SEAC | Southeastern Actuaries Conference

Being Part of Something that Counts

Trends in Retiree Healthcare

June, 2022

Today's Discussion

1. Components of a Retiree Healthcare Plan
2. OPEB Funding
3. Plan Design Trends
4. Case Studies

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COMPONENTS OF A RETIREE HEALTHCARE PLAN

OPEB = Other Post-Employment Benefits

Retiree Healthcare

Plan Components

- Eligibility (2)
- Cost Sharing
- Plan Options
- Dependent Coverage
- Medicare Coverage

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Retiree Healthcare

Plan Components

Eligibility

- To participate
- To retire based on age and/or service

Cost Sharing

- Retiree pays x ($, %)
- Employer pays y ($, %)

Plan Options

- Medical
- Pharmacy
- Dental
- Vision
- Life Insurance

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Retiree Healthcare

Plan Components

Dependent Coverage

- Spouse
- Children
- Cost sharing considerations

Medicare Coverage

- Offered?
- Integration
- Supplemental
- "Parts" (A, B…)

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OPEB FUNDING

OPEB FUNDING

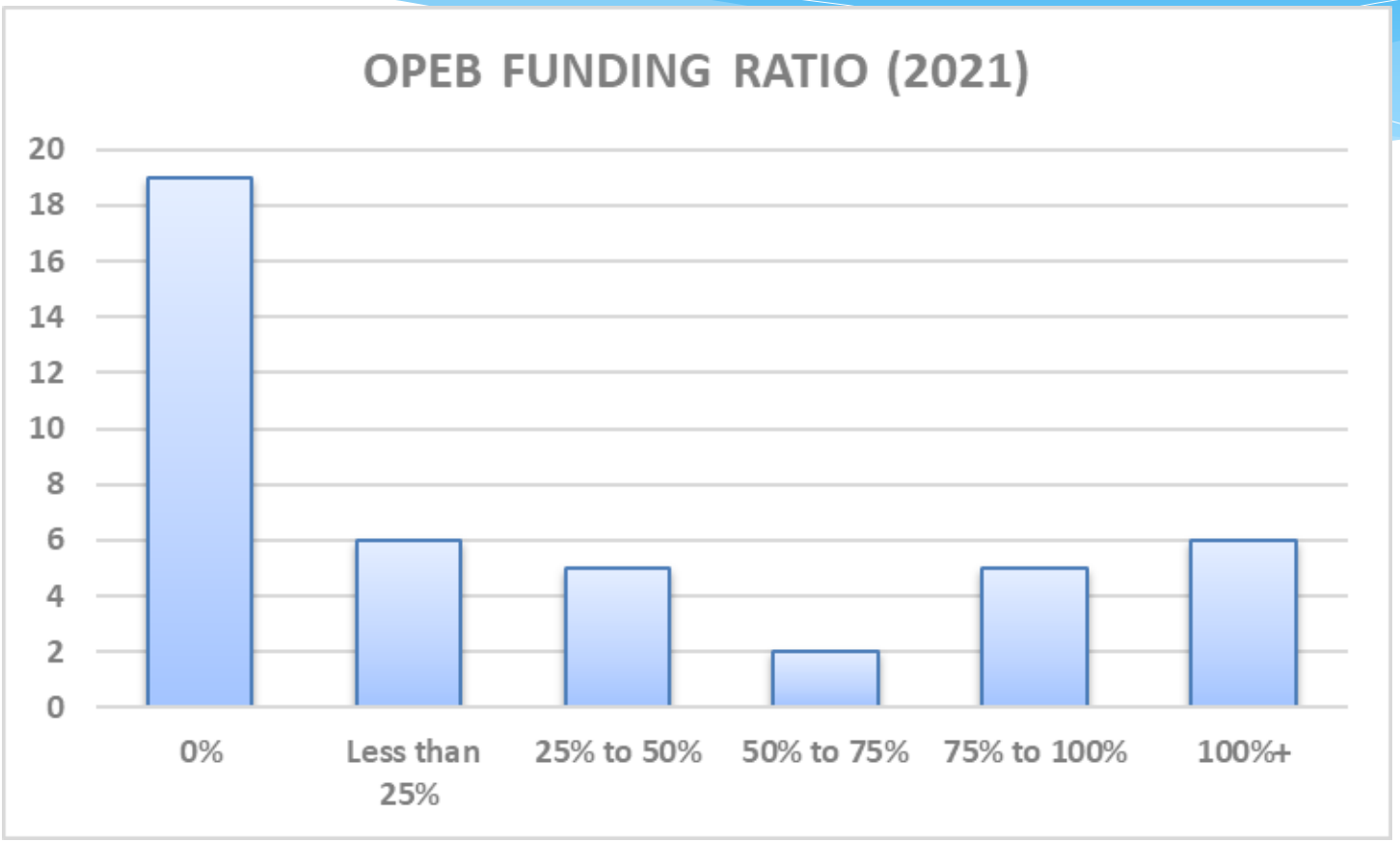
Private Sector Employers

* OPEB Programs have largely been eliminated
* Financial disclosure was a key driver (FAS 106)
* Legal protections NOT the same as pensions (also true for Public sector)

Public Sector Employers

* Data not widely available
* As of 2016, only 8 states were funded at 30%+
* BCG Clients: many do not have OPEB funds, 68% avg. for those who do

OPEB FUNDING



BCG Clients, most recently available reports

PLAN DESIGN TRENDS

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PLAN DESIGN TRENDS

Public Sector

* MANY changes made over the past two decades
* GASB disclosures (45/75) catalyzed this to some extent
* Most changes made to address cost/liability management
  * Concerns about remaining competitive
* There are many "implicit subsidy only" plans

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Retiree Healthcare

Plan Design Trends

Eligibility

- Some groups "closed"
  - *New hires excluded*
- Higher age, more service required

Cost Sharing

- Retiree share increased
- Share based on service

Plan Options

- Some limits placed on options
- "Base" option and "buy-ups"

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Retiree Healthcare

Plan Design Trends

Dependent Coverage

- Eliminated
- Provided at higher cost to retiree

Medicare Coverage

- Eliminated
- Simplified
- "Shopped"

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CASE STUDIES

I. Employees grouped based on age/service

II. Changes through collective bargaining

III. Elimination of Implicit Subsidy

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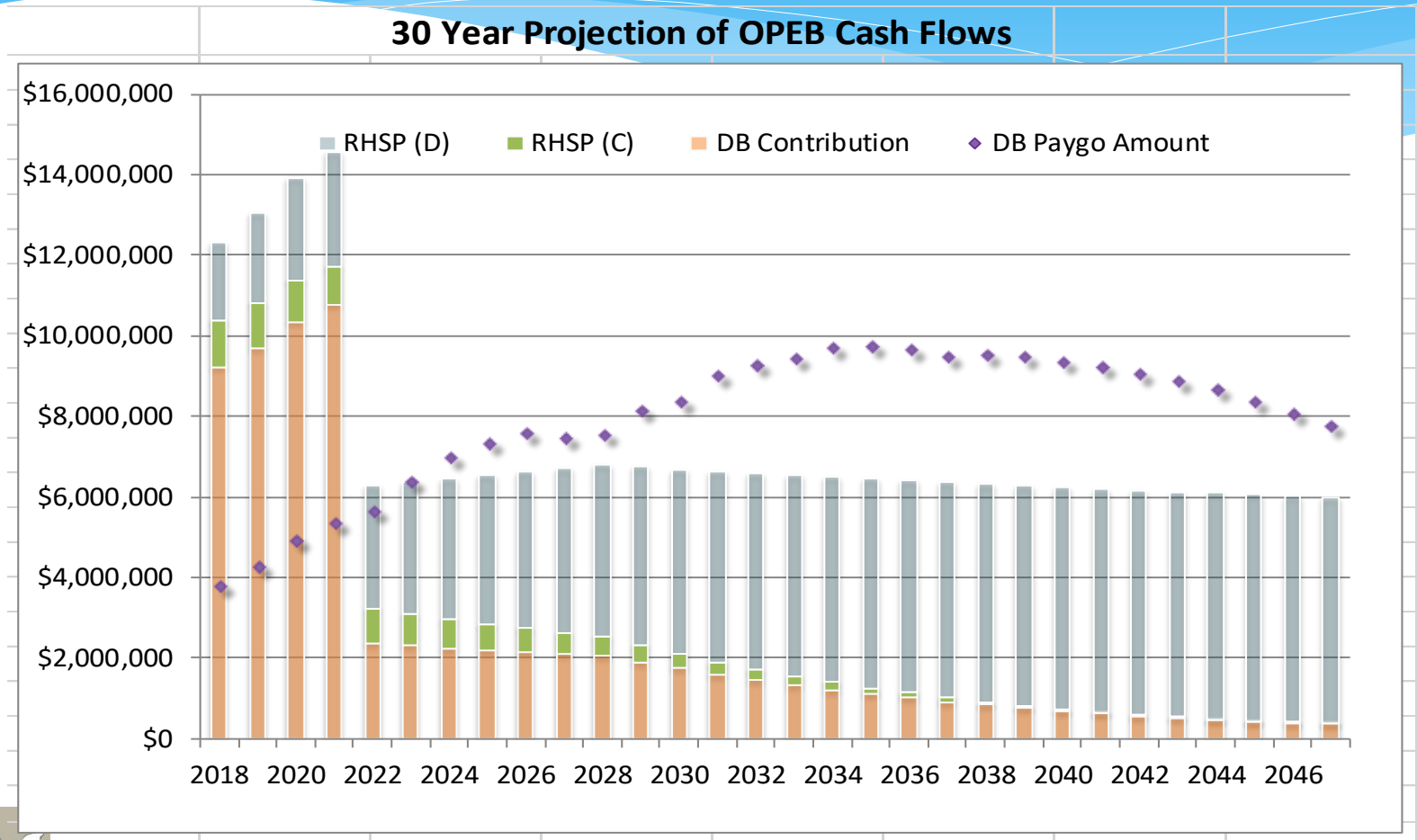
CASE STUDY I

* Employees grouped based on age/service; four tiers in total
* Retirees and those with 25+ years of service
  * Employer cost increases were capped
* Mid-career employees changed to service based flat $ subsidy
* Short service employees and new hires were moved to an alternative defined contribution plan
  * Flat $ annual employer contribution to Healthcare Savings Plan (HCSP)
* Funding progress (short- and long-term) addressed as part of the design

CASE STUDY I



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CASE STUDY II

* Over the course of 10 years, City worked with all bargaining units (about 10)
* Benefits were changed based on date of hire and/or date of retirement
  * ALL of the Plan components were addressed
* Changes altered the cost trajectory, but did little to impact short-term costs

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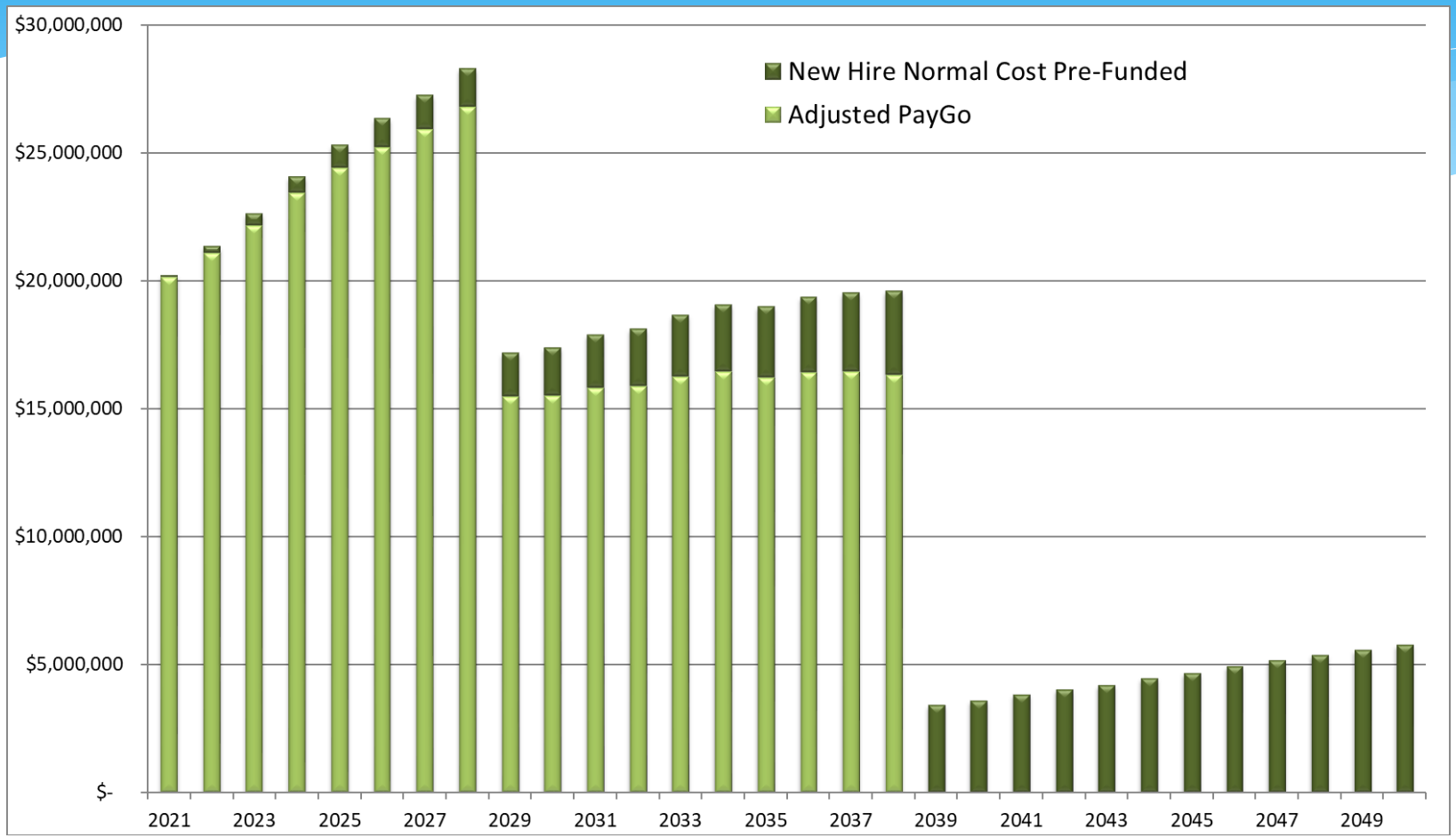
CASE STUDY II



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CASE STUDY III

* City offered access (i.e., Implicit Subsidy Only)
  * Retirees allowed to enroll and pay full premium (which does not entail paying full cost)
  * GASB 75 specifically addresses this and requires reporting a liability = expected claims – expected premiums
* City changed policy to obligate retirees to obtain individual coverage
  * Considerably more expensive for the retiree
  * Eliminated cost to the City

OTHER CONSIDERATIONS

* Pension/OPEB Interaction
* Volatility of Healthcare costs
* Nationalized Healthcare?
* Delayed COVID impacts

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