



STATE OF DELAWARE OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY PRESENTATION

State Employee Benefits Committee (SEBC)
or
Retired/Active Employee Groups
October 2021

Retirement Benefit Study Committee (RBSC)

Recap of Work to Date



- **Governor re-established RBSC by Executive Order on July 10, 2019**
 - 13 Members -- Member from each General Assembly caucus, State Treasurer, Finance Secretary, OMB Director, Controller General, Pension Office Director, Statewide Benefits Director, and reps from AFSCME, DSEA and State Chamber.
- **Committee met four times between September 2019 and March 2020**
 - Reviewed data on size/relative magnitude of OPEB liabilities and projected costs
 - Reviewed current retirement health plan design and eligibility
 - Discussed the Committee's goals for the State's OPEB benefits
 - Identified and reviewed options for reducing liability / controlling cost growth with benefits consultant and the plan actuary
 - Estimated potential impacts of OPEB liability reduction options, including annual pay-go costs, liability, and impact to individual plan members
- **Presented summary of findings to DEFAC in March 2020**
- **COVID emergency prevented discussion of RBSC's work with 150th General Assembly. RBSC meetings paused. Staff work continued.**
- **Executive Order 51 issued replacing Executive Order 34**
 - Findings/Recommendations due to Governor, General Assembly & DEFAC on Nov 1, 2021
 - Updates due March 31, 2022 and March 31, 2023.

Summary of Prior OPEB Presentations / Data

1) OPEB Liability is the Present Value of Future Retiree Healthcare Benefits

- Medicare – 18,361 plus 6,270 spouses
- Pre-Medicare – 4,502 plus 2,728 spouses
- Enrolled Actives – 30,913 plus 19,750 spouses and dependents
- Inflation Assumptions – Medical (4%-5.4%) Pharmacy (4%-6.85%)
- Discount Rate - Bond Buyer 20 Year Index - 3.5% and falling

2) Rating Agencies (esp. S&P) increasingly concerned about the relative size of Delaware's unfunded OPEB Liability

- Per Capita - 26x higher than the median AAA-rated state
- % of Personal Income – 14x higher than the median AAA-rated state
- 8 of 14 AAA-rated states have no retiree health care, none for new hires or charge retirees 100% of the blended active premium

3) Current Fiscal Impacts

- Balance Sheet Liability - \$8.7 billion
- No Employee Contributions toward liability
- OPEB Trust -- \$0.4 billion (underfunded through 0.36% of payroll)
- Pay-Go -- \$196 million (9.33% of payroll) Annual Door Opener - \$12-20 million

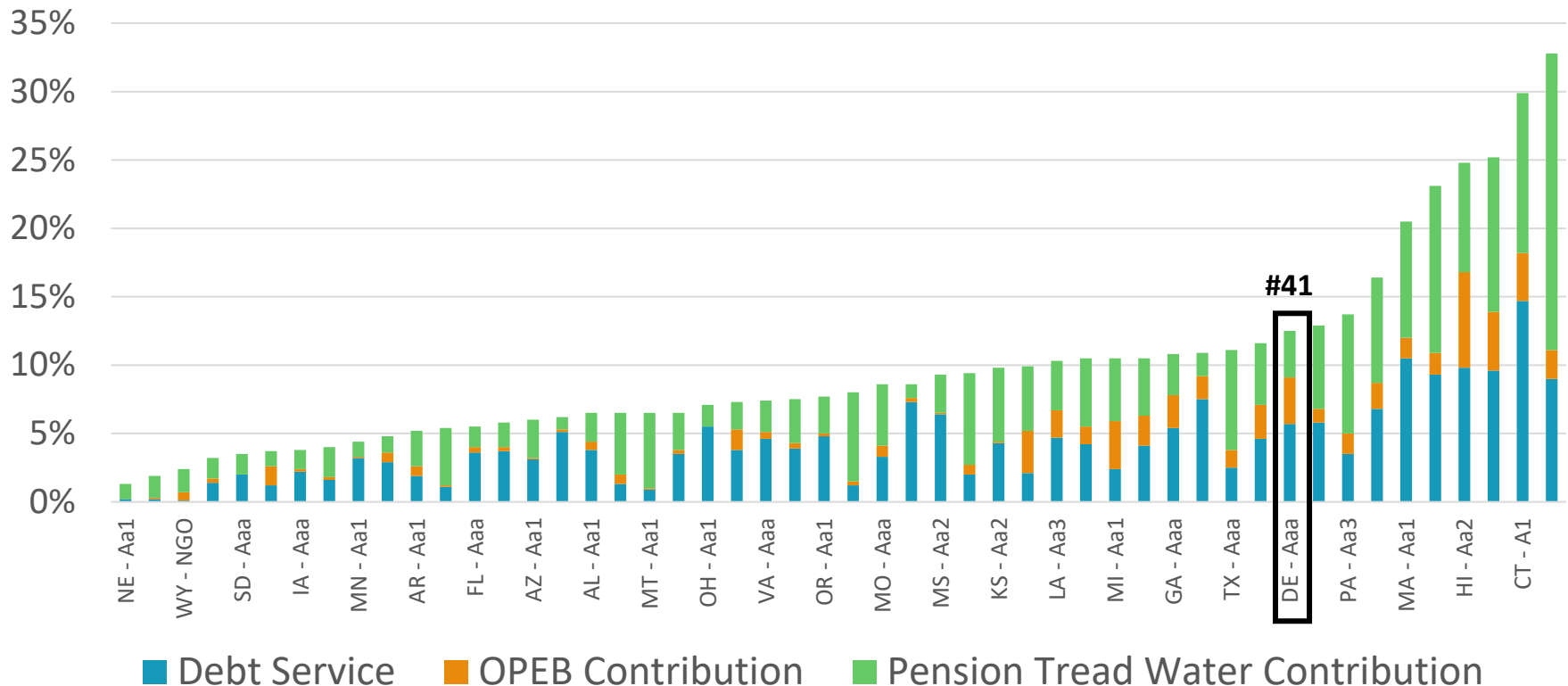
Recent Ratings Commentary

- **Ratings commentary for the State's 2021 bond issuance emphasized the expectation that OPEB liabilities would be addressed**
 - Standard & Poor's: *"We believe the state's history and ability to pass and implement retirement reforms positions Delaware well, compared with many other states without such flexibility... We expect the state's committee to study OPEB will lead to legislative changes to reduce this liability in 2021 and 2022."*
 - Fitch Ratings: *"An inability of the state to address its large unfunded OPEB liability could be considered an asymmetric risk that results in a lower long-term liability assessment... The governor has formed a commission to study OPEB and identify options to address related liabilities, with recommendations expected to be taken up by the Governor and General Assembly in 2021 and 2022."*

Delaware's Ranks Low Among States in Long-Term Liabilities

- Delaware has among the highest fixed costs to fund its liabilities as a % of revenue.
- Delaware ranks 26th in adjusted net pension liability / own-source revenue and 34th when adding net tax supported debt + adjusted net pension liability / GDP
- **Delaware's adjusted net OPEB liability / personal income ranks 48th**

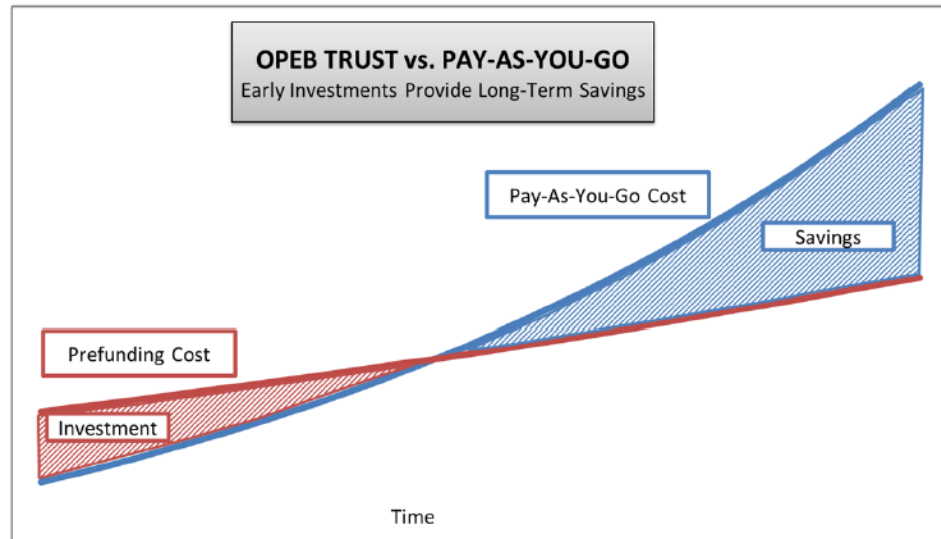
Fixed Costs as a % of Own-Source Governmental Revenue



Source: Moody's Investors Service, State Government Sector Profile, "Medians - Pension and OPEB liabilities fell in fiscal 2019 ahead of jump in 2020," September 8, 2020

OPEB Basics

- OPEB actuarial valuations include an **Annual Required Contribution (ARC)**, indicating the amount the State needs to fund to meet the following commitments:
 - To set money aside for future benefits for current employees during their active years of service
 - To amortize any unfunded liabilities for both current and future employees
- In the short-term, the ARC is typically much higher than the cost of claims/premiums for eligible retirees already receiving benefits ("**pay-go**")
- Over the long-term, funding the ARC allows a State to harness investment returns on pre-funded amounts to pay a portion of future OPEB benefits
 - Generates long-term savings
 - Moderates future pressure to increase funding and/or reduce benefits
- While fully funding the ARC is not legally "required," the State must report its full OPEB liabilities under GASB accounting standards.

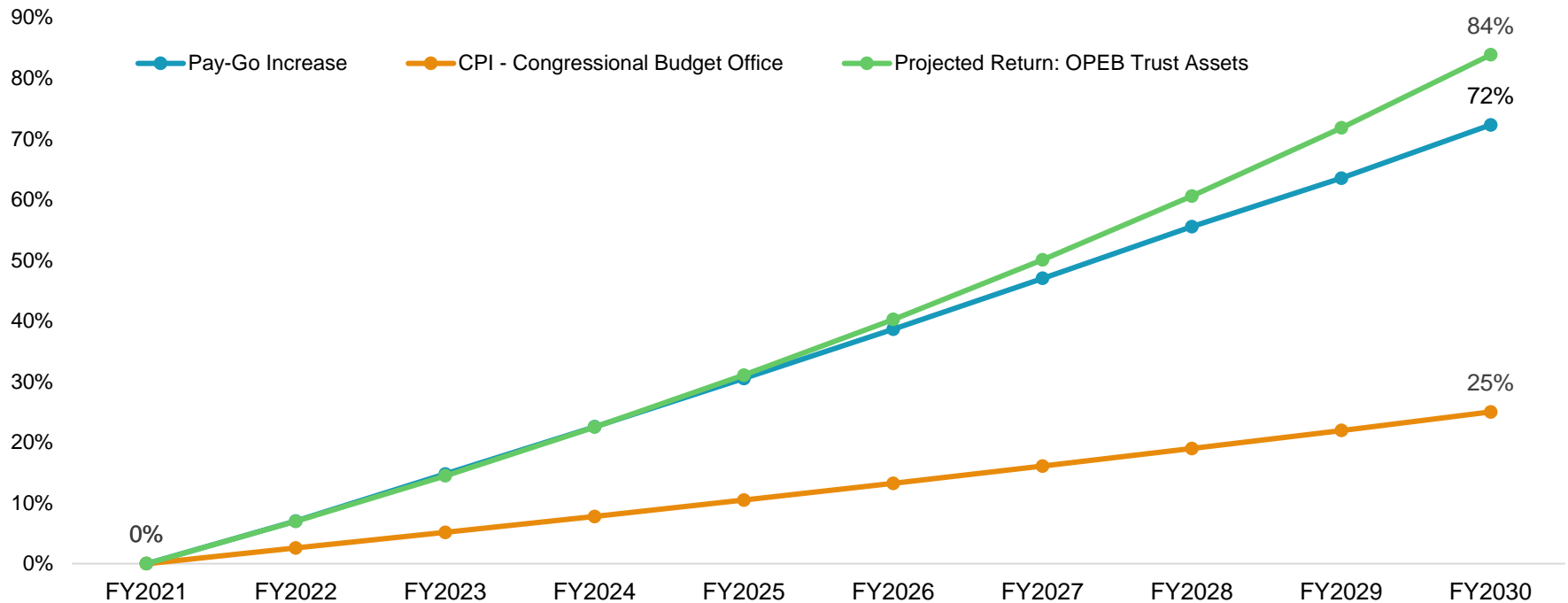


Source: *Retiree Health Care: A Cost Containment Guide*, League of California Cities

OPEB Outpacing Inflation

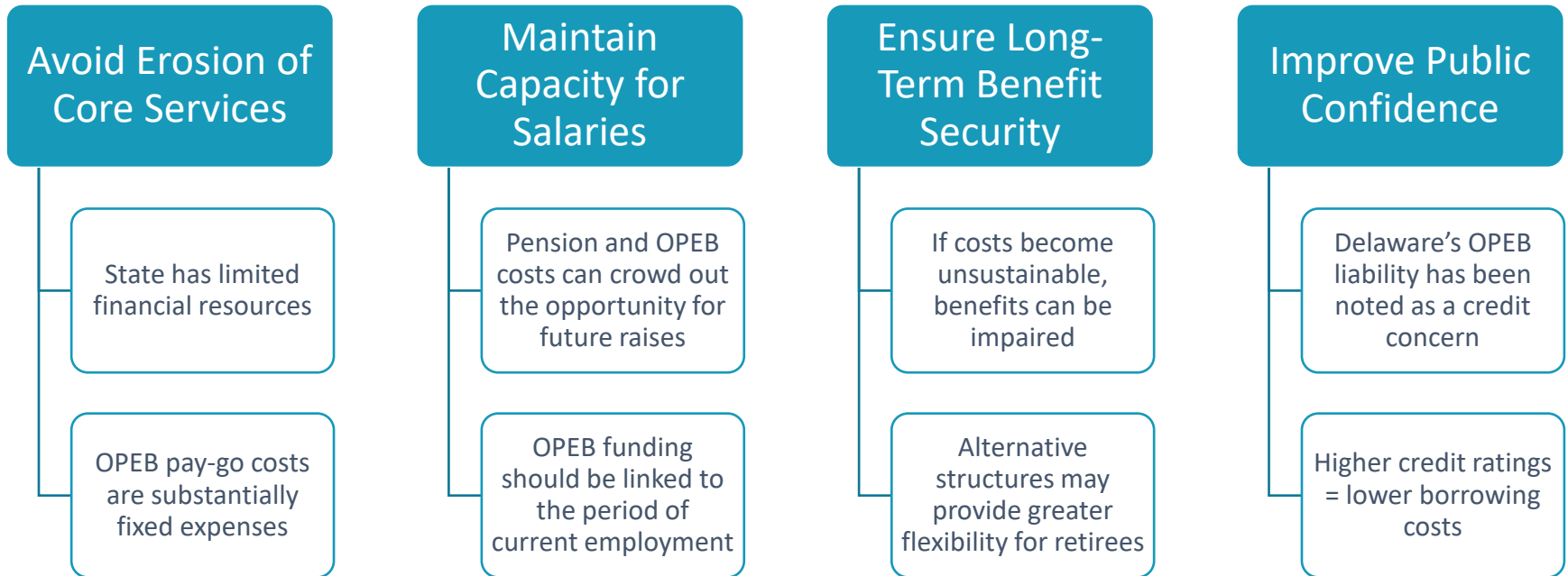
- The cost of OPEB pay-go benefits is projected to grow 3x faster than national inflation and, in turn, the State's underlying revenue base
- Funds set aside for OPEB can earn a long-term investment return that would offset this cost growth

Growth Rates in Pay-Go Benefit Costs, CPI, and the Pension Fund FY2021-FY2030

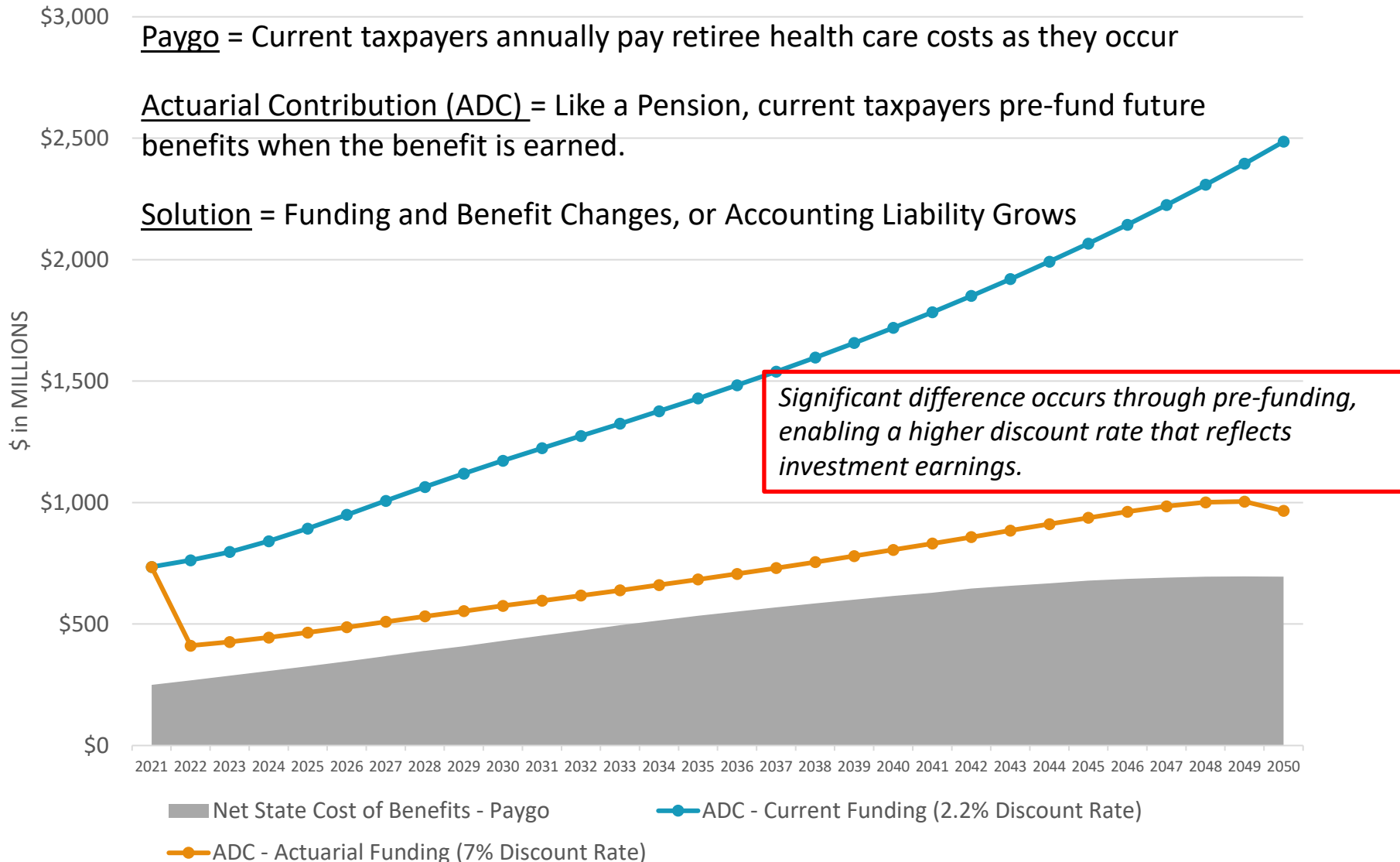


Potential OPEB Reform Goals

Why This is Important to the State and its Employees



The State's OPEB Liability will Grow without Funding and Benefit Changes



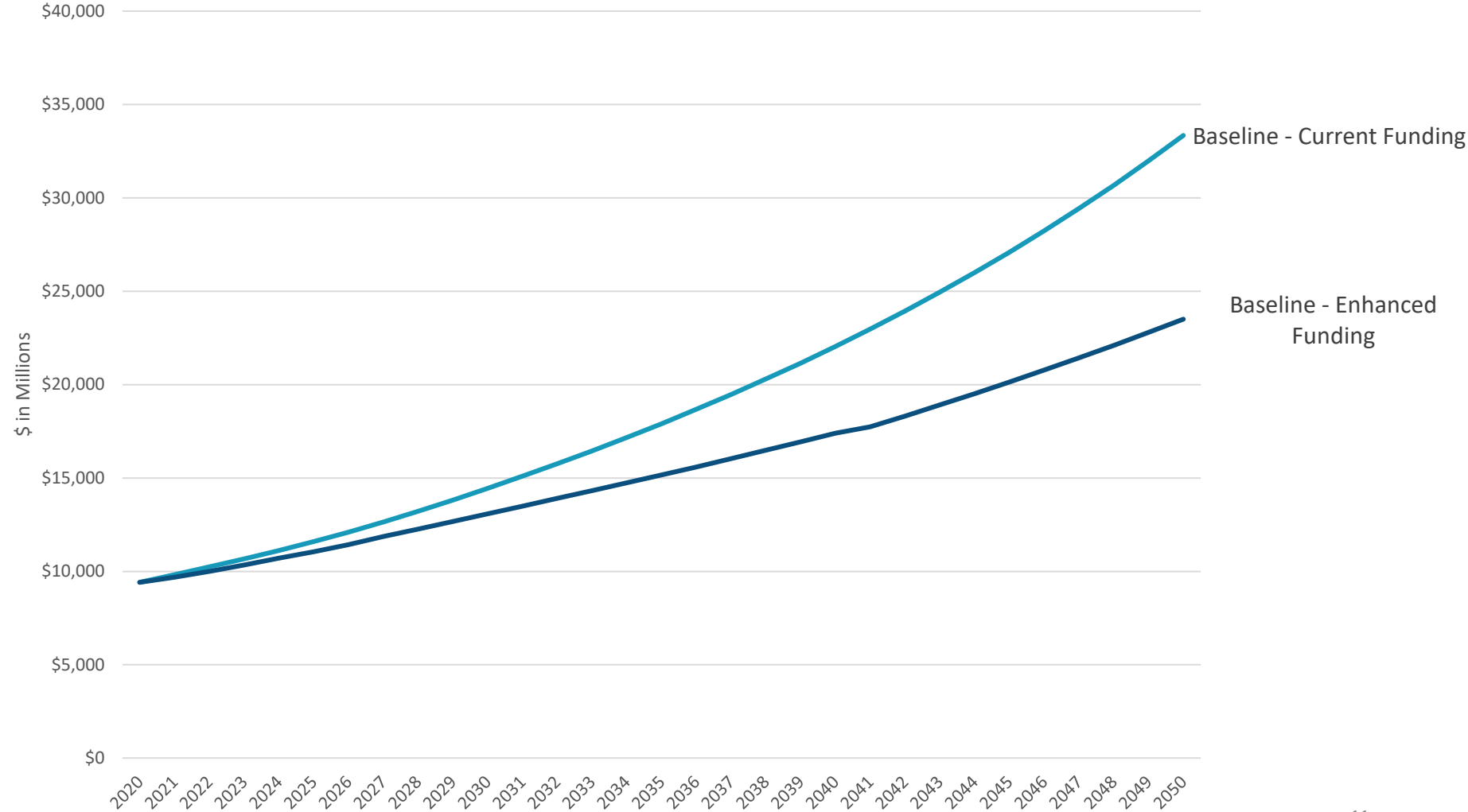
Options Under Consideration

- **Enhanced funding** (e.g., a Benchmark Appropriation carveout for OPEB similar to the 1% Cash-to-the-Bond Bill carveout)
- **Combined with benefit reform** (e.g., to include one or more of the following options under review by the RBSC):

Scenario Label	Description
HRA (2% Increase)	Delaware eliminates Medicfill coverage and moves to individual marketplace structure – retirees receive annual HRA to purchase individual coverage comparable to the value of subsidy received by State of Delaware currently, <u>with 2% annual increase</u> to HRA amount provided in future years
Active Spouses	Delaware reduces spousal subsidy by 50% for future retirees; no impact to current spouses of retirees
Eligibility of State Share	State Share eligibility schedule for those hired since 1/2007 to 20 years = 50%, 25 years = 75% and 30 years = 100%
Eliminate Term Deferred Vested Benefits	Future terminated vested participants would not have access to any state health benefits, those that are already terminated could still come back and have access to healthcare
Set Minimum Age for healthcare	Minimum age to start healthcare would be age 60 for State Employees and Judges but Public Safety would be age 55
Combination starting 1/1/2021*	<ul style="list-style-type: none"> - \$5,100 HRA for Medicare retirees with 2% inflation - Vesting schedule C - Future Retiree Spouses would receive 50% of benefit - Eliminate Term Vested Benefits B - Minimum age for healthcare (60 and 55 for public safety) <p>*with 0.5% funding</p>
Group Medicare Advantage (Group MA)	Last evaluated as part of 2016 Medical TPA RFP and did not yield material cost savings vs. current Medicfill. Since 2016, evolving MA market in Delaware may yield competitive carrier proposals for comparable level of medical coverage; Group MA proposals were solicited as part of 2021 Medical TPA RFP as a potential interim solution

Increased Funding Alone Improves but does not Solve the Liability Challenge

Projected Unfunded Actuarial Liability with and without Enhanced Funding

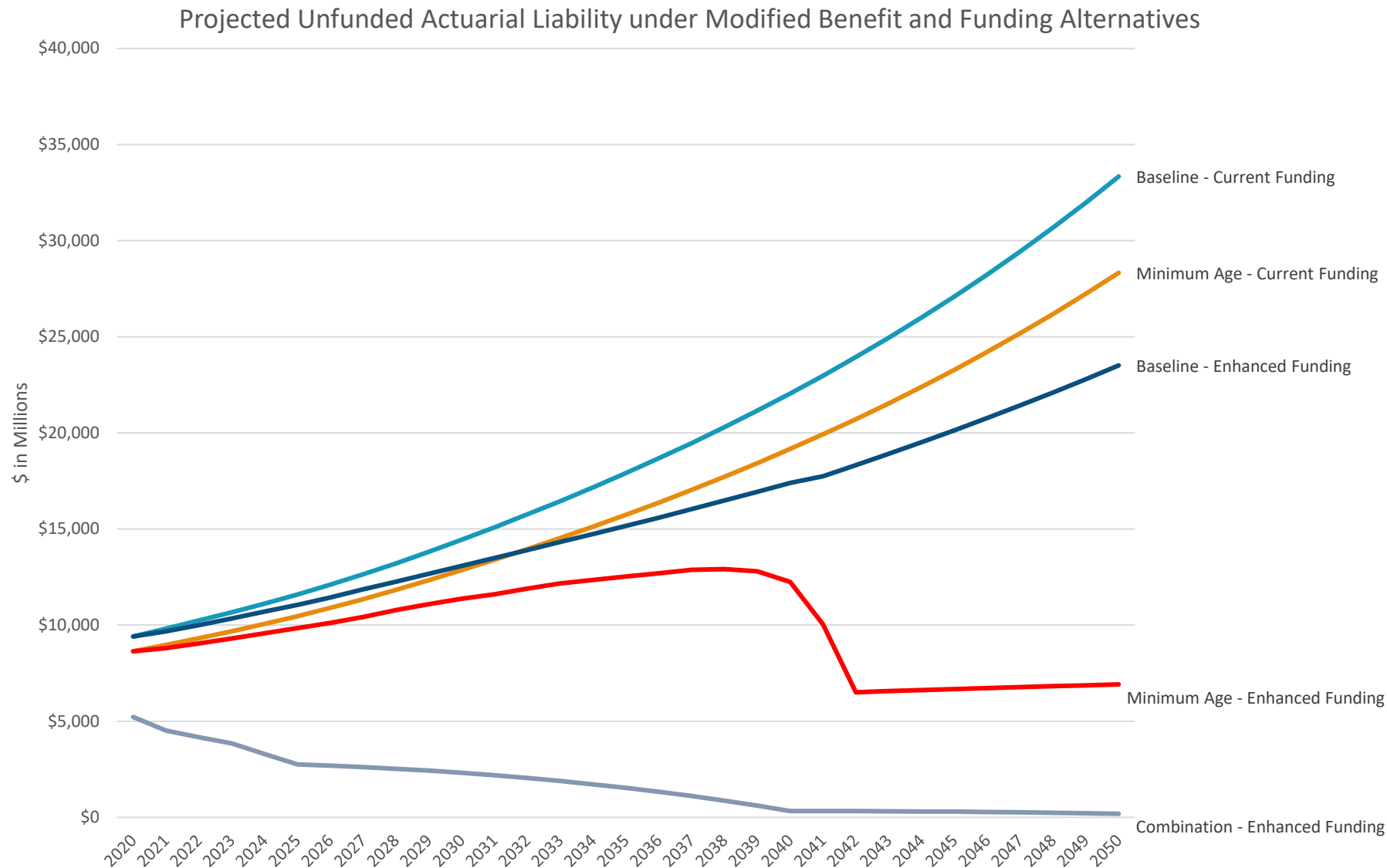


Source: Preliminary estimates by Cheiron

Combinations of Benefit Modifications and Additional Funding Significantly Reduce OPEB Net Liability

		2050 Projection					
		Total Benefits	ADC	Accrued Liabilities	Trust Assets	Funded Ratio	Discount Rate
Current Funding	Baseline	\$787	\$2,486	\$36,876	\$3,535	9.6%	2.2%
	Eliminate Future Terminated Vesteds	\$743	\$2,383	\$35,369	\$3,535	10.0%	2.2%
	Graduated State Share Based on YOS	\$787	\$2,084	\$31,326	\$3,535	11.3%	2.2%
	Minimum Required Age 60/ 55	\$690	\$2,078	\$31,866	\$3,535	11.1%	2.2%
	HRA (2% Increase)	\$566	\$1,105	\$16,963	\$3,535	20.8%	2.2%
	Reduce Spousal Subsidy for Future Retirees	\$681	\$2,070	\$31,626	\$3,535	11.5%	2.2%
	Combination	\$379	\$636	\$10,586	\$3,535	33.4%	2.2%
\$0 million/ \$47 million Funding	Baseline	\$787	\$2,024	\$33,424	\$9,917	29.7%	3.0%
	Eliminate Future Terminated Vesteds	\$743	\$1,880	\$31,451	\$9,917	31.5%	3.1%
	Graduated State Share Based on YOS	\$787	\$788	\$17,185	\$9,917	57.7%	7.0%
	Minimum Required Age 60/ 55	\$690	\$746	\$16,831	\$9,917	58.9%	7.0%
	HRA (2% Increase)	\$566	\$337	\$11,055	\$9,917	89.7%	7.0%
	Reduce Spousal Subsidy for Future Retirees	\$681	\$773	\$16,882	\$9,917	58.7%	7.0%
	Combination	\$379	\$142	\$5,859	\$5,670	96.8%	7.0%
	Group Medicare Advantage w EGWP for Rx	\$712	\$1,652	\$28,027	\$9,917	35.4%	3.3%

Combination of Benefit Modifications and Additional Funding Significantly Reduce OPEB Net Liability



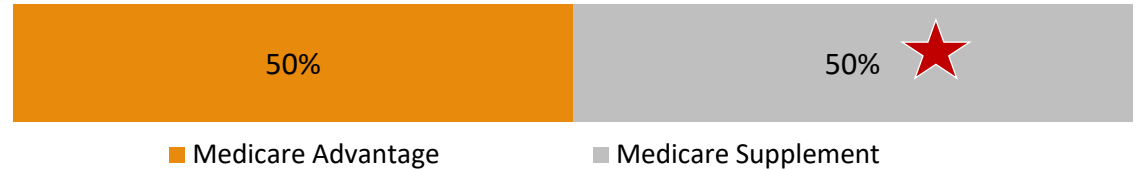
Source: Preliminary estimates by Cheiron

GHIP Medicare Pensioner Plan Benchmarking:

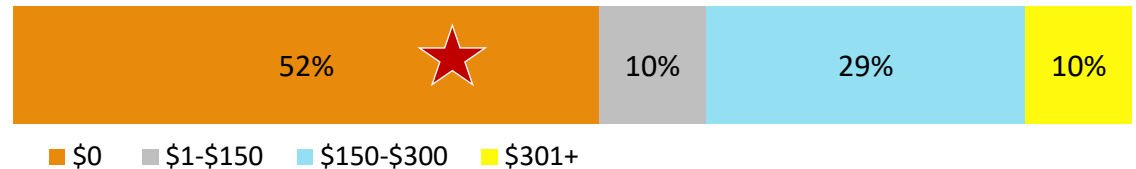
Other Plan Design Changes Could Also Impact OPEB

★ Delaware GHIP

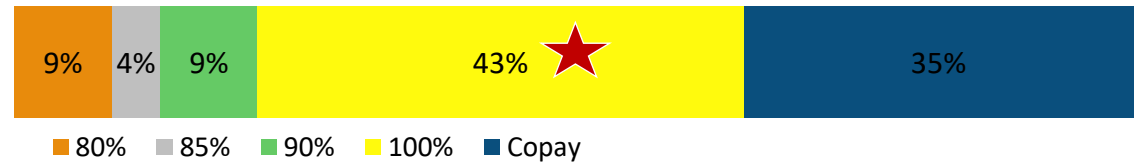
Highest enrollment plan type



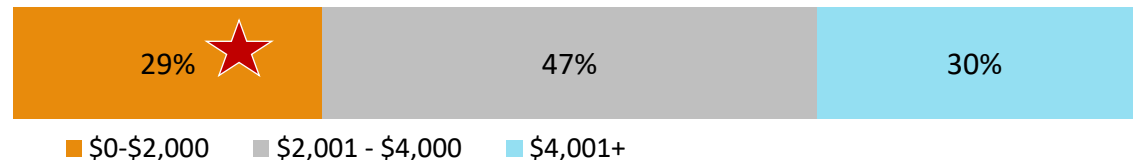
In-network individual deductible



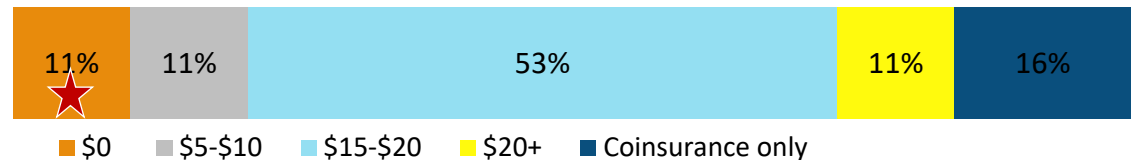
In-network coinsurance



In-network individual out-of-pocket maximum



Primary care physician (PCP) copay



Excluded states that only provide coverage through Exchange/Marketplace

STATE OF DELAWARE OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY PRESENTATION

Discussion / Questions ?