

# The State of Delaware

## Options to Reduce OPEB Liability

RHBAS Meeting

April 17, 2023

# Disclaimer

Willis Towers Watson has prepared this information solely in our capacity as consultants under the terms of our engagement with you with knowledge and experience in the industry and not as legal advice. This information is exclusively for the State of Delaware's State Employee Benefits Committee to use in the management, oversight and administration of your state employee group health program. It may not be suitable for use in any other context or for any other purpose and we accept no responsibility for any such use.

Willis Towers Watson is not a law firm and therefore cannot provide legal or tax advice. This document was prepared for information purposes only and it should not be considered a substitute for specific professional advice. As such, we recommend that you discuss this document with your legal counsel and other relevant professional advisers before adopting or implementing its contents. This document is based on information available to Willis Towers Watson as of the date of delivery and does not account for subsequent developments after that date.

Willis Towers Watson shares available medical and pharmacy research and the views of our health management practitioners in our capacity as a benefits consultant. We do not practice medicine or provide medical, drug, or legal advice, and encourage our clients to consult with both their legal counsel and qualified health advisors as they consider implementing various health improvement and wellness initiatives.

This material was not prepared for use by any other party and may not address their needs, concerns or objectives. This document may not be reproduced, disclosed or distributed to any other party, whether in whole or in part, other than as agreed with you in writing, except as may be required by law.

We do not assume any responsibility, or accept any duty of care or liability to any other party who may obtain a copy of this material and any reliance placed by such party on it is entirely at their own risk.

# Table of contents

1. Current OPEB Liability
2. Options to Reduce OPEB Liability

# Current OPEB liability

# OPEB Liability

Presented to RHBAS on 4/3/2023

## Assuming No Changes in Plan Design, Eligibility or Funding

	At 7/1/2022 (in millions)	Estimates at 7/1/2042* (in millions)
Pre-Medicare	\$2,909	\$7,759
Medicare	<u>\$6,029</u>	<u>\$15,853</u>
Total Liabilities	\$8,938	\$23,612
Assets	\$583	\$2,911
<b>Total Unfunded Liability</b>	<b>\$8,355</b>	<b>\$20,701</b>
	At 7/1/2022 (in millions)	Estimates at 7/1/2042* (in millions)
Actives and New Actives	\$4,641	\$14,096
Retirees	<u>\$4,297</u>	<u>\$9,516</u>
Total Liabilities	\$8,938	\$23,612
Assets	\$583	\$2,911
<b>Total Unfunded Liability</b>	<b>\$8,355</b>	<b>\$20,701</b>

\* 2042 Projections include Actuarially Estimated New Hires After 7/1/2022

Source: Actuarial Estimates Produced by Cheiron. (<https://cheiron.us/cheironHome/>)

# Options to reduce OPEB liability

# Options to reduce OPEB liability

- Retiree Benefit Study Committee (RBSC) previously evaluated options to address the State's OPEB liability, grouped into three categories:
  - Increased funding
  - Eligibility changes
  - Plan design/benefit delivery
- The RBSC concluded that combining options from each bucket will have the greatest impact on the OPEB liability while potentially minimizing negative disruption to any one cohort
- The following pages provide a recap the options evaluated by the RBSC across each of the three buckets – not intended to be exhaustive list of options, but rather a starting point for further exploration and consideration by the Retiree Healthcare Benefits Advisory Committee
- For each option, the chart shows magnitude of OPEB liability reduction, estimated funded ratio by 2052, and impacted cohorts
- OPEB liability reduction ranges are based on latest OPEB liability figures from State of Delaware Postretirement Health Plan Actuarial Valuation Report as of July 1, 2022 (produced by Cheiron November 2022)<sup>1</sup>
  - No additional changes made to July 1, 2022 report inputs and assumptions, including census

<sup>1</sup> <https://open.omb.delaware.gov/FinancialReports/HealthFundReports/FY2022-HealthFundReport.pdf>

# Options to reduce OPEB liability

## OPEB liability reduction key (as of 7/1/2022)

\$ = <\$1B reduction

\$\$ = \$1B - \$2B reduction

\$\$\$ = >\$2B reduction

Option	Option Description	Other Considerations	Approx. OPEB Liability Reduction <sup>1</sup>	2052 Approx. Funded Ratio <sup>1</sup>	Impacted Cohorts
Baseline	Do nothing		▪ N/A	▪ N/A	▪ N/A
Funding Options					
1% additional funding	Assumes 1% of prior fiscal year state budget (\$47.7M based on \$4.7B budget for FY22); projected to grow at 3.6%		▪ \$	▪ 60%	▪ Taxpayers
2% additional funding (not previously modeled)	Assumes 2% of prior fiscal year state budget (\$95.4M based on \$4.7B budget for FY22); projected to grow at 3.6%		▪ \$	▪ 93%	▪ Taxpayers
3% additional funding (not previously modeled)	Assumes 2% of prior fiscal year state budget (\$143.1M based on \$4.7B budget for FY22); projected to grow at 3.6%		▪ \$\$\$	▪ 101%	▪ Taxpayers

<sup>1</sup> Estimated; modeling provided by Cheiron



# Options to reduce OPEB liability

## OPEB liability reduction key (as of 7/1/2022)

\$ = <\$1B reduction

\$\$ = \$1B - \$2B reduction

\$\$\$ = >\$2B reduction

Option	Option Description	Other Considerations	Approx. OPEB Liability Reduction <sup>1</sup>	2052 Approx. Funded Ratio <sup>1</sup>	Impacted Cohorts
Baseline	Do nothing		▪ N/A	▪ N/A	▪ N/A
Eligibility changes					
Reduce Spousal State Share Subsidy to 50%	Future retirees only		▪ \$	▪ 19%	▪ Actives ▪ Future new hires
Increase the Graduated State Share based on Years of Service	State Share eligibility schedule for those hired since 1/1/2012 to 20 years = 50%, 25 years = 75% and 30 years = 100%		▪ \$	▪ 20%	▪ Actives ▪ Future new hires
Eliminate Future Vested Retirees from eligibility for healthcare	Anyone who terms employment with State and is entitled to a future pension benefit will not have access to health coverage		▪ \$	▪ 18%	▪ Actives ▪ Future new hires
Increase minimum required age	Future retirees only State Police age 55, All Other age 60		▪ \$	▪ 21%	▪ Actives ▪ Future new hires

<sup>1</sup> Estimated; modeling provided by Cheiron

# Options to reduce OPEB liability

## OPEB liability reduction key (as of 7/1/2022)

\$ = <\$1B reduction

\$\$ = \$1B - \$2B reduction

\$\$\$ = >\$2B reduction

Option	Option Description	Other Considerations	Approx. OPEB Liability Reduction <sup>1</sup>	2052 Approx. Funded Ratio <sup>1</sup>	Impacted Cohorts
Baseline	Do nothing		▪ N/A	▪ N/A	▪ N/A
Benefit changes					
Move to HRA/Individual Marketplace, with indexing of HRA	\$5,100 annual HRA for each eligible member and 2% annual indexing	▪ \$5,100 with 2% indexing previously modeled for RBSC; consider alternative HRA amount and indexing options	▪ \$\$\$	▪ 35%	▪ Actives ▪ Future new hires ▪ Retirees
Move to Highmark Group Medicare Advantage (MA)	Move to previously approved Highmark Group MA (\$0 premium medical); maintain current Employer Group Waiver Plan (EGWP) for Rx coverage	▪ Potential need to rebid coverage and/or obtain updated quote	▪ \$\$\$	▪ 25%	▪ Actives ▪ Future new hires ▪ Retirees

<sup>1</sup> Estimated; modeling provided by Cheiron

# Options to reduce OPEB liability

- Additional options for future consideration and not previously modeled by the RBSC (unless noted) include, but are not limited to:
  - Move to HRA/Individual Marketplace, no indexing of HRA (previously modeled for RBSC)
  - Grandfather/no change for current retirees, future retirees move to Highmark Group MA
  - Grandfather/no change for current retirees, future retirees move to HRA/Individual Marketplace with or without indexing of HRA
  - Maintain Medicfill with plan design changes (i.e., increased member cost sharing)
  - Maintain Medicfill with increased retiree contribution share
  - Offer both Group MA (that closely mirrors Medicfill) and HRA/Individual Marketplace
  - Rate groups on their own experience
  - Target plan design and contribution changes for pre-65 retirees
- Additional analyses required for each of these options to assess feasibility and potential OPEB liability impacts