



Managing OPEB Obligations

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2020





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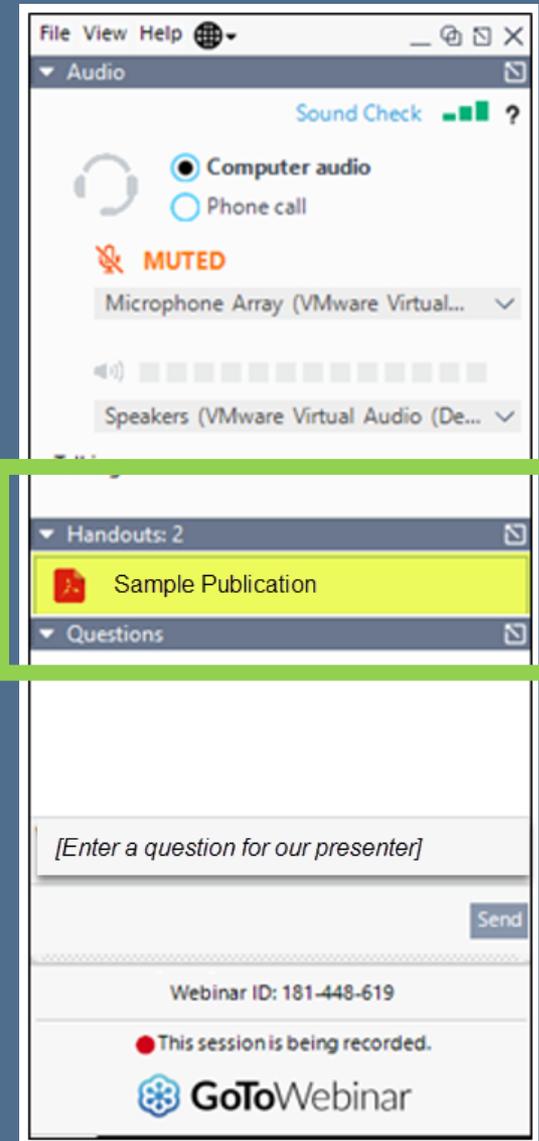
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Publications

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Agenda

- Michigan Municipal Landscape
- MERS OPEB Management Programs
 - Retiree Health Funding Vehicle
 - Health Care Savings Program
- OPEB Management Strategies
- Using a Private Health Care Exchange
- Case Study: City of Eaton Rapids



Michigan Municipal Landscape

Public Employee Benefits



- Retirement Benefits

- Protected by the Michigan Constitution
- Prefunding of pension plans is required



- Retiree Health Care

- Not considered a protected retirement benefit
- Collectively bargained benefits are binding
- Prefunding normal cost for certain employees added in 2017

Requirements of PA 202

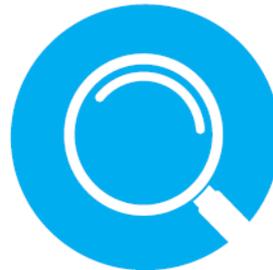
- Protecting Local Government Retirement and Benefits Act (PA 202) affects local units of government with defined benefit retirement and retiree health care plans
- Requires prefunding normal cost of retiree health care premiums for employees hired after June 30, 2018
- Addresses existing unfunded liability through four stages:



Transparency
through reporting



Identification
of potential
problems



Review for fiscal
health
(waiver process)



Develop action
plan

Statewide OPEB Funding Levels

How do Michigan's local units of government stack up?

532

SYSTEMS

\$14.3 billion in liabilities

\$5.2 billion in assets

\$9.1 billion in unfunded liabilities

195

0% FUNDED

37% of systems have not prefunded and operated on a pay-as-you-go basis

348

UNDERFUNDED

65% of systems did not meet the funding threshold of PA 202

Source: PA 202 reporting data for FY 2018 as of 8/28/2020



MERS OPEB Management Programs

OPEB Management Programs

- MERS created a Section 115 Governmental Integral Part Trust with an IRS Private Letter Ruling
- From this trust we created two programs that can be used together or independently:



Retiree Health Funding Vehicle



Health Care Savings Program

Retiree Health Funding Vehicle (RHFV)



Retiree Health Funding Vehicle

- RHFV allows employers to invest assets earmarked for funding OPEB expenses
- Investment returns may reduce required contributions and unfunded liability
- MERS economies of scale provides cost-effective investment options and plan administration
- Can be used with the MERS Health Care Savings Program to further offset OPEB Liability

Health Care Savings Program (HCSP)



Health Care Savings Program

- HCSP helps participants save for post-employment health care expenses
- There is no possibility of unfunded OPEB liability when HCSP is offered to active employees
- A stipend in lieu of group health coverage can be offered to retirees, further reducing OPEB liability



OPEB Management Strategies

Managing OPEB Liabilities

FUNDING STRATEGIES

- Establishing a qualified medical trust
- Bonding



PLAN DESIGN STRATEGIES

- Making provision changes
- Discontinuing coverage
 - Offering defined contribution style health care account
 - Providing retirees a stipend in lieu of retiree health care



Investing with a Qualified Medical Trust

- **RHFV** is a qualified medical trust
- Assets in the trust are creditor protected
- Assets can be used to offset future and existing OPEB liability
- Employer determines the contribution frequency and amount
- Pre-funding will result in a reduction in the amount reported and positive credit rating



Bonding

Some local units of government may choose to issue a bond to cover all or a portion of their OPEB liability

Considerations

- Retiree health care coverage must not be available to new hires
- Combine with **RHFV** or **HCSP** to help reduce future unfunded liabilities and take advantage of investment earnings and growth over time



Making Provision Changes

Changes to retiree health care coverage may reduce the total liability of the plan



Considerations

- Implement changes to insurance benefit levels
- Increase copayments/deductibles
- Modify eligibility requirements for coverage
- Increase employee contributions

Discontinuing Coverage

Strategy	Impact on OPEB Liability
Eliminate retiree health insurance for new hires	Reduces future liability
Discontinue retiree health insurance for existing employees	Reduction of current liability
Discontinue retiree health insurance for existing retirees*	Considerable reduction of current liability

**Health care in retirement may be protected by contractual obligations*

Defined Contribution Style Accounts

- Offer a tax-advantaged investment program to new hires and active employees, such as **HCSP** to save for future health care costs
- Defined contribution plans do not accrue unfunded liability for active and new hire employees
- Reduce/eliminate future liability of active employees:
 - Mandatory conversion of existing employees eliminates accrual of any future liability
 - Incentivizing employees to opt out of retiree health care coverage likely to reduce accrual of future liability

Bridging the Medicare Gap

HCSP is an ideal vehicle for helping employees cover the cost of retiree health insurance premiums before they become eligible for Medicare



Across Michigan, the monthly cost for a 60-year-old male in fair health is \$800-\$1,050

The average monthly cost for a silver plan is \$910*

**Source healthcare.gov as of 9/1/2020*

Providing Retirees a Stipend

- Employers can provide a stipend in lieu of retiree health care, which would be deposited into a tax-advantaged investment program, such as **HCSP**
 - Can combine stipend with access to a private health care exchange to help transition retirees away from group coverage
 - Helps employers reduce OPEB liability while maintaining commitment to providing quality benefits
 - Reduced administrative cost and challenges for employers as compared to supporting a group plan





Private Health Care Exchange

Preferred Partnership

Mercer Marketplace 365+SM



Options for both pre-65 and Medicare-eligible individuals



A retiree-centric customer service model



A comprehensive communication strategy to educate retirees about changes to their health care plan



Public sector experience



Local offices in Michigan



Coordination with the **MERS Health Care Savings Program** and **Retiree Health Funding Vehicle**

Why a Private Health Care Exchange?

A private exchange changes the way employers provide retiree health care benefits, without diminishing their commitment to retirees



Increased buying power enables retirees to access plans that provide **equal or better coverage** at a lower cost than typical group plans



Proven strategy helps employers reduce OPEB liability while maintaining their commitment to provide quality benefits



Reduced administrative cost and challenges for employers as compared to supporting a group plan

**What is your OPEB
objective?**

Retiree Exchange

How does it work?

Choice

Choice of plans and carriers for medical, prescription, dental and vision coverage

Education

Benefits counselors educate, enroll and support retirees

HCSP reimbursement

Retiree pays premium to carriers with reimbursement from HCSP for eligible costs

Communications

Communications strategy provided

Employer-funded

Employer funds the HCSP administered by MERS and partners with the exchange team

Experience

Transition delivered by experienced account management team

Frequently Asked Questions

Common questions and answers about private health care exchanges



Will I have to change doctors, hospitals and pharmacies?



I have a pre-existing condition — can I be turned down or restricted?



Isn't group insurance always less expensive than individual?



Don't my spouse and I need to be on the same plan?

ANSWER: NO

How Employer Groups Use the Exchange



Consultants compare employer's existing group plan to options available on exchange and help determine an appropriate stipend



Stipend is deposited into each retiree's HCSP account



Benefits counselors work with each retiree to help them select the plan that best meets their needs



Retirees use their HCSP to fund the plan through the private exchange

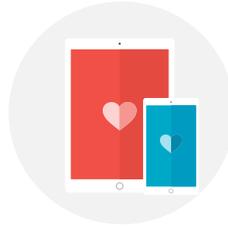
Easing the Transition for Retirees

DEDICATED TO YOUR RETIREES DURING TRANSITION



BENEFITS COUNSELORS

- Nurturers, not salespeople
- Step-by-step guidance
- Personal needs assessment
- MERS experienced team located in Mid-west



CLEAR, CONSISTENT COMMUNICATIONS

- MERS specific culture and messaging
- Proactive outreach
- Work closely with MERS HCSP team



ONGOING ADVOCACY

- One-on-one support
- Physician bill questions
- Assistance with appeals
- Expensive drug assistance

Win-Win Results



Employer

Can offer affordable, quality benefits

Reduces annual costs and long-term OPEB liabilities

Develops long-term retiree health care program

Reduces or eliminates plan administration costs



Retiree

Can select a plan that meets individual health care needs

Tax-free deposits go directly into an HCSP account

Remaining HCSP account balance can be used for other qualified health care expenses

MERS Employer Analysis

EXCHANGE RESULTS WITH MERS MUNICIPALITIES



13

Employers

Adopted the Mercer
Marketplace/HCSP approach



\$415

Per Month

Average cost of group plan



\$250

Stipend

Average recommended
stipend amount

MERS Employers include:
Counties, Cities, Townships,
Health Systems, Road
Commissions, Housing
Commissions, Libraries,
Board of Light and Power



40%

Annual Savings

Average annual savings of \$1,800
per year per participant



45%-65%

Reduction

Estimated reduction in
actuarial liabilities

Sample HCSP Account Stipend

75-year-old in average health; one brand name and five generic prescriptions

Sample Employer Group Plan

Current Employer Cost	\$5,460/year
Current Retiree Cost (Medical and Rx out-of-pocket expenses)	\$1,275/year

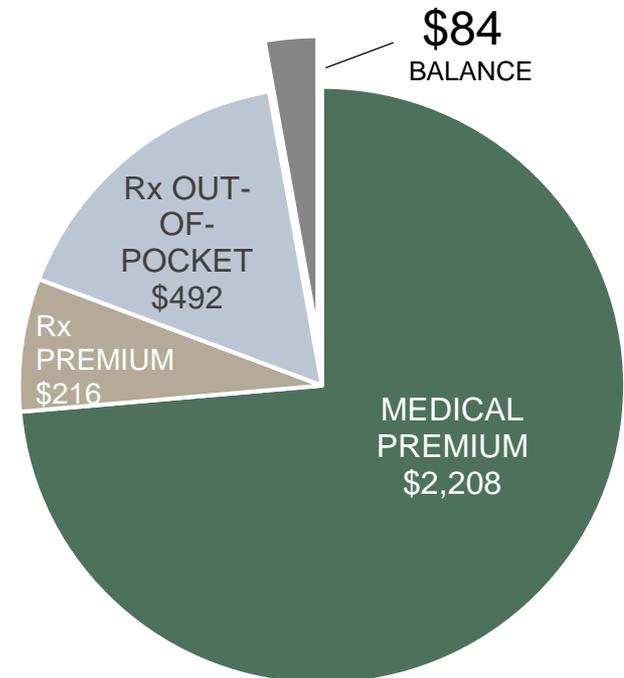
Mercer Marketplace 365 Medigap Plan F + Sample Drug Plan

Proposed Employer Stipend	\$3,000/year
Proposed Retiree Cost (all expenses covered by stipend)	\$0/year

Employer savings of \$2,460/year

Balance of \$84/year left in retiree's account

**\$3,000 Stipend with Mercer Marketplace 365
Medigap Plan F + Sample Drug Plan**





Case Study

City of Eaton Rapids



Municipality Profile

20 Medicare-eligible retirees

\$10.5M OPEB liability

OPEB funding level = 0%

Programs Used

Retiree Health Funding Vehicle

Health Care Savings Program

Mercer Marketplace 365+

Situation

In 2018, the City of Eaton Rapids' unfunded OPEB liability totaled more than \$10.5 million. They had not prefunded the obligation, and were required to file a corrective action plan under PA 202.

Strategy

The City adopted the **MERS Retiree Health Funding Vehicle** to begin pre-funding their plan. In lieu of retiree health care, new hires were enrolled the **MERS Health Care Savings Program**.

MERS partnered with Mercer to show stakeholders that providing Medicare retirees with a monthly stipend via the **MERS Health Care Savings Program**, along with access to the **Mercer Marketplace 365+ Retiree** exchange, would provide equal or better coverage than their existing group plan.

Results

The City's OPEB liability shrank from \$10.5 million to just \$4 million. **A savings of \$6.5 million.**

Medicare retirees use a monthly stipend to pay for medical and prescription insurance, copays and deductibles, with additional funds to purchase dental and vision insurance that they would not have under the group plan.



Key Takeaways

Key Takeaways

- OPEB liabilities are a growing concern for many public sector employers
- Employers can prefund and invest assets for OPEB liabilities with a qualified medical trust
- A defined contribution-style medical savings account can help employees prepare for the cost of retiree health care
- Consider a private health care exchange to reduce OPEB liability while maintaining commitment to provide quality benefits
 - Email PrivateExchange@mersofmich.com to find out more about Mercer Marketplace 365+
 - Individual retirees can also access the exchange



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What questions can we answer?

Contacting MERS of Michigan

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

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Lansing, MI 48917

800.767.MERS (6377)

www.mersofmich.com



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