

SEBC Retiree Healthcare Benefits Advisory Subcommittee (RHBAS)

July 10, 2023

Options to Reduce OPEB Liability

Reviewed at May 19 and June 5, 2023 RHBAS Meetings

• Funding Options

| Option | Option Description | Other Considerations | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|--|--|----------------------|--|--|--|--|
| Baseline | State Funding Rate of Payroll at 0.36% | | | ▪ \$0 | ▪ 17.8% | ▪ Taxpayers |
| 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% | | ▪ \$0.4B | ▪ \$10.4B | ▪ 59.8% (42%) | ▪ Taxpayers including current State employees and DE resident State retirees |
| 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% | | ▪ \$2.8B | ▪ \$10.5B | ▪ 93.2% (75.4%) | ▪ Taxpayers including current State employees and DE resident State retirees |
| 3% additional funding (not previously modeled) | Assumes 3% of prior fiscal year state budget (\$143.1M based on \$4.7B budget for FY22); projected to grow at 3.6% | | ▪ \$3.6B | ▪ \$10.5B | ▪ 101.7% (83.9%) | ▪ Taxpayers including current State employees and DE resident State retirees |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at June 5, 2023
RHBAS Meeting

• Eligibility Changes

| Option | Option Description | Additional Assumption Details | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|--|--|---|---|---|---|---|
| Baseline | State Funding Rate of Payroll at 0.36% | | ▪ \$0 | ▪ \$0 | ▪ 17.8% | Taxpayers |
| Reduce Spousal State Share Subsidy to 50% | Applies only to future non-Medicare and Medicare retirees | <ul style="list-style-type: none"> ▪ Model A: Hire date after 1/1/2015 ▪ Model B: Hire date after 1/1/2025 ▪ Model C: Retirement date after 1/1/2025 | Model A: \$0.1B Model B: \$0.0B Model C: \$1.0B | Model A: \$1.8B Model B: \$1.1B Model C: \$2.7B | Model A: 18.9% (1.1%) Model B: 18.5% (0.7%) Model C: 19.5% (1.7%) | Varies by model – 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"> ▪ Model A: Hire date after 1/1/2015 ▪ Model B: Hire date after 1/1/2025 ▪ Model C: Retirement date after 1/1/2025 | Model A: \$0.2B Model B: \$0.0B Model C: \$1.3B | Model A: \$3.8B Model B: \$3.0B Model C: \$4.6B | Model A: 20.2% (2.4%) Model B: 19.7% (1.9%) Model C: 20.8% (3.0%) | Varies by model – current/future employees; future retirees |
| 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 | <ul style="list-style-type: none"> ▪ Model A: Hire date after 1/1/2015 ▪ Model B: Hire date after 1/1/2025 ▪ Model C: Retirement date after 1/1/2025 | Model A: \$0.1B Model B: \$0.0B Model C: \$0.1B | Model A: \$1.6B Model B: \$1.2B Model C: \$1.5B | Model A: 18.7% (0.9%) Model B: 18.5% (0.7%) Model C: 18.7% (0.9%) | Varies by model –current/former employees; future retirees |
| Increase minimum required age | Future retirees only State Police to age 55, All Other employees to age 60 | <ul style="list-style-type: none"> ▪ Model A: Hire date after 1/1/2015 ▪ Model B: Hire date after 1/1/2025 ▪ Model C: Retirement date after 1/1/2025 | Model A: \$0.1B Model B: \$0.0B Model C: \$1.2B | Model A: \$2.5B Model B: \$2.3B Model C: \$2.5B | Model A: 19.3% (1.5%) Model B: 19.2% (1.4%) Model C: 19.3% (1.5%) | Varies by model –current/former employees; future retirees |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at June 5, 2023
RHBAS Meeting

• Benefit Design Options

| Option | Option Description | Additional Assumption Details | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|--|--|--|---|---|---|---|
| Baseline | State Funding Rate of Payroll at 0.36% | | | \$0 | 17.8% | <ul style="list-style-type: none"> ▪ Taxpayers |
| Move to HRA/Individual Marketplace, with 2% annual indexing of HRA | \$5,100 ³ annual HRA for each eligible member and 2% annual indexing ³ | <ul style="list-style-type: none"> ▪ Model A: Hire date on/after 1/1/2015 ▪ Model B: Hire date on/after 1/1/2025 ▪ Model C: Retirement date on/after 1/1/2025 | Model A: \$0.4B Model B: \$0.0B Model C: \$2.0B | Model A: \$10.9B Model B: \$10.0B Model C: \$13.1B | Model A: 27.2% (9.4%) Model B: 26.0% (8.2%) Model C: 30.4% (12.6%) | Varies by model - current & future employees; future retirees |
| Move to HRA/Individual Marketplace, with 4% annual indexing of HRA | \$5,100 ³ annual HRA for each eligible member and 4% annual indexing ³ | <ul style="list-style-type: none"> ▪ Model A: Hire date on/after 1/1/2015 ▪ Model B: Hire date on/after 1/1/2025 ▪ Model C: Retirement date on/after 1/1/2025 | Model A: (\$0.2B) Model B: \$0.0B Model C: (\$0.1B) | Model A: (\$0.6B) Model B: \$0.0B Model C: (\$0.6B) | Model A: 17.4% (0.4%) Model B: 17.8% (0.0%) Model C: 17.4% (0.4%) | Varies by model - current & future employees; future retirees |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

³ Previously published as \$4,900 on June 5, 2023

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Benefit Design Options

| Option | Option Description | Additional Assumption Details | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|---|---|--|---|---|--|---|
| Baseline | State Funding Rate of Payroll at 0.36% | | | ▪ \$0 | ▪ 17.8% | ▪ Taxpayers |
| Offer a Medigap Supplement Plan similar to existing Special Medicfill Plan ³ | Reduce State Share from 95% to 90% and increase Pensioner Share from 5% to 10% for retirees with 20+ years of State Service at time of retirement | <ul style="list-style-type: none"> ▪ Model A: Hire date on/after 1/1/2015 ▪ Model B: Hire date on/after 1/1/2025 ▪ Model C: Retirement date on/after 1/1/2025 | Model A: \$0.0B Model B: \$0.0B Model C: \$0.0B | Model A: \$1.1B Model B: \$1.0B Model C: \$1.1B | Model A: 18.5%(0.7%) Model B: 18.4%(0.6%) Model C: 18.5%(0.7%) | Varies by model - current & future employees; future retirees |
| Offer a Medigap Supplement Plan similar to existing Special Medicfill Plan ³ | Reduce State Share from 95% to 85% and increase Pensioner Share from 5% to 15% for retirees with 20+ years of State Service at time of retirement | <ul style="list-style-type: none"> ▪ Model A: Hire date on/after 1/1/2015 ▪ Model B: Hire date on/after 1/1/2025 ▪ Model C: Retirement date on/after 1/1/2025 | Model A: \$0.0B Model B: \$0.0B Model C: \$0.4B | Model A: \$2.1B Model B: \$2.1B Model C: \$2.6B | Model A: 19.1%(1.3%) Model B: 19.1%(1.3%) Model C: 19.4%(1.6%) | Varies by model - current & future employees; future retirees |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

³ Modeling and actuarial assumptions use the existing Special Medicfill Medicare Supplement plan design.

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Benefit Design Options

| Option | Option Description | Additional Assumption Details | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|--|---|--|---|---|--|---|
| Baseline | State Funding Rate of Payroll at 0.36% | | | ▪ \$0 | ▪ 17.8% | ▪ Taxpayers |
| Offer a Medicare Advantage Plan similar to the formerly proposed Highmark BCBS Delaware Freedom Blue PPO | State Share remains at 95% Pensioner Share at 5% for retirees with 20+ years of State Service at time of retirement | <ul style="list-style-type: none"> ▪ Model A: Hire date on/after 1/1/2015 ▪ Model B: Hire date on/after 1/1/2025 ▪ Model C: Retirement date on/after 1/1/2025 | Model A: \$0.2B Model B: \$0.0B Model C: \$2.0B | Model A: \$7.4B Model B: \$6.8B Model C: \$9.5B | Model A: 23.2%(5.4%) Model B: 22.7%(4.9%) Model C: 25.5%(7.7%) | Varies by model - current & future employees; future retirees |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Other Funding Options

| Option | Option Description | Other Considerations | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|---|--|----------------------|--|--|--|------------------|
| Baseline | State Funding Rate of Payroll at 0.36% | | | ▪ \$0 | ▪ 17.8% | ▪ Taxpayers |
| Increase State funding rate of payroll to OPEB from 0.36% to 1% | | | ▪ \$0.1B | ▪ \$1.1B | ▪ 25.5% (7.7%) | ▪ Taxpayers |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Eligibility and Benefit Design Option Combination

| Option | Option Description | Additional Assumption Details | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|--|---|---|--|--|--|---|
| Baseline | State Funding Rate of Payroll at 0.36% | | | ▪ \$0 | ▪ 17.8% | ▪ Taxpayers |
| Offer a choice between a Medigap Supplement Plan similar to existing Special Medicfill Plan ³ or a Medicare Advantage Plan similar to the formerly proposed Highmark BCBS Delaware Freedom Blue PPO | For the Medigap Supplement Plan, reduce State Share from 95% to 85% and increase pensioner share from 5% to 15% for retirees with 20+ years of State service at the time of retirement. For the Medicare Advantage Plan, State Share remains at 95% and pensioner share at 5% for retirees with 20+ years of State service at the time of retirement. | <ul style="list-style-type: none"> ▪ Model C: Retirement date on/after 1/1/2025 ▪ That 90% of retirees enroll in Medigap plan paying 15% of Medigap plan and 10% of retirees enroll in MA paying 5% of the MA plan: | ▪ Model C: \$0.6B | ▪ Model C: \$3.6B | ▪ Model C: 20.0% (2.2%) | ▪ Current & future employees; future retirees |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

³ Modeling and actuarial assumptions use the existing Special Medicfill Medicare Supplement plan design.

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Eligibility and Benefit Design Option

| Option | Option Description | Other Considerations | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|--|---|---|---|---|---|--|
| Baseline | State Funding Rate of Payroll at 0.36% | | | ▪ \$0 | ▪ 17.8% | ▪ Taxpayers |
| Offer a choice between a Medigap Supplement Plan similar to existing Special Medicfill Plan ³ or a Medicare Advantage Plan (MA) similar to the formerly proposed Highmark BCBS Delaware Freedom Blue PPO. | <ul style="list-style-type: none"> All current retirees after 7/1/2012 and who are 65 years old/Medicare eligible – pay 5% and state pays 95%. Retire on or after 1/1/25 and at least 60 years old but not yet 65 – when they become Medicare eligible, pay current 5% plus 25% of state share if they choose the Medigap plan. Retire on or after 1/1/25 and at least 55 but not yet age 60 –when they become Medicare eligible, pay current 5% plus 50% of state share if they choose a Medigap plan. Retire on or after 1/1/25 and at least 50 but not yet age 55 - when they become Medicare eligible, pay current 5% plus 75% of state share if they choose a Medigap plan. Retire on or after 1/1/25 and less than 50 years of age – when they become Medicare eligible, pay current 5% plus 95% of state share if they chose a Medigap plan. <p>NOTE: MA available to all retirees with 5% pensioner share.</p> | <ul style="list-style-type: none"> Model C: Retirement date after 1/1/2025 | <ul style="list-style-type: none"> Model C: \$1.2B | <ul style="list-style-type: none"> Model C: \$6.9B | <ul style="list-style-type: none"> Model C: 22.8% (5%) | <ul style="list-style-type: none"> Current & future employees ; future retirees |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

³ Modeling and actuarial assumptions use the existing Special Medicfill Medicare Supplement plan design.

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Funding, Eligibility and Benefit Design Option Combination

| Option | Option Description | Additional Assumption Details | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|--------------------------------|---|---|--|--|--|-----------------------------------|
| Baseline | State Funding Rate of Payroll at 0.36% | | | ▪ \$0 | ▪ 17.8% | ▪ Taxpayers |
| Funding: 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% | <ul style="list-style-type: none"> ▪ Model C: Retirement date on/after 1/1/2025 | ▪ Model C: \$1.6B | ▪ Model C: \$11.9B | ▪ Model C: 64.1% (46.3%) | Future employees; future retirees |
| Eligibility: | Reduce Spousal State Share Subsidy to 50% for Spouses when Retirement date on/after 1/1/2025 | <ul style="list-style-type: none"> ▪ Reduce State Share from 95% to 90% and increase Pensioner Share from 5% to 10% for retirees with 20+ years of State Service at time of retirement | | | | |
| Plan Design: | Offer a Medigap Supplement Plan similar to existing Special Medicfill Plan | | | | | |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

• Other Funding Options

| Option | Option Description | Additional Assumption Details | Approx. 2025 OPEB Liability Reduction ^{1,2} | Approx. 2052 OPEB Liability Reduction ^{1,2} | 2052 Approx. Funded Ratio ^{1,2} | Impacted Cohorts |
|---|---|-------------------------------|--|--|--|------------------|
| | | | | | | |
| Increase State funding rate of payroll to OPEB from 0.36% to 1% beginning July 1, 2024 and an additional 1% each fiscal year thereafter until reaching a 10% funding level. | OPEB OEC Rate: FY24 = 0.36% FY25 = 1.0% FY26 = 2.0% FY27 = 3.0% FY28 = 4.0% FY29 = 5.0% FY30 = 6.0% FY31 = 7.0% FY32 = 8.0% FY33 = 9.0% FY34 = 10.0% FY35 = 10.0% | | ▪ \$3.6B | ▪ \$10.6B | ▪ 131.6% | ▪ Taxpayers |

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

RHBAS Work Plan for Remaining Meetings

- July 10 - Modeling combinations/ start discussing recommendations
- July 20 - Recommendation discussion/additional public comment time
- August 10 - Recommendation vote
- August 24 - Draft report presented/additional public comment time
- September ? - Report discussion
- September ? - Approve report

***This schedule is an outline and is subject to change**

Appendix

Other Employment Costs

Contributions paid based on the employee's pay assuming \$50,000 annual salary

| Type of Contribution | FY23 Employer Rate | State of Delaware Pays | Employee Pays |
|-------------------------------|--------------------|------------------------|---------------------------|
| Pension Contribution | 11.15% | \$5,575 | \$1,320 or \$2,200 |
| Disability Insurance Program | 0.90% | \$450 | \$0 |
| Post Retirement Increase | 1.00% | \$500 | \$0 |
| OPEB (Prefund Health) | 0.36% | \$180 | \$0 |
| Retiree Health (PayGo) | 9.21% | \$4,605 | Based on elections |
| Medicare, FICA, WC, UI | 9.31% | \$4,655 | \$3,732 |
| Total OEC's | 31.93% | \$15,965 | \$5,052 or \$5,932 |

Options to Reduce OPEB Liability

Illustrative rate sheet for
Medigap plan based on age at
retirement – Slide 9

| Type of Coverage | Age at Retirement on or after January 1, 2025 | Total Cost | State Share | Pensioner Share |
|---|--|------------|-------------|-----------------|
| Individual Medigap Supplement ² | Age 65+ ¹ (Retiree pays 5% cost share) | \$459.38 | \$436.42 | \$22.96 |
| Individual Medigap Supplement ² | Age 60-up to 65 (Retiree pays 25% state share + 5% cost share) | \$459.38 | \$327.32 | \$132.06 |
| Individual Medigap Supplement ² | Age 55-up to 60 (Retiree pays 50% state share + 5% cost share) | \$459.38 | \$218.21 | \$241.17 |
| Individual Medigap Supplement ² | Age 50-up to 55 (Retiree pays 75% state share + 5% cost share) | \$459.38 | \$109.11 | \$350.27 |
| Individual Medigap Supplement ² | Less than age 50 (Retiree pays 100% premium) | \$459.38 | \$0.00 | \$459.38 |

¹ Applies to current retirees after 7/1/2012

² Modeling and actuarial assumptions use the existing Special Medicfill Medicare Supplement plan design