

Applied OPEB Strategies

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MERS[®]

Municipal Employees' Retirement System

Understanding Other Post Employment Benefits (OPEB)

Other Post-Employment Benefits (or OPEB) are benefits provided to employees after employment



Examples of OPEB Benefits

- Life insurance
- Disability
- Long-term care
- Group legal

Other post
employment
benefits



- Medical
- Prescription drugs
- Dental
- Vision

Health care
benefits



GASB Reporting Standards

Statements 43 and 45:

- Set standards in 2004 on how governments should determine, account for, and report annual costs of OPEB and outstanding balances relating to OPEB
- Require municipalities to calculate actuarial determined liability for OPEB; however, no funding requirements



Accounting Changes Ahead

GASB recently issued proposed statements regarding the accounting and financial reporting of OPEB

- Designed to improve the effectiveness of the OPEB standards by requiring:
 - More useful information
 - Increasing transparency
 - Consistency
 - Comparability across governments
- MERS staff is closely monitoring upcoming changes to regulations for our municipalities
 - Work to provide education, resources, and assistance
 - Please visit www.mersofmich.com for the most updated information



2014 National Survey of Governments

- The percentage of Medicare premiums paid by employers declined from 2011 to 2014
 - Only 14 percent pay 100% of the premium, and 58% do not pay any share of the premium
- Most common activities implemented in the last two years or planned for the next two years include
 - Increasing deductibles
 - Increasing copays
 - Increasing employee share of premium costs



2014 National Survey of Governments, cont'd

Top three innovations for 2014 were pooling, wellness and employee engagement

- Pooling
 - Form consortium
 - Combine divisions
 - Set up trust
- Wellness
 - Mandatory education/assessment
 - Discounted fitness membership
 - Discounted cost for wellness participants
- Employee Engagement
 - Communication on liability
 - Offer opt-out
 - Wellness incentives

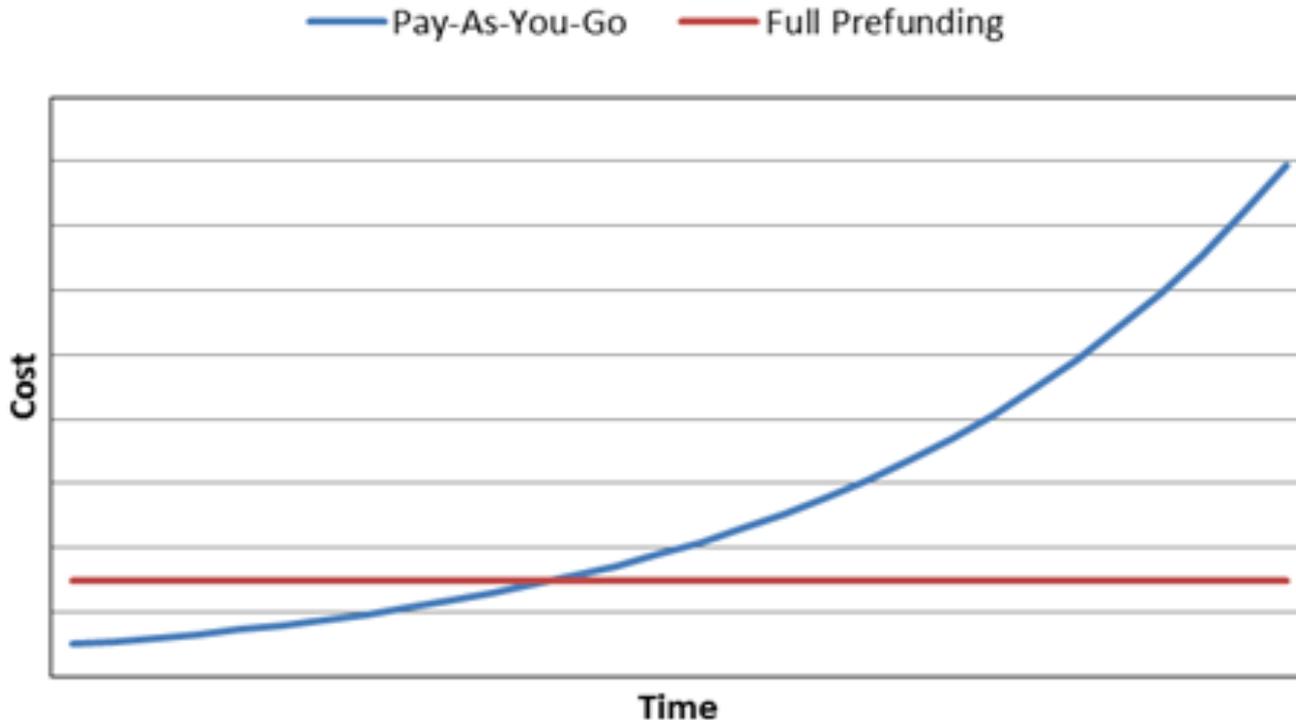


Funding Options

- Bonding
 - Senate Bill 922
 - The ability to bond exists for unfunded accrued liability for pension and OPEB extended until December 31, 2014
 - Senate has proposed an extension date of December 31, 2015
- Pay as you go
 - Paying costs as they are being accrued
- Pre-funding (Full or partial)
 - Dedicated account to offset actuarially determined liability

To Fund or Not to Fund?

Currently there is no requirement to fund OPEB, but not prefunding could be more expensive in the long run due to increased rates



Based on 10%
health inflation on
\$1000

Prefunding of
\$3,000 annually

MERS Retiree Health Funding Vehicle



MERS Retiree Health Funding Vehicle

Municipalities join an established 115 Government Integral Part Trust

- Saves money and time because MERS has established the trust
- Approved by a Private Letter Ruling from the IRS
- Assets are legally protected from creditors
- Assets may only be used for OPEB



Benefits of MERS Retiree Health Funding Vehicle

- Municipalities determine the contribution frequency and amount to the trust
- Municipalities benefit from the strength of our large membership, with cost-effective investment choices
- Earnings on assets will reduce long-term contributions and unfunded liability
- Funding may prevent net OPEB obligation from becoming a significant liability on balance sheet
- Funding can contribute to a positive credit rating



Investment Options

- Features multiple portfolios that are professionally managed by MERS
- Each portfolio has a target allocation mix that is rebalanced quarterly
- Risk adjusted strategies to help set the right mix depending on plan objectives



Strategies Implemented for Retiree Health Funding Vehicle



Example Implemented Strategy

- Transfer assets from earmarked savings account/CD into trust
 - Increased earnings on assets
- Increased co-pays/deductibles
 - Use cost savings to contribute to Retiree Health Funding Vehicle



Example Implemented Strategy

- Set up Medicare Advantage plan for retirees
 - Use cost savings to contribute to Retiree Health Funding Vehicle
- Bond unfunded liability



MERS Health Care Savings Program



What is MERS Health Care Savings Program?

An employer-sponsored defined contribution style health savings account that is designed specifically for public sector employees

- Provides individual medical savings account to employees to cover health care costs after employment
- Tax-favored program
 - Employees invest tax-free
 - Employer saved on FICA taxes (7.65%)



How Employees Use Benefit

- Tax-free reimbursement of medical expenses
- Examples of expenses
 - Co-Pays and Deductibles
 - Dental Services
 - Vision
 - Physical Therapy
 - Long-term Care Insurance
 - Medicare Premiums, like *Medicare Advantage through Humana*
 - Physical Therapy

Medicare Advantage through Humana

- A Medicare Advantage program available to individual retirees through **Humana**
- Offers a variety of coverage plans, including prescription drugs
- Unlike other Medicare Plans, enrollment is available throughout the year

Key Features of MERS Health Care Savings Program

- May be implemented at no cost to employer
 - No employer fees
- Eliminates or reduces OPEB liability
 - Immediate or future
- Provides an individual invested account which employee manages
 - Can be used after employment



Key Features of Health Care Savings Program

MERS Investment Menu

- The MERS Investment Menu was strategically designed for you by grouping investment options into logical categories
 - Investors of all types, regardless of experience, can easily create portfolios to meet their investment style

MERS Guiding Principles

- Keep it simple: reduce duplication of investment styles and asset classes
- Logical Ordering: align investments not by investment type (stocks, bonds, etc.), but rather on expected level of monitoring and rebalancing over time
- Bigger is not always better: A more streamlined investment menu can help with decision making because a high number of options can be overwhelming



Strategies Implemented for Health Care Savings Program



Provide to New Hires

All new hires receive the defined contribution style account

- Effective way to attract new talent



Health Care Alternative for Active Employees

In lieu of employer sponsored retiree health care, employer provides a defined contribution style account for actives so there is no future liability



Actives Negotiate

In lieu of pay increases, apply funds to MERS Health Care Savings Program

- Employer saves on FICA



Actives Opt-Out Option

Employer can provide one-time opt-out of retiree healthcare for existing employees

- Employees may have spousal coverage
- Employees may not meet vesting requirements



Retirees

- Existing retirees keep health care and receive stipend into HCSP
 - By using the account, employers and employees save on FICA taxes
- Existing retirees have health care eliminated and receive employer contribution



How The Programs Can Work Together

- Employers can easily transfer from Retiree Health Funding Vehicle to MERS Health Care Savings Program
 - Retiree Health Funding Vehicle funds can be used to fund Health Care Savings Program employer contributions
 - On-going, annual, or a one-time transfer
- Forfeited contributions from Health Care Savings Program transfer to Retiree Health Funding Vehicle



Finding the Right Fit

- There are many ways to use both programs
- Municipalities are becoming more innovative in how to structure benefits for employees
- MERS works with you to provide options that work for employers and employees
- For more information, contact a member of your Regional Team



Regional Team

Quick Information Sheet



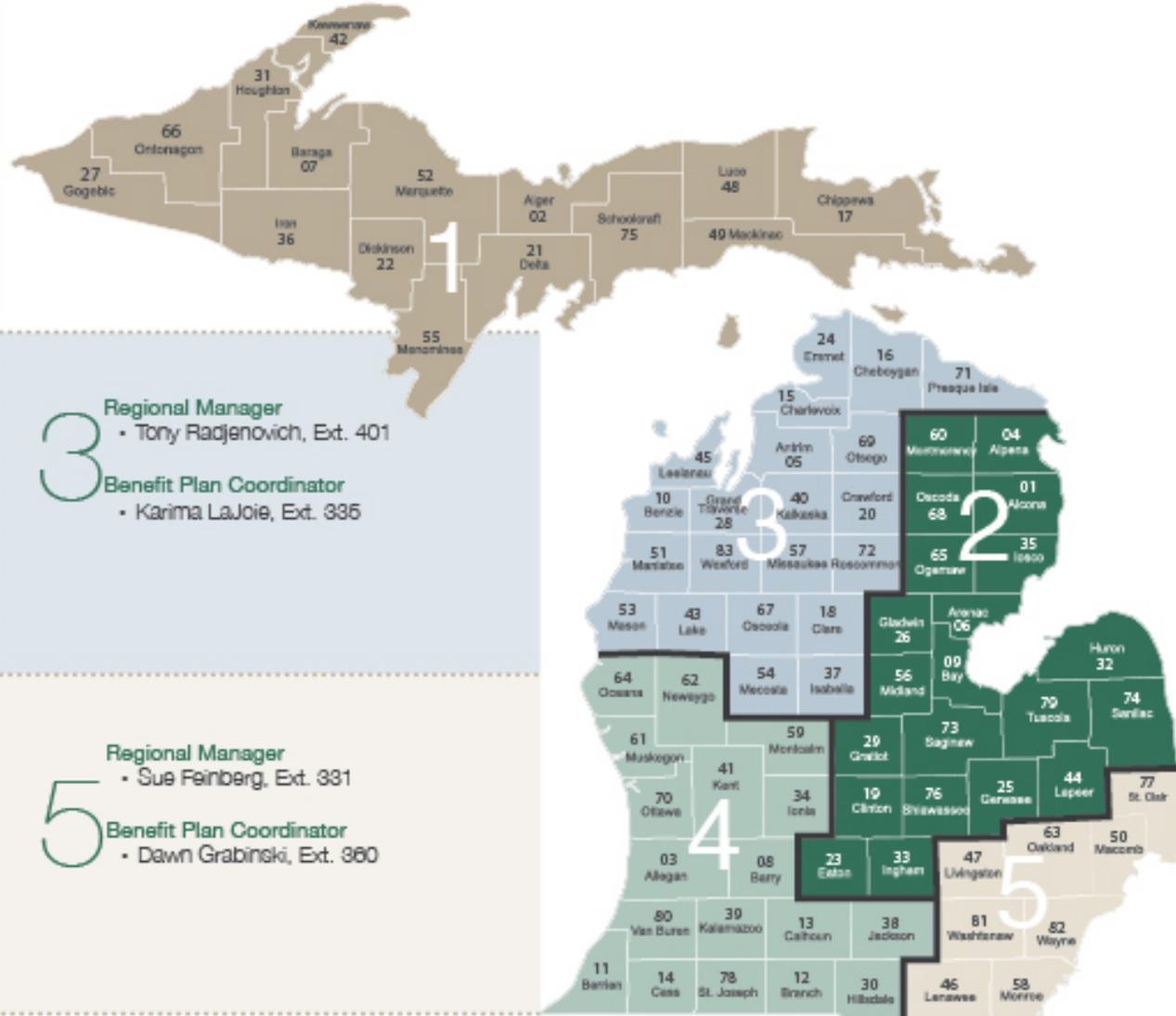
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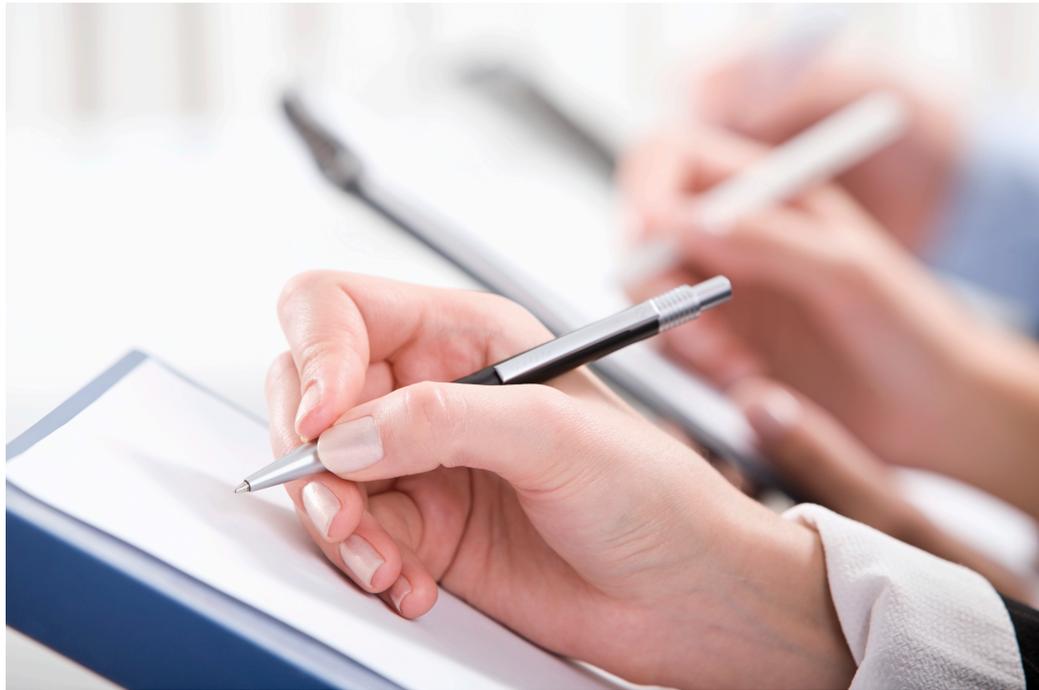
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