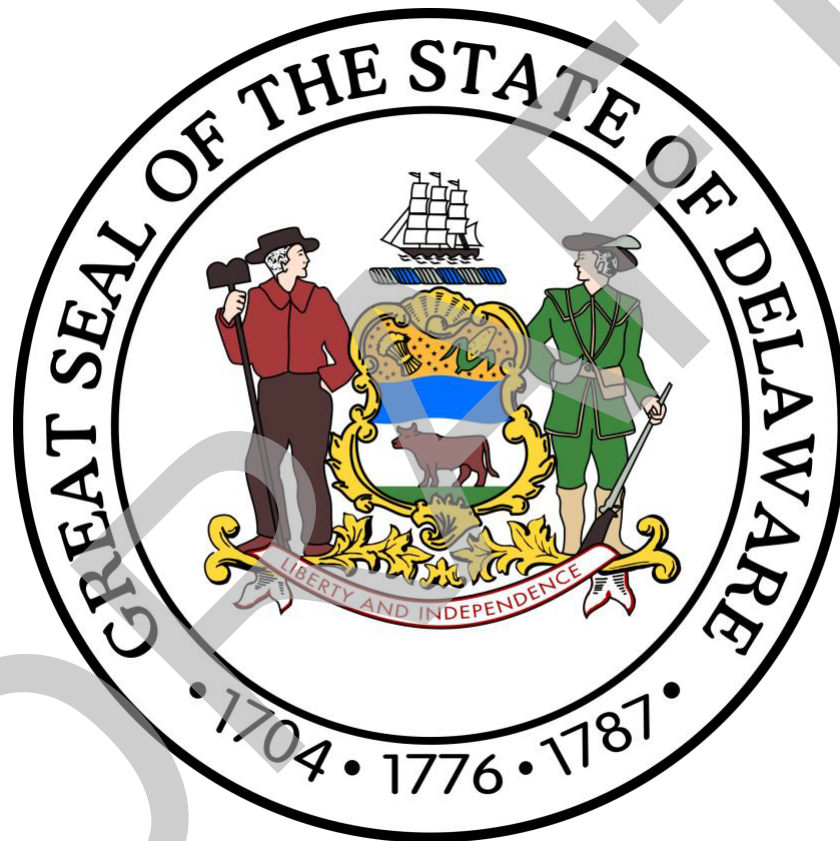


Report on Retiree Healthcare Benefits Advisory Subcommittee



Draft Updated: 10/18/23



STATE OF DELAWARE

SEBC RETIREE HEALTHCARE BENEFITS ADVISORY SUBCOMMITTEE

To: The Honorable John C. Carney, Jr., Governor
Members of the Delaware General Assembly

From: Lieutenant Governor Bethany Hall-Long, Chair
Senator Bryan Townsend, Co-Vice Chair
Representative Paul Baumbach, Co-Vice Chair

RE: SEBC Retiree Healthcare Benefits Advisory Subcommittee Report

The Retiree Healthcare Benefits Advisory Subcommittee (RHBAS, “the Subcommittee”) was established by Senate Bill 29 to conduct public meetings and engage public comment about current and future State retiree healthcare benefits while taking into consideration the previous work of the State Employee Benefits Committee (SEBC) and the Retirement Benefits Study Committee (RBSC).

We are pleased to submit this status report on the activities, findings, and recommendations from the Subcommittee thus far. The attached report is divided into eight sections – Report Background, Subcommittee Membership, Summary of Committee Activity, Goals Established by the Subcommittee, Studied Areas of Focus, Request for Proposal (RFP) Update, Recommendations to SEBC, Areas of Focus Requiring Further Action/Analysis. Appendix A with supporting documents follows.

As reported in the May 1, 2023, RHBAS Initial Report (the “Initial Report”), because the SEBC voted on April 24, 2023, to further extend the expired Special Medicfill Medicare Supplement contract for an additional six (6) months through June 30, 2024, the current level of State funding for Medicare retiree healthcare benefits will continue throughout Fiscal Year 2024.

We are pleased to report that the State is making some progress toward improving the funding of the Other Post-Employment Benefits (OPEB) Fund. Executive Order 52 and the Fiscal Year 2023 budget established a 1% set aside of the prior year’s General Fund operating budget for the Fund. The Initial Report recommended codifying this requirement. Subsequently, Senate Bill 175 was introduced on June 13, 2023 and signed into law by the Governor on July 17, 2023. The 1% budget and 0.36% payroll set-asides in both the Fiscal Year 2023 and 2024 budgets represent more than a seven-fold increase in annual contributions to the OPEB Fund. In addition, the State was recently able to contribute an additional \$101 million of one-time, extraordinary revenue to the OPEB Fund as authorized in the Fiscal Year 2022 Bond and Capital Improvement Act. As a result, OPEB Fund balances have more than doubled since July 1, 2017.

The Subcommittee will continue to meet to evaluate more options to address the State’s OPEB liability and additional elements of providing retirement health benefits to State retirees. The Subcommittee will advance further detailed findings and recommendations in a report expected to be issued **no later than [Date]**. A copy of this report and all materials reviewed by the Subcommittee are available at [DHR - Division of Statewide Benefits \(delaware.gov\)](https://dhr.delaware.gov).

Executive Summary

The RHBAS was charged with:

- Receiving public comment on current and future State retiree healthcare benefits
- Analyzing Medicare Advantage plans
- Evaluating the implications of extending the existing Medicare Supplement plan
- Evaluating options for continuing to provide retiree healthcare benefits in a fiscally sustainable way
- Issuing findings and recommendations to the Governor and the General Assembly

The Subcommittee first convened on March 6, 2023, and has held 18 meetings to date. All meetings included time for public comment.

The Subcommittee has approved the following actions and recommendations:

1. Set the OPEB funded ration target at a minimum of 80% and no requirement to reach the actuarially defined contribution.
2. Recommend that 1% minimum of the prior year's State operating budget is set aside each year to fund OPEB.
3. Recommend that current Medicare-eligible and pre-Medicare State retirees and State employees who retire prior to 1/1/2025 shall be entitled to Special Medicfill/Rx benefits (or a substantially equivalent Medicare Supplement with prescription plan) with no changes to the State Share percentage of payments when they are Medicare eligible.
4. Recommend that Delaware neither request nor consider a Medicare Advantage Plan in its Request for Proposal (RFP) for Medical Third-Party Administrator (TPA) Services and/or Carrier for providing healthcare to its eligible retirees in the upcoming cycle.
5. Recommend that the SEBC hold a vote in public session in order to adopt the final and approved RFP and that the SEBC share a draft final RFP at least one week in advance of the public session at which the agenda includes the discussion and vote. We also recommend that for that public session, the SEBC agenda includes public comment before the vote on the RFP. Finally, we recommend that this final RFP be provided to all members of this Subcommittee as soon as practicable after approval.
6. The current contract was originally bid with a three-year term, with two optional one-year extensions. The RHBAS recommended that this final RFP utilize the same three-year term with two optional one-year extensions.
7. Recommend that any changes to plan design, eligibility requirements, or contribution share/percentage be limited to those employees hired on or after January 1, 2025.

While the primary focus thus far has centered on the Medicare retiree population, it's important to acknowledge that they are not the sole group influencing the OPEB liability. The Subcommittee must also direct its attention to the non-Medicare/pre-65 population to comprehensively address the OPEB liability. Therefore, this analysis will include options for both pre- and post-65 retirees hired after 1/1/2025.

The Subcommittee will continue to meet regularly with the goal of issuing a report of additional recommendations to the Governor, General Assembly, and SEBC no later than [Date].

Report Background

Over the past several years, the SEBC and the RBSC held many public meetings to study current and future underfunded State retiree healthcare coverage. They found that under the current State pensioner healthcare plans, vesting schedules, and funding models, the OPEB trust fund is underfunded and unsustainable.

On December 31, 2022, the previous five-year Special Medicfill Medicare Supplement contract expired. As required by the Delaware Code, in early 2021, the SEBC competitively bid the administration of the State Group Health Insurance Plans offered to State employees and pensioners. After several meetings in early 2022, the SEBC awarded Highmark Blue Cross Blue Shield Delaware a contract to provide Medicare retiree healthcare under a Medicare Advantage plan, beginning January 1, 2023. The contract was signed on September 28, 2022. On June 28, 2022, the Governor signed the Fiscal Year 2023 State budget, which had passed the General Assembly. The budget included language that recategorized the State plan to Medicare Advantage and included one-time supplemental funding for the OPEB trust fund equal to one percent of the prior year's budget.

Following a legal challenge to the Medicare Advantage plan, on October 19, 2022, Superior Court Judge Calvin Scott granted the Plaintiffs' Motion for Stay of the change to the Highmark Medicare Advantage plan's implementation. Following the October 19, 2022, order from the Court, the State negotiated with Highmark Blue Cross Blue Shield Delaware to extend the previous Special Medicfill Medicare Supplement plan until January 1, 2024. Thereafter, Senate Bill 29, as amended by Senate Amendment 1, passed by the General Assembly and signed by the Governor, modified the membership of the SEBC makeup and created the RHBAS, a subcommittee of the SEBC. The RHBAS was charged with receiving public comment on current and future State retiree healthcare benefits, considering analyses regarding Medicare Advantage plans nationwide, evaluating the implications of the extension of the existing Medicare Supplement plan, evaluating options for continuing to provide strong State retiree healthcare benefits in a fiscally sustainable way and issuing findings and recommendations to the Governor and the General Assembly about the foregoing as they relate to the Fiscal Year 2024 State budget. The Governor disbanded the RBSC via Executive Order 56 on February 15, 2023. The new Subcommittee first convened on March 6, 2023.

Per the requirements of Senate Bill 29, the RHBAS submitted an initial report on May 1, 2023, as a status update to the Governor and the General Assembly related to the Fiscal Year 2024 State budget and a timeline for this subsequent report with recommendations. A copy of this report is available at [subcommittee-rhbas-initial-report.pdf \(delaware.gov\)](https://www.delaware.gov/subcommittee-rhbas-initial-report.pdf). Before the report submission and pursuant to the critical need exception at 29 *Del. C.* § 6907, the SEBC voted at its April 24, 2023 meeting to further extend the expired Special Medicfill Medicare Supplement contract for an additional six (6) months through June 30, 2024. This action allowed the Subcommittee additional time to evaluate options to recommend to the SEBC for pensioner healthcare.

Subcommittee Membership

Lieutenant Governor Bethany Hall-Long, Chair
Senator Bryan Townsend, Co-Vice Chair, appointed by the President Pro Tempore
Representative Paul Baumbach, Co-Vice Chair, appointed by the Speaker of the House
Cerron Cade, Director, Office of Management and Budget, State of Delaware
Secretary Claire DeMatteis, Department of Human Resources, State of Delaware
Commissioner Trinidad Navarro, Department of Insurance, State of Delaware
Secretary Richard Geisenberger, Department of Finance, State of Delaware
Representative Michael Ramone, appointed by the Speaker of the House
Senator Bryan Pettyjohn, appointed by the President Pro Tempore
Wayne Emsley, State Retiree, New Castle County, appointed by the Governor
David Craik, State Retiree, Kent County, appointed by the Governor
Denise Allen, State Retiree, Sussex County, appointed by the Governor
Jeff Taschner, Executive Director, Delaware State Education Association,
appointed by the Governor
Michael Begatto, Executive Director, Delaware Public Employees Council 81,
appointed by the Speaker of the House
William Oberle, Legislative Agent of Delaware State Troopers Association,
appointed by the President Pro Tempore

Summary of Subcommittee Activity

Overview of Meetings and Content Reviewed

The Subcommittee has met ~~seventeen (17)~~ **eighteen (18)** times between March and ~~September~~ **October** of 2023 and reviewed select material presented to the RBSC and SEBC in the past, information about other states' Medicare supplemental coverage, individual marketplace and Medicare plans, OPEB funding options, and actuarial and financial data. The State Benefits Office (SBO) staff and its consultants, including benefits consultant Willis Towers Watson (WTW) and pension and OPEB plan actuary Cheiron, prepared materials for the Subcommittee. The materials reviewed by the committee and the meeting minutes are available in full at [DHR – Division of Statewide Benefits \(delaware.gov\)](#). In addition, select actuarial data and modeling are referenced in the report Appendix.

The Subcommittee's tasks are listed below, with a summary of activities that the RHBAS has conducted up until this report.

Task 1: Conduct public meetings and receive public comment about current and future State retiree healthcare benefits, including the previously proposed Medicare Advantage Plan for State retirees, while taking into consideration the previous work of the State Employee Benefits Committee and the Retirement Benefit Study Committee.

Of the seventeen RHBAS meetings, one full meeting and one half of another were dedicated solely to public comment, and all other meetings provided time for the public to

speak. The Subcommittee also provided an opportunity for a retiree to conduct a 30-minute presentation during the March 22, 2023, meeting based on the work of four retirees. The presentation (<https://dhr.delaware.gov/benefits/sebc/documents/rhba-subcommittee-2023/0322-presentations-comments.pdf>) included basic factual background, analysis of monthly data, and suggestions for the Subcommittee's future meetings. They identified several data discrepancies, including inaccuracies in the reported retiree contributions and healthcare costs. In addition, many comments submitted by the public were posted on the Subcommittee's materials website and shared with Subcommittee members. A Frequently Asked Questions (FAQ) website link with responses to those questions was created for reference: <https://dhr.delaware.gov/benefits/sebc/documents/subcommittee-rhas-faq.pdf?ver=0505>.

The Subcommittee heard public comments during meetings generally focused on (a) financing to continue the existing Medicare Supplement benefit and (b) strong dissatisfaction with Medicare Advantage: The following concerns were frequently expressed:

- The process the State utilized in selecting Medicare Advantage
- The 2,030 prior authorizations required by Medicare Advantage
- The provider network limitations of Medicare Advantage
- The possibility of co-pays, deductibles, cost-sharing, and co-insurance fees, which can be included in Medicare Advantage plans, not charged under Special MedicFill
- The loss of access to major healthcare institutions such as Mayo Clinic, Johns Hopkins, University of Pennsylvania, and Sloan-Kettering that do not accept Medicare Advantage
- That an insurance company would be involved in healthcare decisions rather than solely retirees' doctors
- Their belief that Medicare Advantage plans make their profits by delaying and denying medical care to participants

In almost ten hours of public comment, no retiree or current State employee spoke in favor of Medicare Advantage.

The Subcommittee reviewed the Fiscal Year 2024 GHIP cost projections and its proposed premium increases the SEBC deemed necessary to offset the forecasted health fund deficit (Table A1 in the Appendix). In addition, the Subcommittee reviewed the three classifications of considerations made by the RBSC:

- Increase State funding for the OPEB Trust Fund
- Address Medicare-eligible and pre-Medicare costs
- Review eligibility changes for future retirees

Background information on the OPEB Fund, options to reduce the OPEB Liability, prior OPEB funding, and the 1% carveout initiated in Fiscal Year 2023 (\$48 million) and at the time proposed Fiscal Year 2024 (\$51 million) were reviewed. As previously mentioned, amid ongoing Subcommittee meetings, SB 175 was signed into law requiring that, every year, at least 1% of the total of all General Fund operating budget appropriations for the prior fiscal year is appropriated to the OPEB Fund.

Task 2: In the course of its work, consider how reporting and analyses regarding Medicare Advantage Plans nationwide relate to the terms of the previously proposed Medicare Advantage Plan for State retirees.

The Subcommittee reviewed the Medicare plan options by state. Findings included:

- Five states offer different plans for state versus school retirees
- 19 states (38%) offer a choice between Medicare Supplement and Medicare Advantage plans to some or all Medicare-eligible retirees
- 16 states (32%) provide Medicare Supplement only
- 16 states (32%) provide Medicare Advantage only
- Five states (10%) provide a Health Reimbursement Account to purchase Medicare Supplement and/or Medicare Advantage

Three retirees also provided the Subcommittee with an analysis of Medicare options by state. Their effort clarified and modified previously reviewed information and included a summary of key findings.

Task 3: Study, review, and evaluate the fiscal and other implications of the extension of the existing Medicare Supplement plan to January 1, 2024.

As reported previously, because the SEBC voted on April 24, 2023, to further extend the expired Special Medicfill Medicare Supplement contract for an additional six (6) months through June 30, 2024, the current level of State funding for Medicare retiree healthcare benefits will continue in Fiscal Year 2024. The cost to the State operating budget is approximately \$7 million per month higher than compared to the Governor's Recommended Budget, which presumed implementation of the Highmark Medicare Advantage plan for all Medicare retirees.

Task 4: Evaluate options for continuing to provide strong State retiree healthcare benefits in a fiscally sustainable way, including options to maintain their current coverage similar to residents in other states that offer a choice to buy into a Medicare Supplement plan.

The Medicare system provides approximately 80% of benefits for Medicare retirees, which does not cost the State a dollar and for which retirees have paid throughout their working career with payroll deduction and during retirement with Medicare premiums. The State currently offers a Medicare Supplement benefit that addresses the last 20% of healthcare costs for its Medicare retirees, and the Subcommittee found that nearly all the Medicare Supplement premium costs are borne by the State. According to the Office of Pensions, approximately \$6.7 million in premiums are paid annually by retirees to the State (in addition to approximately \$58 million in monthly premiums paid to Medicare), with the remaining \$151 million covered by the State. The premiums are paid to the GHIP. The

GHIP premium revenues are determined and funded in the aggregate to offset total projected expenses for the GHIP. The SEBC, in August, stated that the premiums set for Medicare retirees exceed the plan's costs for these participants, while the premiums for non-Medicare plan participants do not cover the plan's costs. The Subcommittee reviewed the active employee, pre-65 retiree, and Medicare retiree population's Fiscal Year 2024 projected premium contributions and costs.

The Subcommittee reviewed the net cost for retiree healthcare benefits (PayGo) and its percent of budget projected out until 2053, projected assets and liabilities with no additional trust fund contributions, and the projected assets and liabilities with trust fund contributions of an additional 1% budget and 0.36% of payroll. The estimated liability for retiree health care benefits is currently \$8.9B, and the State expects it to grow to \$23.6B by 2042. These estimates assume no changes in how the State funds retiree healthcare, the existing plan design, or eligibility. The net unfunded liability is \$8.4B and is expected to grow to \$20.7B by 2042. This number is based on actuarial assumptions on how many employees will reach specified years of service and be eligible for this benefit.

The Subcommittee has studied, in-depth, many options for providing strong State retiree healthcare benefits coverage. Below is a list of some of the options reviewed:

- Overview of Medicare Parts A, B, C, and D.
- Medicare Medigap (Medicare Supplement), Medicare Advantage (MA), and Prescription Drug (MAPD) plans offered in the Individual Medicare marketplace, including how the various Medigap and MA plans compare in plan design and premium to the current State Special Medicfill Medicare Supplement and the proposed Highmark Blue Cross Blue Shield Delaware's Freedom Blue PPO Medicare Advantage plans. The committee discussed illustrative comparison examples for individuals in the 10th, 50th, and 90th percentiles of total annual healthcare costs.
- How the Individual Medicare marketplace works and how an employer such as the State of Delaware can provide subsidized access to the Individual Medicare marketplace plans. Also reviewed were ways to enroll in an Individual Medicare Plan, benefit advisors, a long-term view of retiree healthcare costs and unused HRA by age, and subsidy design considerations.
- Further evaluation of funding, plan design, and eligibility options, including those previously reviewed with the RBSC. The report reviews these options in more detail in the next section.
- Health Reimbursement Arrangements (HRAs) including funding requirements, reimbursable expenses, carryover of unused balances, the tax treatment of distributions and employer contributions, and how an HRA works.
- A summary of non-Medicare retiree medical plan options for the surrounding states of Maryland, New Jersey, and Pennsylvania for state government and public education employees upon retirement. Based on publicly available documentation on each state's retiree medical offerings, the Subcommittee requested the information to ensure that the State of Delaware remains competitive with the surrounding states for workforce attraction and retention. ~~Additionally, the Subcommittee reviewed salary data for state and public education employees of these states.~~

- A comparison of plan designs for Medicfill and selected Individual Medicare Supplement (Medigap) Plans, including Medicare Part A and Part B services combined with Medigap F, G, K, L, and N. This review included deductibles, inpatient hospital copays, skilled nursing facility copays, plan coinsurance, physician office visit copays, and emergency room copays. The Subcommittee reviewed illustrative design options for Medicare Supplements.
- A comparison of GHIP Medicfill and Medigap L, N, and G evaluated how the 10th, 50th, and 90th percentile of retirees impacted the gross premiums, retiree contributions, and the retiree out-of-pocket costs.

Task 5: By May 1, 2023, issue findings and recommendations to the Governor and the General Assembly.

The Subcommittee issued an initial report on May 1, 2023, to fulfill this requirement.

Goal Established by the Subcommittee

In the July 20, 2023, RHBAS Subcommittee meeting, a motion was made and adopted to set the 2052 OPEB funded ratio target at a minimum of 80% and no requirement to reach the actuarially defined contribution. The Subcommittee has regularly utilized 30 years as the period to conduct projections to analyze progress toward reaching the funded ratio target.

Studied Areas of Focus (Funding, Eligibility, Plan Design, and Combinations)

The RBSC previously evaluated options to address the State's OPEB liability, grouped into three categories: (1) increased funding, (2) eligibility changes, and (3) plan design/benefit delivery. The RBSC concluded that combining options from each bucket will most significantly reduce the OPEB liability while potentially minimizing negative disruption to any cohort. However, this Subcommittee, based on Cheiron's actuarial analysis, has identified funding as the primary solution to tackle the OPEB liability. While eligibility and plan design adjustments provide some modest liability reduction, they can also negatively impact the State's recruiting and employee retention efforts. Therefore, it is funding that stands as the most attractive mechanism to effectively address this issue.

The following provides a recap of the individual options evaluated by the RBSC across each of the three categories. Cheiron completed estimated modeling to show the approximate impact the options would have on the 2052 OPEB liability reduction and 2052 funded ratio. Where appropriate, Cheiron modeled combinations with the current 0.36% payroll contribution. The Subcommittee defined the following cohorts, and Cheiron modeled combinations separately for some of these cohorts:

- **Model A:** Employees hired on or after 1/1/2015
- **Model B:** Employees hired on or after 1/1/2025

- **Model C:** Retirement date on or after 1/1/2025

Please refer to the Summary Table (Table A2 in the Appendix) for the findings for the individual options in terms of the impact on the OPEB liability and funded ratio.

Funding Options

- Baseline: State funding rate of payroll at 0.36%
- Additional funding of 1% of the prior fiscal year of the State budget: Assumes 1% of the prior fiscal year State budget (\$47.7M based on \$4.7B budget for FY22); projected to grow at 3.6%
- Additional funding of 2% of the prior fiscal year of the State budget: Assumes 2% of the prior fiscal year State budget (\$95.4M based on \$4.7B budget for FY22); projected to grow at 3.6%
- Additional funding of 3% of the prior fiscal year of the State budget: Assumes 3% of the prior fiscal year state budget (\$143.1M based on \$4.7B budget for FY22); projected to grow at 3.6%
- Increase the State funding rate of payroll to OPEB from 0.36% to 1%
- Increase the 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.
- Increase the State funding rate of payroll to OPEB from 0.36% to 0.5% beginning July 1, 2024, and an additional 0.25% each fiscal year thereafter until reaching a 10% funding level or Actuarial Defined Contribution (ADC)
- Increase the State funding rate of payroll to OPEB from 0.36% to 0.5% beginning July 1, 2024, and an additional 0.50% each fiscal year thereafter until reaching a 10% funding level or ADC

Eligibility Options

- Reduce spousal State share subsidy to 50%
- Increase the graduated State share based on years of service: State share eligibility schedule to 20 years = 50%, 25 years = 75%, and 30 years = 100%
- Eliminate future vested retirees from eligibility for healthcare: Anyone who terminates employment with the State and is entitled to a future pension benefit will not have access to health coverage
- Increase minimum required age: State police age 55, all others age 60

Plan Design/Benefit Delivery Options

- Move to HRA/Individual Marketplace, with indexing of HRA: \$5,100 annual HRA for each eligible member and 2% annual indexing
- Move to HRA/Individual Marketplace, with indexing of HRA: \$5,100 annual HRA for each eligible member and 4% annual indexing
- Offer a Medigap Supplement Plan similar to the 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 the time of retirement

- Offer a Medigap Supplement Plan similar to the 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 the time of retirement
- 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 the time of retirement

Eligibility and Benefit Design Option Combinations:

Options were combined together across the three categories above and evaluated by the Subcommittee. Cheiron completed estimated modeling to show the approximate impact the options would have on the 2052 OPEB liability reduction and 2052 funded ratio. Where appropriate, Cheiron modeled combinations with the current 0.36% payroll contribution. When the General Assembly passed the 1% additional funding into law, Cheiron added that assumption to the model. In addition, Cheiron modeled assumptions in many cases separately for the three cohorts defined previously: Models A, B, and C.

Please refer to the Summary Tables (Tables A3-A10 in the Appendix) for the findings of the combination options modeled in terms of the impact on the OPEB liability and funded ratio.

Request for Proposal (RFP) Update

In October 2023, the SEBC needs to issue an RFP for employer-sponsored Medicare plan options for Medicare-eligible retirees enrolled in the State Group Health Insurance Plan (GHIP) with a contract effective date of January 1, 2025. Based on feedback from stakeholders, the State will solicit bids. The current RFP timeline shown below may be subject to change prior to the RFP questionnaire finalization.

Milestone	Target Timing
RFP questionnaire and related materials are finalized and shared with Government Support Services for approval to post on Delaware’s Bid Solicitation Directory	October 10, 2023 (required 10 days before posting)
RFP posted publicly to Delaware’s Bid Solicitation Directory	October 24, 2023
Deadline for bidder submissions of Intent to Bid notification	October 31, 2024
Deadline for proposals from bidders	November 21, 2023
Bid analysis	End of Nov-December 2023
Finalists announced	December 18, 2023 (during SEBC meeting)
Proposal Review Committee interviews finalists	Week of January 8, 2024
Proposal Review Committee scores finalists and generates	Week of January 29, 2024

recommendations to SEBC	
Initial presentation to SEBC focusing on RFP background and overview	February 19, 2024
Presentation of Proposal Review Committee recommendations to SEBC for vote on contract awards	March 18, 2024
Contracting and implementation	Late Mar-December 2024
Contract effective date	January 1, 2025

Recommendations to SEBC

While the RHBAS Subcommittee has listened to public input, reviewed and discussed many options, and is offering the below recommendations to SEBC, there is still further analysis to be completed. The Subcommittee will use these recommendations as guiding principles as it continues to evaluate options to provide high-quality healthcare benefits to State retirees and address the OPEB trust fund. While the Subcommittee has more work to do, given the need to provide some findings and recommendations for consideration with the upcoming RFP, the Subcommittee is recommending the following at this time:

1. The RHBAS recommends that 1% minimum of the prior year's State operating budget is set aside each year to fund OPEB.
2. The RHBAS recommends that current Medicare-eligible and pre-Medicare State retirees and State employees who retire prior to 1/1/2025 shall be entitled to Special Medicfill/Rx benefits (or a substantially equivalent Medicare Supplement with prescription plan) with no changes to the State Share percentage of payments when they are Medicare eligible.
3. The RHBAS recommends that Delaware neither request nor consider a Medicare Advantage Plan in its Request for Proposal (RFP) for Medical Third-Party Administrator (TPA) Services and/or a Carrier for providing healthcare to its eligible retirees in the upcoming cycle.
4. The RHBAS recommends that the SEBC hold a vote in public session in order to adopt the final and approved RFP and that the SEBC share a draft final RFP at least one week in advance of the public session at which the agenda includes the discussion and vote. We also recommend that for that public session, the SEBC agenda includes public comment before the vote on the RFP. Finally, we recommend that this final RFP be provided to all members of this Subcommittee as soon as practicable after approval.
5. The current contract was originally bid with a three-year term, with two optional one-year extensions. The RHBAS recommends that this final RFP utilize the same three-year term with two optional one-year extensions.

6. The RHBAS recommends that any changes to plan design, eligibility requirements, or contribution share/percentage be limited to those employees hired on or after January 1, 2025.

Areas of Focus Requiring Further Action/Analysis

The Subcommittee will continue to meet to review and model combinations of funding, eligibility, and plan design options to meet the goal of an OPEB-funded ratio target at a minimum of 80% and in adherence to the recommendations provided in this report. ~~The analysis will include options for both pre- and post-65 retirees and will consider changes to grandfathered and non-grandfathered subpopulations.~~ While the primary focus thus far has centered on the Medicare retiree population, it's important to acknowledge that they are not the sole group influencing the OPEB liability. The Subcommittee must also direct it's attention to the non-Medicare/pre-65 population in order to comprehensively address the OPEB liability. Therefore, this analysis will include options for both pre- and post-65 retirees hired after 1/1/2025.

Expected Meeting Cadence and Timeframe for Additional Recommendations

The Subcommittee will continue to meet regularly with the goal of issuing a report of additional recommendations to the Governor, General Assembly, and SEBC no later than [Date].

Appendix A

This Appendix does not include all materials reviewed by the RHBAS; only select materials highlighted in this report are included. To see all materials, please visit [DHR - Division of Statewide Benefits \(delaware.gov\)](https://www.delaware.gov/dhr)

Table A1: GHIP Long-Term Health Care Cost Projections
March 2023 update - Hold premium rates flat FY24+

GHIP Costs (\$ millions)	FY22	FY23	FY24	FY25	FY26	FY27
	Actual	Projected	Projected	Projected	Projected	Projected
Avg Enrolled Members	130,141	131,442	132,756	134,084	135,425	136,779
GHIP Revenues						
Premium Contributions	\$839.7	\$906.2	\$915.3	\$924.4	\$933.6	\$942.9
<i>Hold premium rates flat FY24+</i>						
Other Revenues	\$194.7	\$183.3	\$215.6	\$221.1	\$237.8	\$257.5
Total Operating Revenues	\$1,034.4	\$1,089.5	\$1,130.9	\$1,145.5	\$1,171.4	\$1,200.4
GHIP Expenses						
Operating Expenses	\$1,029.6	\$1,177.4	\$1,238.1	\$1,304.9	\$1,392.9	\$1,487.4
% Change Per Member	2.1%	13.2%	4.1%	4.4%	5.7%	5.7%
Adjusted Net Income	\$4.8	(\$87.9)	(\$107.2)	(\$159.4)	(\$221.5)	(\$287.0)
Balance Forward	\$152.3	\$157.2	\$69.3	(\$37.9)	(\$197.3)	(\$418.8)
Ending Balance	\$157.2	\$69.3	(\$37.9)	(\$197.3)	(\$418.8)	(\$705.8)
-Less Claims Liability	\$61.0	\$69.8	\$73.4	\$77.4	\$82.6	\$88.2
-Less Minimum Reserve	\$24.3	\$27.8	\$29.2	\$30.8	\$32.9	\$35.1
GHIP Surplus (After Reserves/Deposits)	\$71.9	(\$28.3)	(\$140.5)	(\$305.5)	(\$534.3)	(\$829.1)

- Projections reflect all items voted on by SEBC as of the March 6th, 2023 SEBC meeting and assume no additional program or legislative changes impacting GHIP spend
- Excludes the potential impact of Primary Care Law (unknown if the bill will impact GHIP)

- Every 1% increase in healthcare trend (medical + Rx) will increase FY24 claims by \$11.4M

Table A2: Summary Table Individual Options

Category	Option Description	2052 Approx. Funded Ratio ¹²	Model A ³	Model B ⁴	Model C ⁵
Funding:	• Baseline: State Funding Rate of Payroll at 0.36%	17.8%			
	• Increase State funding rate of payroll to OPEB from 0.36% to 1%	25.5% (7.7%)			
	• Increase State funding rate of payroll to OPEB from 0.36% to 10% gradually over 10 years	N/A (131.6%)			
	• Baseline Plus 1% Carve-Out (accomplished through SB 175)	59.8% (42.0%)			
	• Baseline Plus 2% Carve-Out	93.2% (75.4%)			
	• Baseline Plus 3% Carve-Out	101.7% (83.9%)			
Eligibility	50% Spousal Share		18.9% (1.1%)	18.5% (0.7%)	19.5% (1.7%)
	Increase the Graduated State Share based on Years of Service (20, 25, 30)		20.2% (2.4%)	19.7% (1.9%)	20.8% (3.0%)
	Eliminate Future Vested Retirees from Eligibility for Healthcare		18.7% (0.9%)	18.5% (0.7%)	18.7% (0.9%)
	Increase minimum required age		19.3% (1.5%)	19.2% (1.4%)	19.3% (1.5%)
Benefit Design:	Move to HRA/Individual Marketplace, with 2% annual indexing of HRA		27.2% (9.4%)	26.0% (8.2%)	30.4% (12.6%)
	Move to HRA/Individual Marketplace, with 4% annual indexing of HRA		17.4% (0.4%)	17.8% (0.0%)	17.4% (0.4%)
	Offer Medigap Supplement Plan similar to existing Special Medicfill Plan with 10% pensioner share ³		18.5% (0.7%)	18.4% (0.6%)	18.5% (0.7%)
	Offer Medigap Supplement Plan similar to existing Special Medicfill Plan with 15% pensioner share ³		19.1% (1.3%)	19.1% (1.3%)	19.4% (1.6%)
	Offer a MA Plan similar to the formerly proposed Highmark BCBS Delaware Freedom Blue PPO		23.2% (5.4%)	22.7% (4.9%)	25.5% (7.7%)
	Offer a choice between a Medigap Supplement Plan or a MA Plan with 15% pensioner share for MS		Not modeled	Not modeled	20.0% (2.2%)
	Offer a choice between a Medigap Supplement Plan or a MA Plan with graduated age requirements		Not modeled	Not modeled	22.8% (5.0%)

¹ Includes 0.36% payroll contribution, option impact alone in parentheses

² Estimated; modeling provided by Cheiron

³ Impacting those employees hired after 1/1/2015

⁴ Impacting those employees hired after 1/1/2025

⁵ Impacting those employees who retire after 1/1/2025

Table A3: Combination 1

Combination 1 (C1)	Actuarial modeling for C1 was done for the following: <ul style="list-style-type: none"> ● Model C: Employees who retire on or after 1/1/2025 	
Funding:	<ul style="list-style-type: none"> ● Baseline State funding rate of payroll at 0.36% ● 1% additional funding assuming 1% of the prior fiscal year state budget (\$47.7M based on \$4.7B budget for FY22) projected to grow at 3.6% 	
Eligibility:	<ul style="list-style-type: none"> ● Reduce Spousal State Share Subsidy to 50% 	
Benefit Design:	<ul style="list-style-type: none"> ● Offer a Medigap Supplement Plan similar to the existing Special Medicfill Plan reducing the State Share from 95% to 90% and increasing the Pensioner Share from 5% to 10% for retirees with 20 years of State Service at the time of retirement 	
Findings:	2052 Approximate OPEB Reduction: \$11.9B	2052 Approximate OPEB Funded Ratio: 64.1%

Table A4: Combination 2

Combination 2 (C2)	Separate actuarial modeling for C2 was done for the following: <ul style="list-style-type: none"> ● Model B: Employees hired on or after 1/1/2025 ● Model C: Employees who retire on or after 1/1/2025 	
Funding:	<ul style="list-style-type: none"> ● Increase the State funding rate of payroll to OPEB from 0.36% to 0.5% beginning July 1, 2024, and an additional 0.5% each fiscal year thereafter until reaching a 10% funding level or ADC ● 1% additional funding assuming 1% of the prior fiscal year State budget (\$47.7M based on \$4.7B budget for FY22) projected to grow at 3.6% 	
Eligibility:	<ul style="list-style-type: none"> ● Reduce Spousal State Share Subsidy to 50% ● Eliminate future vested retirees from eligibility for healthcare if they terminate employment with the State and are entitled to a future pension benefit 	
Benefit Design:	<ul style="list-style-type: none"> ● Offer a Medigap Supplement Plan similar to the existing Special Medicfill Plan, reducing the State Share from 95% to 85% and increasing the Pensioner Share from 5% to 15% for retirees with 20+ years of service at the time of retirement 	
Findings:	2052 Approximate OPEB Reduction: <ul style="list-style-type: none"> ● Model B: \$14.7B ● Model C: \$14.7B 	2052 Approximate OPEB Funded Ratio: <ul style="list-style-type: none"> ● Model B: 80.8% ● Model C: 84.2%

Table A5: Combination 3

Combination 3 (C3)	Separate actuarial modeling for C3 was done for the following: <ul style="list-style-type: none"> ● Model B: Employees hired on or after 1/1/2025 ● Model C: Employees who retire on or after 1/1/2025 	
Funding:	<ul style="list-style-type: none"> ● Baseline State funding rate of payroll at 0.36% ● 1% additional funding assuming 1% of the prior fiscal year State budget (\$47.7M based on \$4.7B budget for FY22) projected to grow at 3.6% 	
Eligibility:	<ul style="list-style-type: none"> ● No change 	
Benefit Design:	<ul style="list-style-type: none"> ● Offer a choice between a Medigap Supplement Low Plan similar to Plan L, offering 85% State Share and 15% Pensioner Share and a Medigap Supplement High Plan similar to Plan N as a buy-up plan with the Pensioner Share being 15% of the Low Plan plus the additional premium above 85% of the Low Plan State Share for retirees with 20+ years of service at time of retirement 	
Findings:	2052 Approximate OPEB Reduction: <ul style="list-style-type: none"> ● Model B: \$13.0B ● Model C: \$13.9B 	2052 Approximate OPEB Funded Ratio: <ul style="list-style-type: none"> ● Model B: 67.9% ● Model C: 71.5%

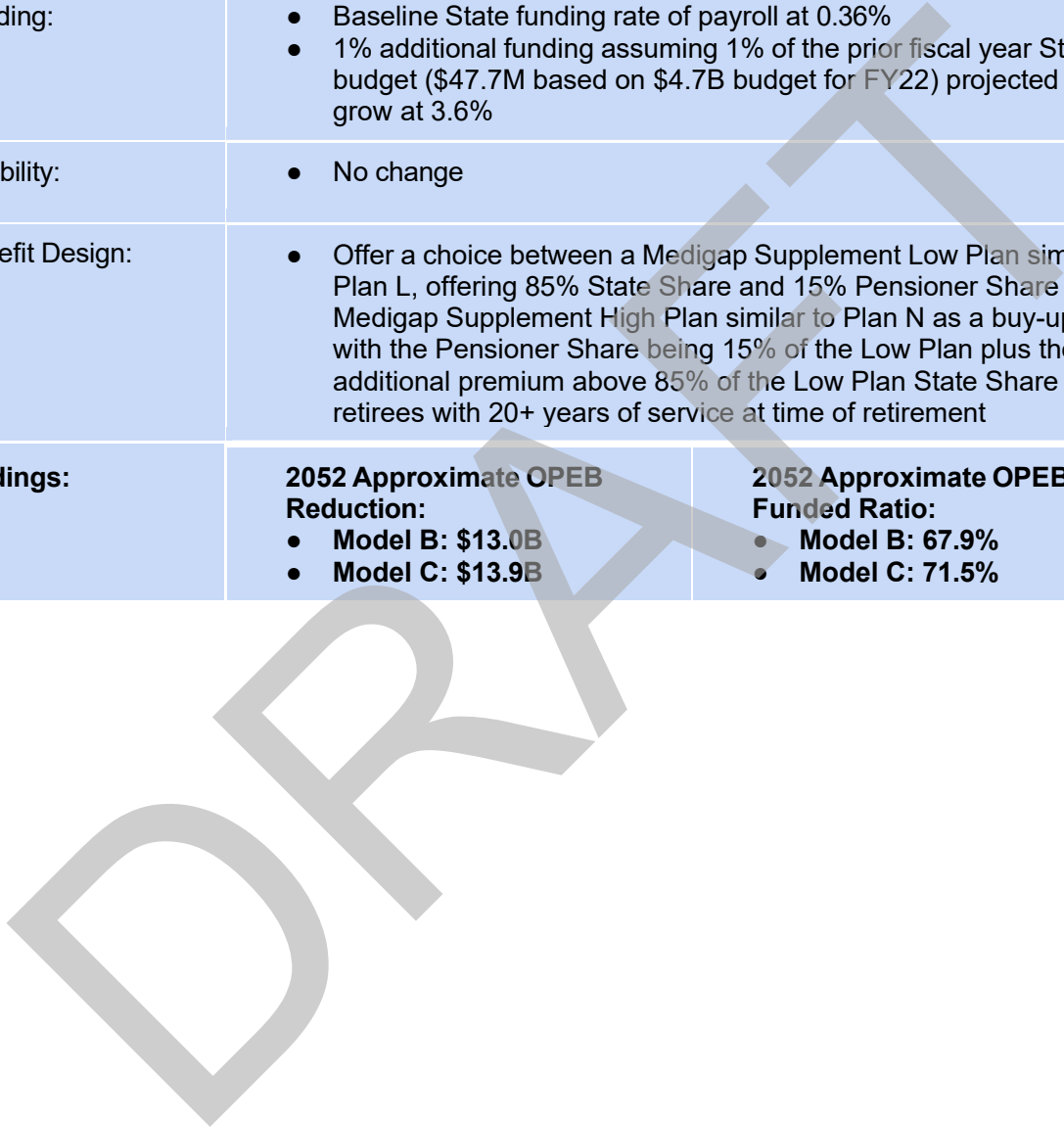


Table A6: Combination 4

Combination 4¹ (C4)	Separate actuarial modeling for C4 was done for the following: <ul style="list-style-type: none"> • Model B: Employees hired on or after 1/1/2025 • Model C: Employees who retire on or after 1/1/2025 	
Funding:	<ul style="list-style-type: none"> • Baseline State funding rate of payroll at 0.36% • 1% additional funding assuming 1% of the prior fiscal year State budget (\$47.7M based on \$4.7B budget for FY22) projected to grow at 3.6% 	
Eligibility:	<ul style="list-style-type: none"> • No change 	
Benefit Design:	<ul style="list-style-type: none"> • Offer a Medigap Supplement Plan similar to the existing Special Medicfill Plan² or a Medicare Advantage Plan (MA) 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, the State Share remains at 95% and Pensioner Share at 5% for retirees with 20+ years of State service at the time of retirement 	
Findings:	2052 Approximate OPEB Reduction: <ul style="list-style-type: none"> • Model B: \$11.8B • Model C: \$12.4B 	2052 Approximate OPEB Funded Ratio: <ul style="list-style-type: none"> • Model B: 63.9% • Model C: 65.9%

¹ Model C4 assumes that 90% of retirees enroll in the Medigap plan, paying 15% of the Medigap plan and 10% of retirees enroll in Medicare Advantage, paying 5% of the MA plan.

² Special Medicfill Plan similar to Medigap F except Medigap F does not include coverage for private duty nursing and coverage outside of the U.S. is limited to a foreign travel emergency benefit under Medigap Plan F (80% up to lifetime max of \$50K) versus the Medicfill plan, which does not limit coverage to emergency situations and includes coverage for inpatient services as long as it would have been covered by Medicare within the U.S.

Table A7: Combination 5

Combination 5 (C5)	Separate actuarial modeling for C5 was done for the following: <ul style="list-style-type: none"> ● Model B: Employees hired on or after 1/1/2025 ● Model C: Employees who retire on or after 1/1/2025 	
Funding:	<ul style="list-style-type: none"> ● Baseline State funding rate of payroll at 0.36% ● 1% additional funding assuming 1% of the prior fiscal year State budget (\$47.7M based on \$4.7B budget for FY22) projected to grow at 3.6% 	
Eligibility:	<ul style="list-style-type: none"> ● No change 	
Benefit Design:	<ul style="list-style-type: none"> ● Offer a choice between a Medigap Supplement Low Plan similar to Plan N offering 85% State Share and 15% Pensioner Share and a Medigap Supplement High Plan similar to Plan G as a buy-up plan with the Pensioner Share being 15% of the Low Plan plus the additional premium above 85% of the Low Plan State Share for retirees with 20+ years of service at time of retirement 	
Findings:	2052 Approximate OPEB Reduction: <ul style="list-style-type: none"> ● Model B: \$12.1B ● Model C: \$12.6B 	2052 Approximate OPEB Funded Ratio: <ul style="list-style-type: none"> ● Model B: 64.7% ● Model C: 66.6%

Table A8: Combination 6

Combination 6 (C6)	Separate actuarial modeling for C6 was done for the following: <ul style="list-style-type: none"> ● Model B: Employees hired on or after 1/1/2025 ● Model C: Employees who retire on or after 1/1/2025 	
Funding:	<ul style="list-style-type: none"> ● Increase the State funding rate of payroll to OPEB from 0.36% to 0.5% beginning July 1, 2024, and an additional 0.25% each fiscal year thereafter until reaching a 10% funding level or ADC ● 1% additional funding assuming 1% of the prior fiscal year State budget (\$47.7M based on \$4.7B budget for FY22) projected to grow at 3.6% 	
Eligibility:	<ul style="list-style-type: none"> ● Reduce Spousal State Share Subsidy to 50% ● Eliminate future vested retirees from eligibility for healthcare if they terminate employment with the State and are entitled to a future pension benefit 	
Benefit Design:	<ul style="list-style-type: none"> ● Offer a Medigap Supplement Plan similar to existing Special Medicfill Plan, reducing State Share from 95% to 85% and increase Pensioner Share from 5% to 15% for retirees with 20+ years of service at the time of retirement 	
Findings:	2052 Approximate OPEB Reduction: <ul style="list-style-type: none"> ● Model B: \$14.7B ● Model C: \$14.7B 	2052 Approximate OPEB Funded Ratio: <ul style="list-style-type: none"> ● Model B: 79.9% ● Model C: 79.8%

Table A9: Combination 7

Combination 7 (C7)	Separate actuarial modeling for C7 was done for the following: <ul style="list-style-type: none"> ● Model C: Employees who retire on or after 1/1/2025 	
Funding:	<ul style="list-style-type: none"> ● Baseline State funding rate of payroll at 0.36% ● 1% additional funding assuming 1% of the prior fiscal year State budget (\$47.7M based on \$4.7B budget for FY22) projected to grow at 3.6% 	
Eligibility:	<ul style="list-style-type: none"> ● No change 	
Benefit Design:	<ul style="list-style-type: none"> ● Double the pre-Medicare retiree contributions for the non-Medicare health plans for retirees on or after January 1, 2025 	
Findings:	2052 Approximate OPEB Reduction: <ul style="list-style-type: none"> ● Model C: \$11.1B 	2052 Approximate OPEB Funded Ratio: <ul style="list-style-type: none"> ● Model C: 61.6%

Table A10: Combination 8

Combination 8 (C8)	Separate actuarial modeling for C8 was done for the following: <ul style="list-style-type: none"> ● Model A: Employees hired on or after 1/1/2015 ● Model B: Employees hired on or after 1/1/2025 ● Model C: Employees who retire on or after 1/1/2025 	
Funding:	<ul style="list-style-type: none"> ● Baseline State funding rate of payroll at 0.36% 	
Eligibility:	<ul style="list-style-type: none"> ● Increase the graduated State Share based on years of service ● Adjust the State Share eligibility schedule to 20 years = 50%, 22.5 years = 75% and 25 years = 100% 	
Benefit Design:	<ul style="list-style-type: none"> ● No change 	
Findings:	2052 Approximate OPEB Reduction: <ul style="list-style-type: none"> ● Model A: \$1.3B ● Model B: \$0.9B ● Model C: \$1.6B 	2052 Approximate OPEB Funded Ratio: <ul style="list-style-type: none"> ● Model A: 18.6% ● Model B: 18.3% ● Model C: 18.8%