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# GASB45 Issues and Trends

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# Agenda

- GASB45 Overview
- Health Care environment and Health Care Reform
- GASB45 Strategies
- Example – Prefunding
- Further analysis – *next time!*

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# GASB 45 Rules - Overview

- Employees earn retiree healthcare benefits while working
- The employer should accrue the cost while the employee is working (as is done with pension benefits)
- The employer has a liability for amounts that are not funded

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# Other Post Employment Benefits “OPEB” refers to post employment benefits other than pension benefits:

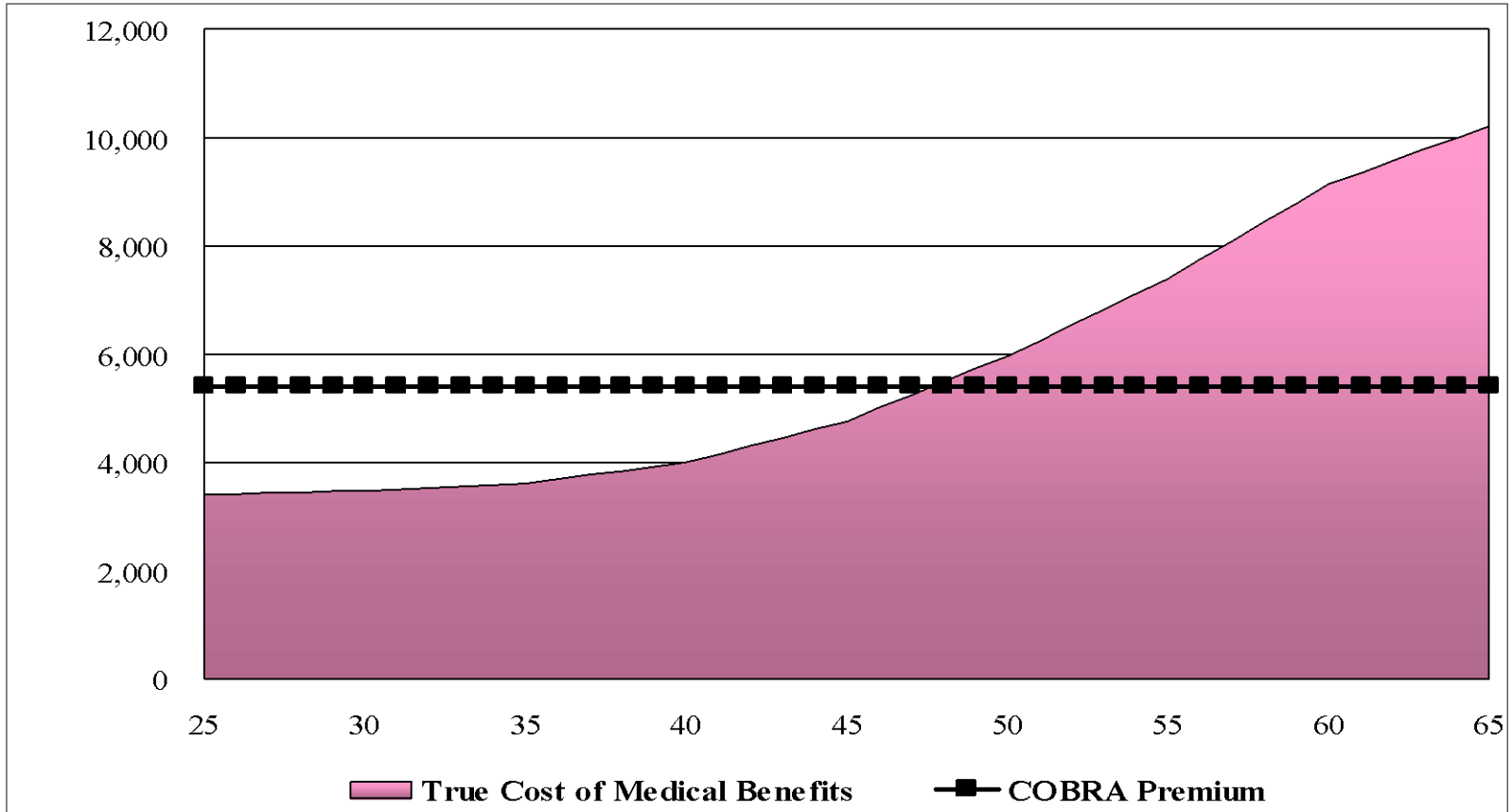
- Post-employment healthcare benefits
  - Medical
  - Pharmacy
  - Dental
  - Vision
  - Hearing
- Other retiree benefits if provided separately from a pension plan
  - Life insurance
  - Long-term disability
  - Long-term care
  - Death benefits

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# Effective Dates - Overview

- Depends on revenue of government
- Fiscal years starting after:
  - Dec. 15, 2006 if \$100M+
  - Dec. 15, 2007 if \$10M to \$100M
  - Dec. 15, 2008 if less than \$10M

# The Implicit Rate Subsidy - Overview



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# The Implicit Rate Subsidy - Overview

- Employers that pay none of the premium are essentially offering retiree access to active member group health coverage. They are providing an “Implicit rate subsidy”, i.e., access to health care coverage at a premium rate that blends active employee and retiree health care costs.

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# Some Key Numbers

- Annual Required Contribution (ARC):
  - Amortization of Accrued Liability
  - Value of benefits earned this year ( Normal Cost)
- Net Budget Impact :
  - *ARC minus*
  - Expected Benefit Payments ( Retirees payments, including Implicit Rate Subsidy)

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# Current Economic Environment

- Revenues expected to decline or stay the same over the next few years ( with larger governments, more likely, to expect revenues to decline)
- Employment levels expected to stay the same
- Expect changes in local government workforce (e.g. Hiring freezes, consolidation of public services, layoffs, greater use of part-time and temporary positions...)
- On a health note - PPACA (enacted March 23, 2010)!!

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# Controlling Health Care Costs

- Increase deductibles and copays
- Increase employees' share of premium costs
- Implement wellness programs
- Expand use of generic drugs
- Implement HSAs and HRAs
- Negotiate lower costs with current carriers / Rebid health care coverage
- Purchasing – examples; shifting from a fully-insured to a self-insured plan; shifting benefit administration to the union.

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# Market Reform Impacts on Healthcare Costs

- Many increases costs (impact on healthcare Trend)!
- Additional benefits are required, such as :
  - No Lifetime or annual dollar limits
  - Extension of child coverage to age 26
  - Minimum loss ratios
  - Patient protections
- New taxes are assessed

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# Provisions of Health Care to Retirees - Overview

- Retirees receiving health care benefits ( pre-Medicare, Medicare,...)
- Correlation between the size of local government and the provision of retiree health care.
- Many of the employers offering pre-Medicare/early retiree health care, have premiums that are the same as active member premiums ( i.e., use a premium rate that blends the costs of active and retired members)

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# Healthcare Reform – Impact on Retiree Healthcare

- Early retiree health reinsurance program (2010)
- Cover children to age 26, no lifetime dollar limits, restricted annual dollar limits, no pre-ex exclusions under 19, etc... (2011)
- Reduction in MA funding beginning in 2011 – should result in a general contraction of MA market
- Loss of RDS tax exclusion beginning in 2013
  - At the same time, PDP is becoming more generous (“Donut hole” will be filled by 2020)
  - EGWPs will become more attractive!

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# Healthcare Reform – Impact on Retiree Healthcare

- Exchanges become operational; Low income subsidies; Medicaid eligibility expanded in all states to 133% of FPL ( 2014)
  - Long-term impact of health insurance exchanges (Valuation stand-point):
    - On participation?
    - Selection effect on employer plan costs?
    - On termination?
    - On retirement ?
- 40% nondeductible employer excise (“Cadillac”) tax on “high-cost” group health coverage (2018)
  - Note, if any of the excise tax is expected to be passed on to retirees, must be part of the substantive plan.

# GASB45 Strategies

*The idea is to reduce plan costs without eliminating retiree health benefits altogether!*

- Reduce benefit costs
- Share Cost Increases
- Pre-fund
- Eliminate or decrease subsidies for retirees
- Change eligibility requirements or implement service-related benefits
- Change medical coverage
- Move from Defined Benefit to Defined Contributions plans

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# GASB45 Strategies

- Reduce benefit costs ( Reduce the total cost of the actual care provided)
  - Wellness programs ( focus on prevention)
  - Disease Management programs ( focus on chronic diseases)
  - Management of care delivery ( emphasis on cost containment)
  - Example – DM/Wellness programs would reduce Baseline Accrued Liability by 5%

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# GASB45 Strategies

- Share Cost Increases
  - Health care costs usually go in one direction – up!
  - Shift some or all of the cost of inflation to retirees
  - Example – Employer cost fixed at current dollar level would reduce Baseline Accrued Liability by 60%
  - Example – Employer inflation capped would reduce Baseline Accrued Liability by 38%

# GASB45 Strategies

- Pre-fund: investment income will help pay for the benefits
  - Example – 100 more basis points of return would reduce Baseline Accrued Liability by 12%
  - Example - Prefunding versus No-Prefunding – Liability can swing by a factor of 1.83
  - Phase-In : example 5-yrs phase-in
  - Reserve funds: Depending on investment policy and asset allocation, can use higher discount rate. Not counted as assets to offset liability.

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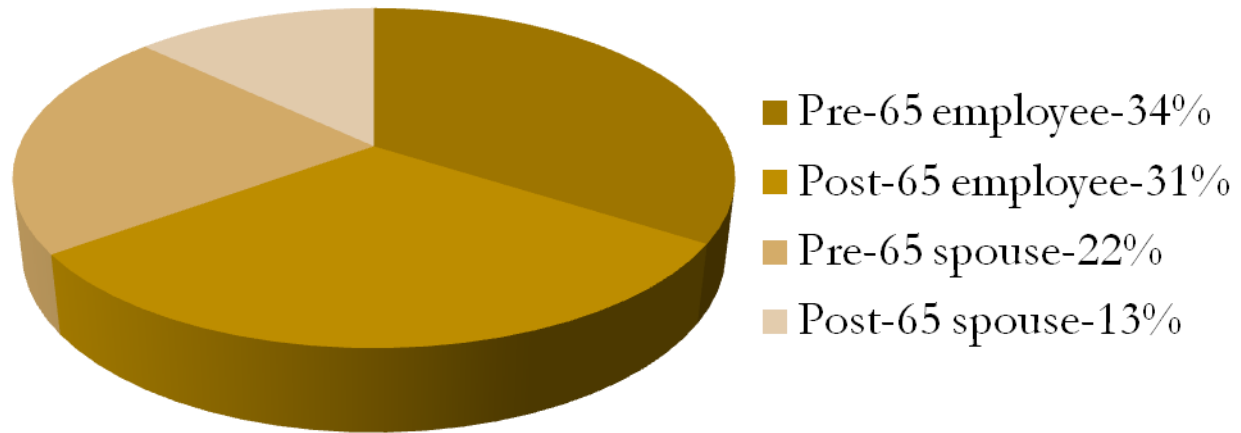
# GASB45 Strategies

- Eliminate or decrease subsidies for retirees
  - The “implicit rate subsidy” (blended-rate premium for both active and retired employees)
  - By rating retirees separately from actives, employer can remove the implicit rate subsidy. Retirees are charged the full rate based upon their expected claims experience. Results in higher rates for retirees than for actives.
  - Statutory mandates (for example, Certified employees in Connecticut)

# GASB45 Strategies

- Change eligibility requirements
  - Changing who/when become eligible for a plan can have a big impact on GASB45 liability

**Relative Magnitude of Cost By Group**



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# GASB45 Strategies

- Implement service-related benefits
  - A tiered approach to benefits levels (Tie the percentage of retiree medical premiums paid to the length of service at retirement)
  - Example – Tie benefits to length of service would reduce Baseline Accrued Liability by 26%
- Limit the postretirement coverage period.

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# GASB45 Strategies

- Considerations:
  - Within a collective bargaining agreement, it may be difficult to negotiate changes
  - Whom the changes will apply to? Effective for all current retirees, for all future retirees, or only for new hires? In Connecticut, can not reduce level of current benefits for existing retirees.

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# GASB45 Strategies

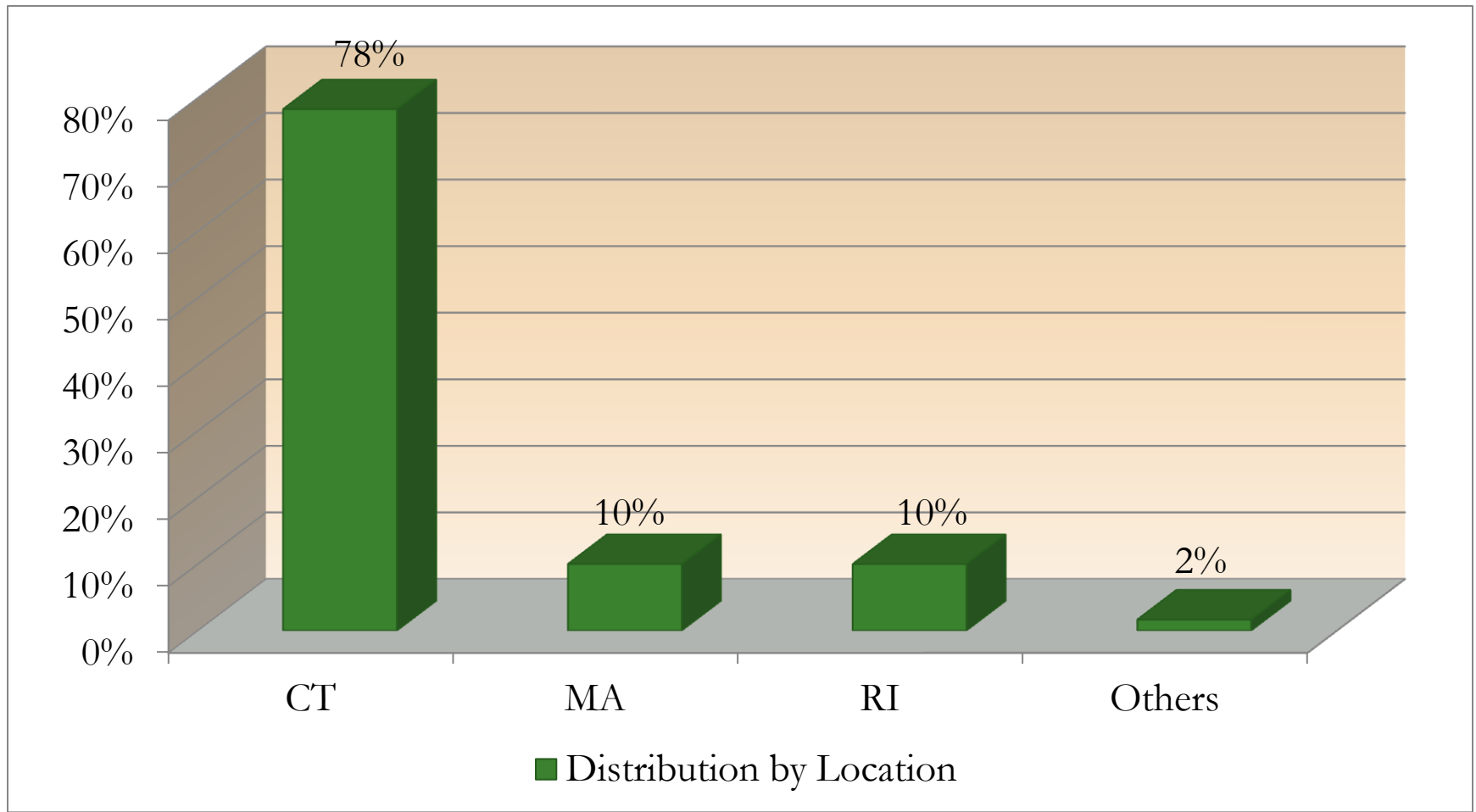
- Change medical coverage
  - Increase deductibles and copays
  - Integration with Medicare Part A and Medicare Part B
  - Coordination with Medicare Part C
  - Medicare Advantage Plan
  - Employer Group Waiver Program (EGWP)

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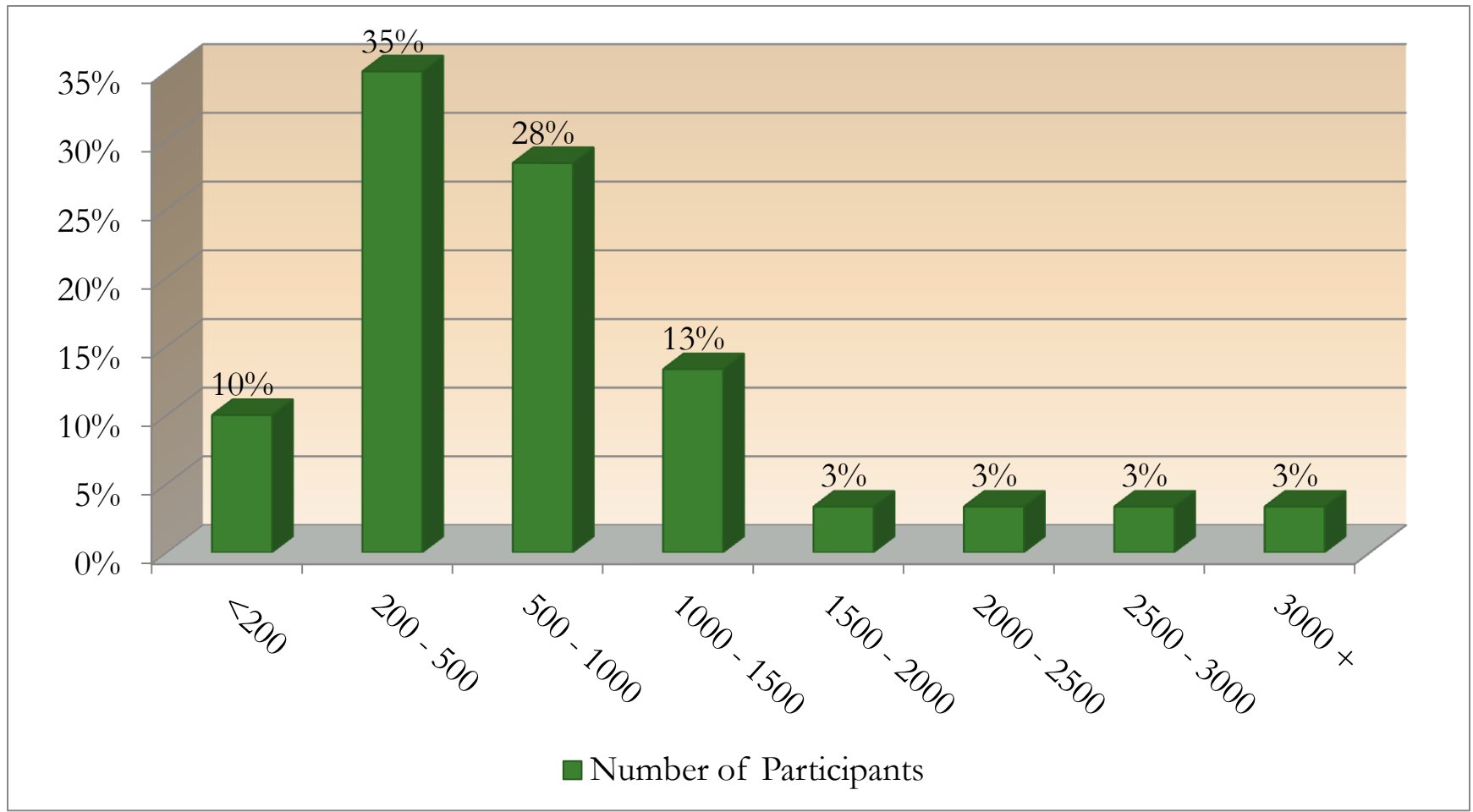
# GASB45 Strategies

- Move from Defined Benefit to Defined Contributions plans
  - ❑ DB plans provides stability for employees but exposes the employer to a multitude of risks, such as trend and utilization risk, longevity/mortality risk and investment risk.
  - ❑ DC plans shift many traditional insurance risks from the employer to the employee.
  - ❑ CDHP usually include a defined contribution account coupled with a high-deductible insurance program

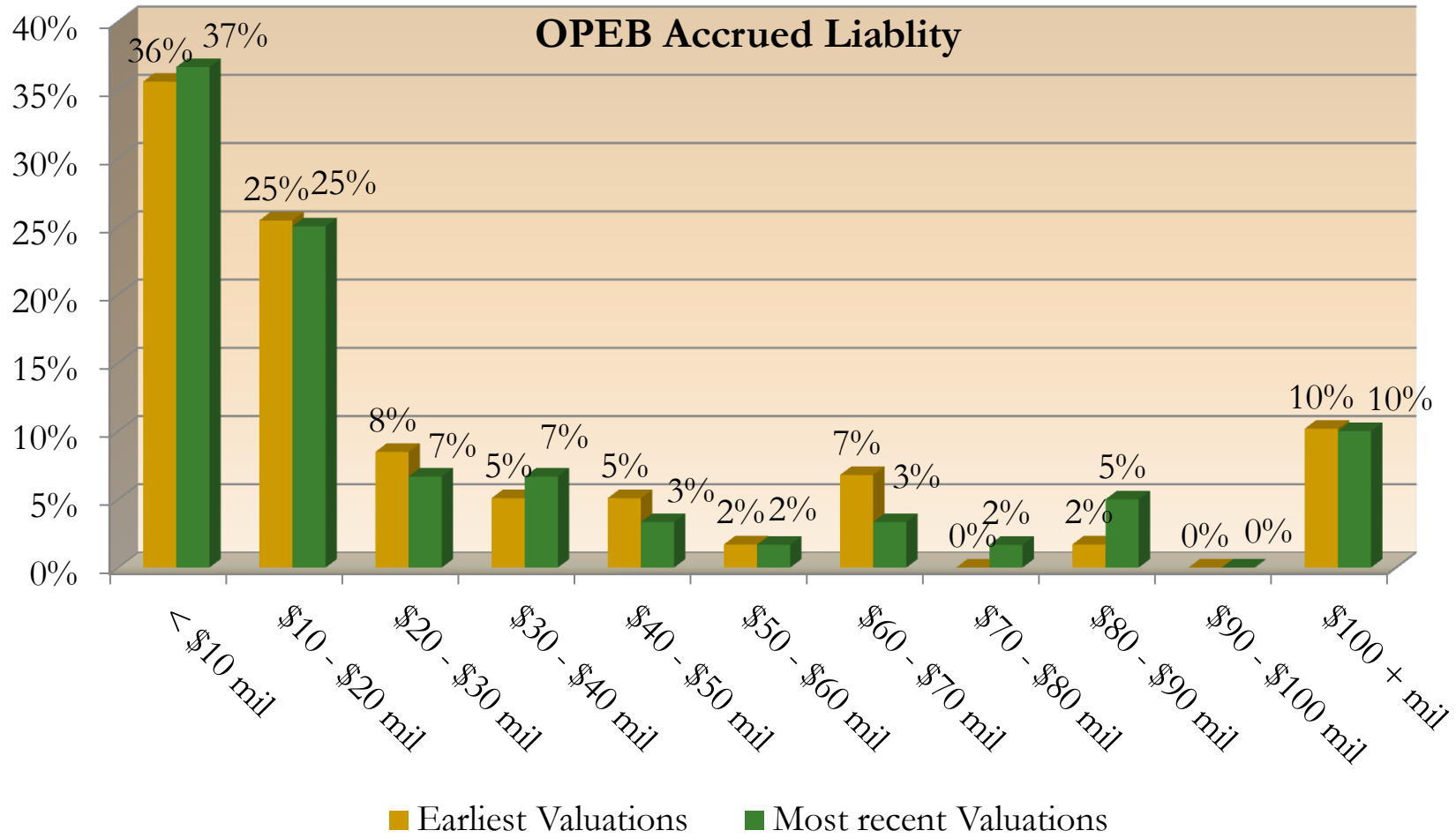
# Example - Prefunding



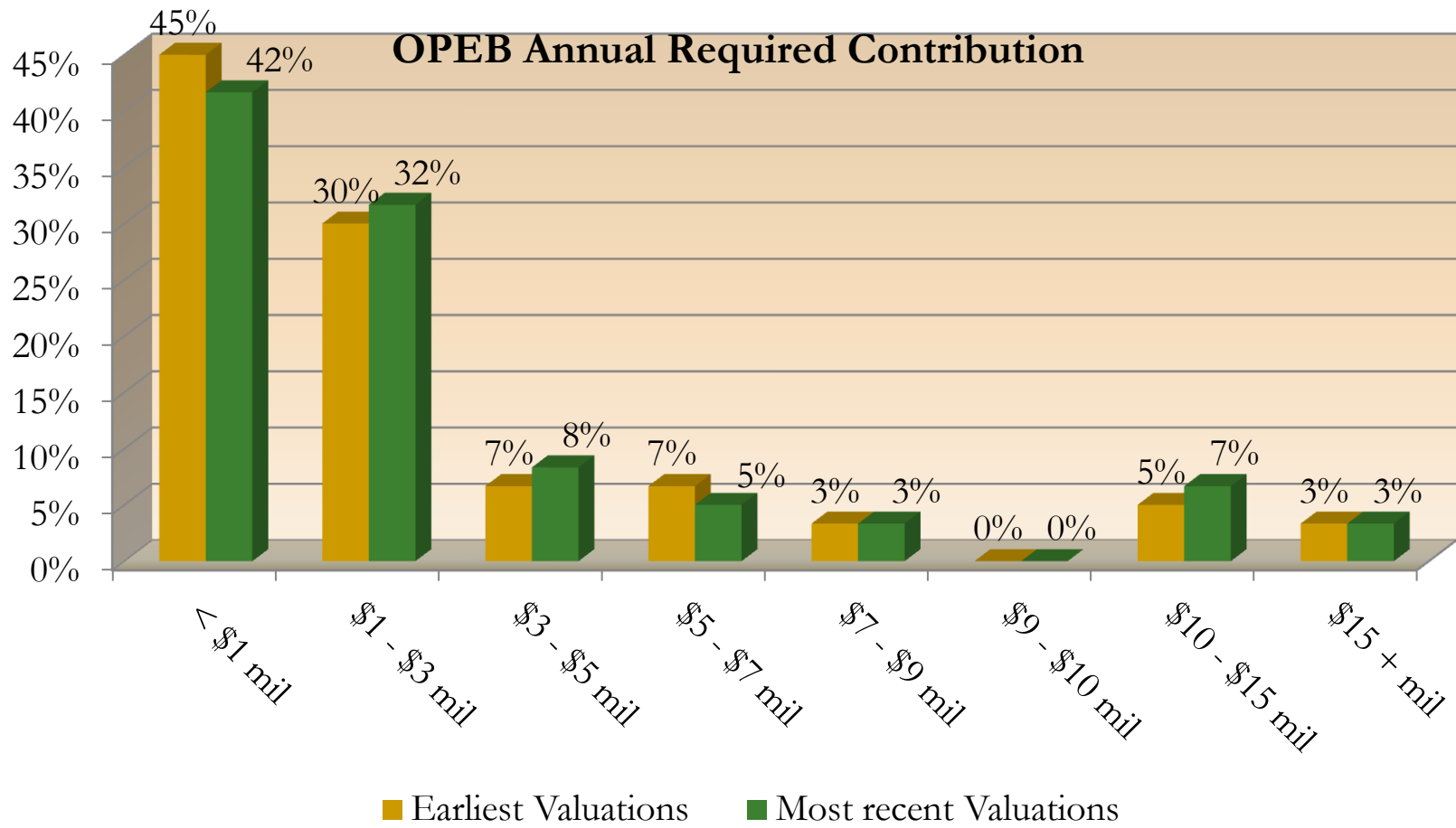
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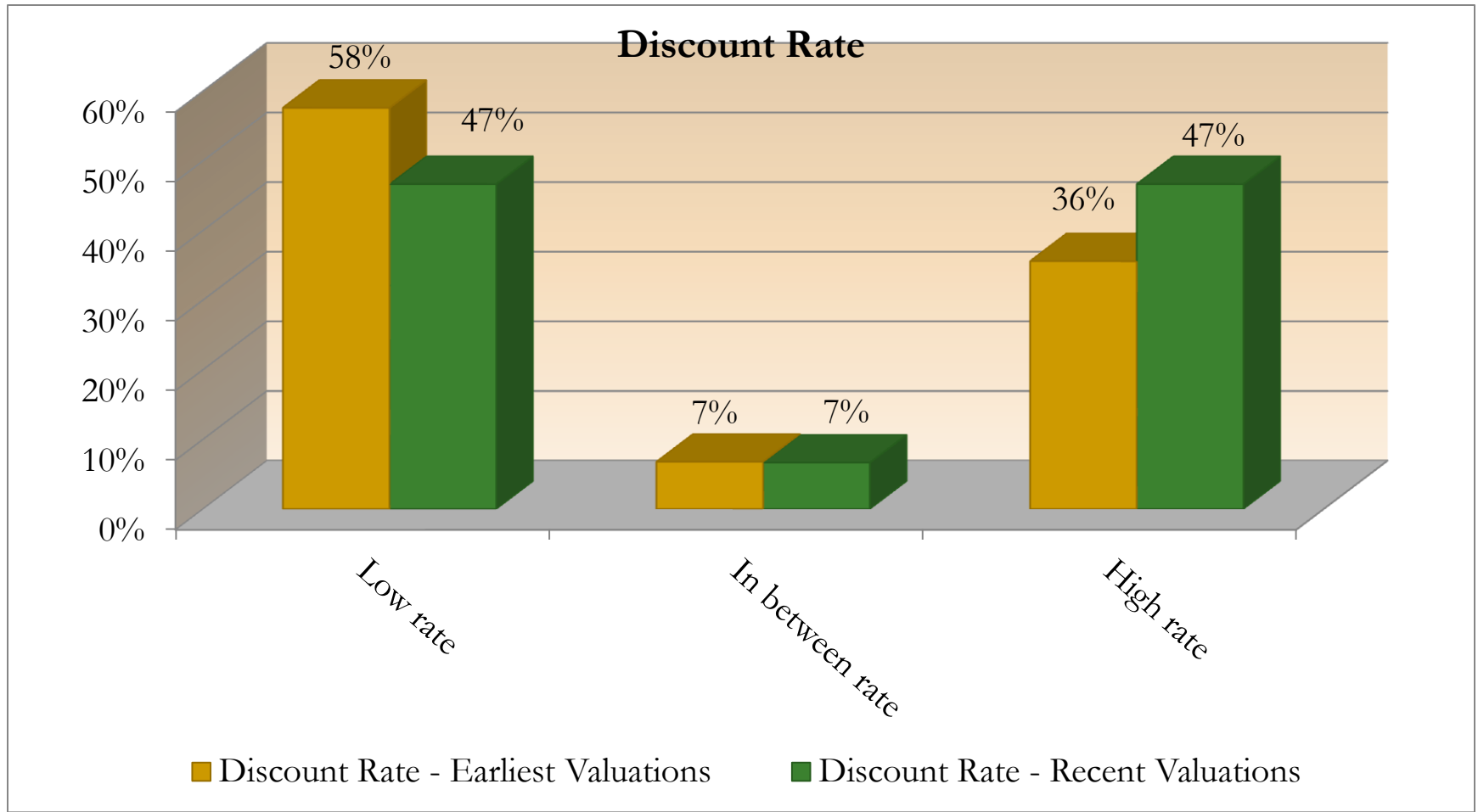
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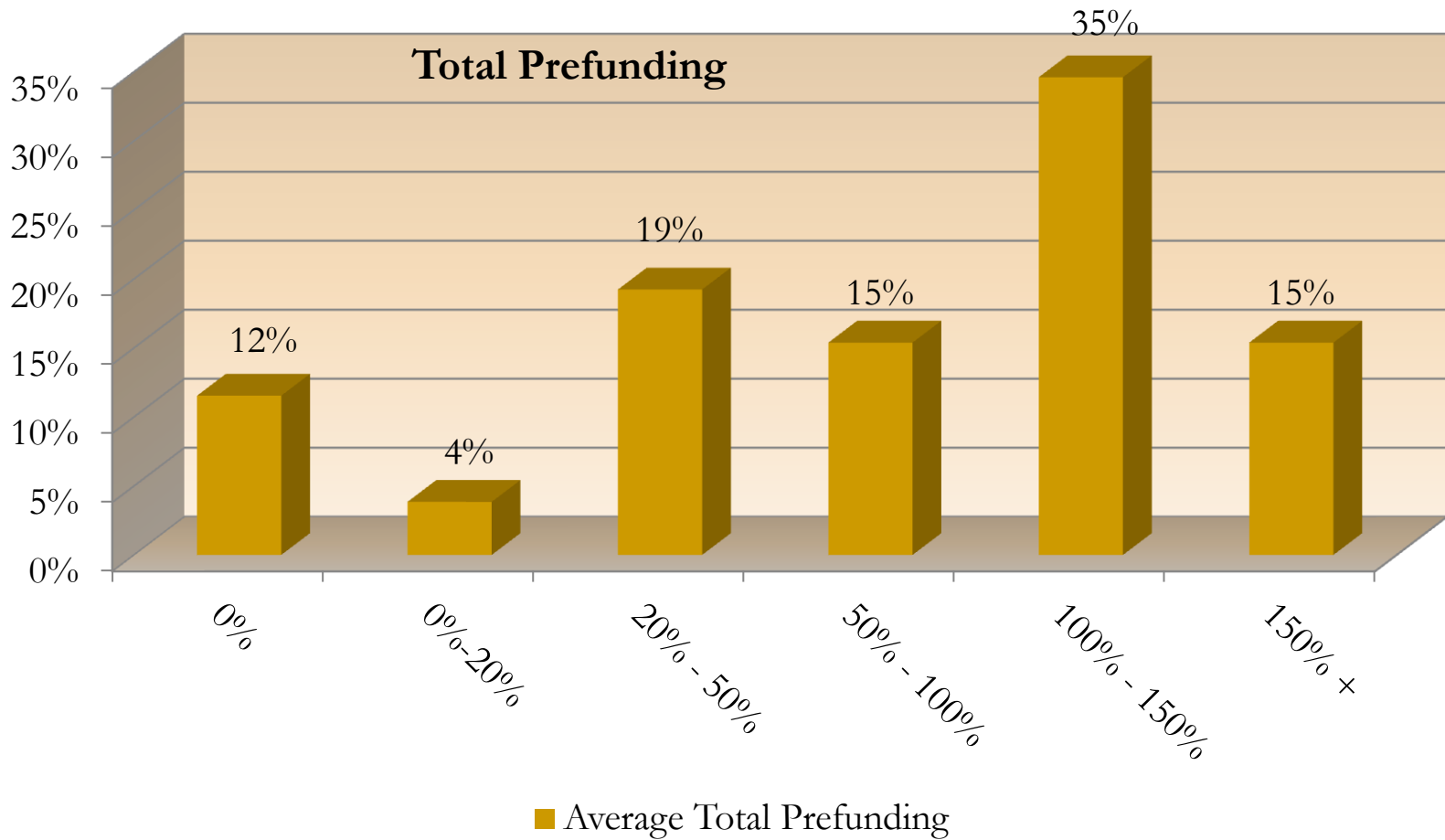
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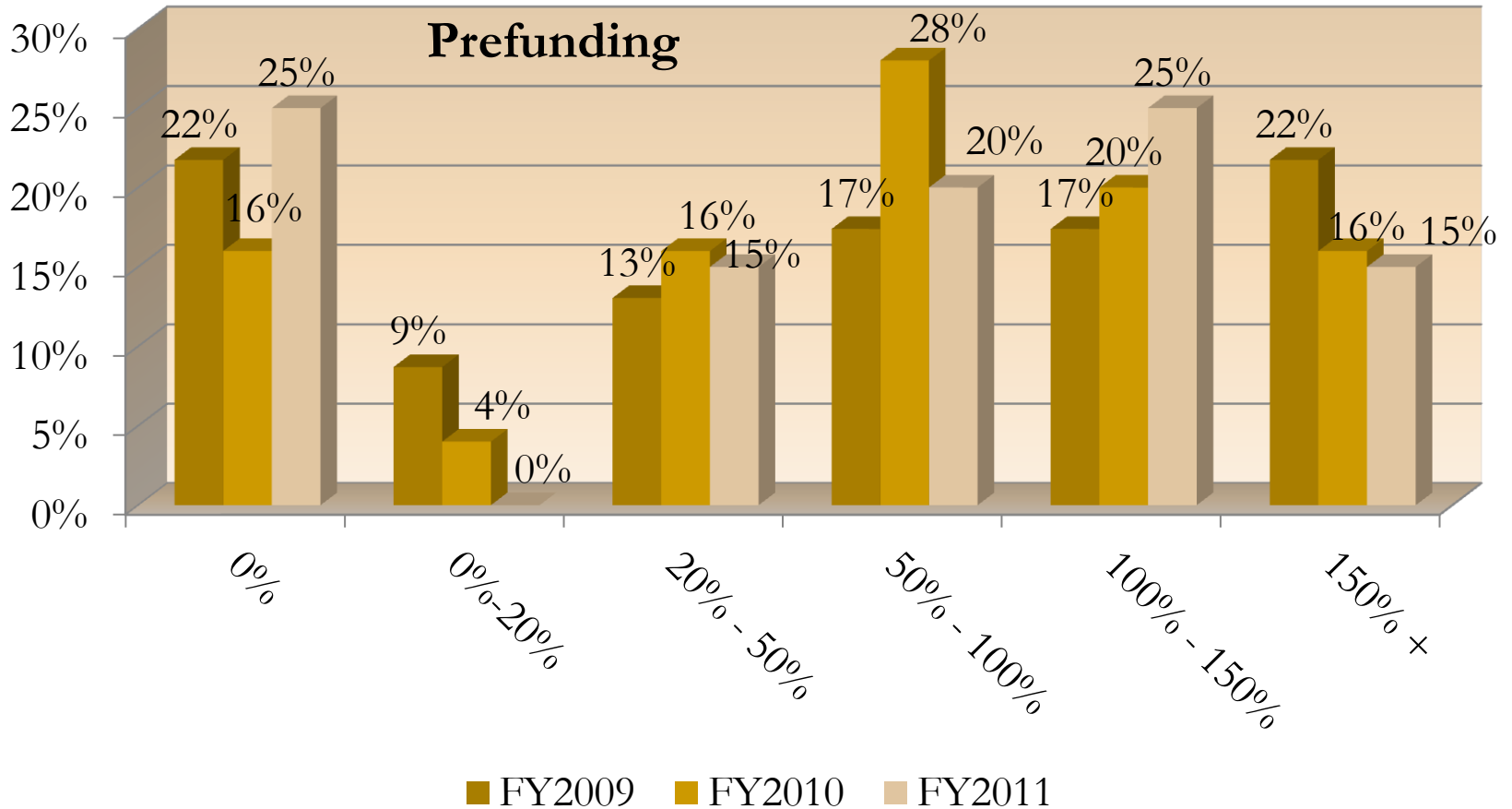
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# Further Analysis – Survey our clients

- Responses to Federal changes ( Under the Affordable Care Act):
  - Prescription drug benefit coverage under Medicare PartD
    - Yes.
    - No, but receive the 28% subsidy for equivalent benefits
    - No, but consider coverage under Medicare Part D because of the recent health care reform laws.
  - Early Retiree Reinsurance Program
  - Consider Plan changes to avoid the excise tax in 2018

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# QUESTIONS?