



Retirement Benefit Study Committee

September 27, 2021

- Discuss OPEB Funding Goals
- GHIP Plan Design Options
- Additional Review of Benefit Options

Goal setting

SMART Goals... Specific, Measurable, Achievable, Relevant, and Time-based

Objective:

Provide an affordable, sustainable, and competitive level of retiree healthcare benefits for career employees that secures retiree health care while balancing state funding priorities.

Examples from the City of Oakland

- Maintain a ratio of trust assets to accrued liabilities, with the goal of reaching a **100% funded ratio** over a **30 year period**. For this purpose, the funded ratio is defined as the actuarial value of trust assets divided by the trust's actuarial accrued liability for **explicit subsidy benefits**.
- Develop a pattern of stable and regular contribution rates when expressed as a percentage of payroll as measured by valuations prepared in accordance with the generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board, ultimately reaching a minimum employer contribution level at least equal to the Actuarially Determined Contribution (ADC) associated with explicit subsidy benefits.
- Manage the cost of benefits to reach and maintain an affordable and sustainable level of coverage.

Goal setting – Strawman (For discussion purposes only)

Sample Funding Goals:

1. Increase Funded Ratio to 100% over 30 years or Increase Funded Ratio commensurate with the funded ratio of the pension plan over 30 years.
2. Have employer funded contributions reach 100% of Actuarial Determined Contribution within 5 Years, including through changes that reduce the ADC and increase the discount rate applied.
3. Reduce unfunded liability in half over 10 years.

Sample Benefit Goals:

Develop proposed retiree health care benefit solutions that:

1. Are affordable, competitive and portable commensurate with age, years of service, and current retirement status.
2. Include options for Health Reimbursement Arrangements that facilitate easy access to comparable benefits through Marketplace coverages.
3. Eliminate state healthcare plans as the preferred provider of retiree health benefits for non-career employees.

Goal Setting – Updated

- Set a path to reach a 40% funded ratio and employer contributions equal to 100% of the Actuarial Determined Contribution by 2043
 - 10% funded ratio and 50% of ADC by 2033
 - Annual savings from benefit changes compared to current benefit baseline should be of at least equal magnitude to proposed enhanced funding by 2028
- Benefit eligibility changes will apply to employees not yet retired
 - Or near retirement?
- Maintain affordability and portability of the benefit to retirees
- A goal for distributing benefit changes among the pre-Medicare and Medicare groups?
- A goal for capping or limiting the employer top-line cost of benefits?
E.g. Medicare coverage transitioned to individual marketplace with an indexed HRA; reviewing potential benefit changes when pay-go or ADC reach a trigger level.

Plan design considerations

Deductible/copay modeling – Medicfill plan

- At the August 30th RBSC meeting, the RBSC requested financial impact modeling for medical and prescription drug plan design changes to the Medicfill plan
- The Medicfill savings estimates provided below were presented to the Combined SEBC Subcommittee on September 9th
- Plan changes yield modest savings for the State, with disruption and added point-of-care costs for retirees
- The table below highlights savings attributable to adding various deductibles and copays to the Medicfill plan (savings reflect 12-month plan year):

Plan design change	Gross savings
\$50 Deductible ¹	\$0.8 M
\$250 Deductible ¹	\$3.9 M
\$10 OV Copay	\$3.4 M
\$150 ER Copay	\$2.1 M
\$100 IP Copay ²	\$0.9 M
Rx Copay Increase ³	\$2.3 M

¹ Deductibles apply to hospital benefits only (Part A)

² \$100 copay per day to a maximum of \$200

³ Reflects 50% increase in current Medicfill Rx copays; savings estimates utilize Rx copay data provided by IBM Watson Health; actual savings may vary

Discussion: Reduce Spousal Subsidy

Who is impacted

- Option A: Future retirees with spousal coverage: ~20,000 current employees with spousal coverage would potentially be impacted at retirement
- Option B: Future retirees for those employees with less than 10 years of service at 1/1/23: 8,000 employees with spousal coverage and < 10 YOS as of 7/1/20
- Option C: Future retirees that would not be eligible for retirement at 1/1/23: ~75% of employees were not eligible for retirement at 7/1/20
- Other? discussion

When are they impacted

- Option A: Effective for those retiring on or after 1/1/23
- Option B: some other effective date

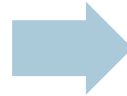
What are the range of reasonable benefit modifications

- Current Benefit: Spousal coverage is 100% of employee coverage
- Proposal Baseline: Employer subsidy of spousal coverage reduced to 50% of employee coverage
- Range of Options: Employer subsidy from 0% to 99%. Committee previously considered applying to current retirees.
- Survey Results: just under half of states provide same subsidy, several provide a smaller subsidy, roughly half provide no subsidy
- Reduction to 91% of employee coverage would roughly reduce UAL by \$1 billion in 2050, vs \$6 billion from 50%

Discussion: Graduated State Share / YOS

Who is impacted

- Option A: Future retirees hired since 1/1/2007: 23,688 employees hired since 1/1/2007 as of 7/1/20
- Option B: Future retirees hired since 1/1/2007 that would not be eligible for retirement at 1/1/23: 99% of employees hired since 1/1/2007 were not eligible for normal retirement at 7/1/20
- Other? discussion



When are they impacted

- Option A: Effective for those retiring on or after 1/1/23
- Option B: some other effective date



What are the range of reasonable benefit modifications

- Current % of State Share Benefit for hires since 1/1/2007:

< 15	0%
15-17.5	50%
17.5-19	75%
> 20	100%
- Proposal Baseline for hires since 1/1/2007:

< 20	0%
20-25	50%
25-30	75%
> 30	100%
- Range of Options: The Committee considered two lower impact alternatives in January 2020 with low YOS of 15 and high YOS of 25.

Discussion: Eliminate Future Term Vested

Who is impacted

- Option A: Employees that separate from State employment after 1/1/23 without filing with the Pension Office for retirement : 300 employees per year that would be eliminated from eligibility compared to baseline
- Option B: Option A plus current “term vested” (previously considered by Committee): 3,959 term vested employees as of 7/1/20
- Other? discussion

When are they impacted

- Option A: Effective for those leaving State employment on or after 1/1/23, but not eligible for retirement on separation
- Option B: some other effective date

What are the range of reasonable benefit modifications

- Current Benefit: Retirees eligible for retiree medical, regardless of whether they are employed by the State at the time of retirement
- Proposal Baseline: Future term vested retirees will receive their full pension but not be eligible for retiree medical
- Range of Options: Could apply a higher YOS requirement / reduced State share to term vested, as in a few other states
- Survey Results: Respondents split 50/50 in providing OPEB to term vested or not

Discussion: Minimum Age Required

Who is impacted

- Option A: Future retirees under age 60 / 55: 1,600 employees eligible under current criteria as of 7/1/20 would become ineligible with a minimum age
- Option B: Future retirees under age 60 / 55 for those employees with less than 10 years of service at 1/1/23: 5% of the Option A cohort meet this criteria
- Option C: Future retirees that would not be eligible for retirement at 1/1/23: 85% of the Option A cohort meet this criteria
- Other? discussion

When are they impacted

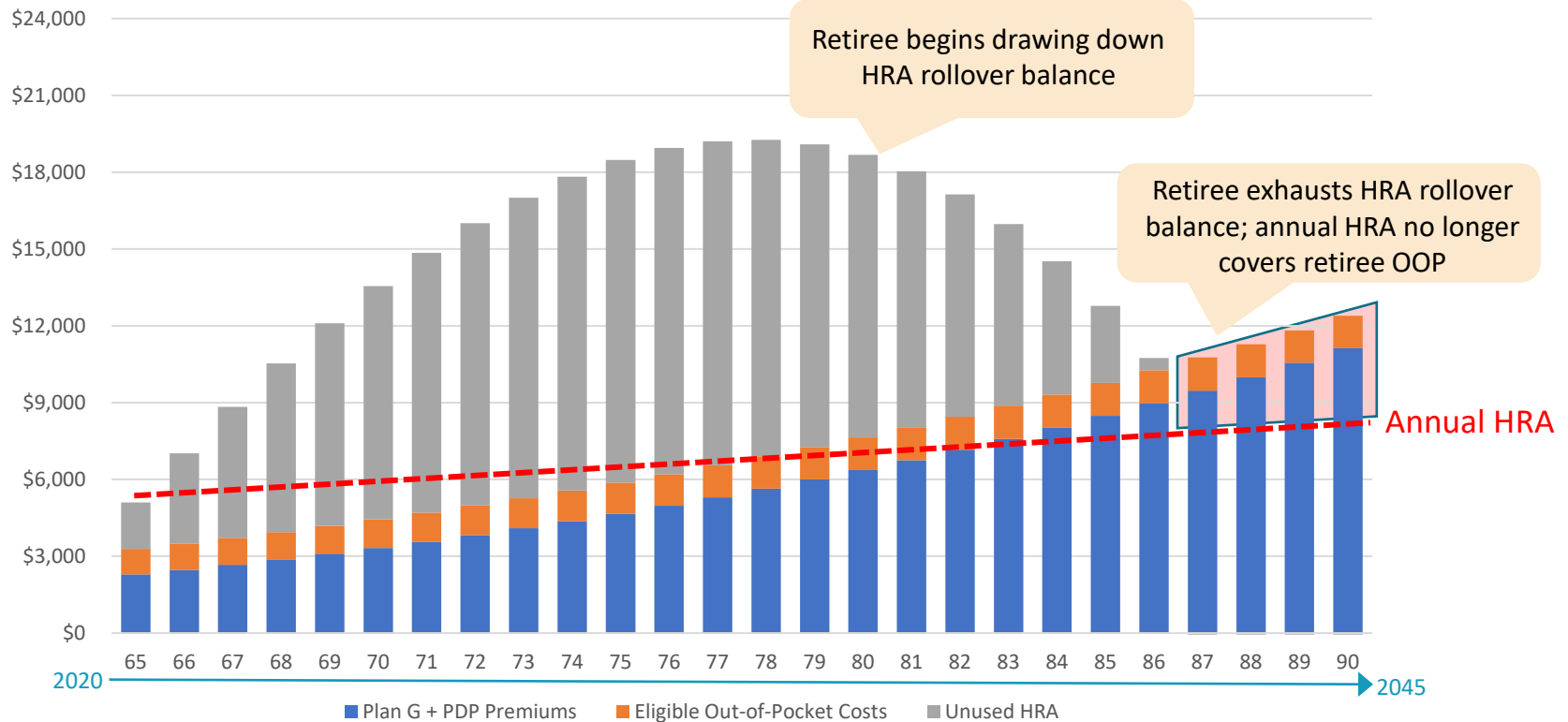
- Option A: Effective for those retiring on or after 1/1/23
- Option B: Delayed effective date of 1/1/25, etc to allow for transition period

What are the range of reasonable benefit modifications

- Current Benefit: Non-GA Post - 2011 hires: (i) age 65 with 10 years of credited service, or (ii) age 60 with 20 years of credited service, or (iii) any age with 30 years of credited service
- Proposal Baseline: Minimum required age of 60 regardless of years of service (or 55 for public safety)
- Range of Options: The minimum age could vary. Rather than a hard cutoff, could apply a reduced State share for pre-Medicare coverage to those under age 60.

Retiree impact analysis – Long term view (illustrative)

Retiree Health Care Costs and Unused HRA by Age



- Medigap/Medicare Advantage premiums and average out-of-pocket expenses generally increase with age and health care trend
- Retiree may not use full HRA allotment in certain years; unused HRA amount rolls over and accumulated HRA balance can be used to pay for qualified premiums and out-of-pocket expenses in future years
- HRA rollover amounts will vary based on retiree utilization and plan elections; the chart above reflects estimated premiums for Medigap Plan G, the **richest and highest** premium Medigap plan offered to new retirees. Younger retirees and/or lower utilizers will likely have access to cheaper plans in the Marketplace to maximize HRA savings

Note: long term illustration assumes retiree is age 65 in 2020 and reflects average Medigap Plan G with PDP premium across GHIP footprint; \$5,100 HRA per individual provided annually; \$1,000 in qualified out-of-pocket expenses at age 65; HRA indexed at 2% and premiums increase at health care trend assumptions per Cheiron OPEB Valuation as of October 2020; retiree would also continue to pay Medicare Part B premium, consistent with current Medicfill plan offering