



2018

RETIREMENT CONFERENCE

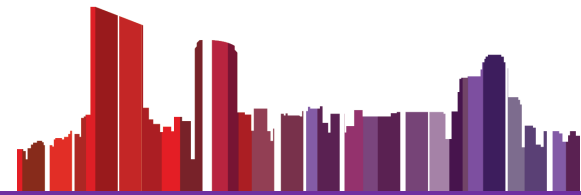
A Sustainable Approach to Retiree Health Care

Tara Tyler, Benefit Plan Advisor, MERS

Christian Goodman, Principal, Mercer

Agenda

- Current Climate
- MERS OPEB Management Programs
 - Retiree Health Funding Vehicle
 - Health Care Savings Program
- OPEB Management Strategies
- Private Health Care Exchange
 - Preferred Partnership with Mercer Marketplace 365
- Case Studies

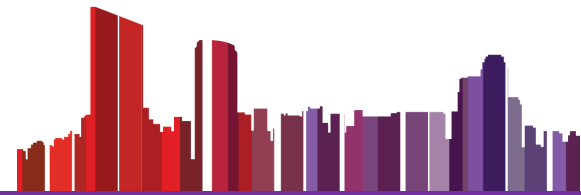


Current Climate

OPEB Liability Under Increased Scrutiny

GASB Statements 74 & 75 affect the accounting and financial reporting of liability for Other Post-Employment Benefits (OPEB)

- **Liability must appear on the employer's balance sheet**
- Unfunded plans must use a municipal bond rate to discount non-covered payments



Requirements of Recent Legislation

- 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 new hires
- Addresses existing unfunded liability through four stages:



Transparency
through reporting



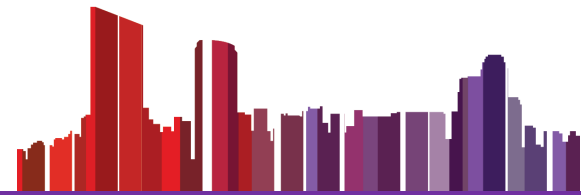
Identification
of potential
problems



Review for fiscal
health
(waiver process)



Develop action
plan



Statewide OPEB Funding Levels

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

514

SYSTEMS

\$13.7 billion in liabilities

\$4.4 billion in assets

\$9.3 billion in unfunded liabilities

214

0% FUNDED

42% of systems have not prefunded and operated on a pay-as-you-go basis

380

<40% FUNDED

74% of systems did not meet the funding threshold of PA 202

Source: PA 202 reporting data as of 9/14/2018



MERS OPEB Management Programs



OPEB Management Programs

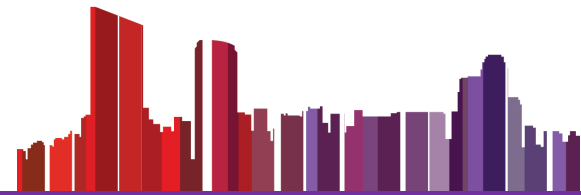
- MERS created a Section 115 Governmental Integral Part Trust with an IRS Private Letter Ruling
- From this trust we created two programs that can be used together or independently:



Retiree Health Funding Vehicle



Health Care Savings Program

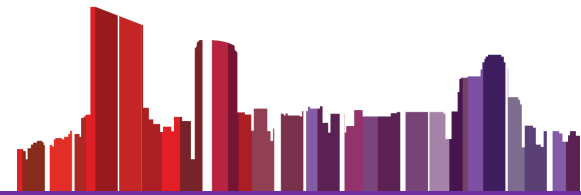


Retiree Health Funding Vehicle (RHFV)



Retiree Health Funding Vehicle

- Established qualified medical trust with pooled, cost-effective, diversified investments
- Each local unit of government determines
 - The frequency and amount of contributions
 - How to invest assets
- Can be used with the MERS Health Care Savings Program to further offset OPEB Liability

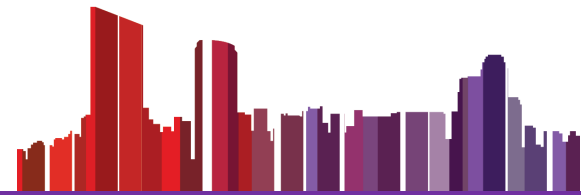


Health Care Savings Program (HCSP)



Health Care Savings Program

- Helps participants prepare for the costs of health care after they leave their employer
- Employers can offer HCSP to active employees without accruing future unfunded OPEB liability
- Can be used to provide stipend for retiree health care to retirees



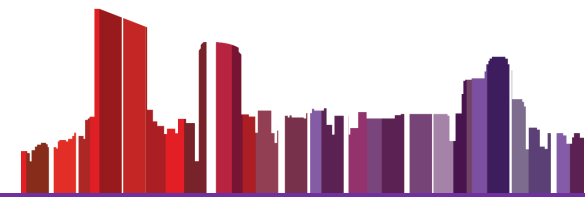
Tax-Free Medical Savings Accounts

- Individual, tax-free medical savings account for qualified medical expenses
 - Employees invest **tax-free**
 - Eligible medical expense withdrawals are **tax-free**
 - Employers save on FICA taxes (7.65%)
- Employees can use their account post-employment, regardless of age

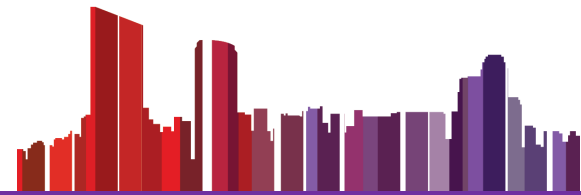
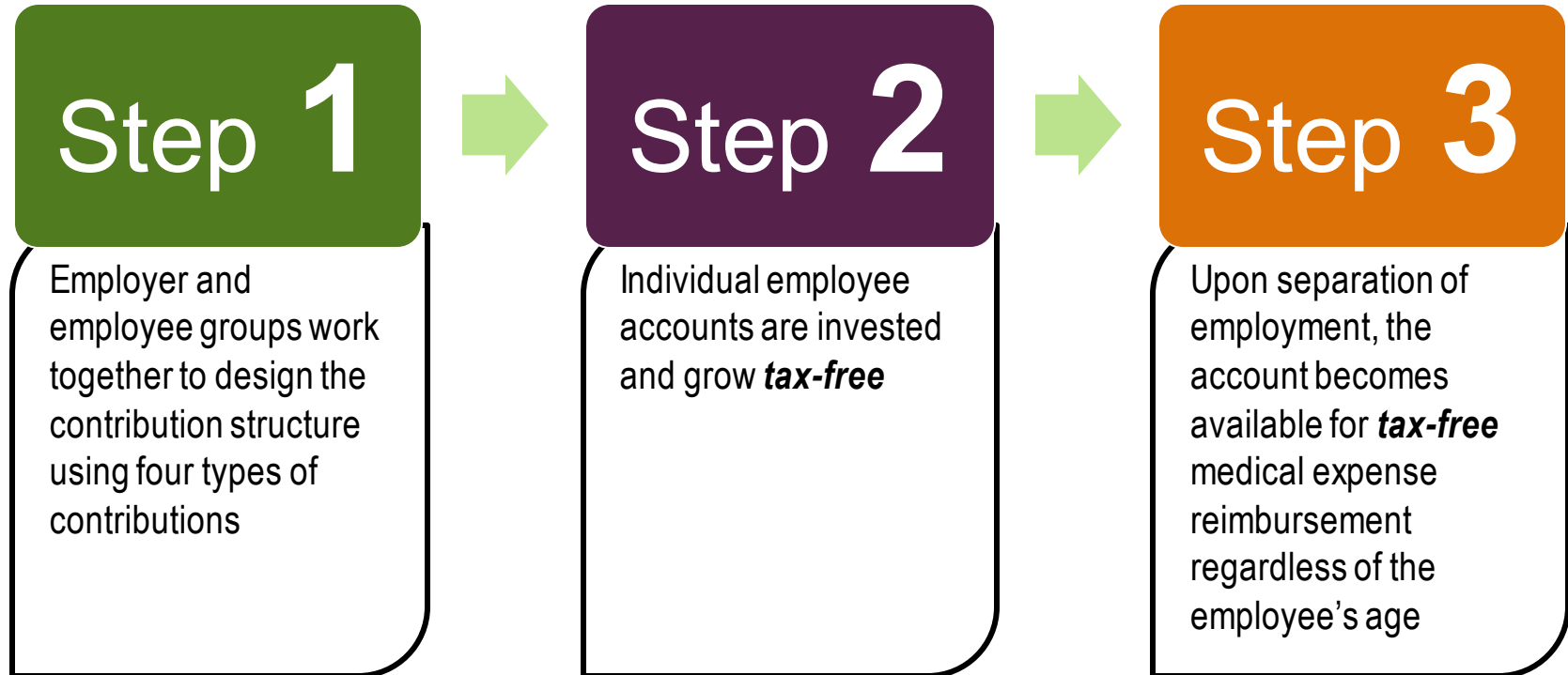
Eligible Medical Expenses

- Co-pays, deductibles, and insurance premiums
- Ambulance services
- Vision and dental services
- Physical therapy
- Long-term care insurance
- Medicare premiums

A complete list of eligible medical expenses is described in Section 213(d) of the Internal Revenue Service Tax Code.



How the Program Works



Contribution Options

Any combination of these contribution options may be used

Basic Employer Contributions

- May be a percentage or flat-dollar amount
- A vesting cycle may be assigned

Tax-Free Mandatory Salary Reduction

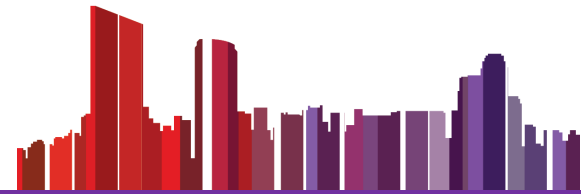
- Either a percentage or a flat dollar reduction of the employee's salary
- Submitted through payroll deduction

Tax-Free Leave Conversion

- Convert all or a portion of leave into the program either annually or at termination

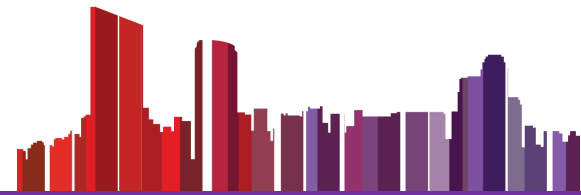
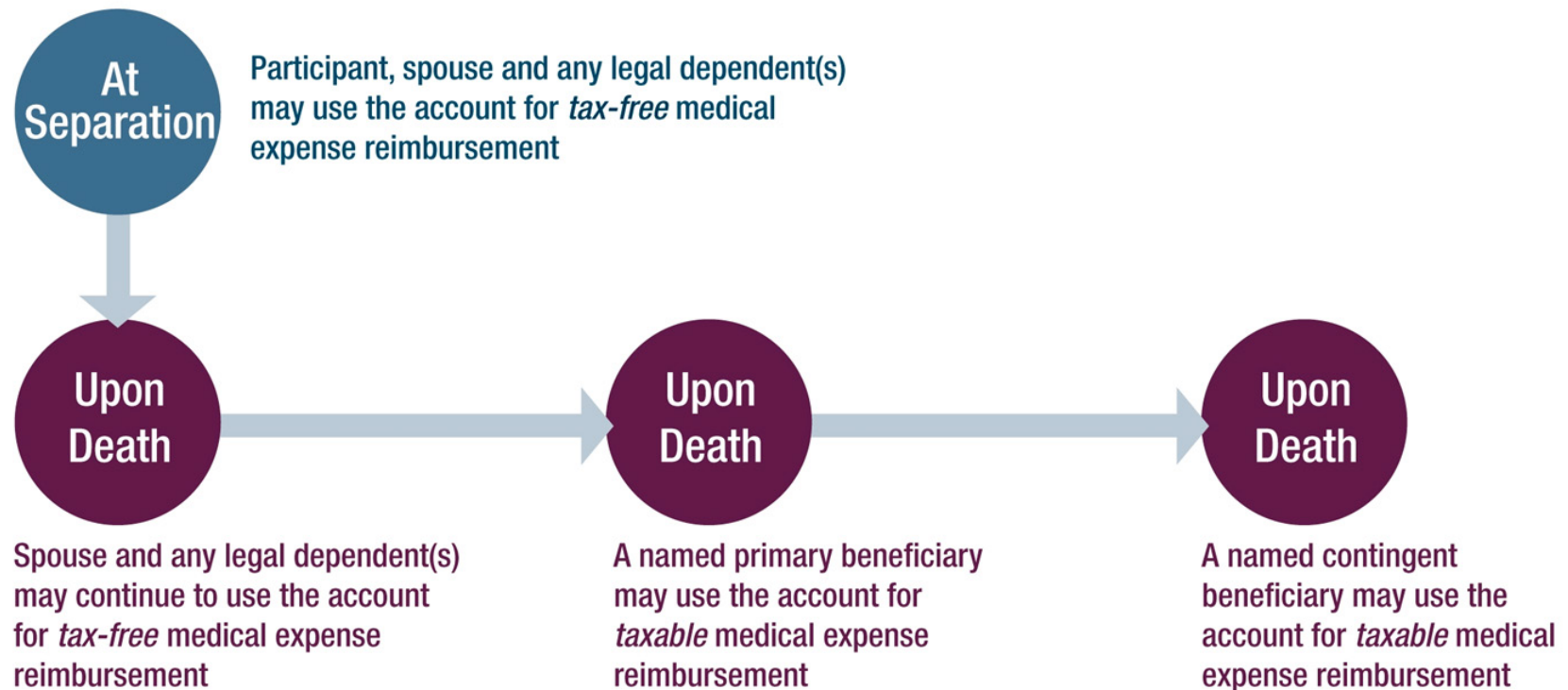
Post-Tax Voluntary Contributions

- May voluntarily contribute on a post-tax basis
- May start and stop contributions at any time
- Medical expense reimbursement still tax-free



A Benefit That Keeps Working

Unique to MERS is the ability for a participant to designate beneficiaries other than a spouse or legal dependent



Using the Account



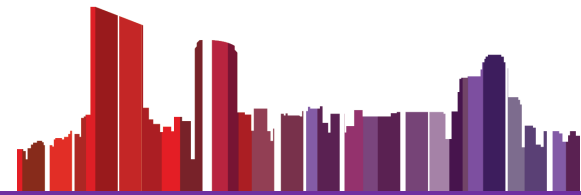
Debit Card



Online Reimbursements



Reimbursements by Mail or Fax



OPEB Management Strategies



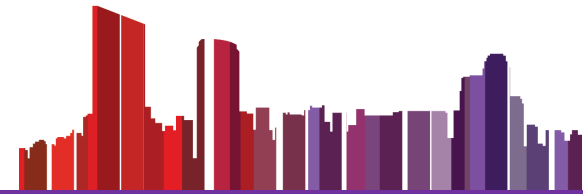
Managing OPEB Liabilities

FUNDING STRATEGIES

- Establishing a qualified medical trust
- Bonding

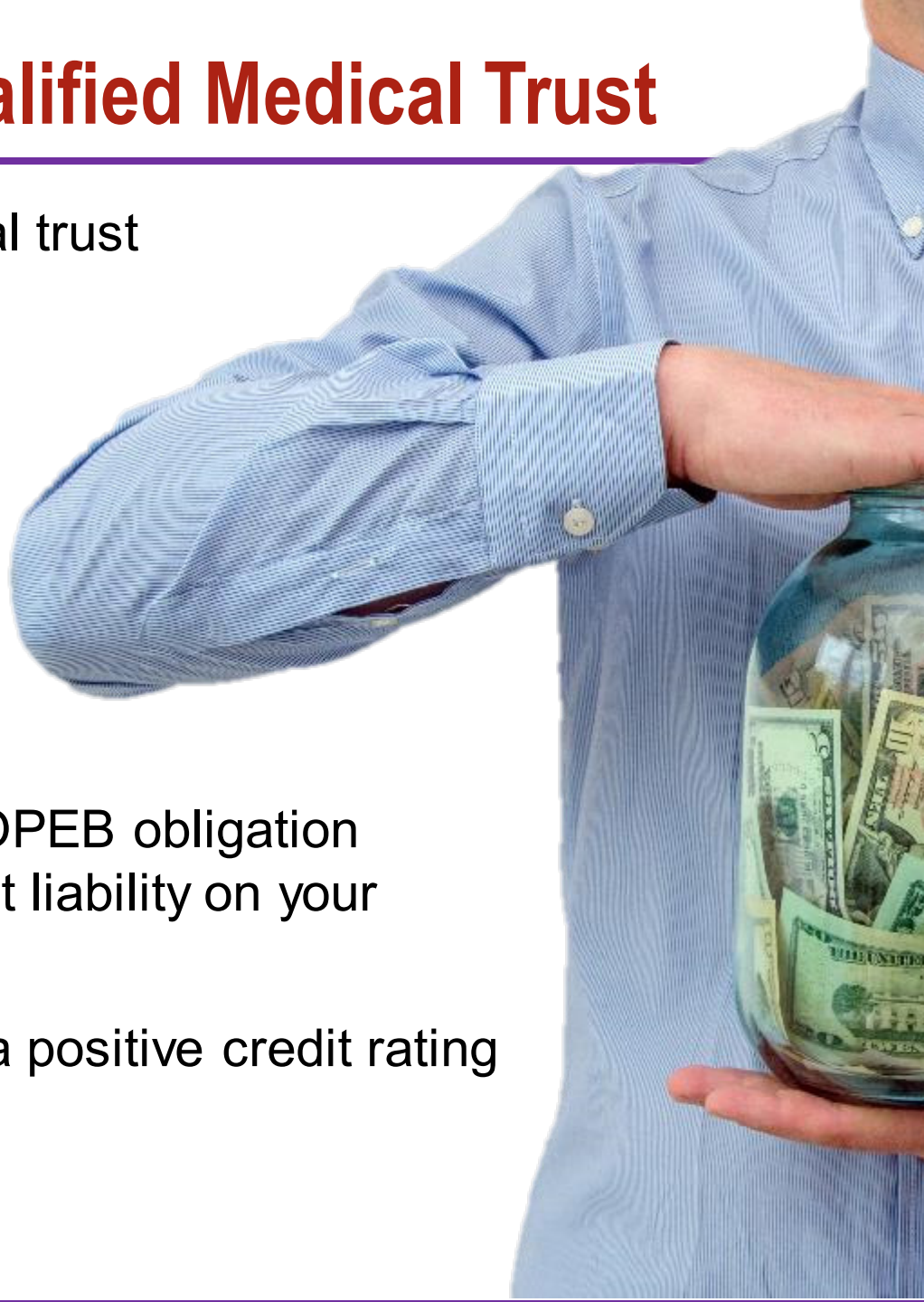
PLAN DESIGN STRATEGIES

- 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 can be used to offset future and existing OPEB liability
- Earnings on assets may reduce your long-term contributions and unfunded liability
- Funding may prevent net OPEB obligation from becoming a significant liability on your balance sheet
- Funding can contribute to a positive credit rating

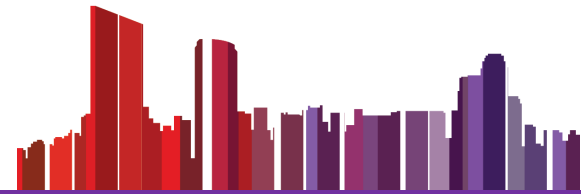


Bonding

Municipalities may choose to issue a bond to cover all or a portion of their OPEB liability

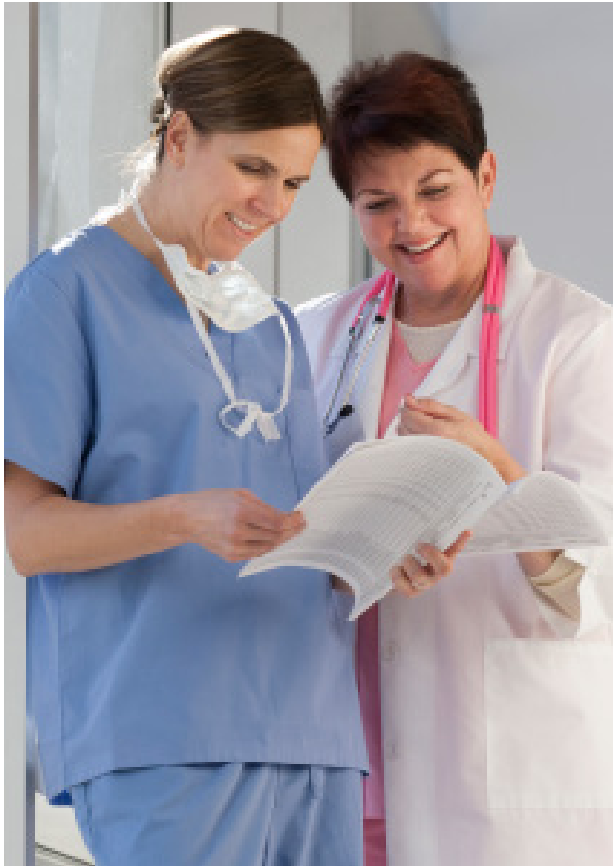
Considerations

- Retiree health insurance 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



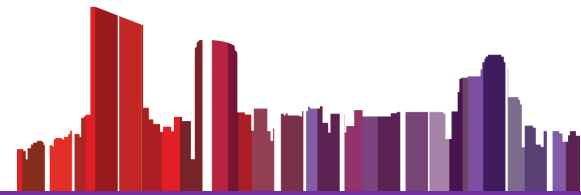
Making Provision Changes

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



Considerations

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

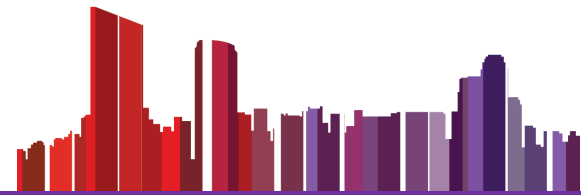


Discontinuing Coverage

Strategy	Impact on OPEB Liability
Eliminate retiree health insurance for new hires	Lowers/reduces future liability
Discontinue retiree health insurance for existing employees	Reduction of current liability
Discontinue retiree health insurance for existing retirees	High reduction of current liability

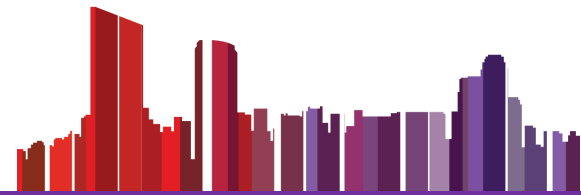
Considerations

- Healthcare in retirement is not a protected benefit under the Michigan Constitution, but there may be contractual obligations
- Employees can be provided with a tax-advantaged investment program to save for future health care costs
- Retirees can use the tax-advantaged investment program to pay for current health care costs



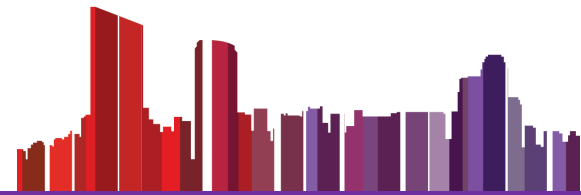
Offering Defined Contribution Style Accounts

- Offer a tax-advantaged investment program to new hires and active employees, such as the MERS Health Care Savings Program, to save for future health care costs
- Defined contribution OPEB plans do not carry unfunded liability — liability is the yearly contribution expense
- Enrolling new hires eliminates accrual of future liability
- Offering to active employees may reduce or eliminate future liability:
 - Mandatory conversion of existing employees eliminates accrual of any future liability
 - Allowing employees to opt out of retiree health care coverage by offering an incentive will likely reduce accrual of future liability



Providing Retiree Health Care Stipend

- Employers can offer a stipend in lieu of retiree health care, which would be deposited into a tax-advantaged investment program, such as the MERS Health Care Savings Program
 - 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



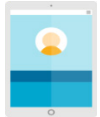
Private Health Care Exchange



Vendor Selection Due Diligence



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



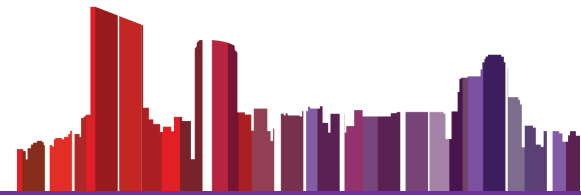
Public sector experience



Local offices in Michigan



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

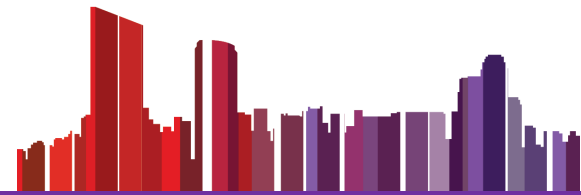


Preferred Partnership

MERS has partnered with Mercer Marketplace 365 to offer our members access to a best-in-class private health care exchange

MERCER MARKETPLACE 365SM

- Superior customer service delivered to retirees through a single point of contact
- 40+ national carriers for pre-65 retirees
- 60+ national carriers for Medicare-eligible retirees
- Dental and vision insurance
- Midwest-based call center
- Non-commissioned counselors assist with evaluating plan options
- Proactive outreach to educate each retiree about changes to their health care plan
- Coordination with the MERS Health Care Savings Program



Why a Private Health Care Exchange?

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



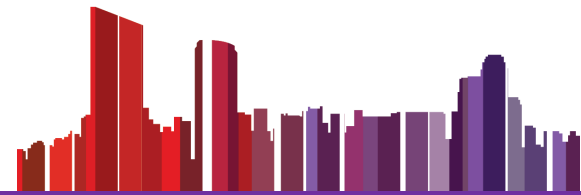
Increased buying power enables retirees to access plans that provide **equal or better coverage** at a lower cost than typical group plans



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



Private Exchange Overview

AN EXCHANGE IS A MARKETPLACE OF INSURANCE PRODUCTS



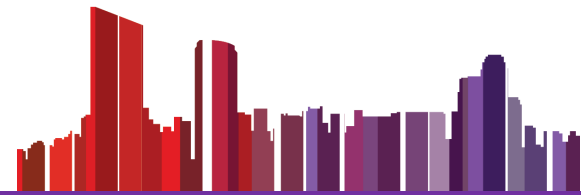
Private health care exchanges couple insurance products with support and tools to help people shop, compare and enroll in plans that best meet their needs



Private Medicare exchanges are dedicated to helping seniors access all types of Medicare plans: Medicare Supplement (or MediGap), Medicare Advantage and Medicare prescription drug plans



Medicare exchanges have been around for decades and have helped millions of Medicare beneficiaries find and enroll in the best coverage for them



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?**

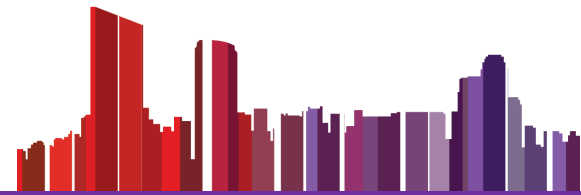


**Isn't group
insurance always
less expensive
than individual?**



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

ANSWER: NO



How Employer Groups Use the Exchange

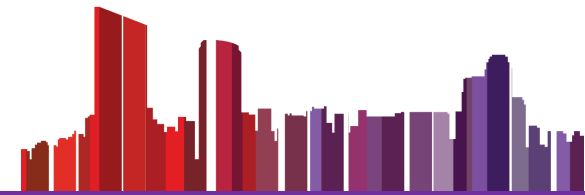


Consultants compare employer's existing group plan to options available on exchange and help determine an appropriate stipend

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



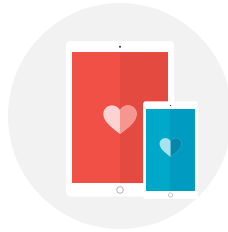
Easing the Transition for Retirees

DEDICATED TO YOUR RETIREES DURING TRANSITION



BENEFITS COUNSELORS

- Full-time, licensed counselors
- Step-by-step guidance
- Personal needs assessment



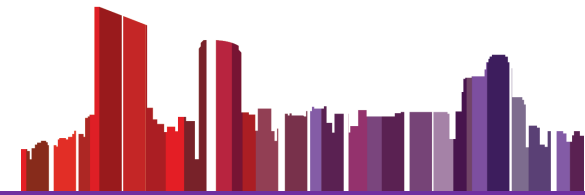
CLEAR, CONSISTENT COMMUNICATIONS

- Proactive outreach
- Frequency of message
- Thematic consistency



ONGOING ADVOCACY

- One-on-one support
- Physician bill questions
- Assistance with appeals



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

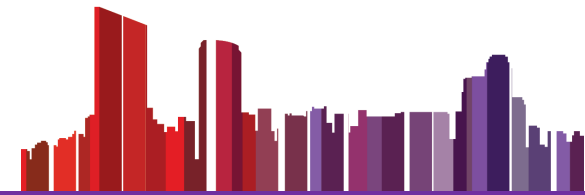


Retiree

Can select a plan that meets individual health care needs

Tax-free deposits go directly to A HCSP account

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



Individual Access to Exchange

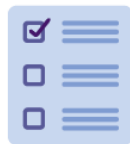
AVAILABLE TO MERS PARTICIPANTS AND DEPENDENTS

YOUR BENEFITS COUNSELOR WILL ASSIST YOU EACH STEP OF THE WAY:



Educate

Understand your benefits and decide on a health plan strategy.



Evaluate

Consider the plans available based on your personal needs assessment and budget.



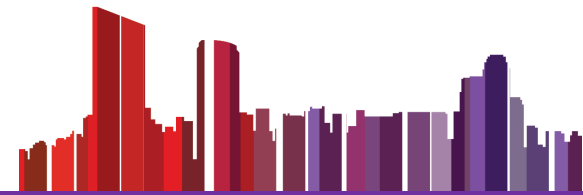
Explore

Make you aware of any available tax credits for which you may qualify if you are under age 65.



Enroll

Choose your plans, let us handle the enrollment, and enjoy ongoing support.



MERS Employer Analysis

RESULTS OF INITIAL MEETINGS WITH MERS MUNICIPALITIES

22

EMPLOYERS

22 employers provided with education session, which included a financial analysis ranging in size from 2–1,800 participants

125

AVERAGE SIZE

Average size of municipality 125 participants

\$455

PER MONTH

Average cost of Medicare group plan \$455 per month

\$375,000

PER YEAR

Average annual cost savings: \$3,000 per year per participant or \$375,000 per year

2% – 5%

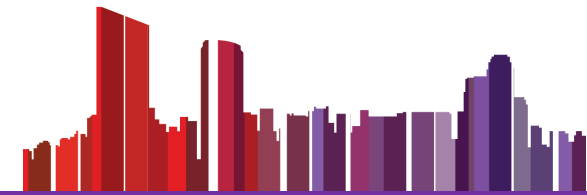
TREND

OPEB savings will also reflect lower medical inflation on individual plans as 5-year historical trend is 2% – 5%

\$202

STIPEND

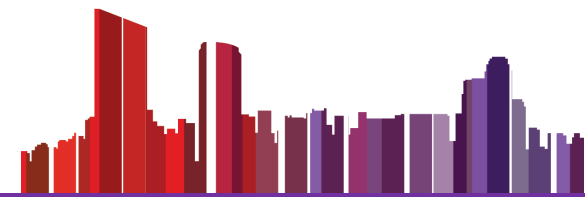
Average recommended stipend amount \$202



2018 Medicare Retiree Sample Footprint

Location	Medicare Supplement /Medigap				Prescription Drug Plan (PDP)			Medicare Advantage Prescription Drug Plan (MAPD)		
	Number of Plans	Number of Carriers	Age	Monthly Premium Range	Number of Plans	Number of Carriers	Monthly Premium Range	Number of Plans	Number of Carriers	Monthly Premium Range
Grand Rapids, Michigan	53	7	75	\$51-\$191	14	6	\$18-\$87	8	2	\$0-\$151

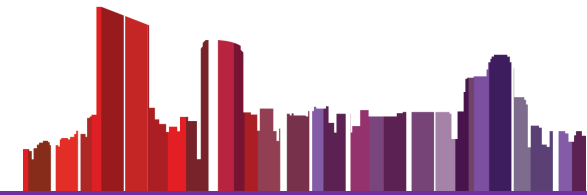
For Medicare-eligible retirees, options range from low-premium Medicare advantage prescription drug plans to full-coverage Medicare supplement plans, allowing them to pick a plan at the right price point and right coverage level for their needs.



Medicare Plan Comparison *(Medical and Rx)*

Features (Individual)	Current Sample Plan Medicare Group Plan	Medigap F Lowest Cost Paired with Sample (PDP)	Medigap N Lowest Cost Paired with Sample (PDP)	MAPD (PPO) (Lowest Premium with Highest Star Rating)
Premium (age 68)	\$455	\$184+\$18 = \$202	\$121+ \$18 = \$139	\$18
Deductible and General	Deductible: \$250	\$0	\$0	Deductible: \$80 OOP Max: \$6,400
Physician	Plan pays 100% after Part B Deductible	Plan covers Part B coinsurance and Part B excess	Plan covers Part B coinsurance after \$20 copay	PCP: \$20 copay Specialist: \$50 copay
Emergency	\$65 Copay	Plan covers Part B coinsurance and Part B excess	Plan covers Part B coinsurance after \$50 copay	\$50 copay
Hospital	Plan covers Part A coinsurance and an additional 365 days at 100%	Plan covers Part A coinsurance and an additional 365 days at 100%	Plan covers Part A coinsurance and an additional 365 days at 100%	\$260 per day for days 1 through 6 / \$0 days 7 and beyond
Pharmacy	Retail: \$10/\$20/\$60/33%/25%	Deductible: \$0 Preferred Pharmacy \$0/\$3/\$41/37%/25% Catastrophic coverage: retiree pays no more than 5%	Deductible: \$0 Preferred Pharmacy \$0/\$3/\$41/37%/25% Catastrophic coverage: retiree pays no more than 5%	Deductible: \$125 Retail: \$4/\$13/\$42/45%/30% Catastrophic coverage: retiree pays no more than 5%

*Premium and Coverage Details based on plans available in Grand Rapids, Michigan in 2018 for non-smoker male retiree age 75
In 2018, the Part A deductible is \$1,340 and the Part B deductible is \$183.*



Sample HCSP Account Stipend

75-year-old in average health; taking 2 generic and 1 brand drugs

Sample Employer Group Plan

Current Employer Cost	\$5,460/year
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Current Retiree Cost (Medical and Rx out-of-pocket expenses)	\$1,275/year
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Mercer Marketplace 365 Medigap Plan F + Sample Drug Plan

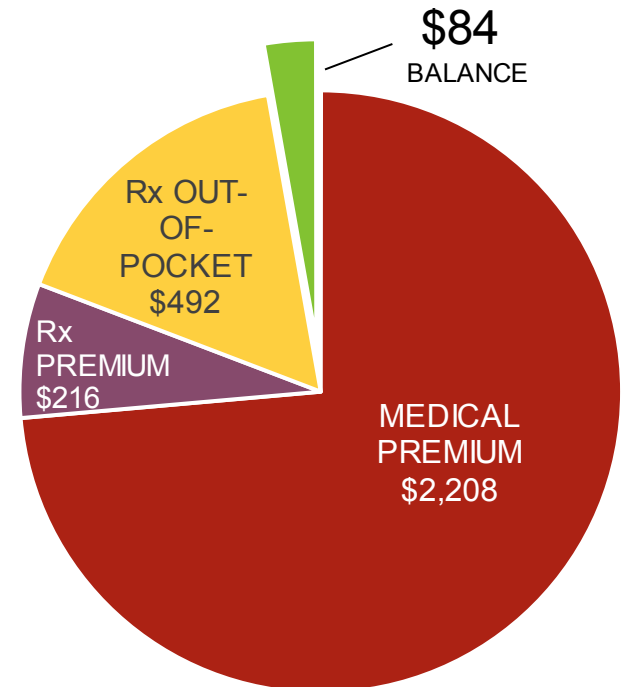
Proposed Employer Stipend	\$3,000/year
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Proposed Retiree Cost (all expenses covered by stipend)	\$0/year
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Employer savings of \$2,460/year

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

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



Case Studies



City of Grand Rapids



Profile

- 1,800 employees
- \$200 Million in OPEB liability
- Funds set aside were less than total liability

Programs

- Retiree Health Funding Vehicle
- Health Care Savings Program

Situation

The City of Grand Rapids faced an OPEB liability of more than \$200 million, primarily due to health insurance provided to former employees in retirement. The city set a goal to lower this liability by incentivizing employees to opt-out of this benefit.

Strategy

The City used the **MERS Retiree Health Funding Vehicle** (RHFV) to offset liability and benefit from MERS pooled investment funds.

New hires and non-vested employees were enrolled in the **MERS Health Care Savings Program** (HCSP) with bi-weekly employee and city contribution. This included an actuarially-determined “jump-start” contribution for existing employees. Vested employees were given the option to convert HCSP with an actuarially-determined jump start contribution.

Results

Within less than 10 years, the City’s OPEB liability had declined to \$159 million and over 40% of active employees were enrolled in HCSP.

Gerald R. Ford Int'l Airport Authority



Profile

- 105 active employees
- 7 retirees

Programs

- Health Care Savings Program

Situation

Gerald R. Ford International Airport Authority (GFIAA) retirees were provided with a closed monthly stipend to purchase health insurance through Kent County's plan. Because the stipend only covered a 1/3 of the average premium cost and could not be used for spousal benefits, many retirees chose not to use it. Moreover, GFIAA's OPEB liability was only 30% funded.

Strategy

Active employees were enrolled in the **MERS Health Care Savings Program**. GFIAA provided existing employees a one-time deposit based on years of employment, with ongoing deposits made by both employer and employee.

Results

GFIAA **eliminated future OPEB liability** with a completely portable benefit which allows participants to:

- Access the account after termination of employment
- Pay for spousal and dependent healthcare expenses
- Pay for health care premiums with the carrier of their choice

Alger County



employees

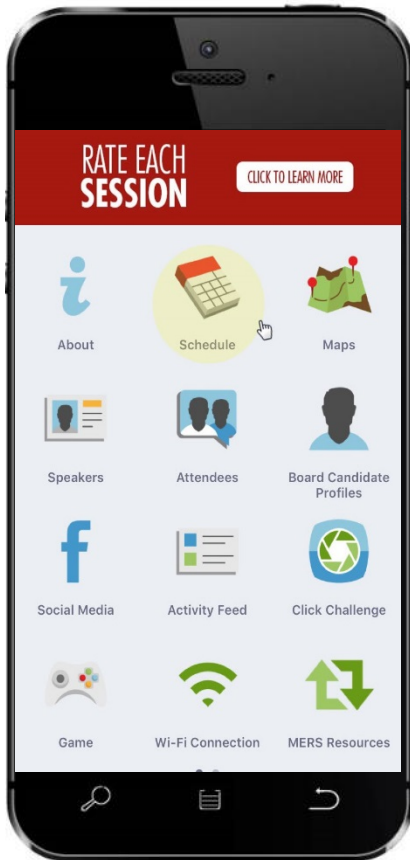
MERS Programs

- Health Care Savings Program
- Private Health Care Exchange

Q&A

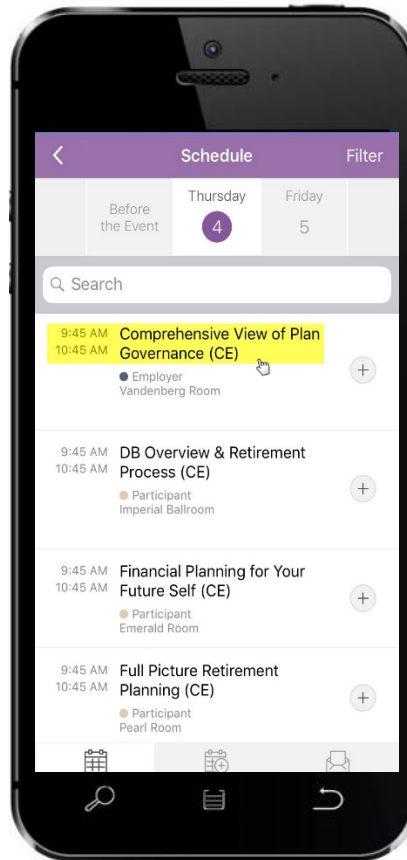


Please Complete a Session Survey!



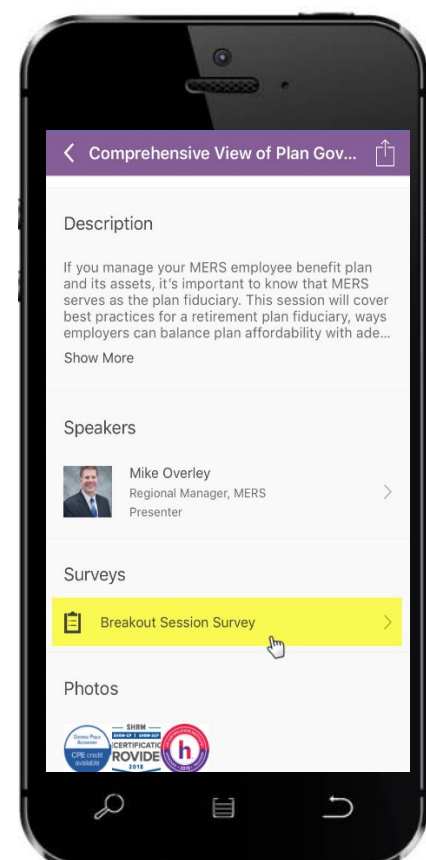
Step 1:

Locate and access the
"Schedule" icon



Step 2:

Select the **session** you
just attended (look for
correct date and time)



Step 3:

Scroll down and click
"Breakout Session
Survey" to complete
the survey



Contacting 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.

