



**2019**  
**Annual**  
**Retirement**  
**Conference**

# A Sustainable Approach to Retiree Health Care

*Presented by:*

*Tara Tyler, Benefit Plan Advisor, MERS*

*Aaron Desentz, City Manager, City of Eaton Rapids*

# Agenda

---

- Michigan Municipal Landscape
- MERS Other Post-Employment Benefits (OPEB) Management Strategies
  - Retiree Health Funding Vehicle
  - Health Care Savings Program
- Using a Private Health Care Exchange
- A 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

# OPEB Liability Under Increased Scrutiny

---

Governmental Accounting  
Standards Board (GASB)  
Statements 74 & 75 affect the  
accounting and financial reporting  
of OPEB

- OPEB liabilities must appear on the employer's balance sheet, not just as a footnote
- Unfunded plans must use a municipal bond rate to discount non-covered payments



# Public Act 202 of 2017

---

- Protecting Local Government Retirement and Benefits Act
- 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

# OPEB Funding Levels

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

# 507

## SYSTEMS

\$13.4 billion in liabilities

\$4.8 billion in assets

\$8.6 billion in unfunded liabilities

# 185

## NOT FUNDED

36% of systems have  
operated on a  
pay-as-you-go basis

# 345

## < 40% FUNDED

68% of systems are less  
than 40% funded

*Source: PA 202 reporting data for FY 2018*



# OPEB Management Strategies



# 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 trust with pooled, cost-effective, diversified investments
- Each local unit of government determines
  - The frequency and amount of contributions
  - How to invest assets

# 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 Savings Accounts

- Individual, tax-free 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

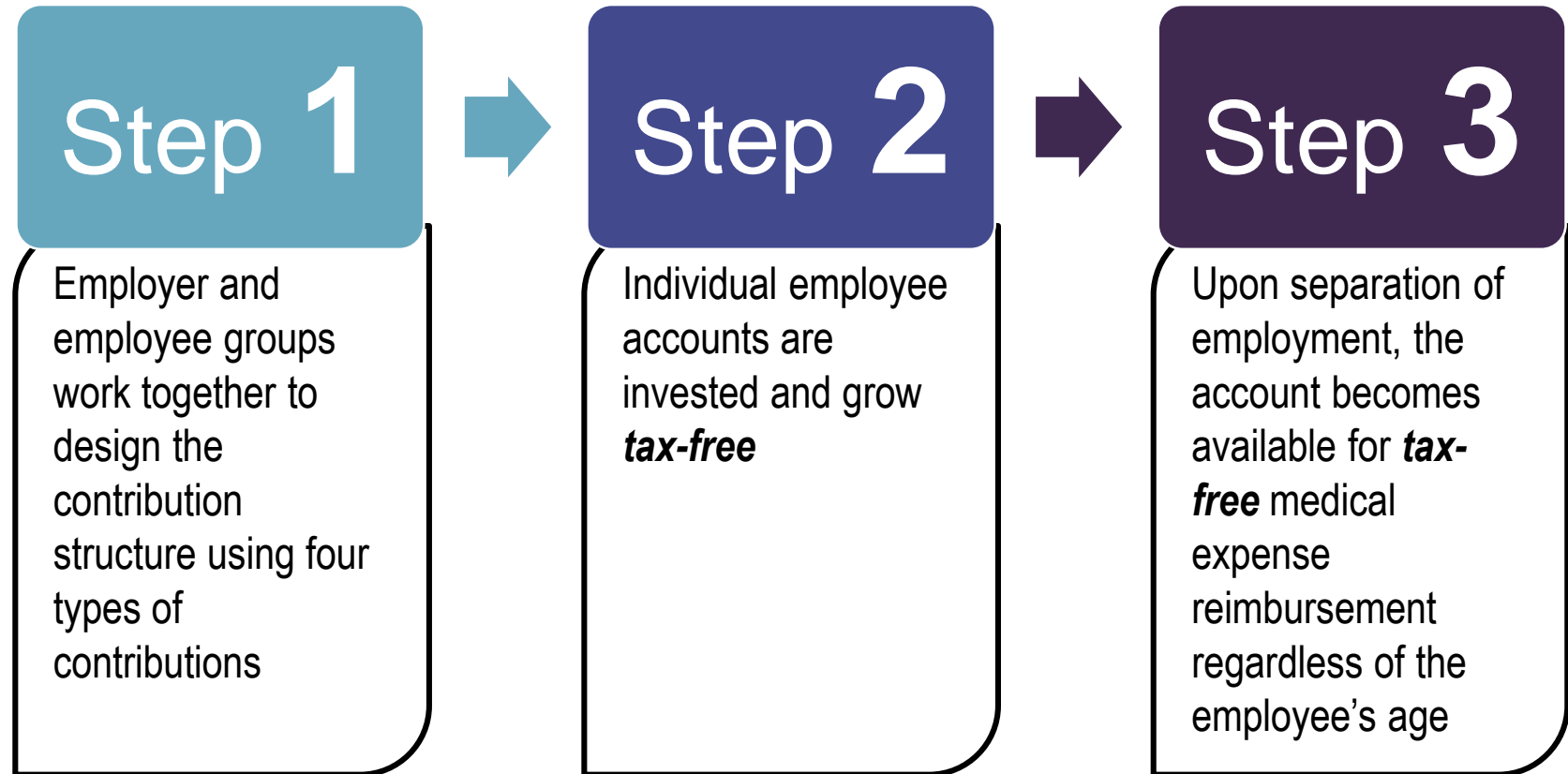
*A complete list of eligible medical expenses is described in Section 213(d) of the Internal Revenue Service Tax Code.*

# HCSP Is Not an HSA

	MERS Health Care Savings Program	Health Savings Account
<b>Overview</b>	Employer-sponsored, tax-free account created through a Section 115 Trust	Tax-advantaged account for qualified medical expenses tied to a high-deductible health plan
<b>Using the Account</b>	Can be used once participant has left employment	Can be used at any time
<b>Insurance Premiums</b>	May be used to pay health insurance premiums	20% penalty and taxes apply, unless used for COBRA or Medicare premiums
<b>Employer Contributions</b>	<ul style="list-style-type: none"> <li>• May include a vesting schedule</li> <li>• Can fund from employer's RHFV</li> <li>• Retiree-only group allowed</li> </ul>	<ul style="list-style-type: none"> <li>• No vesting schedule</li> <li>• Contributions allowed for active employees only</li> </ul>
<b>Employee Contributions</b>	Mandatory	Voluntary
<b>Contribution Limits</b>	n/a	<ul style="list-style-type: none"> <li>• Self \$3,500 or Family \$7,000*</li> <li>• Catch-up contributions available</li> </ul>

\* 2019 contribution limits

# 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***

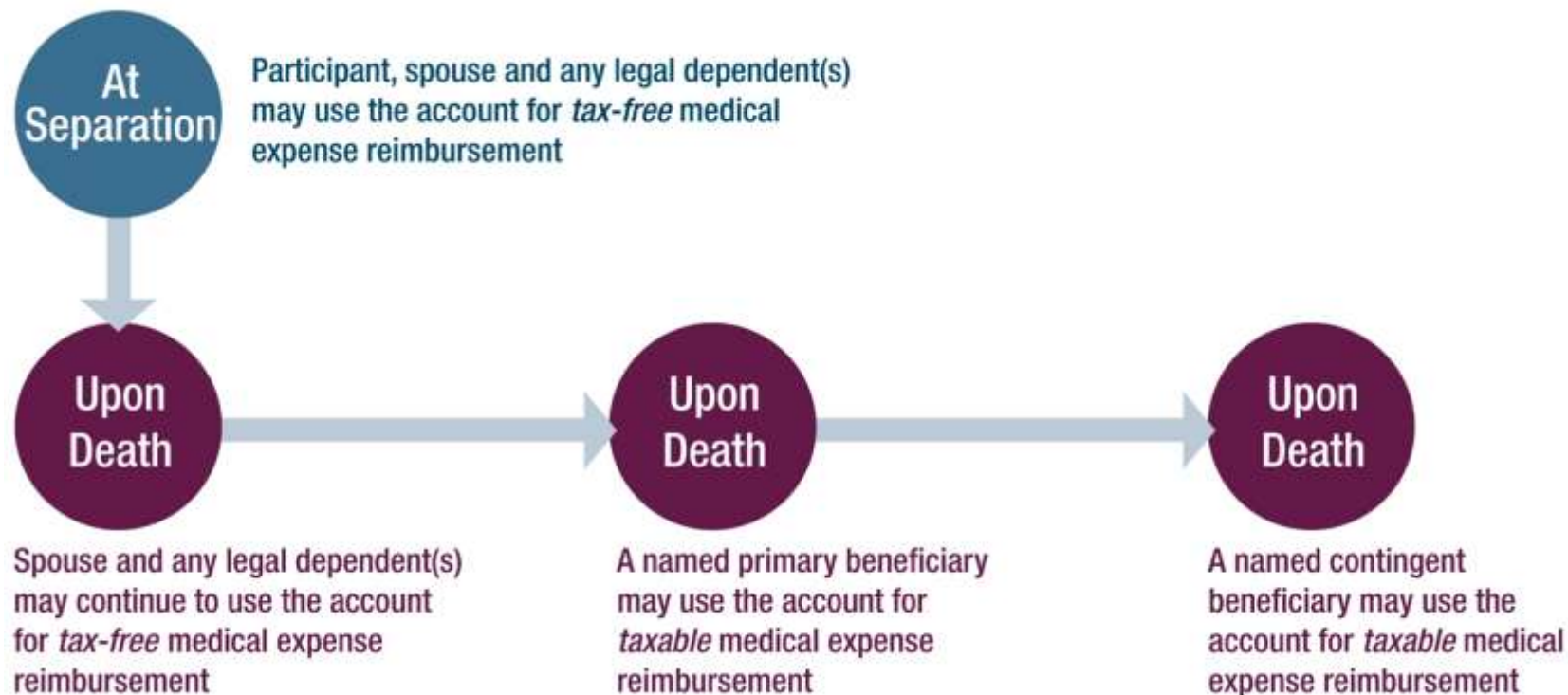
- Convert all or a portion of leave into the program either annually or at termination

## ***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

---



## **Visa® Debit Card**

Pay for eligible expenses at time of sale



## **Mobile App & myMERS**

Manage expenses, make direct-to-provider payments, request reimbursements, upload receipts



## **Mail**

Request reimbursements



# Private Health Care Exchange

# 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

# 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 365<sup>SM</sup>

- 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

# 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?**

**A N S W E R :   N O**

# 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



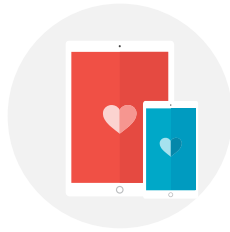
# Easing the Transition for Retirees

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 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

**10**

ADOPTIONS

Out of 48 employers; 15  
employers still considering

**\$415**

PER MONTH

Average cost of  
group plan

**\$275**

STIPEND

Average recommended  
stipend amount

**19**

AVERAGE SIZE

Groups range in size from  
3 - 45 retirees

**35%**

ANNUAL SAVINGS

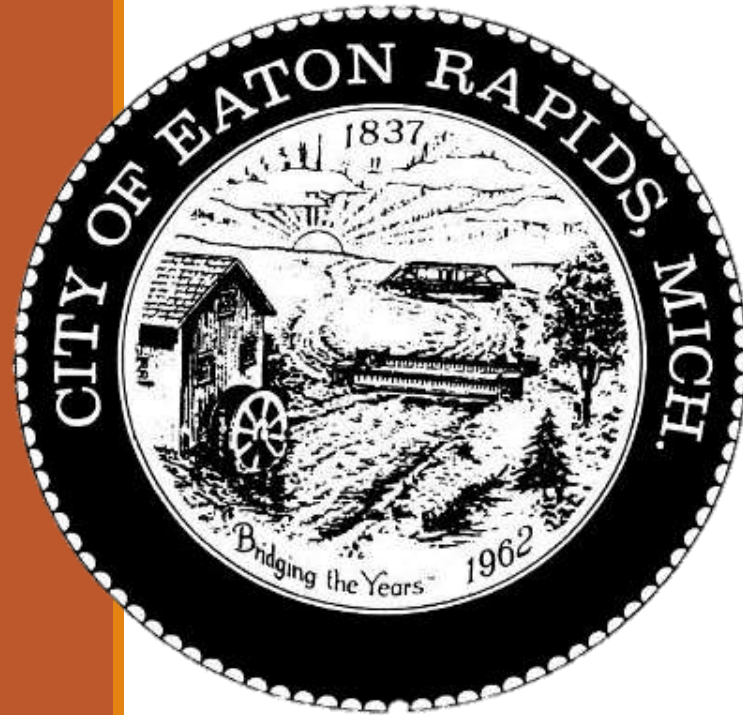
Average annual savings of  
\$1,800 per year per participant

**40% - 60%**

REDUCTION

Estimated reduction in  
actuarial liabilities

# Case Study



- Aaron Desentz, City Manager

# City of Eaton Rapids

---



Population 5,200

**\$2.5 M**

General Fund  
Annual Expenses

**\$10 M**

OPEB Liability

**0%**

OPEB Funding  
Level



# Corrective Action Plan (CAP)

---

- Prefund OPEB obligation through Section 115 Trust (MERS Retiree Health Funding Vehicle)
- Discontinue retiree health insurance for new hires and offer defined contribution-style plan instead
- Find more cost-effective plan for current retirees
- Seek to buy out active employees and move them to defined contribution-style plan



# Evaluate Existing Plan

---

	BCBS Advantage Plan
Cost per retiree/spouse	\$509/mo
Total Annual Expense	\$122,150/yr

- Existing group plan was a Blue Cross Blue Shield Advantage Plan
- Retirees were not required to contribute to plan cost



# Private Health Care Exchange

---

- The MERS Health Care Savings Program provided retirees with control over their funds
- Mercer Marketplace products offered greater choice and better support





# Medicare Retiree Footprint

Eaton Rapids, MI

Medicare Supplement /Medigap				Prescription Drug Plan (PDP)			Medicare Advantage Prescription Drug Plan		
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
48	7	70	\$52-\$159	14	6	\$17-\$87	11	2	\$0-\$179

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.





# Negotiating the Change

---



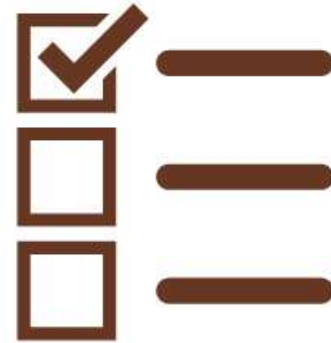
## EDUCATION

Meetings with retirees



## COMPARISON

Current plan  
vs. proposed plan



## BENEFITS

Advantages for  
retirees



# Medicare Plan Comparison

Features (Individual)	Current Plan BCN HMO - POS	Medigap F Lowest Cost Paired with Aetna Select (PDP)	Medigap N Lowest Cost Paired with Aetna Select Rx (PDP)	MAPD (Lowest Premium with Highest Star Rating)
Premium (age 68)	\$508.96	\$159+\$17 = \$176	\$120+ \$17 = \$137	\$133
Deductible and General	Deductible: \$0	Plan pays Medicare Part A and Part B deductibles No lifetime limit No network restriction	Plan pays Medicare Part A deductible No lifetime limit No network restriction	Deductible: \$0 OOP Max: \$6,700
Physician	Copay: None in network – <b>no coverage out of network</b> Specialist: None in network – <b>no coverage out of network</b>	Plan covers Part B coinsurance and Part B excess	Plan covers Part B coinsurance after \$20 copay	PCP: \$15 copay Specialist: \$50 copay
Emergency	Copay: \$65 in network – <b>no coverage out of network</b>	Plan covers Part B coinsurance and Part B excess	Plan covers Part B coinsurance after \$50 copay	\$80 copay
Hospital	Plan covers Unlimited after deductible	100% covered	100% covered	\$295 per day for days 1 through 6 / \$0 days 7 and beyond
Pharmacy	Retail: \$15/\$15/\$20/\$50/\$50	Deductible: \$0 Tier 1 and 2;\$305 for Tier 3, 4 and 5 Retail: \$0/\$2/\$47/40%/27% Catastrophic coverage: retiree pays no more than 5%	Deductible: \$0 Tier 1 and 2;\$305 for Tier 3, 4 and 5 Retail: \$0/\$2/\$47/40%/27% Catastrophic coverage: retiree pays no more than 5%	Deductible: \$150 Retail: 19%/25%/25%/25%/25% Catastrophic coverage: retiree pays no more than 5%

# Cost Comparison Example

---

## 70-year-old male

MERCER MARKETPLACE 365  
PLAN F + AETNA SELECT DRUG PLAN

### Proposed Employer Cost:

\$3,420 per year / \$285 per month stipend per participant deposited to each participant's HCSP account

### Proposed Retiree Cost (Per Month):

- \$159 Humana Plan F
- \$17 Aetna Select Drug Plan
- \$51 Dental (Renaissance Dental Plan 3)
- \$13 Vision VSP Freedom Basic

Total Cost \$240 per month

All premiums are paid

Remaining employer subsidy \$45 per month in HCSP account (can be used for all other qualified expenses including co-pays, Part B premium reimbursements, etc.)



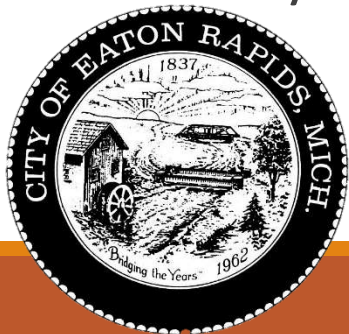


# Summary of Change

---

	Previous Group Plan	New Individual Stipend	Savings
Cost per retiree/spouse	\$509/mo	\$285/mo	<b>\$224/mo</b>
Total Annual Expense	\$122,150/yr	\$68,400/yr	<b>\$53,750/yr</b>

- Change-over of all collective bargaining units
- New plans going into effect January 1
- Buy-out of active employees currently under discussion





## 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
  - Individual retirees can also access the exchange



# Contacting MERS of Michigan

---

## MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

1134 Municipal Way  
Lansing, MI 48917

800.767.MERS (6377)

[www.mersofmich.com](http://www.mersofmich.com)

