



2017 RETIREMENT CONFERENCE

Understanding Your Healthcare Options in Retirement

Presented by: Tara Tyler



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You must sign in during the session to receive credit for attending!



Agenda

- Healthcare Considerations in Retirement
- Medicare Basics
- MERS Health Care Savings Program (HCSP) Overview
- Retiree Health Exchange Overview



Health Care Considerations



Out-of-Pocket Costs with Medicare

- Medicare was never designed to cover health care expenses in full
- In 2016, for a 90% chance of having enough money saved for retiree health care expenses, the vast majority of couples need **\$349,000** in savings by 65



38%
of health care
costs NOT
covered

62%
of health care
costs covered
by Medicare

Source: https://www.ebri.org/publications/notes/index.cfm?fa=notesDisp&content_id=5527



Health Care Costs Impact on Retirement

- Retiree health care costs is one of the primary reasons people decide to delay their retirement
- Studies show health care costs rank second only to food for retiree expenses

and... this assumes you wait until 65 to retire



Penalties for Being Uninsured

The tax penalty for not having insurance

2017



\$695

per adult



\$347.50

per child under 18

or



2.5%

of family income

whichever is greater



Medicare Basics



Medicare Overview

- Federal health insurance for:
 - People 65 years of age or older
 - Some persons with disabilities, after a 24 month waiting period
 - People with End-Stage Renal Disease
 - People with Amyotrophic Lateral Sclerosis (ALS)
 - People who have been exposed to environmental health hazards
- Medicare enrollment
 - Seven month enrollment period
 - Three months before, the month of and three months after the month of your 65th birthday
 - Unlike Social Security you need to enroll as soon as eligible



Medicare Plan Choices

- Original Medicare
 - Part A – Hospital Insurance
 - Part B – Medical Insurance
- Part D – Optional Prescription Insurance
 - Stand alone plan added to Original Medicare
 - Coverage that is included with many Medicare Advantage plans
- Medicare Advantage (MA or Part C)
 - Offered by private insurance providers approved by Medicare giving you coverage through the plan rather than through Original Medicare
- Medicare Supplement Insurance or Medigap
 - Original Medicare pays for many, but not all, health care services and supplies
 - A Medigap policy is private insurance that helps pay some of the health care costs that Original Medicare doesn't cover (like copayments, coinsurance, and deductibles)



Medicare Review

| | |
|--|--|
| Part A Hospital Insurance | <ul style="list-style-type: none">• Helps cover inpatient care in hospitals• Helps cover skilled nursing facility, hospice, and home health care |
| Part B Medical Insurance | <ul style="list-style-type: none">• Helps cover doctor's visits, hospital outpatient care, and home health care, lab, x-rays, medical equipment• Helps cover some preventive services to help maintain your health and to keep certain illnesses from getting worse |
| Part D Medicare Prescription Drug Coverage | <ul style="list-style-type: none">• A prescription drug option run by Medicare-approved private insurance companies• Helps cover the cost of prescription drugs• May help lower your prescription drug costs and help protect against higher costs in the future |
| <p>Medicare Advantage Plans (like an HMO or PPO) are health plans approved by Medicare. Medicare Advantage Plans (also called "Part C") include Part A, Part B, and usually other coverage like Medicare prescription drug coverage (Part D), sometimes for an extra cost.</p> | |



Premiums

| | | | |
|---------------|---|---------------------------------------|-------------------|
| Part A | You usually don't pay a monthly premium for Part A coverage if you or your spouse paid Medicare taxes while working | | |
| Part B | If your yearly income in 2015 (for what you pay in 2017) was: | | You Pay (monthly) |
| | <i>If You File an Individual Tax Return</i> | <i>If You File a Joint Tax Return</i> | |
| | \$85,000 or less | \$170,000 or less | \$134.00 |
| | \$85,001 - \$107,000 | \$170,001 - \$214,000 | \$187.50 |
| | \$107,001 - \$160,000 | \$214,000 - \$320,000 | \$267.90 |
| | \$160,001 - \$214,000 | \$320,001 - \$428,000 | \$348.30 |
| | above \$214,000 | above \$428,000 | \$428.60 |
| Part D | Each plan can vary in cost and drugs covered | | |

Important Note:

Failure to enroll in Part A and Part D when first eligible may result in a late enrollment penalty. See medicare.gov for more information.



Part A Hospital Costs

- Inpatient Hospital Care
 - \$1,316 deductible for each benefit period
- Skilled Nursing Facility Care
- Long-Term Care Hospitals



Part B Medical Costs

- You pay \$183 per year for your Part B deductible
- After your deductible is met, you typically pay 20% of the Medicare-approved amount for these:
 - Most doctor services (including most doctor services while you're a hospital inpatient)
 - Outpatient therapy
 - Durable medical equipment



Prescription Drug Coverage

There are two ways to get Medicare prescription drug coverage:

1. Medicare Prescription Drug Plans – Part D

- These plans (sometimes called “PDPs”) add drug coverage to Original Medicare
- You must have Medicare Part A **or** Part B to join

2. Medicare Advantage Plans

- You get all of your Part A and Part B coverage and prescription drug coverage (Part D) through these plans
- Medicare Advantage Plans with prescription drug coverage are sometimes called “MA-PDs”



What is Not Covered by Medicare

- Skilled nursing home stay beyond 100 days
- Dental, vision and cosmetic procedures
- Alternative medicine and medical procedures that happen outside the United States
- Deductibles, coinsurance, and copayments



Medicare Resource

www.medicare.gov

The screenshot shows the Medicare.gov homepage. At the top, there are links for 'Español', 'A A', and 'Print'. On the right, there are links for 'About Us', 'Glossary', 'CMS.gov', and 'MyMedicare.gov Login'. The main header features the 'Medicare.gov' logo and a search bar with the placeholder text 'Type search term here'. Below the header is a navigation menu with buttons for 'Sign Up / Change Plans', 'Your Medicare Costs', 'What Medicare Covers', 'Drug Coverage (Part D)', 'Supplements & Other Insurance', 'Claims & Appeals', 'Manage Your Health', and 'Forms, Help, & Resources'. A large banner area contains the question 'Is my test, item, or service covered?' with a search input field and a 'Go' button. Below this are three green buttons: 'Find health & drug plans', 'Apply for Medicare', and 'Get started with Medicare'. A yellow banner below the main content area reads 'Medicare Open Enrollment starts October 15 and ends December 7' with a link to 'Review your health and prescription drug coverage options'. Another yellow banner below that says 'New quality measures for nursing homes' with a 'Learn more' link. The lower section has three search boxes: 'Address change/Medicare card issue?', 'Information for my situation', and 'Find someone to talk to'. On the left, there is a section titled 'Find doctors, providers, hospitals, plans & suppliers' with sub-links for 'Find doctors & other health professionals', 'Find nursing homes', 'Find hospitals', and 'Find home health services'. In the center, there are tabs for 'Blogs', 'News', and 'Videos', with a list of recent posts including 'Medicare Open Enrollment: Are you ready to pick a plan?', 'Stop the flu before it hits', and 'Don't forget your mammogram this year!'. On the right, there are four blue buttons: 'Get help with costs', 'Find out how Medicare works with other insurance', 'Mail you get about Medicare', and 'Go paperless: Get MSNs or Medicare & You electronically'.



MERS Health Care Savings Program



Health Care Savings Program (HCSP)

- Employer-sponsored program designed specifically for public sector employees
- Provides individual health care reimbursement accounts to employees so they can cover the costs of post-employment health care
- Section 115 trust which is creditor protected



Comparing Medical Savings

| Program | MERS HCSP | Health Savings Account |
|----------------------------|--|--|
| Overview | An employer-sponsored tax-free account designed specifically for public sector employees created through a Section 115 Trust | A tax-advantaged account for qualified medical expenses available to individuals who are enrolled in a high-deductible health plan (HDHP) |
| Contributions | <p>Employer</p> <ul style="list-style-type: none"> • May include a vesting schedule • Can be funded from Retiree Health Funding Vehicle (RHFV) • Retiree only group allowed <p>Employee</p> <ul style="list-style-type: none"> • Mandatory | <p>Employer</p> <ul style="list-style-type: none"> • No vesting schedule • Contributions are limited to active employees <p>Employee</p> <ul style="list-style-type: none"> • Voluntary |
| Contribution Limits | n/a | <p>Both employer and employee contributions count towards limits of: Self: \$3,400 or Family: \$6,750</p> <ul style="list-style-type: none"> • Catch-up contributions available |



Comparing Medical Savings, cont.

| Program | MERS HCSP | Health Savings Account |
|--------------------------|---|--|
| Tax Benefits | Exempt from federal and state income and FICA | Exempt from federal and state income and FICA |
| Using the Account | <p>Participants can begin using the account as soon as they leave employment</p> <p>Account can be used tax free for qualified medical expenses, (including health insurance premiums)</p> | <p>Participants can use the account at any time</p> <p>For qualified medical expenses, withdrawals are tax exempt.</p> <ul style="list-style-type: none"> • Health insurance premiums are excluded • Non-qualifying expenses are subject to a 20% penalty • Once 65, monies can be withdrawn penalty free, but not tax-free, and used to pay for Medicare premiums |
| Key Takeaway | Tax free retiree health care reimbursement account | High Deductible Health Plan (HDHP) required, not able to be used for insurance premiums |



Contributions

Contributions are made tax-free and grow tax-free for qualified medical expenses use

- Employer Contributions
- Tax-Free Mandatory Salary Reduction
- Leave Conversions
- Post-Tax Voluntary Option



Simplified Investment Options

Investment Categories

1

"Do it for me"

Fully diversified target date funds that automatically adjust over time

2

"Help me do it"

Prebuilt portfolios that are monitored and rebalanced quarterly



Using the HCSP Account

- Account may be used for tax-free reimbursements for qualified medical expenses after:
 - Separation from employment
 - On medical leave for 6 months or more
- Debit card is available
- Online reimbursements available
- Designed to coordinate with private health care exchanges for both pre-65 and post-65 participants



The Benefit That Keeps Working

Upon Separation from Employer

Participant, spouse and any legal dependent(s) may use the account for medical expense reimbursement (tax-free)



Upon Death

Spouse and any legal dependent(s) may continue to use the account for medical expense reimbursement (tax-free)



Upon Death

A named *Primary Beneficiary* may use the account for medical expense reimbursement (taxed at time of payment)



Upon Death

A named Contingent Beneficiary may use the account for medical expense reimbursement (taxed at time of payment)

The ability for a designated beneficiary to use the balance of your HCSP account after you pass away is a provision unique to **MERS**



Bridging the Gap

- HCSP is **an ideal vehicle** for employers wanting to help employees cover the cost of health insurance premiums before they become eligible for Medicare
- The sooner employees start saving, and the more they set aside, the more prepared they will be for healthcare expenses in retirement



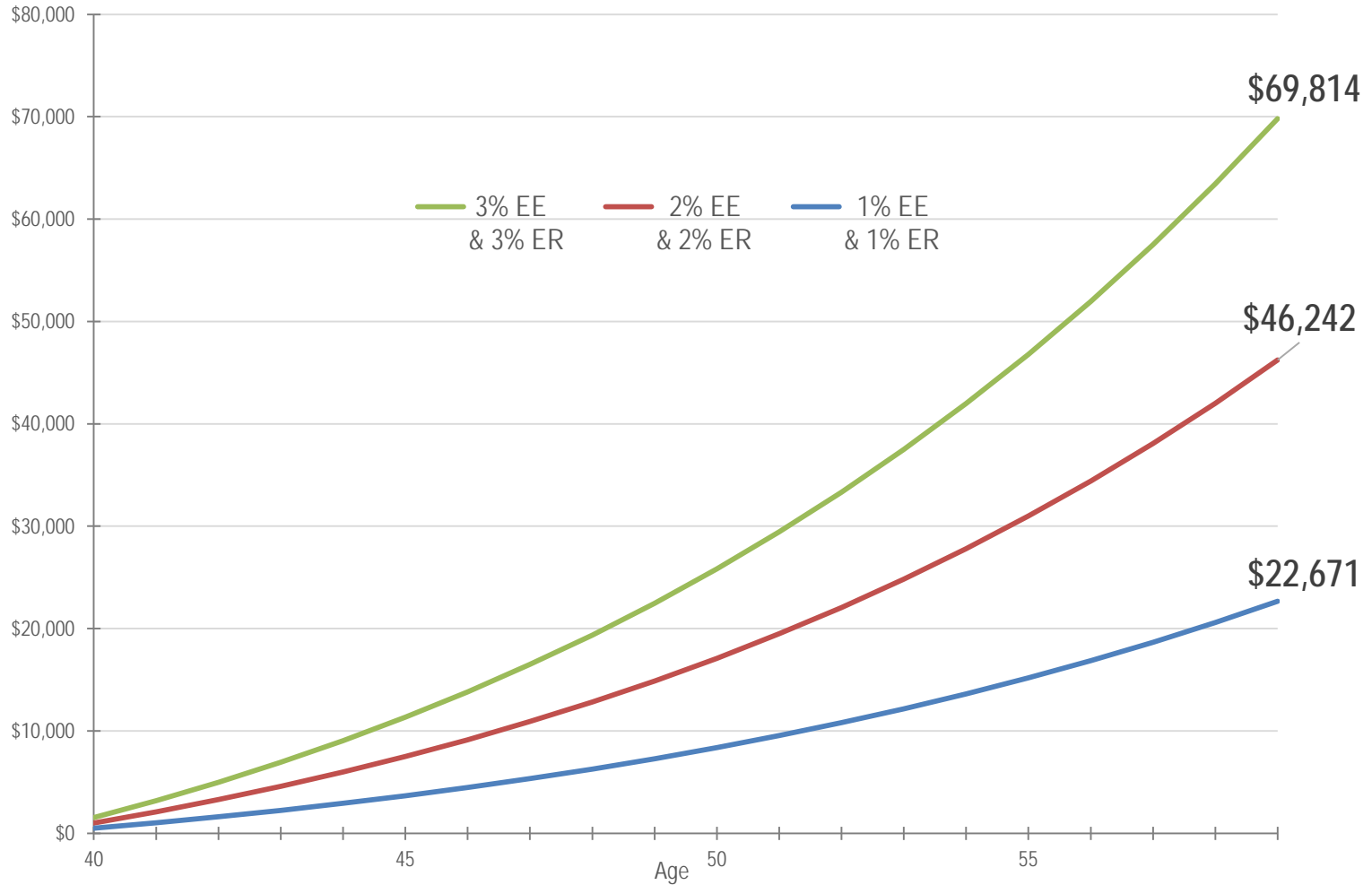
Importance of Saving Early

John Smith is 60 years old and currently makes \$40,000/year.

If he and his employer each invested 1%, 2%, or 3% for the past 20 years, and investments returned 6%, his HCSP accumulation is illustrated on the next slide.



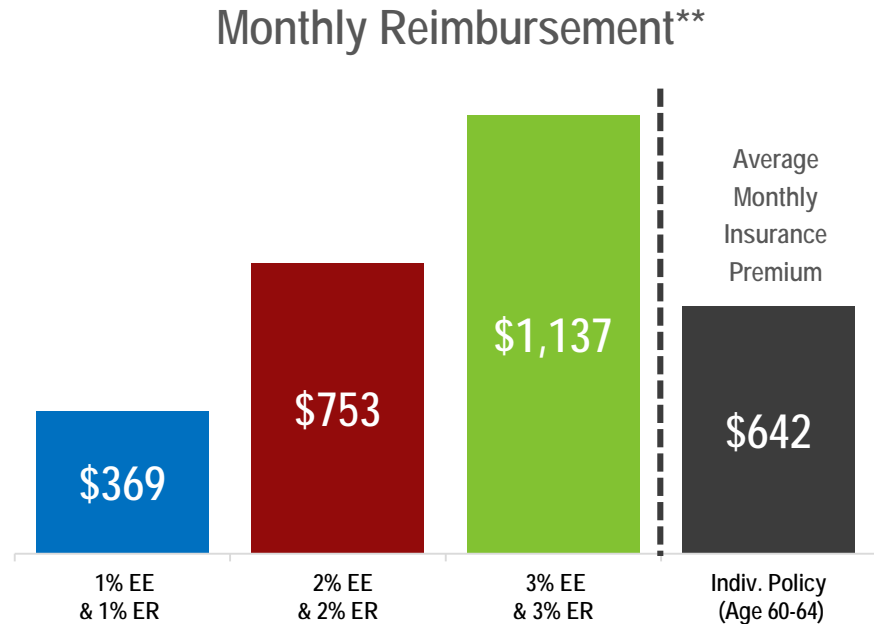
John's Account Balance After 20 Years



Using HCSP for Medical Expenses in Retirement

The bar graph illustrates the reimbursement John Smith would have available each month from age 60-64, until Medicare Coverage begins, in each of the three scenarios.

The current average cost for a mid-level individual plan policy for a person age 60-64 is \$642/month.



** Assumes John Smith withdraws his entire account balance in 60 equal monthly installments from age 60-64, and that the account remains invested and returns 4% per year until depleted.



Retiree Healthcare Private Exchange Overview



*MERS will be partnering with a
private health care exchange*



What is a Private Exchange?

An online store where retirees can purchase benefits from the carrier of their choice

- Provides a variety of plans:
 - Pre-65 coverage
 - Coverage options for Medicare retirees that include Medicare Advantage, Medicare Supplement (Medigap) and Part D Prescription Drug Plans
 - Dental and vision plans
- Fully integrated with MERS HCSP



How it Works for MERS Participants

- Ability to purchase quality, low-cost benefits seamlessly through the exchange without employer adoption
- Benefits Counselors guide each retiree and eligible dependent through a step-by-step consultative process
- The Benefits Counselor then assists during the enrollment process, which is typically done online
- Premiums can be paid directly to insurer using MERS HCSP account funds



How it Works for Employer



How It Works for Employer Plans



Discounted
OPEB
Valuations
determines
liability



Exchange
consultants
help design
the structure



Stipend is put
into the
MERS HCSP



Benefit
Counselors meet
with retirees to
provide education
and assistance to
help them choose
a plan



Retiree use their
HCSP funds to
purchase health
plan off the
private exchange



Case Study – Jackson District Library

Situation

- OPEB unfunded liability was growing despite closing retiree health care to new hires in 2007
- Began to fund through Retiree Health Funding Vehicle
- In 2014 OPEB liability was \$8 million comprised primarily of 10 post-65 retirees



Case Study – Jackson District Library

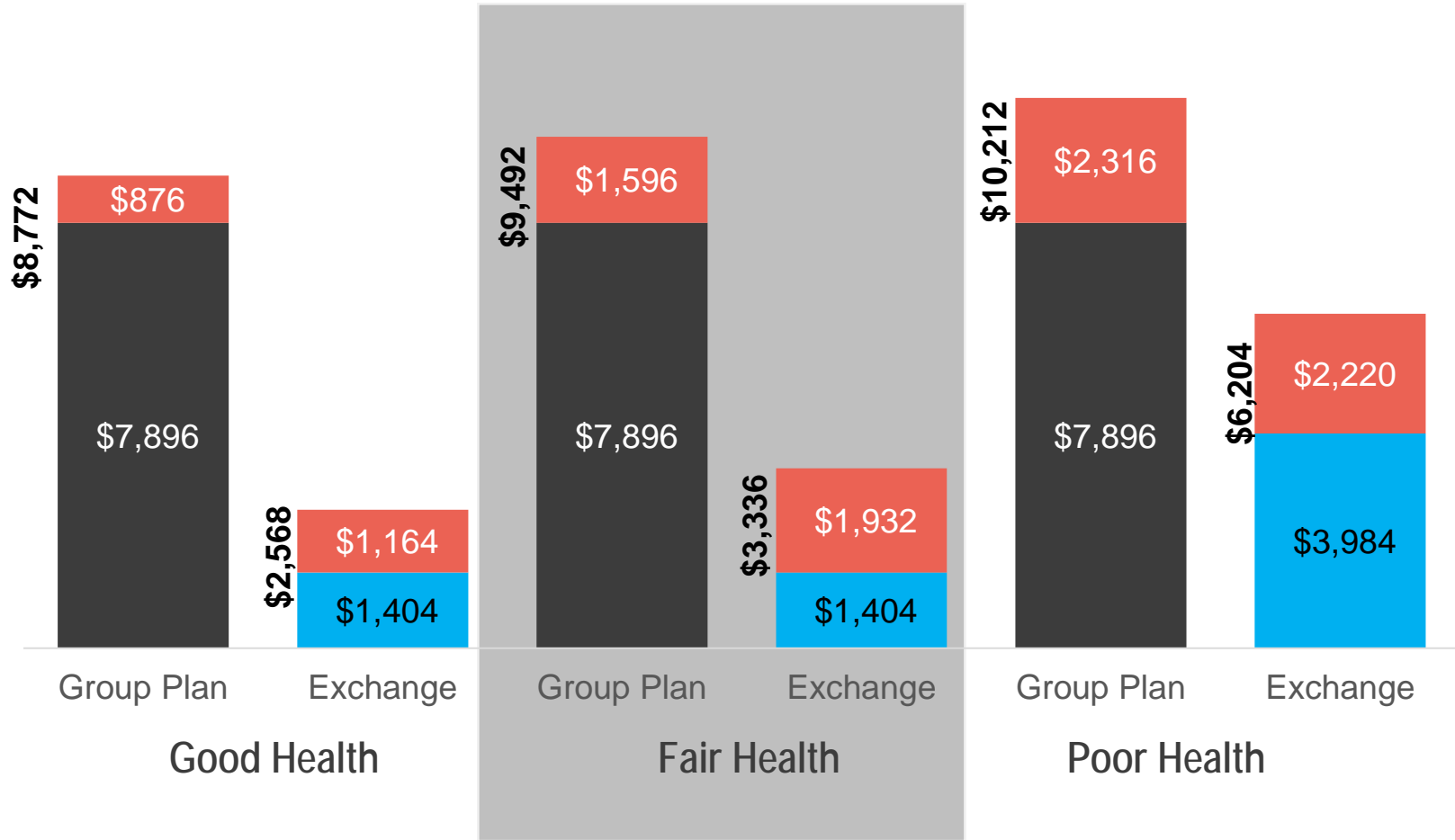
Consultant solution

- .. Determined the coverage options available, the associated cost, and the employer stipend necessary to fund the benefit
- .. Recommended pairing the MERS HCSP with a private health exchange to decrease costs and reduce future unfunded liabilities



Case Study – Comparing Premiums

Employer Premium
 Retiree Premium
 Retiree Out-of-Pocket



Case Study – Win-Win Results

- Medicare-eligible retirees:
 - can select a unique plan that meets their needs
 - are provided with a stipend, deposited tax-free into their HSCP
 - are building a balance in their HCSP account for other qualified healthcare expenses

- Library:
 - reduced monthly costs for retirees while offering quality benefits
 - reduced OPEB liability from \$8 million to \$1.5 million



MERS of Michigan



MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

1134 Municipal Way

Lansing, MI 48917

800.767.MERS (6377)

www.mersofmich.com

This presentation contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.

