

The State of Delaware

Health Reimbursement Account (HRA)/
Individual Marketplace Overview
SEBC Retiree Healthcare Benefits Advisory Subcommittee

May 19, 2023

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Health Reimbursement Arrangement (HRA) overview

What is an HRA?

An HRA is a tax-free arrangement where an employer provides an annual contribution which can be used to offset the cost of a retiree's Medicare medical plan coverage.

Generally, a retiree will have access to their HRA funds to reimburse themselves for some or all of the cost of their and/or their dependent(s) health insurance premiums and/or other eligible healthcare expenses, such as copays and coinsurance.

| | Health Reimbursement Arrangements (HRAs) |
|--|--|
| Funding Requirements | Can be funded, but not required; commonly designed as notional accounts with reimbursements made from employer's general assets |
| Reimbursable Expenses | May reimburse for IRC §213(d) medical care expenses , which includes OTC drugs <i>with a prescription</i> , and amounts paid for health plan premiums , e.g., employer-sponsored retiree health coverage, Medicare premiums, COBRA, long-term care insurance premiums HRA is not required to reimburse all types and categories of IRC §213(d) medical care expenses; employer can design HRA to reimburse any/all IRC §213(d) expenses |
| Carryover of Unused Balances | Unlimited carryover permitted , subject to any limits set by the employer plan sponsor in plan documents |
| Tax Treatment of Employer Contributions | Employer contributions are excludable from employees/retirees' taxable gross income |
| Tax Treatment of Distributions | Reimbursements of IRC §213(d) medical care expenses are exempt from taxable gross income Reimbursements for non-medical expenses are prohibited |

Health Reimbursement Arrangement (HRA) overview

What expenses are eligible for HRA reimbursement?

An HRA can be used for qualifying out-of-pocket health care expenses, including:

- Medical, prescription drug, dental and/or vision premiums for plans purchased through a Medicare exchange or purchased on your own
- Medicare Part B premiums
- Qualified medical, hearing aid, dental and vision care expenses
- Premiums for other voluntary benefits

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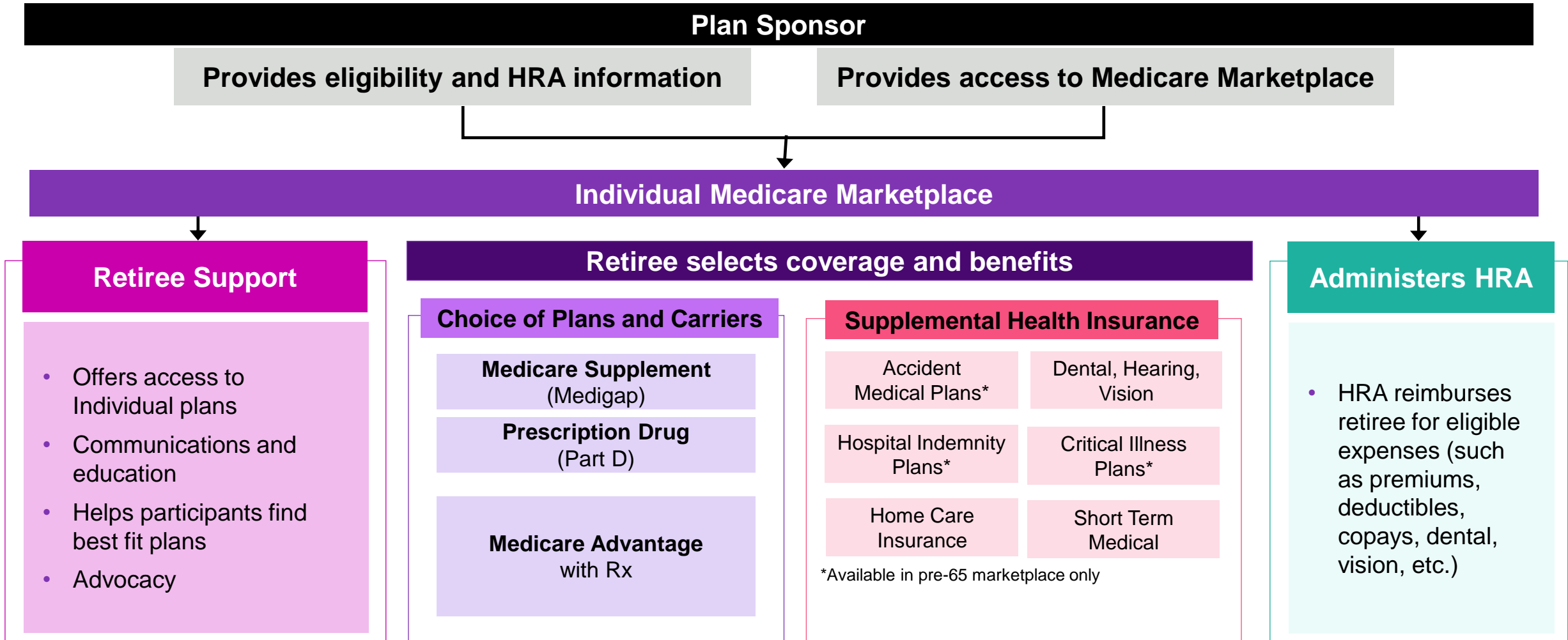
How does an HRA work?

| | |
|---|---|
| 1. Employer sets up the HRA | The employer creates an HRA and establishes parameters for the plan: <ul style="list-style-type: none">• Annual HRA amount• Define eligible expenses (premiums, out-of-pockets expenses, etc.)• Carryover provisions |
| 2. Retiree incurs expenses | Retiree enrolls in a Medicare plan (Medigap, Medicare Advantage, Part D, etc.) or incurs an eligible expense (Part B premium, copay, coinsurance, etc.) and pays the insurance carrier or provider directly |
| 3. Retiree submits for reimbursement | Retiree submits a claim to the HRA administrator, providing documentation of the medical expense, such as a receipt or invoice |
| 4. Retiree reimbursed | The administrator reviews the claim to ensure it is eligible under the plan rules, and then reimburses the retiree for the approved amount. <ul style="list-style-type: none">• Some HRA administrators have an automatic reimbursement process |

Ways to enroll into an Individual Medicare Plan

| Directly with an insurance carrier | Through a local insurance agent/broker | Through a Marketplace |
|---|--|--|
| One carrier choice | May have several carriers to choose from | Have many carriers to choose from |
| Not agnostic. May or may not have plan decision tools to help guide the retiree to the best plan choice for their needs within the carrier offerings. | Can be agnostic but typically aware of commission schedule for each plan. May or may not have plan decision tools to help guide the retiree to the best plan choice for their needs. | Agnostic Benefit Advisors use technology tools to look up retiree's doctors, RX, and compare plans to help guide the retiree to the best plan for their needs. Retirees can also use web based tools for plan decision guidance. For some Marketplaces, Benefit Advisors are salaried employees and blind to the commission schedule of a plan. Robust reporting available for the employer (plan choice disposition, etc.). |
| HRA administration not included | HRA administration not included | HRA administration typically included |
| May not have best pricing compared to other carriers in geography – retiree will need to shop carrier options on their own. | Broker can compare plan options for the retiree based on the number of plans that they represent. May not represent all options that would otherwise be available to the retiree. | Carriers compete side by side on a Marketplace, thus providing more plan options for a retiree to choose from. |

How does the Individual Medicare Marketplace work?



A process for shaping the retiree experience

Personalized support for each and every retiree every step of the way



Benefit advisors (BAs) are . . .



BAs must be fully licensed, appointed and certified to speak to retirees and dependents

BAs for Via Benefits

- Multiple background checks
- Experts: Medicare/CMS, senior sensitivity/client culture
- Carrier-agnostic: sell every carrier/option in each state
- Salaried plus service metrics bonus
- 100% of workforce located in U.S.
- Average age: 43
- Licensed in multiple states; carrier-certified and appointed

State Licensure

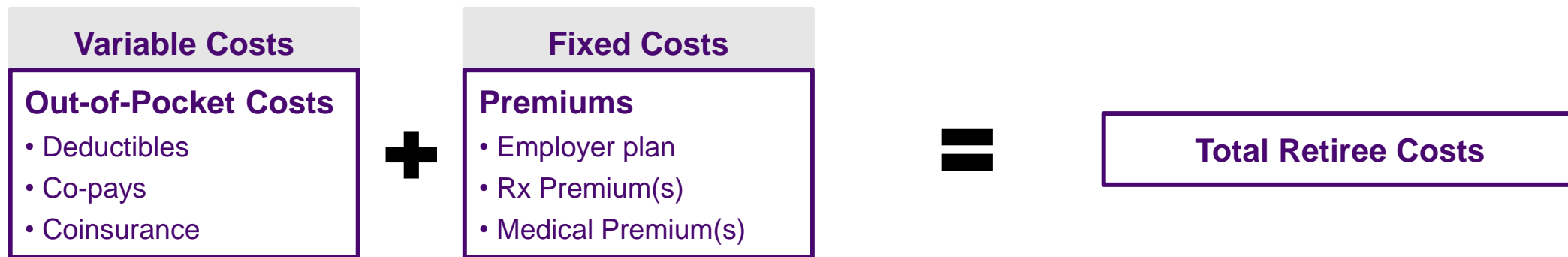
- Must be cleared via state background check
- Must pass State Life, Accident and Health exam
- BAs must be licensed in all states they conduct business
- BA licensure dependent upon client footprint

Carrier Appointment and Certification

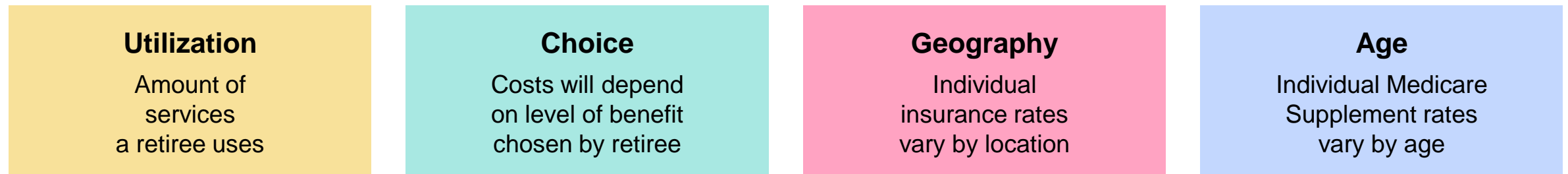
- Additional background checks
- Requires annual product training and certification
- Training attendance and testing is tracked and reported
- 40+ certification tests

Overview of the marketplace modeling process

Calculate the financial impact of moving from the current group sponsored plan to a new plan that subsidizes the purchase of individual insurance



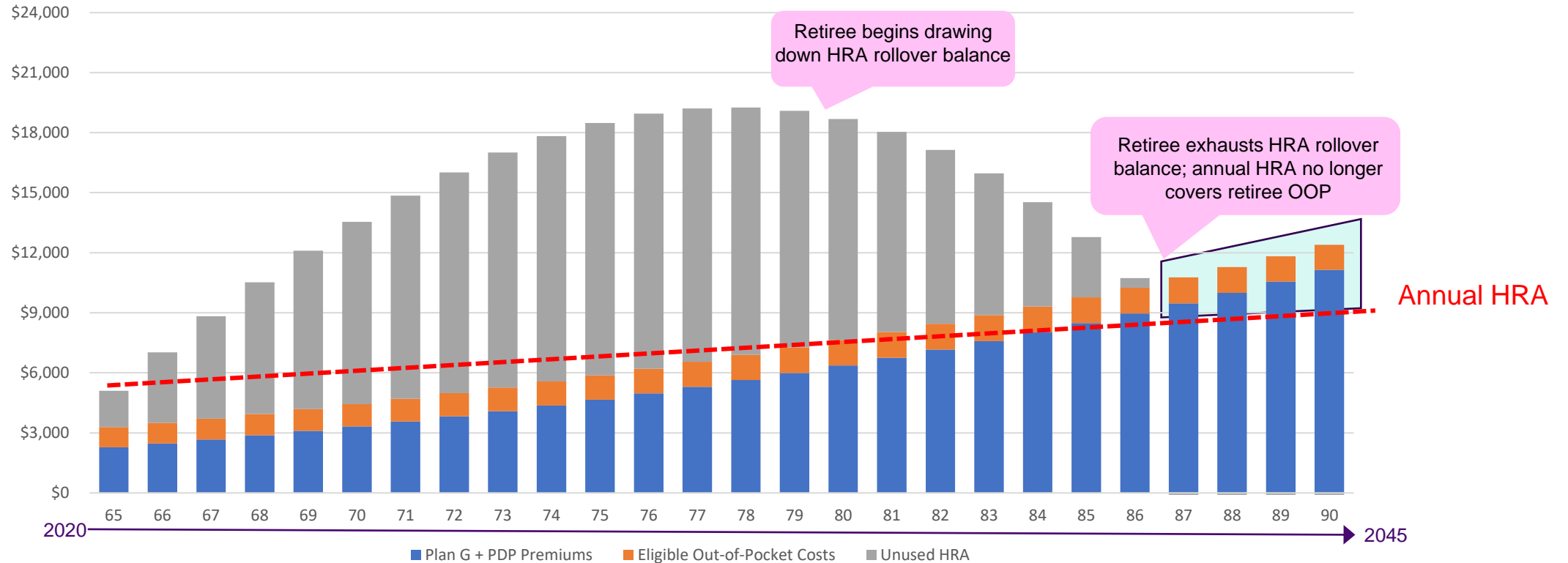
Variables that determine costs:



Retiree impact analysis – Long term view (illustrative)

Presented to RBSC on 9/27/2021

Retiree healthcare costs and unused HRA by age

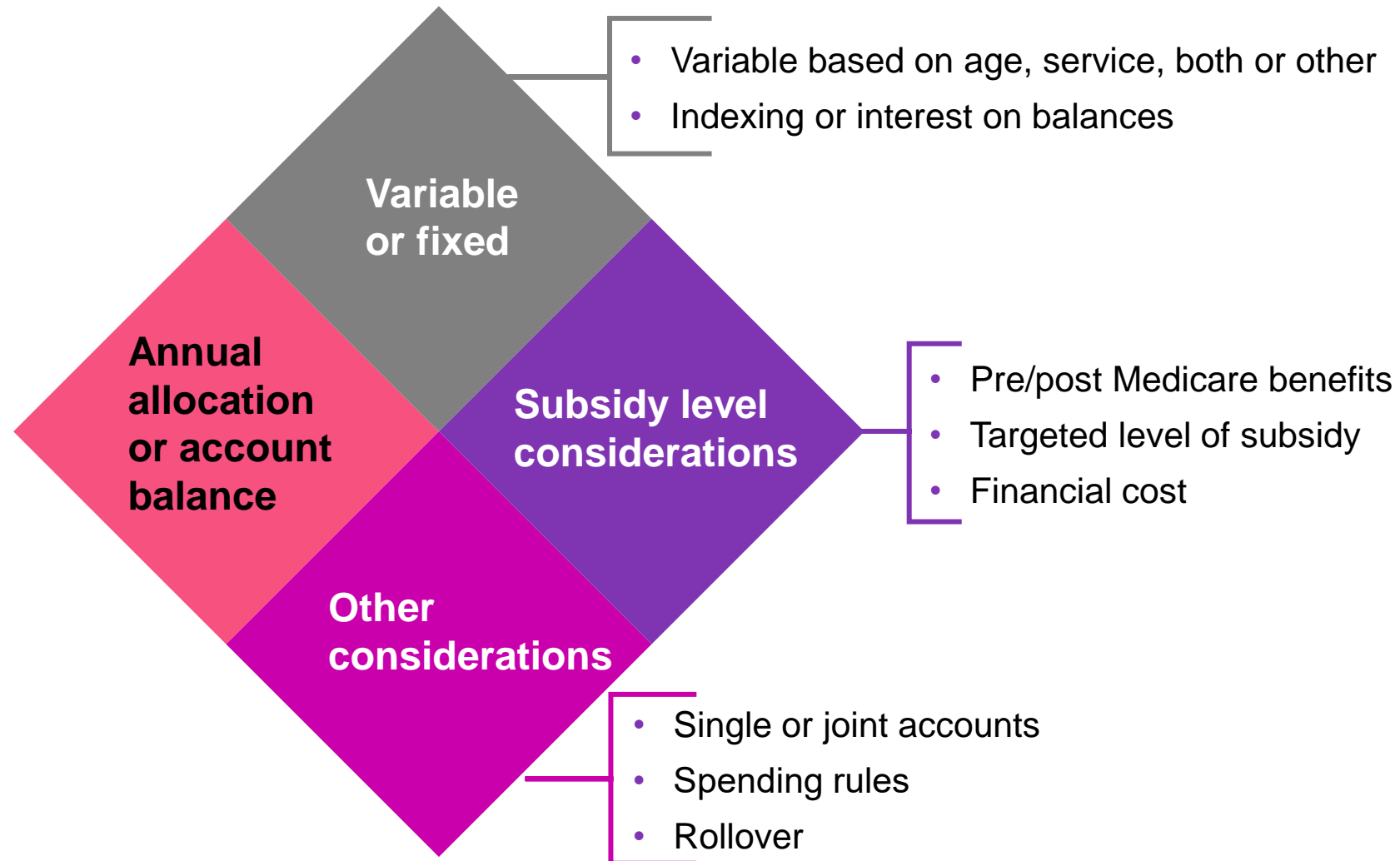


- Medigap/Medicare Advantage premiums and average out-of-pocket expenses generally increase with age and health care trend
- Retiree may not use full HRA allotment in certain years; unused HRA amount rolls over and accumulated HRA balance can be used to pay for qualified premiums and out-of-pocket expenses 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 all 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 Medicaid plan offering

Subsidy design considerations

Health Reimbursement Arrangement (HRA)/Retirement Medical Savings Account (RMSA)



OPEB Eligibility Options

| Option | Option Description | Other Considerations | Approx. 2052 OPEB Liability Reduction ^{1, 2} | 2052 Approx. Funded Ratio ^{1, 2} | Potential Impacted Cohorts |
|--|---|---|--|--|---|
| Baseline | Do nothing | | N/A | ▪ N/A | ▪ N/A |
| Eligibility changes | | | | | |
| Reduce Spousal State Share Subsidy to 50% | Applies only to future non-Medicare and Medicare retirees | <ul style="list-style-type: none"> Does not include active employee spousal state share or current retirees Consider effective date of 1/1/2025 Model A: Employees hired on or after 1/1/2015 Model B: New retirees on or after 1/1/2025 | <ul style="list-style-type: none"> A: \$1.8B B: \$2.7B | <ul style="list-style-type: none"> A: 18.9% B: 19.5% | <ul style="list-style-type: none"> Current & future employees Future retirees |
| Increase the Graduated State Share based on Years of Service | Adjust State Share eligibility schedule to 20 years = 50%, 25 years = 75% and 30 years = 100% | <ul style="list-style-type: none"> Applies only to future non-Medicare and Medicare retirees Consider effective date of 1/1/2025 Model A: Employees hired on or after 1/1/2015 Model B: Employees hired on or after 1/1/2025 | <ul style="list-style-type: none"> A: \$ 3.8B B: \$ 3.0B | <ul style="list-style-type: none"> A: 20.2% B: 19.7% | <ul style="list-style-type: none"> Future retirees |
| Eliminate Future Vested Retirees from eligibility for healthcare | Anyone who terminates employment with State and is entitled to a future pension benefit will not have access to health coverage | <ul style="list-style-type: none"> Consider effective date of 1/1/2025 Applies to all former employees not drawing a pension benefit as of effective date Applies only to future non-Medicare and Medicare retirees Model A: Employees who leave State employment on or after 1/1/2025 and do not immediately draw a pension, lose the ability to receive State healthcare with any State subsidy when they eventually draw a State pension Model B: Employees who leave State employment prior to 1/1/2025 and was not eligible to draw a pension prior to 1/1/2025. Office of Pensions estimates impact to be about 4,000 former State employees | <ul style="list-style-type: none"> A: \$1.5B B: \$1.8B | <ul style="list-style-type: none"> A: 18.68% B: 18.91% | <ul style="list-style-type: none"> Current & former employees |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Appendix

Questions

State of Delaware

1

We are now talking about the Individual Marketplace and the Medicare Marketplace. What is the difference? Can we start to map out pros and cons, similarities and differences?

The Individual Marketplace and the Medicare Marketplace are terms that can be used interchangeably. A Marketplace is simply a platform where carriers can offer their plans. Retirees have access to more choice with the help of a Benefit Advisor who can advocate for the retiree and assist the retiree in making an informed plan decision that best meets the retiree's needs. A retiree can also use the Marketplace platform's web tools to assist in informed plan decisions.

Questions

State of Delaware

2

What is the typical way in which the HRA would be administered and funding made available to the retiree and does this differ depending upon individual or Medicare marketplace?

Plan sponsors will determine HRA plan eligibility, plan funding qualification and funding rules. Contribution amounts can be credited to the participant accounts based on an individual participant's eligible HRA contributions and the plan sponsor qualification requirements. This is essentially an accounting function to record contribution information. The HRA is notional, so there is no actual cash flow associated with the process as this point.

Plan sponsors can make all HRA funds available at the beginning of the year or fund the account quarterly or monthly. The SEBC has flexibility to select the funding scenario that is right for you. We have clients using all options, but the majority fund annually.

Actual cash flow occurs when HRA reimbursement claims are processed.

3

Are there any material differences in the way an HRA would work for a pre-65 retiree versus a Medicare retiree?

The process for using an HRA account and seeking reimbursement is the same for both Medicare-eligible and Pre-Medicare retirees with the exception of those pre 65 retirees that qualify for a Premium Tax Credit (PTC) have to choose their employer's HRA OR the PTC, they can not have both.

This is only applicable if the employer decides to use a Marketplace for their pre 65 retirees as PTC's only apply to Individual Marketplace Plans.

Questions

State of Delaware

4

What options would the State have to ensure concierge services/navigator assistance to retirees on how to choose plans in either Marketplace?

The State can elect to evaluate the various concierge services available.

5

How do guaranteed issue rights work when an employer sends their retirees to the Marketplace?

Termination of the group plan allows for a special enrollment period during which all plans are offered on a guaranteed issue basis. Retirees will not be subject to any underwriting requirements.

Questions

State of Delaware

6

Does the employer offering the Marketplace as an option in addition to continuing to offer employer sponsored health coverage versus discontinuing the offer of employer sponsored coverage impact special enrollment rights? Guaranteed issue rights?

Yes. It is the termination of the group plan that creates a special enrollment period that provides guaranteed issue rights to Medigap plans. If the SEBC elects to offer a marketplace plan alongside the existing group plans, retirees will have access to guaranteed issue Medicare Advantage and Medicare Part D plans during the annual open enrollment period but may be subject to underwriting for Medigap plans.

7

Can an individual change plans within the Marketplace without going through underwriting? If not, what are the specific details that would trigger the underwriting requirement? Most notably retirees are interested in understanding if the retiree enrolls in a MA plan under what circumstances would the retiree be prohibited from switching to a Supplement plan. Is this permitted at plan year end, only after underwriting (which could prohibit the change or perhaps assess a higher premium)?

During subsequent annual enrollment periods, Medicare Advantage plans and Medicare Part D plans are available on a guaranteed issue basis. Retirees changing from one Medigap plan to a different Medigap plan or from a Medicare Advantage plan to a Medigap plan may be subject to medical underwriting. Some states and some carriers have rules in place that permit retirees to enroll in Medigap plans without underwriting.

Questions

State of Delaware

8

If the employer continues to offer the option of employer sponsored coverage along with the option to choose an HRA and go to the Marketplace, what should the employer consider in terms of movement by retirees from the employer sponsored options to the HRA/Marketplace options and vice versa? Or it is typical that once the retiree chooses the Marketplace, that they cannot move back into employer sponsored coverage if that option is still available?

Typically, when a marketplace is offered alongside the current group plan the majority of retirees will remain in the group plan as it is familiar. The plan sponsor determines if retirees can return to the group plan in following years after joining a marketplace plan.

9

Similar to the above question, what should the retiree consider in terms of movement to the HRA/Marketplace?
(are there other considerations in addition to Q5-7 above?)

Retirees should consider their health care needs and budget and choose the plan that provides for their health care needs at an affordable price for their budget.