



75th
Annual
Retirement
Conference

Maximizing Your OPEB Budget

Tara Tyler, Benefit Plan Advisor, MERS

*Christian Goodman, Principal,
Mercer Marketplace 365+*

*Patricia Denig, Director of Human Resources,
Pittsfield Charter Township*

*Garrett Hungerford, Director,
Redford District Library*

Agenda

- Michigan Municipal Landscape
- MERS OPEB Management Programs
- OPEB Management Strategies
 - *Case Study - Pittsfield Charter Township*
- Using a Private Health Care Exchange
 - *Case Study - Redford District Library*
- Key Takeaways
- Q&A

Michigan Municipal Landscape

Public Employee Benefits



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



- Other Post-Employment Benefits (OPEB), such as 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?

535

SYSTEMS

\$13.4 billion in liabilities

\$5.6 billion in assets

\$7.8 billion in unfunded liabilities

149

0% FUNDED

28% of systems have not prefunded and operated on a pay-as-you-go basis

166

UNDERFUNDED

31% of systems did not meet the funding threshold of PA 202

Source: PA 202 reporting data for FY 2019

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

How RHFV Works

- The employer determines the amount and frequency of contributions to the trust
- The employer selects investments from the MERS Investment Menu
- MERS sends quarterly statements detailing plan balance, asset allocation, fees, etc.
- Distributions are requested through the online employer portal and received within 3-5 business days

MERS Investment Menu

- MERS makes investing easy by offering fully diversified, professionally managed portfolios
- Individual funds can be used to build a custom portfolio
- MERS performs the necessary research, due diligence and monitoring to ensure high-quality options

Health Care Savings Program (HCSP)



Health Care Savings Program

- HCSP helps participants save for post-employment health care expenses
- Participants invest their account balance using the MERS Investment Menu
- Can be used with active employees, as well as 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
 - Can be used to pay medical insurance premiums

What does a triple tax advantage mean?

- Contributions to the account are tax-free
- Assets are invested tax-free
- Tax-free spending on qualified medical expenses

The Benefit That Keeps Working

At Separation

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



Upon Death of Participant

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



Upon Death of Spouse/Legal Dependent

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



Upon Death of Primary Beneficiary

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

The ability to name beneficiaries who can use your account balance after you pass away is **unique to MERS**

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
- 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



New Hires

Do not offer retiree health insurance

Eliminate future liability



Existing Employees

Discontinue retiree health insurance

Considerable reduction of current liability



Retirees

Discontinue retiree health insurance*

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

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



Patricia Denig
Director of Human Resources
Pittsfield Charter Township

What was the situation?

- Pre-2007 offered lifetime retiree health care for current employees and their spouse
 - Staggered eligibility dependent on employee classification
- Still a “young” organization regarding retiree benefits
- Concern about long-term legacy costs

Pittsfield Charter Township

- 16 Retirees
- 4 Retirees with health insurance
- 121 eligible employees
- Over \$6.5 million in OPEB liability
- 5% funded

What strategies did we use?

2007 - 2009

Established **MERS RHFV** (April 2007)

Negotiated retiree health insurance benefit change:

- Pre-2007 = EE & spouse, 25 yrs. service, plan design retired under
- 2007 forward = EE only, 25 yrs. service, up to \$600 monthly

Established **MERS HCSP** to defray cost of changes:

- EE contribution 1%
- ER contribution 1% or 2%

First OPEB valuation completed

2014 - 2015

Negotiated with unions (non-union follow) to modify retiree health insurance so it mirrors active employee health insurance

Moved to self-funded health insurance (unexpected added bonus to OPEB)

Currently paying retiree health insurance with general fund (not RHFV)

2016 - Present

Board adopted policy to fund **RHFV** at a minimum of OPEB annual required contribution (impacts OPEB score)

Aggressive funding to **RHFV** (in excess of board policy's annual required contribution)

Negotiated new health insurance plans for actives and retirees

What were the results?

\$600 or less
Per Month

illustrative rate for
monthly retiree health
insurance premium

33%
Annual Savings

estimated annual
savings

73%
Reduction

estimated reduction
in actuarial liabilities

Pittsfield Charter Township

- 68 retirees
- 17 retirees with health insurance
- 130 eligible employees
- OPEB liability reduced to over \$2.6 million
- 78% funded

Lessons Learned?

Participants wanted to be “secure” with their health care benefit

Education helped overcome initial resistance

Balance fiscal stewardship with recruitment and retention

Do an OPEB actuarial valuation before changing benefits

Continuing to explore strategies

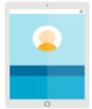
Private Health Care Exchange

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

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



Mercer compares 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

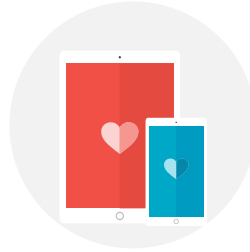
Easing the Transition for Retirees

Dedicated to guiding your retirees throughout the 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 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

Adoption by MERS Employers

14 groups have adopted the Mercer Marketplace/H CSP approach



MERS Employer Analysis

MERS employer results with Mercer Marketplace 365+ Retiree

\$2,000

average annual employer cost saving per participant

40%

of retirees realize annual savings of \$1,800

45%-65%

estimated reduction in actuarial liabilities

Best Fit Exchange Plan

Financial Overview



Sandra
 Age 70
 Grand Rapids, MI
 Receives a stipend in
 her HCSP account of
 \$250 per month

	Sample MERS employer plan	Medicare Supplement + Drug Plan	Medicare Advantage Prescription Drug Plan
Premium cost of plan	\$5,460	\$2,424	\$288
Retiree out of pocket costs	\$1,275	\$492	\$1,290
Employer subsidy	(\$5,460)	(\$3,000)	(\$3,000)
Total retiree costs	\$1,275	(\$84)	(\$1,422)
Retiree savings		\$1,359	\$2,697
Employer savings		\$2,460	\$2,460

Success Stories

“This has been the **most significant financial decision** within the city in recent history.”

*Aaron Desentz, City Manager
City of Eaton Rapids*

“We were able to reduce our OPEB liability by approximately 17% by making the change.”

*Charlie West, General Manager
Lowell Light & Power*

“My benefits counselor was great. Theresa was able to answer every question I asked and was more than helpful. She even shared her personal contact information.

Talking with her made me feel more **confident and empowered** to make an informed decision.”

*Mary Ann Sawka, Retired Financial Manager
Lowell Light & Power*

“We received a draft of our Retiree Health Valuation, and after adopting the MERS Health Care Savings Program, our OPEB liability dropped from more than \$8 million to \$1.5 million. WOW!”

*Sara Tackett, Director
Jackson District Library*

Garrett Hungerford
Director
Redford Township
District Library

What was the situation?

- Lifetime health care was promised to retirees and current employees hired before April 2016
 - Benefit began at retirement
 - Benefit included spouse
- Due to funding below 40%, PA 202 of 2017 triggered “underfunded status” and Corrective Action Plan was required

Redford Township District Library

- 3 retirees / 2 spouses
- 7 eligible employees + eligible spouses
- \$1.4 million in OPEB liability
- 25% funded

What strategy did we use?

Prior to 2019

Began investing assets through **MERS RHFV** in 2010, while continuing to pay annual retiree benefits from the general fund

Closed retiree health care plan in April 2016

MERS announced partnership with Mercer in April 2018 and we began looking into this option in September 2018

2019

Net OPEB liability of \$1.03 M

Required to file a corrective action plan under PA 202

Partnered with **Mercer Marketplace 365+ Retiree** exchange

Began providing retirees stipend to purchase individual health care plans in July 2019

Retiree stipend deposited into **MERS HCSP**

2020+

Board assesses retiree stipend annually, with input from Mercer, to determine any need for an increase

Removed from Corrective Action under PA 202

The library continues to make annual contributions to **RHFV**

Net OPEB liability reduced to:

- 2020 = \$375,608

- 2021 = \$243,064

What were the results?



\$549
Per Month
Cost of group plan



\$267
Stipend
Monthly stipend amount



51%
Annual Savings
Annual savings of retiree
healthcare costs



47%
Reduction
Estimated reduction in
actuarial liabilities

What lessons did we learn?

Participants were able to select customized plans that worked for them

Education helped make this an easy sell to retirees and current employees

Incredible savings from using the individual marketplace

Now
68.7%
funded

No complaints once it was up and running

Much easier when you only have to worry about monthly stipends

Key Takeaways

Using All Three Programs Together

MERS Retiree Health Funding Vehicle



Employers invest assets earmarked for funding OPEB expenses

MERS Health Care Savings Program



Stipend is deposited into each retiree's Health Care Savings Program account

Mercer Marketplace 365+



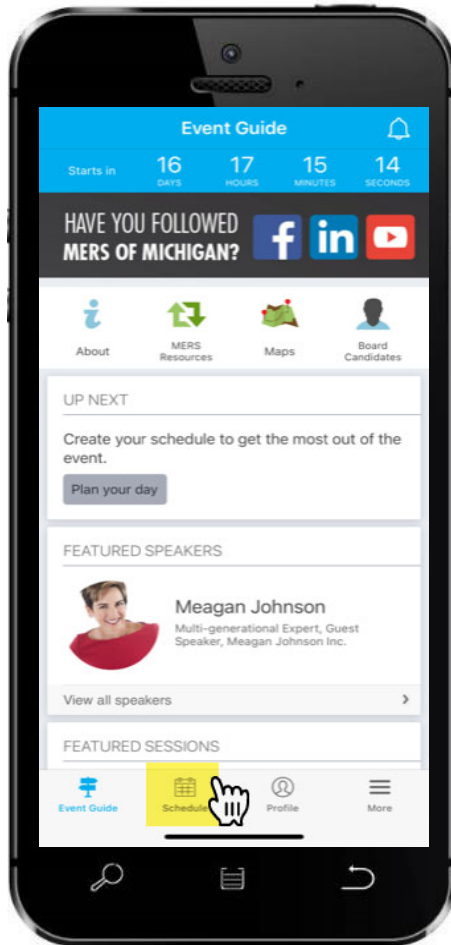
Retirees use funds from their account to purchase an individual plan through a private health care exchange

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

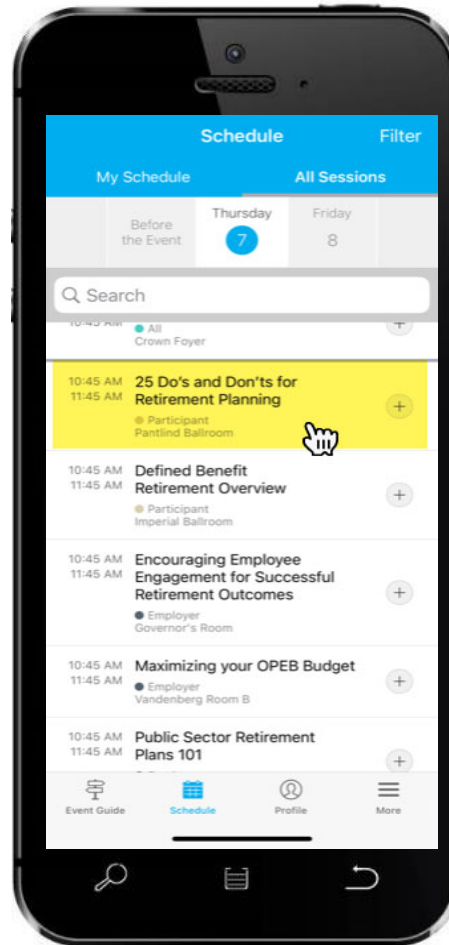
Q & A

Please Complete a Session Survey



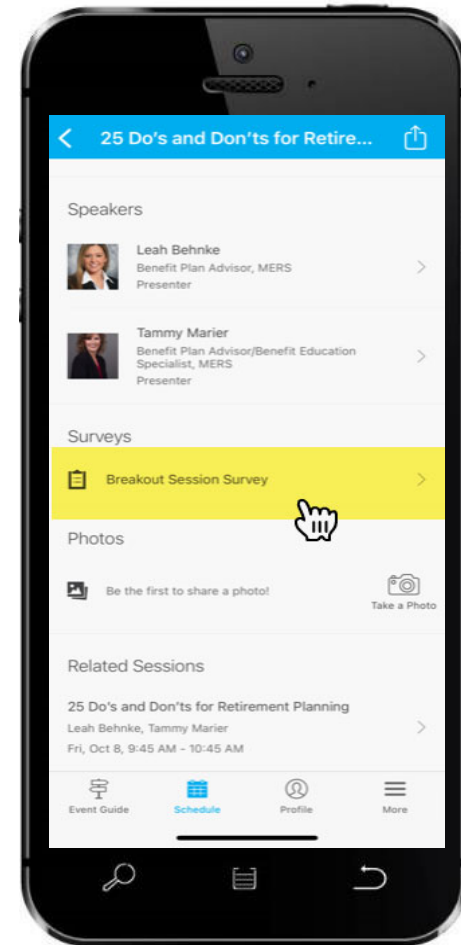
Step 1:

Locate and access the "Schedule" icon



Step 2:

Select the session you attended (look for correct date/time)



Step 3:

Scroll down and click "Breakout Session Survey"

Contacting MERS

www.mersofmich.com



Online Chat



Schedule 1-on-1
Appointments Online

800.767.MERS (6377)



MERS of Michigan

1134 Municipal Way
Lansing, MI 48917

Social Media



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.