Minutes of the
Retirement Benefits Study Committee

September 26, 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
Aaron Klein	Senior Vice President & Director of Performance and Analysis, WSFS
Jeff Taschner	Executive Director, Delaware State Education Association

Others in Attendance:

Joanna Adams
Tom Brackett
Jane Cole
Liza Druck-Davis
Bill Oberle
Stephanie Scola
Susan Steward
Bobbi DiVirgilio
Leighann Hinkle
Jamie Johnstone
Michael Nadol
Jodi Wedel
Seth Williams

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. Presentation by PFM:

a. Overview: Secretary Geisenberger presented an overview of the Retirement Benefits Study Committee ("Committee") and reviewed Executive Order No. 34 ("E.O. 34") pointing out the specific tasks the Committee has been asked to do. E.O. 34 requires that the Committee issue a preliminary report to DEFAC at its March meeting and a report to the Governor and General Assembly by March 31, 2020. The Committee expires in April 2020 unless extended by further order. E.O. 34 does leave open the possibility of an extension.

   Secretary Geisenberger introduced Mike Nadol and Seth Williams of Public Financial Management ("PFM"), the state's Financial Advisory Firm, that has been retained to assist the Committee. Mike Nadol is a Managing Director and Seth Williams is a Senior Managing Consultant and have done this sort of work around the country.

   Mr. Nadol presented a slideshow (see Attachment) reviewing the basics of Other Post-Employment Benefits ("OPEB"). OPEB benefits are retirement benefits other than pension, which for Delaware is retiree health care coverage. What has brought this issue to the forefront nationally is a combination of changes in accounting practices, demographic pressures, and healthcare inflation. There have been a series of changes in the past decade to the accounting standards for the public sector mirroring changes that have been made in prior decades in the private sector. These changes require governments to change how they look at and quantify their obligations for future retiree healthcare benefits to look at it on an actuarial basis similar to how governments quantify pension liabilities. This is not just a Delaware problem. On a national basis, it is a trillion-dollar problem with increased visibility and concern. Most states have been handling such liabilities on a "pay as you go" basis, which differs from how most states handle pensions. Most states make contributions to a pension fund based on an actuarially calculated pension contribution requirement. OPEB actuarial calculations also determine an Annual Required Contribution ("ARC"), that indicates the amount a government would need to fund each year to meet the commitment of setting money aside to pay future benefits for active employees and amortize any unfunded liabilities for both active and future employees.

b. OPEB Pressures: Mr. Nadol discussed the State's OPEB challenges -- highlighting that just 4.4% of Delaware's OPEB plan is funded, leaving a total unfunded OPEB liability of nearly $7.2 billion. Without changes to OPEB, the costs will continue to grow significantly (nearly 6% each year and could double in about 12 years). Secretary Geisenberger noted that bond rating agencies are now paying increased attention to the size of the state's unfunded liability.

   Stephanie Scola of the Department of Finance provided recent analyses by the State's bond rating agencies and what they are saying about the State's OPEB liability. Based upon recent reports by S&P, Moody's and Fitch, it is clear that the State's bond rating could eventually be impacted if Delaware does not take action to address its liability. Secretary Geisenberger stated that the Committee was formed in recognition of the magnitude of the challenge and the need to demonstrate that the State is serious about developing strategies, options and ideas to address this growing liability. He noted that there is no "silver bullet" approach to fix this problem. Rather it likely takes multiple changes with consistent commitment over multiple decades to fully address the challenge. He stated that he thinks the rating agencies are really looking for what path the State is going to take over the next five to fifteen years. Mr. Nadol confirmed that from his experience, the ratings agencies are looking for a plan. They recognize that this is a problem/challenge that has emerged over many years with many dimensions and they are not looking for an overnight solution, but a plan for a meaningful and sustainable approach.

c. OPEB Across State Governments: Mr. Nadol presented several charts from data produced by The Center for State and Local Government Excellence and the National Association of State Retirement Administrators showing Delaware's OPEB liability relative to other states. Delaware's unfunded liability per capita is the highest of all states. Delaware spent 3% of its actual expenditures on pay-go retiree medical expenses in FY2017- tied for the 7th highest among the states. Delaware's debt service and unfunded pension liability are on par or better than most states, but Delaware's OPEB unfunded liability is generally among the highest of all states. Delaware is in the "middle of the pack" in OPEB spending as a percentage of ARC among reporting states. Only six states achieved 30% to 50% funding of OPEB showing that this is still a challenge for those states that offer employer paid retiree health care.

d. Actions Taken Since 2005: Mr. Nadol reviewed the findings of the original Retirement Benefit Study Committee from 2005 that did not reach an agreement regarding a path forward for OPEB funding. The previous Committee did reach a high level consensus on five areas that are listed on slide no. 27.

   Mr. Scoglietti recalled from his work on the 2005 Committee that the State would have a lower liability if the State funded the ARC consistently allowing the State to use a lower discount rate. Mr. Nadol responded that the accounting standard continues to evolve, but that generally moving toward a real funding strategy can eventually lead to a higher discount rate that would lower the liability. Secretary Geisenberger added that the State's actuary, Cheiron, will provide a presentation on the OPEB calculations at a future meeting. Ms. Scola noted that the OPEB Trust Fund was created after the 2005 Committee but when the recession came, funding dried up.

e. OPEB Cost Drivers: Mr. Nadol discussed the main OPEB "cost drivers" – healthcare inflation, higher-cost pre-Medicare retirees, all retirees living longer, which is great, but also means more years of retiree coverage.

   Mr. Nadol was asked at what level of ARC funding could the State achieve a higher discount rate. Mr. Nadol responded that there is no specific formula used by the ratings agencies. He also stated that Cheiron or the State's auditors might be better able to say what the exact "tipping point" might be.

Mr. Nadol explained why OPEB is an important issue for the State and its employees. Specifically, it affects the future ability of the State to provide services and meet policy goals, provide raises for active employees, places general budget pressures on all State programs, and threatens the ability to maintain benefits. Mr. Nadol noted that this is not merely a financial issue. It is an important HR and employee relations issue impacting the ability to hire and retain employees and ensure a dignified retirement for employees.

Mr. Nadol's slide no. 37 showed that a continued reliance on "pay-go" will place increasing pressure on the State's budget that creates pressure on all other State programs.

A question was asked about the ups and downs of the liability in recent years. Ms. Scola noted that changes in the discount rate are a major factor and will continue to be so until the State more fully funds the ARC and unfunded liability. A question was asked about the sources of funding to the OPEB Trust Fund in recent years. Ms. Scola will provide details to the Committee.

f. Committee Considerations: Secretary Geisenberger started a discussion of next steps noting that there is not just one solution but that a mix of many different approaches are the best way to solve this challenge. He suggested an approach that takes action in each of several areas as follows:

1) Funding -- Looking at the trust fund, how the ARC works/funded, what would be required to fund more to the ARC, looking at various sources (whether one time or ongoing) and doing a deeper dive on what those options are and what has been done historically.
2) Benefit Eligibility -- Looking at how and when retirees and their beneficiaries become eligible and the costs associated to pre-Medicare and post-Medicare eligibility.
3) Benefit Plan Design/Healthcare Cost Containment: This crosses into the work of the State Employee Benefits Committee ("SEBC"), which is their responsibility to do the design itself. What are the benefits, what extent do they differ, what are our containment strategies, etc. If this Committee is interested in hearing a presentation, Director Jackson is the Chair of the SEBC and Director Rentz' office provides the staff support to that group and we could discuss those strategies and to what extent those strategies have impacts on the liability itself.
4) Actuarial Considerations/Discount Rate: Examining how the calculation works and at what point does a mix of different strategies result in a different discount rates, blended vs. non-blended rates, etc.

Secretary Geisenberger stated that these are some of the ways to look at OPEB and invited the Committee to weigh in with their requests. He also noted that much of the analysis requires input from Cheiron, the State's actuary.

g. Goal Setting: Secretary Geisenberger stated that he and Director Jackson have discussed that it would be very helpful if the Committee could build consensus around a "goal" in terms of this liability. Where do we want to get and in what time period? Should our goal be to decrease the dollar amount of unfunded liability or rather the per capita ratio, ratio relative to GDP, ratio relative to personal income, ratio relative to operating expenses or some other measure? Ultimately, if the Committee can build consensus around a goal, the Committee could then develop specific recommendations for reaching the goal.

Committee members suggested that it would be helpful to look what four or five other States have done more recently to address the liabilities in OPEB. Committee members commented that a minimum goal should be to maintain our AAA rating and to put a “big dent” in the liability over a reasonable time period.

The Committee agreed to request the following presentations:

1. Cheiron – presentation on how the actuarial calculation is done.
2. Benefits Office – presentation on cost containment efforts and a regional comparison of government retiree health benefits.
3. PFM – presentation on other State’s approaches to OPEB.

Future meetings can include a facilitated discussion on what types of scenarios the Committee would like Cheiron to run.

The Committee agreed that this was a reasonable plan for next steps.

IV. Other Business

None

V. Review Future Meeting Dates

Tentative schedule for future meetings were as follows:

November 12, 2019 – 1:00 p.m. until 3:00 p.m.
December 10, 2019 – 1:00 p.m. until 3:00 p.m.
January 7, 2020 – 1:00 p.m. until 3:00 p.m.
March 9, 2020 – 9:00 a.m. until 11:00 a.m.

VI. Public Comment

Bill Oberle – The presentation touched earlier about 6% to 7% annual healthcare inflation growth. Mr. Nadol responded providing that the projection period that was used has everything declining to 4% over time. The valuation report does provide a deeper detail of the assumptions on these projections.

Mr. Oberle noted some great work being done by the State Employee Benefits Committee to and Director Rentz and asked that the Committee hear more about these cost containment efforts and avoid shifting costs to employees/retirees.

There was no further public comment.

VII. Adjourn

A motion to adjourn was made and seconded and passed unanimously.
The meeting adjourned at 2:50 p.m.

Respectfully Submitted by Bobbi DiVirgilio