
  - Sample benefit eligibility outliers:
    - terminated vested former employees receive the same benefit as those that have retired directly from state service;
    - the medical benefit could follow eligibility for the pension benefit with a reduced benefit for early retirement;
    - in many cases, spousal coverage matches retiree coverage.

The following are several questions posed by different Board Members:

- Question: Specific to the Pre-Medicare proposal, are you able to separate this to show the effect on the overall OPEB liability.  
Answer: Ms. Tempkin stated that it would depend on how the cost share was designed. Secretary Geisenberger added that this is what would ultimately determine whether you have a big or little savings.
- Question: What is the breakdown percentage?  
Answer: Secretary Geisenberger stated that it would depend on what scenario you would want to run. Ms. Tempkin added that for example if you had a 7% discount rate the \$8.7 billion would drop to \$5 billion.
- Question: Today a lot of younger people are changing careers more often, does this take that into account?  
Answer: Ms. Tempkin stated that they use an experience over 5 years – someone staying vs. them leaving -- once they are vested, even if they leave, they could come back in.

## **V. SEBC Cost Containment Efforts**

Faith Rentz, Director of the Office of Statewide Benefits and Insurance Coverage started the presentation of the State of Delaware Group Health Insurance (GHIP)/Medical and Pharmacy Benefits Comparison slides.<sup>1</sup>

- a. Background: Ms. Rentz started the presentation by giving the background on the GHIP for group health coverage for all eligible pre-65 retirees and Medicare-eligible retirees. The chart shown on slide 2 shows the eligibility, coverage and pensioner premium cost share for the pre-65 retirees and the Medicare retirees. The cost share that is listed on this chart is written in the Delaware Code. Therefore, if any changes were to be made to this, they would have to be changed by statute. Under the “Pensioner Premium Cost Share – Medicare Retirees”, the statement of “retirement date after 7/1/2012 is 5% of Medicfill rate” this is assuming that the retiree is eligible for the state share with 20 or more years of service. In 2013, actions were taken to reduce the OPEB liability by moving the Medicare prescription drug coverage to an Employer Group Waiver Plan arrangement. This realized a \$1.4 reduction in the OPEB, with no impact on the prescription drug plan design or network and no change in coverage for retirees.

Ms. Rentz went on to add that over the last few years, the State Employee Benefits Committee (SEBC) has worked on a health care strategy framework to focus on cost reduction along with quality improvement and enhanced member engagement. Several of the strategies have been implemented and are listed on slide 3. These have had some impact on the overall cost of healthcare and avoided shifting costs to the employees.

Ms. Rentz went on to add that most of the focus has been on the pre-65 at this time and while these have had a positive impact on the GHIP, it has a limited impact on the OPEB liability.

## **VI. Benchmarking Retiree Medical/Pharmacy Benefits amount select states**

Rebecca Warnken attended the meeting on behalf of Willis Towers Watson with Ms. Warnken providing the presentation of the remaining State of Delaware Group Health Insurance Program (GHIP)/Medical and Pharmacy Comparisons slides regarding Benchmarking.<sup>1</sup>

Ms. Warnken began with reviewing the states that were used in this comparison. She went on to read the specific information regarding the benchmark observations for pre-65 retirees for each of these states. Most of the states generally offer the same medical/Rx plans to the pre-65 retirees and active employees at the same contribution rates, with some exceptions. The benchmark observations regarding Medicare retirees shows that the GHIP Medicfill has a more generous design than what the other states offer. Most of the other states offer a mix of Medicare Supplement and/or Medicare Advantage plans. Some states offer a cost sharing approach, which can be very complicated as outlined in the Appendix of this slide presentation.

Please refer to slides 8 thru 14 for the details on an individual comparison of the GHIP and these other states. Below are some highlights from these:

- New Jersey – Offers cost sharing features based on coverage level and salary at retirement; has some out-of-pocket expenses for the retiree.
- Pennsylvania – Offers cost sharing features based on salary at time of retirement
- Virginia – Has a modest deductible of \$100 and retirees can use credits to offset their premium costs.
- West Virginia – Offers cost sharing that varies by the years of service.
- Ohio – This state is a little different, as it does not have a group sponsored plan, instead retirees select from the Medicare marketplace. Retirees receive an annual allowance in the form of Health Reimbursement Arrangement. There are only three other states that have done this (RI, LA, NV).

Ms. Warnken reviewed the Medicare Marketplace/Exchange Considerations which is what Ohio went to. A Board Member questioned the risk of the subsidies not being there. Ms. Warnken provided that they have not seen any reduction in Medicare Plans at this time but are still watching this.

Ms. Warnken then went on to review the different options to reduce the OPEB liability as follows:

- Benefit Changes
- Benefit Caps and Account based Health
- Marketplaces/Exchanges
- Funding Strategies
- Full Exit (Secretary Geisenberger did point out that this is not an option.)

## **VII. Funding Status of Benchmarked States – AAA rated States’ Approach to Retiree Healthcare**

Mike Nadol of PFM presented the slides regarding the OPEB Funding/Comprehensive Approaches.<sup>1</sup>

Mr. Nadol provided an overview of the AAA states in comparison with the states that Willis Towers Watson used. Currently, of the comparison states, only Maryland and Virginia have a AAA rating. He went on to add that most states are just now getting a handle on OPEB and that it is a work in progress, no state is “all the way there” with the OPEB liability. The states that have a better rating, do tend to have a lower liability and is the reason rating agencies have begun scrutinizing Delaware. When comparing the structure and liability management of these states, it is common to see that most provide some form of meaningful subsidy.

While reviewing the OPEB Funding Context chart, Mr. Nadol pointed out that with few exceptions, most states have an OPEB trust. Although most states, measured on a per capita basis, as a percentage of personal income and as a percent of GDP, are better positioned than Delaware (except for New Jersey), no state is fully funded or are funding on an annual basis. Most are doing what Delaware does – meeting the “pay go” and putting in a little extra.

The structure and liability of the AAA Rated States are shown on slide 5. The AAA states are not necessarily better, but in Florida, Indiana, Iowa, Montana and Minnesota, retirees pay 100% of a blended premium, including an implicit subsidy. Tennessee and Utah have closed plans to future employees; South Dakota has no OPEB liability. Georgia, South Carolina, Texas, Maryland and Virginia have modified their level of coverages.

Mr. Nadol emphasized how Delaware stands out on the OPEB Funding Context Chart of AAA Rated states that is shown on slide 6. Using Moody’s Adjusted Net OPEB Liability (ANOL) on a per capita basis, as a percent of personal income and of GDP, Moody’s ranks Delaware worst among other AAA rated states. Delaware is almost 3x higher than the second ranked State of Texas on a per capita basis and as a percent of personal income. As a percent of GDP, Delaware is 2 times higher than Texas. This demonstrates that Delaware needs a plan on how to move forward. It does not suggest that Delaware should immediately and fully fund its OPEB liability, but rather develop a plan on how to reduce the liability over time.

Mr. Nadol reviewed the case study that was done on Ohio showing how they are “on and off track” in terms of funding their OPEB liability. Ohio does not have a AAA rating, but has been providing, and funding, retiree healthcare as part of their pension system for decades. As a result of the combination of funding over the years and benefit changes, Ohio increased its funded ratio from 39% in 2010 to 63% in 2013. However, recently, due to low pension funding ratios, they have shifted funding away from OPEB to their pension plan dropping the funding ratio to 46% in 2018.

Mr. Nadol also reviewed the case study of Virginia, which is also a AAA rated state. The OPEB liability for Virginia includes more benefits than Delaware, such as life insurance.

As part of an overall approach, the Commonwealth has restricted retiree benefits and increased contribution rates to fully fund a ‘retiree health insurance credit’ program on an actuarial basis. The funding ratio has increased from 5.8% to 9.7% over the last five years.

In closing, Mr. Nadol stated that Delaware has a much higher OPEB liability than the other AAA rated states. Reviewing the different approaches in other states gives different options on possible approaches to Delaware’s liability. Improving the OPEB liability should be a work in progress, as there is not one single resolution. There is a definite need for a plan, not necessarily on fully funding the OPEB liability, but a multi-pronged approach to fund over time.

### **VIII. Remaining Committee Meetings**

Secretary Geisenberger recommended that the Committee set goals and then set structure around those goals. Once the goals are set, then more analysis will need to be done. A discussion was had by the Board Members around the matter of what the goals would be. The Board Members agreed to each come up with their list of reasonable goals and provide by email to Secretary Geisenberger and Director Jackson by the following week and the next meeting (December) would be an organized discussion around the goal setting and how to move forward.

### **IX. Public Comment**

Geoff Klopp – Mr. Klopp’s statement suggested that the Committee review rates charged by Christiana Care. Mr. Klopp believes that Christiana Care is currently monopolizes the market for health care and treatment in this area and their rates must be managed. Other committees have discussed the problem, but no action has been taken.

Mr. Klopp also noted that one of the things that potential employees consider when considering state employment are the benefits, including healthcare. Therefore, there is a need to look the entire compensation package – salaries, pension and benefits.

Wayne Emsley – Made a statement as the Executive Director of the Delaware Retired School Personnel Association. A copy of this statement is attached.

Jim Testerman – Made a statement as a retired state employee. A copy of this statement is attached.

There was no further public comment.

### **X. Adjourn**

A motion to adjourn was made and seconded and passed unanimously. The meeting adjourned at 3:38 p.m.

Respectfully Submitted by Bobbi DiVirgilio

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<sup>1</sup> 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.





***Presentation at Retiree Benefits Study Committee Meeting  
November 12, 2019, 1:00 pm***

Good afternoon,

My name is Wayne Emsley. I'm the Executive Director of the Delaware Retired School Personnel Association, or DRSPA. If you went to public school in Delaware, chances are that at least one of your former teachers, principals or other school employees are members of our organization; an organization that advocates for 12,000 education retirees, or about half of the State Pension Plan beneficiaries.

All of you, the members of this committee, are active employees. You are looking at the state's long-term health care cost from your perspective. For the next few minutes I'm asking you to look at these present and future costs from our perspective.

First, let's talk about the estimated \$8 billion liability. Eight billion dollars is about double the state's present annual income. This estimate includes the cost of health care of every present retiree, starting with that one retiree who is 108 years old. It also includes the cost of every state and public school employee because someday they too - and you - will retire. So that \$8 billion figure includes the estimated health care cost of the youngest employee who may live for 80 years - until the year 2100. Assuming no increase in state revenue, over that 80 year period the state's income will be \$320 billion. In this context, the \$8 billion estimated liability is 2.5% of the state's income - a much more manageable number. Over the last twenty years the state's revenue has increased, on average, 3.87% per year. If we use a very conservative 1% increase over that 80-year period, the state's income jumps to \$394 billion. That \$74 billion increase dwarfs the \$8 billion liability estimate.

Second, we're confident that state spending in all areas will increase over the next 80 years. You reviewed graphs at your September 26 meeting that projected future retiree health care costs. If you created graphs for education, prisons or any other state-funded endeavor, what would that 80-year graph look like? Over the next 80 years, what will climate change do to the budget? Will Delaware agriculture, seashore replenishment and flood control require increased state spending? In short, why pick on retiree benefits?

Third, we recognize that there are five ways to deal with this estimated liability - you can recommend doing nothing, have the state cover the liability, increase the premiums, increase co-pays and deductibles or decrease the coverage. In selecting among these options you need to know that most retirees – specifically those on Medicare - are already paying more than active employees for their health care coverage – \$136 v. \$53 per month, and the state is contributing less - \$460 v. \$702. Not only are we paying more in our older years, most of us paid more when we were young. I started teaching in 1969. At that time the state paid nothing towards health insurance so for the first 7 years of my career, I paid 100% of my family’s premium. My first year salary was \$7,800 so that Blue Cross premium wasn’t easy to pay. Today most retirees are paying a higher premium than active employees and doing so on a pension that is less than half an average active employee’s salary. So from our perspective, we’ve already have – and are - sacrificing more than enough.

Fourth, we believe that if any changes are recommended, the Retiree Benefits Study Committee should be looking at long-term fixes. In the next few years – the short term – the state’s health fund is in good shape. Cost saving strategies proposed by the SEBC and implemented by both active employees and retirees have allowed the surplus to increase to \$78 million, much higher than had been forecast a few years ago.

DRSPA supports the efforts of the Retiree Benefits Study Committee to “maintain health benefit costs at their present levels” in the long term. However the contemplated long-term changes need to be considered carefully. The \$8 billion liability includes perhaps 80 years of health costs. Future increased state revenue or changes in health care made at the Federal level could drastically reduce the estimated liability. We’re curious why retiree benefits have been selected for study when many state-funded programs may become more costly in the next 80 years. Each month present retirees pay \$83 more than you for health care, while the state contributes \$242 less. We represent a lower per person health care liability to the state than active employees, both in the short and long term. Finally, the short-term outlook for the health care fund is extremely positive – much better than forecast just five years ago.

So from our perspective, as present retirees, we say, “recommend changes to the health care program if you feel you must, but allow our health benefit costs and coverage to remain at their present levels.”

Testimony for the State Retire Benefits Study Committee  
Jim Testerman, DSEA-Retired Board Of Directors

I and others lobbied, in the Castle Administration, for pension increases for state retirees. The Pension Board Chairman, Dale Stratton, and the Pension Board agreed that pension increases should be granted. Their recommendation was for an increase to be given every two years to keep state retirees somewhat up with inflation.

We found state employees that had retired making \$4,000.00 giving them a pension of \$2,000.00. These people were in complete poverty. Teachers' downstate were making about \$10,000.00 in the early 1970s with retirement pension of \$5,000.00. They too were approaching the poverty level when pension increases were first given in the Castle Administration.

According to research by Wayne Emsley, state retirees have only had 4% in pension increases since 2006 (in 13 years) while the cost of living increased by 19% in those 13 years. Our older retirees are really hurting and need some relief. Increases should begin at least every two years with those who have been retired more than twenty years getting a larger increase each time an increase is given.

The State of Delaware just cannot have our older retirees on food stamps when they should be able to retire from state employment with the expectation of having a pension that keeps up with a reasonable part of inflation.