

Document Submitted
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**CRITIQUE OF 6/5, 6/23, and 7/10/2023 RHBAS OPTIONS TO REDUCE THE
OPEB LIABILITY - PREPARED BY ROBERT CLARKIN, 7/9/2023**

Below is a chart with the data from the slides from the 6/5, 6/23, and 7/10/2023 RHBAS meetings containing Options to Reduce the OPEB Liability. I thought it might be helpful during Monday's meeting to have the data in one chart rather than scattered across all the slides in the RHBAS 7/10 presentation.

I made a number of comments about the data in red in the my chart. During the 6/23 meeting, Rick Geisenberger stated that the baseline 2052 liability is \$33B, so I included 4 columns at the end of the chart which indicate the 2052 Liability, 2052 Unfunded Liability, 2052 Market Value, and the 2052 Funded Ratio based on the data in the RHBAS slides.

Here are some observations about the data:

1. The liability in the RHBAS slides is computed out 30 years to 2052. The RBSC reports and Cheiron valuation reports all compute the liability out 20 years to 2042. Why the switch to 30 years.
2. The Baseline used in the RHBAS slides is based on current coverage with a State OEC rate of 0.36%. Senate Bill 175 codifies the 1% carveout, so beginning in FY23 and going forward, the baseline is a 0.36% OEC rate plus the 1% carveout. The RHBAS slides should be updated to reflect the new (actual) Baseline.
3. A new column, 2025 Liability Reduction, has been added to the 7/10 slides. I do not know the reason for including a column that computes the liability out 2 years to 2025.
4. During the 6/23 RHBAS meeting, the Lt. Governor mentioned that she, the co-chairs, and Dave Craik had discussed a fully funded model within ten years. This model is not included in the 7/10 slides.
5. All of the much touted Eligibility Changes reflect very minimal improvements to their 2052 funding ratios. Implementing these changes are useless at best.
6. The move to HRA Benefit Change reflects moderate to no improvements to the 2052 funding ratio. Implementing these changes have no advantage over Medicfill.
7. Offering a choice between Medicfill and MA with increases in retiree premium shares reflect minimal improvement to the 2052 funding ratio.

8. Offering MA only reflects minimal improvement to the 2052 funding ratio.
9. A new option of increasing the OEC rate from 0.36% to 10% incrementally over 10 years has been added to the slides. The 2052 funded ratio associated with this option of 131.6% appears to be wrong. Based on the 2052 Liability Reduction of \$10.6B, the 2052 funded ratio should be 52.7%.
10. None of the options on the slides reach full 100% liability funding, or the preferred goal of 85% funding.
11. The only options that reflect meaningful changes to the 2052 funding ratios are increasing the OEC contribution and/or increasing the 1% carveout. Rather than picking new OEC and carveout rates out of the blue to see how they affect the 2052 funding ratio, the RHBAS should ask three basic questions and move on from there:
 - * In order to reach an 85% funding ratio by 2052 (or 2042), what does the OEC rate need to be?
 - * In order to reach an 85% funding ratio by 2052 (or 2042), what does the carveout rate need to be?

Once the RHBAS has this data, then determine:

- * In order to reach an 85% funding ratio by 2052 (or 2042), what combination of an OEC rate and a carveout rate is optimal and doable to reach 85% and generate annual Trust Fund Capital Gains to cover the Pay-Go costs, in whole or in part.

RHBAS OPTION TO REDUCE OPEB LIABILITY (6/5, 6/23, and 710 Meeting Slides) - Bob Clarkin - 7/9/23

OPTION	DESCRIPTION	CONSIDERATIOS	2025 LIABILITY REDUCTION	2052 LIABILITY REDUCTION	2052 FUNDED RATIO *	COLUMN F MINUS 17.8% BASELINE	COMMENTS	2052 LIABILITY	2052 UNFUNDED LIABILITY	2052 MARKET VALUE	2052 FUNDED RATIO
A	B	C	D	E	F	G		H	I	J	K
FUNDING OPTIONS											
			Why 2025?	Why 2052?							
Baseline	State Funding Ratio of Payroll at 0.36%	Current Funded Ratio = 6.5%		\$0	17.8%			\$33.0 B **	\$27.1 B	\$5.9 B	17.8%
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%	Discount rate increases to 5.64%, then 7% beginning 2036. Continue annual 0.36% payroll contribution.	\$0.4 B	\$10.4 B	59.8%	42.0%	The 2052 liability reduction is moderate. The 2025 reduction is inconsequential.	\$22.5 B	\$9.0 B	\$13.5 B	59.8%
2% Additional Funding	Assumes 2% of prior fiscal year state budget (\$95.4M based on \$4.7B budget for FY22); projected to grow at 3.6%		\$2.8 B	\$10.5 B How does 10.5B reduction = 93.2% ratio?	93.2%	75.4%	1% results in a \$10.4B liability reduction. Why does doubling result in only a \$10.5B reduction?	\$22.5 B	\$1.45B	\$21.0 B	93.2%
3% Additional Funding	Assumes 3% of prior fiscal year state budget (\$143.1M based on \$4.7B budget for FY22); projected to grow at 3.6%		\$3.6 B	\$10.5 B How does 10.5B reduction = 101.7% ratio?	101.7%	83.9%	1% results in a \$10.5B liability reduction. Why does increasing to 3% result in only a \$10.5B reduction?	\$22.5 B	(\$0.4 B)	\$22.9 B	101.7%
ELIGIBILITY CHANGES											
Reduce Spousal State Share Subsidy to 50%	Applies only to future non-Medicare and Medicare retirees	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: \$0.1 B Model B: \$0.0 B Model C: \$1.0 B	Model A: \$1.8 B Model B: \$1.1 B Model C: \$2.7 B	Model A: 18.9% Model B: 18.5% Model C: 19.5%	Model A: 1.1% Model B: 0.7% Model C: 1.7%	The 2025 and 2052 liability reductions are minimal. The 2025 reductions are inconsequential.	31.2 B 31.9 B 30.3 B	25.3 B 26.0 B 24.4 B	5.9 B 5.9 B 5.9 B	18.9% 18.5% 19.5%
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%	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: \$0.2 B Model B: \$0.0 B Model C: \$1.3 B	Model A: \$3.8 B Model B: \$3.0 B Model C: \$4.6 B	Model A: 20.2% Model B: 19.7% Model C: 20.8%	Model A: 2.4% Model B: 1.9% Model C: 3.0%	The 2025 and 2052 liability reductions are minimal. The 2025 reductions are inconsequential.	29.2 B 30.0 B 28.4 B	23.3 B 24.1 B 22.5 B	5.9 B 5.9 B 5.9 B	20.2% 19.7% 20.8%
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	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: \$0.1 B Model B: \$0.0 B Model C: \$0.1 B	Model A: \$1.6 B Model B: \$1.2 B Model C: \$1.5 B	Model A: 18.7% Model B: 18.5% Model C: 18.7%	Model A: 0.9% Model B: 0.7% Model C: 0.9%	The 2025 and 2052 liability reductions are minimal. The 2025 reductions are inconsequential.	31.4 B 31.8 B 31.5 B	25.5 B 25.9 B 25.6 B	5.9 B 5.9 B 5.9 B	18.7% 18.5% 18.7%
Increase minimum required age	Future retirees only - State Police to age 55, All Other employees to age 60	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: \$0.1 B Model B: \$0.0 B Model C: \$1.2 B	Model A: \$2.5 B Model B: \$2.3 B Model C: \$2.5 B	Model A: 19.3% Model B: 19.2% Model C: 19.3%	Model A: 1.5% Model B: 1.4% Model C: 1.5%	The 2025 and 2052 liability reductions are minimal. The 2025 reductions are inconsequential.	30.5 B 30.7 B 30.5 B	24.6 B 24.8 B 24.6 B	5.9 B 5.9 B 5.9 B	19.3% 19.2% 19.3%
BENEFIT CHANGES											
Move to HRA/Individual Marketplace with 2% annual indexing of HRA	\$5,100 annual HRA for each eligible member and 2% annual indexing	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: \$0.4 B Model B: \$0.0 B Model C: \$2.0 B	Model A: \$10.9 B Model B: \$10.0 B Model C: \$13.1 B	Model A: 27.2% Model B: 26.0% Model C: 30.4%	Model A: 9.4% Model B: 8.2% Model C: 12.6%	The 2052 liability reduction is moderate. The 2025 reductions are inconsequential.	22.1 B 23.0 B 19.9 B	16.1 B 17.0 B 13.8 B	6.0 B 6.0 B 6.1 B	27.2% 26.0% 30.4%
Move to HRA/Individual Marketplace with 4% annual indexing of HRA	\$5,100 annual HRA for each eligible member and 4% annual indexing	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: (\$0.2 B) Model B: \$0.0 B Model C: (\$0.1 B)	Model A: (\$0.68 B) Model B: \$0.0 B Model C: (\$0.68 B)	Model A: 17.4% Model B: 17.8% Model C: 17.4%	Model A: (0.4%) Model B: 0.0% Model C: (0.4%)	There are no 2025 and 2052 liability reductions. Two option increase the liability.	34.0 B 33.0 B 34.0 B	28.2 B 27.1 B 28.1 B	5.8 B 5.9 B 5.9 B	17.4% 17.8% 17.4%
Offer a Medigap Supplement Plan similar to Existing Special Medicfill Plan	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	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: \$0.0 B Model B: \$0.0 B Model C: \$0.0 B	Model A: \$1.1 B Model B: \$1.0 B Model C: \$1.1 B	Model A: 18.5% Model B: 18.4% Model C: 18.5%	Model A: 0.7% Model B: 0.6% Model C: 0.7%	The 2025 and 2052 liability reductions are minimal. The 2025 reductions are inconsequential.	31.9 B 32.0 B 31.9 B	26.0 B 26.1 B 26.0 B	5.9 B 5.9 B 5.9 B	18.5% 18.4% 18.5%
Offer a Medigap Supplement Plan similar to Existing Special Medicfill 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 time of retirement	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: \$0.0 B Model B: \$0.0 B Model C: \$0.4 B	Model A: \$2.1 B Model B: \$2.1 B Model C: \$2.6 B	Model A: 19.1% Model B: 19.1% Model C: 19.4%	Model A: 1.3% Model B: 1.3% Model C: 1.6%	The 2025 and 2052 liability reductions are minimal. The 2025 reductions are inconsequential.	30.9 B 30.9 B 30.4 B	25.0 B 25.0 B 24.5 B	5.9 B 5.9 B 5.9 B	19.1% 19.1% 19.4%
Offer a Medicare Advantage Plan similar to the formally proposed Highmark BCBS Delaware Freedom Blue PPO	State Share remains at 95% Pensioner Share at 5% for retirees with 20 years of State service act time of retirement	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: \$0.2 B Model B: \$0.0 B Model C: \$2.0 B	Model A: \$7.4 B Model B: \$6.8 B Model C: \$9.5 B	Model A: 23.2% Model B: 22.7% Model C: 25.5%	Model A: 5.4% Model B: 4.9% Model C: 7.7%	The 2025 and 2052 liability reductions are minimal. The 2025 reductions are inconsequential.	25.6 B 26.2 B 23.5 B	19.7 B 20.3 B 17.5 B	5.9 B 5.9 B 6.0 B	23.2% 22.7% 25.5%

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OTHER FUNDING OPTIONS											
Increase state funding rate of payroll to OPEB from 0.36% to 1%			\$0.1 B	1.1 B	25.5%	7.7%	The 2025 and 2052 liability reductions are minimal. The 2025 reduction is inconsequential.	31.9 B	23.8 B	8.1 B	25.5%
ELIGIBILITY AND BENEFIT DESIGN OPTION COMBINATION											
Offer a choice between a Medigap Supplement Plan similar to existing Special Medicare Advantage plan similar to the formally proposed Highmark BCBS Delaware Freedom Blue PPO	For the Medigap Supplement Plan, reduce the state share from 95% to 85% and increase the 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 55 for retirees with 20 years of State service at the time of retirement	* Model C: Retirement date on/after 1/1/2025 * That 90% of retirees enroll in Medigap plan paying 15% and 10% of retirees enroll in Mac paying 5% of the MA plan	Model C: \$0.6 B	Model C: \$3.6 B	Model C: 20.0%	2.2%	The 2025 and 2052 liability reductions are minimal. The 2025 reduction is inconsequential.	29.4 B	23.5 B	5.9 B	20.0%
ELIGIBILITY AND BENEFIT DESIGN OPTION											
Offer a choice between a Medigap Supplement Plan similar to existing Special Medicare Advantage plan similar to the formally proposed Highmark BCBS Delaware Freedom Blue PPO	* All current retirees after 7/1/2012 and who are 65 years old/Medicare eligible - pay 5% and state pays 95%. * Retire on/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/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/after 1/1/25 and at least 50 but not yet 55 - when they become Medicare eligible, pay current 5% plus 75% of state share if they choose a Medigap plan. * Retire on/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 choose a Medigap plan. * MA available to all retirees with 5% pensioner share	Model C: Retirement state after 1/1/2025	Model C: \$1.2 B	Model C: \$6.9 B	Model C: 22.8%	5.0%	The 2025 and 2052 liability reductions are minimal. The 2025 reduction is inconsequential.	26.1 B	20.1 B	6.0 B	22.8%
FUNDING, ELIGIBILITY AND BENEFIT DESIGN OPTION COMBINATION - EXAMPLE ONLY											
* Funding: 1% Additional Funding * Eligibility: * Plan Design:	* Assumes 1% of prior fiscal year state budget (\$47.7M based on \$4.7B budget for FY22); projected to grow at 3.6% * Reduce Spousal State Share Subsidy to 50% for Spouses when Retirement date on/after 1/1/2025 * Offer a Medigap Supplement Plan similar to existing Special Medicare Advantage Plan	* Model C: Retirement date on/after 1/1/2025 * 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	Model C: \$1.6 B	Model C: \$11.9 B	Model C: 64.1%	46.3%	The 2052 liability reduction is moderate. The 2025 reduction is inconsequential.	21.1 B	7.6 B	13.5 B	64.1%

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OTHER FUNDING OPTIONS											
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 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%		\$3.6 B	\$10.6 B	131.6% This ratio is wrong. If the liability reduction in column E is correct, and the 2052 unfunded liability is \$33 B, then this ratio should be 52.7%.	113.8% This ratio is wrong. If the liability reduction in column E is correct, and the 2052 unfunded liability is \$33 B, then this ratio should be 34.9%.	The 2052 liability reduction is moderate (52.7%). The 2025 reduction is inconsequential.	22.4 B	10.6 B	11.8 B	52.7%
* Includes 0.36% payroll contribution											
** As per Sec. Geisenberger during 6/26 RHBAS meeting											