Retiree Healthcare Benefits Plan

Draft Proposal – Wayne Emsley, NCC Retiree

This Retiree Healthcare Benefits Plan proposal is designed to preserve the existing health plan for current retirees and offer a reasonably-funded choice for future retirees. The plan is financially sustainable for the State, while reducing the future retiree healthcare liability, both through increased OPEB funding and reduced State cost.

<u>Funding Options</u>

1. Continue the 1% budget carve out through legislation.
2. Increase 0.36% employer contribution by .50% annually, starting in FY2025 until the 2.36% contribution is reached in FY 2028. After 2028 this figure could be adjusted upward or downward much like the employer contribution to the pension fund is presently adjusted to fine tune the path to desired OPEB funding.

Year	Employer Contribution
FY2024	0.36%
FY2025	0.86%
FY2026	1.36%
FY2027	1.86%
FY2028 and beyond	2.36%

<u>Eligibility Options</u>

Grandfathered Retirees – Former State and school district employees who retire or retired prior to 1/2/2025.

Pre-65 retirees – will make a one-time selection:

1. Continue enrollment in present plan at the same employee/retiree cost, plus any increases in premium approved by the SEBC, or
2. enter a Health Reimbursement Arrangement (HRA) and select a health insurance and prescription plan from the open market. The 100% HRA fund amount would be $750.00/month ($9,000/year), increased 2% annually until the retiree reaches age 65.

When grandfathered pre-65 retirees approach age 65 (and are therefore eligible for Medicare), they will make another one-time selection as noted below. Note that this is a one-time change that cannot be changed at a later date.

Grandfathered Medicare retirees – will make a one-time selection:

1. Enroll in Special Medicfil/Rx at the same cost share that the retiree (and spouse, if applicable) paid as of 12/31/2024, or
2. Enter a Health Reimbursement Arrangement (HRA) and select a Medigap or Medicare Advantage plan from the open market. The 100% HRA fund amount would be $460.00/month ($5,520/year), increased 2% annually.

Spousal coverage for both pre-65 and Medicare retirees will remain unchanged.

Future Retirees - persons retiring after 1/1/2025.

Eligibility for and funding level will be determined by (1) age at separation, plus (2) length of service. Age at separation will be determined by the age in years and months, rounded to the nearest month on the last day of employment. Length of service will also be determined by the number of years and months, rounded to the nearest month.

Age + Service	Funding Level
85 yr 0 mo or more	100%
80 yr 0 mo – 84 yr 11 mo	75%
75 yr 0 mo – 79 yr 11 mo	50%
70 yr 0 mo – 74 yr 11 mo	25%
69 yr 11 mo or less	0%

Some examples:

1. A teacher begins teaching at age 22 yr 5 mo and teaches for 30 years 0 months. At retirement (age 52 yr 5 mo) his/her age + service would equal 82 yr 5 mo, providing 75% of his/her coverage. He or she would need to continue working two more years to get 100% coverage (54 yr 5 mo + 32 yr 0 mo = 86 yr 5 mo).
2. A high school graduate (age 18 yr 9 mo) begins working in a state department, and works for 15 years 7 months, making him/her eligible for a vested pension. His/her age + service is 34 yr 4 mo + 15 yr 7 mo = 50 yr 1 mo. This person would not be eligible for health benefit coverage.
3. A military retiree begins working for the state at age 42 yr 4 mo and works for 20 years 9 mo. His/her age + service is 63 yr 1 mo + 20 yr 9 mo = 83 yr 10 mo, providing 75% coverage. If this person worked until 65 (Medicare eligible) he/she would earn 100% coverage (65 yr 0 mo + 22 yr 8 mo = 87 yr 8 mo).

Eliminate vested retirees from eligibility for healthcare.

Coverage for a qualified spouse will be equal to the retiree's coverage.

<u>Benefit Changes:</u>

Pre-65 Retirees

- will be enrolled in an HRA upon retirement.
- 100% funding amount will be $750/month ($9,000 annually) beginning January 1, 2025, and increased 2% annually (or more if legislated)
- If the HRA amount does not cover the cost of selected coverage, the necessary amount will be deducted from the pension monthly.
- The pre-65 retiree will have a one-time option of continuing his/her state provided plan or selecting an alternative plan on the open market.

Medicare Retirees

Upon reaching age 65 (or if a person retires at age 65) the Medicare retiree will make a one-time selection:

1. End the existing HRA and enroll in Special Medicfil/Rx at the same cost share (i.e., based on age + service), or
2. Continue the HRA (at the same cost share and funded at $460.00/month [$5,520/year] in 2025 and increased 2% annually) and select a Medigap or Medicare Advantage (and prescription) plan from the open market.

<u>Summary</u> - This plan would address the long-term liability through changes in funding, eligibility and benefit changes:

Funding Options

- Makes the 1% carve out permanent.
- Increases the employer contribution in 0.50% steps, distributing the increased contribution to OPEB among a variety of stakeholders.

Eligibility Options

- Grandfathers those who have the least impact on long term liability, and who, as a group, are least able to negotiate a change in health care plans.

- Increases the graduated state share benefit funding levels, resulting in less state cost in the short and long term.
- Eliminates vested retirees from eligibility for healthcare.
- Effectively increases the minimum age to be eligible to receive state-paid healthcare.
- Reduces the state's obligation for spousal health care coverage because retiree coverage is a lower state percentage.

Benefit changes

- Moves future retirees to a Health Reimbursement Arrangement (HRA)
- Provides future retirees the option to continue existing pre-65 and Special Medicfil/Rx coverage, but limits future state cost to HRA contribution.
- Provides an annual 2% increase in the state's HRA contribution, but also allows the legislature to increase the amount, much the same as pension increases are presently carried out.

Estimated Reduction in Long-Term Retiree Healthcare Liability

Cheiron, actuarial consultants hired by the State of Delaware, determine the OPEB valuation and estimated growth on an annual basis. The most recent determination was made as of July 1, 2022. Increased funding will decrease the liability by placing additional funds in the OPEB. Healthcare cost saving will also decrease the liability. The following table summarizes the reduction in liability generated by implementing the proposed plan:

	At 7/1/2022 (in millions)	Estimates at 7/1/2042 (in millions)
Total Liabilities	$8,938	$23,612
Assets	$0,583	$2.911
Total Unfunded Liability	$8,355	$20,701
1% Carve out		$-2,604
Increase Employer Contribution to 2.36%		$-1,973
Grandfathered Pre-65 Retirees		$- 1
Increase the Graduated State Share by implementing Age+Years of Service		$-0,900
Eliminate future vested retirees from eligibility for health care		$-0,800
Future Retirees provided with Health Reimbursement Arrangement (HRA)		$-2,000
Total Reduction in Liability		$-8,256

The following table details the actuarial impact this proposed plan would have on the long-term OPEB liability.

Option	Approximate OPEB Liability Reduction	Estimated Funded Ratio	Source or Explanation
1% Carve out	Additional Funds: 2042 = $2.60 billion 2052 = $6.68 billion	60%	"Increased Funding to OPEB", Appendix A
Increase Employer contribution to 2.36% by FY2028	Additional Funds: 2042 = $1.97 billion 2052 = $5.28 billion	50%	See footnote 1
Grandfathered Pre-65 Retirees	< $ 1 Million	1%	See footnote 2
Grandfathered Medicare Retirees	The present OPEB liability includes the future cost of health care for both present and future retirees, so "grandfathering" does not increase the OPEB liability.		
Increase the Graduated State Share by implementing Age+Years of Service	< $ 1 Billion	20%	4/3/23 RHBAS Meeting, "Options to Reduce OPEB Liability", page 11
Eliminate future vested retirees from eligibility for healthcare.	< $ 1 Billion	18%	4/3/23 RHBAS Meeting, "Options to Reduce OPEB Liability", page 11
Future Retirees provided with Health Reimbursement Arrangement (HRA)	~ $ 2 Billion	30%	See footnote 3

Footnotes:

1. At present the State and other employing entities (e.g., school districts) contribute 0.36% of gross payroll to the OPEB fund. The gross payroll is approximately $2.1 billion, so increasing the OPEB contribution by 2.0% would yield an additional $42 million in OPEB funding. See Appendix A for detailed analysis. I've estimated the funded ratio at 50%.
2. A small number of Pre-65 Retirees may choose an HRA at $9,000 per year annual state funding, slightly less than the state presently pays for Pre-65 coverage.
3. The HRA savings as presented on page 12, 4/3/23 RHBAS Meeting, "Options to Reduce OPEB Liability", assumes a State annual HRA funding of $5,100 per year. I've proposed providing Pre-65 eligible retirees with an HRA funded at $9,000 per year (until age 65 is reached) to offset the higher premiums paid prior to enrolling in Medicare. Because of this higher state cost, I've reduced the liability reduction and funded ratio.

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Appendix A
Increased Funding to OPEB
2023 to 2052

	1% Carve Out		Employer contribution increase to 2.36% by 2028			
Year	Payment to OPEB[1] (millions)	Additional OPEB Balance[2] (millions)	State Payroll Amount[3] (billions)	Employer Contribution Rate	Payment to OPEB (millions)	Additional OPEB Balance[2] (millions)
2023	47.100	47.100	2.100	0.36	7.560	
2024	49.900	100.297	2.163	0.36	7.787	
2025	51.696	159.014	2.228	0.86	19.160	11.139
2026	53.557	223.703	2.295	1.36	31.208	43.127
2027	55.486	294.847	2.364	1.86	43.962	90.109
2028	57.483	372.970	2.434	2.36	57.454	153.870
2029	59.552	458.630	2.508	2.36	59.177	223.818
2030	61.696	552.430	2.583	2.36	60.953	300.438
2031	63.917	655.018	2.660	2.36	62.781	384.250
2032	66.218	767.088	2.740	2.36	64.665	475.812
2033	68.602	889.386	2.822	2.36	66.604	575.723
2034	71.072	1,022.715	2.907	2.36	68.603	684.626
2035	73.631	1,167.935	2.994	2.36	70.661	803.211
2036	76.281	1,325.972	3.084	2.36	72.781	932.216
2037	79.027	1,497.817	3.176	2.36	74.964	1,072.435
2038	81.872	1,684.537	3.272	2.36	77.213	1,224.719
2039	84.820	1,887.274	3.370	2.36	79.529	1,389.978
2040	87.873	2,107.257	3.471	2.36	81.915	1,569.192
2041	91.037	2,345.801	3.575	2.36	84.373	1,763.408
2042	94.314	2,604.322	3.682	2.36	86.904	1,973.750
2043	97.709	2,884.333	3.793	2.36	89.511	2,201.424
2044	101.227	3,187.464	3.907	2.36	92.196	2,447.719
2045	104.871	3,515.457	4.024	2.36	94.962	2,714.022
2046	108.646	3,870.185	4.145	2.36	97.811	3,001.814
2047	112.558	4,253.656	4.269	2.36	100.745	3,312.687
2048	116.610	4,668.021	4.397	2.36	103.768	3,648.342
2049	120.808	5,115.591	4.529	2.36	106.881	4,010.607
2050	125.157	5,598.839	4.665	2.36	110.087	4,401.436
2051	129.662	6,120.420	4.805	2.36	113.390	4,822.927
2052	134.330	6,683.179	4.949	2.36	116.791	5,277.323

Notes:

1. Assumes a budget increase of 3.6% each year after FY 2025
2. Assumes an investment rate of 7% each year
3. Assumes a payroll increase of 3% each year

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