

OPEB Case Study

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Agenda

- Michigan Municipal Landscape
- MERS OPEB Management Programs
- OPEB Management Strategies
- Private Health Care Exchange Case Study: Calhoun County
- 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)

- 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

515

Systems

\$12.6 billion in liabilities
\$7.5 billion in assets
\$5.1 billion in unfunded liabilities

112

0% Funded

22% of systems operate
on a pay-as-you-go basis

120

Underfunded

23% of systems did not meet
the PA 202 funding threshold

MERS OPEB Management Programs



OPEB Management Programs

- MERS created a Section 115 Governmental Integral Part Trust with an IRS Private Letter Ruling
- Two programs can be used together or independently:



Retiree Health Funding Vehicle



Health Care Savings Program

Retiree Health Funding Vehicle

- The MERS Retiree Health Funding Vehicle (RHFV) allows employers to invest assets earmarked for 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 (HCSP) to further offset OPEB Liability



How RHFV Works

1

Employer determines contribution amount and frequency

2

Assets are invested

3

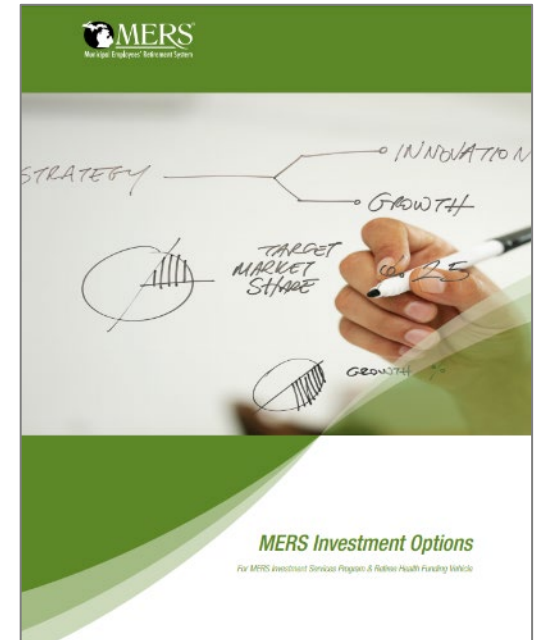
MERS sends quarterly statements

4

Distributions are requested through online employer portal

RHFV Investment Options

- By default, assets are invested in the Total Market Fund, which is our defined benefit portfolio
 - MERS is the **sole fiduciary** for these assets
- Employers may instead opt to choose their asset allocation from our quality cost-effective investment options
 - Employers are responsible for the investment of those assets according to PERSIA guidelines
 - MERS retains the fiduciary duties of determining the investment options and monitoring the fund performance



MERS Health Care Savings Program



Tax-Free Medical Savings Accounts

- Individual 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

Triple tax advantage:

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

How HCSP Works

1

Employer and employee groups work together to design the contribution structure using four types of contributions

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2

Individual employee accounts are invested under the MERS investment menu and grow ***tax-free***

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1

Employer and employee groups work together to design the contribution structure using four types of contributions

2

Individual employee accounts are invested under the MERS investment menu and grow **tax-free**

3

Upon separation, the account is available for **tax-free** medical reimbursement regardless of age

The Benefit That Keeps Working

At Separation

Participant,
spouse and legal
dependent(s) use
the account (tax-
free)



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At Separation

Participant, spouse and legal dependent(s) use the account (tax-free)

Upon Death of Participant

Spouse and legal dependent(s) use the account (tax-free)



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Upon Death of Spouse/ Legal Dependent

Primary Beneficiary(ies) use the account (taxed at time of payment)

Beneficiaries' ability to use the account is *unique to MERS*



The Benefit That Keeps Working

At Separation

Participant, spouse and legal dependent(s) use the account (tax-free)

Upon Death of Participant

Spouse and legal dependent(s) use the account (tax-free)

Upon Death of Spouse/ Legal Dependent

Primary Beneficiary(ies) use the account (taxed at time of payment)

Upon Death of Primary Beneficiary

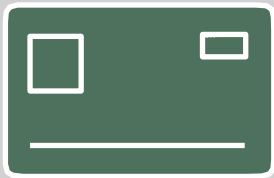
Contingent Beneficiary(ies) use the account (taxed at time of payment)

Beneficiaries' ability to use the account is *unique to MERS*



Using the Account

Visa® Debit Card
Pay for eligible expenses at time of sale



Mobile App & myMERS portal
Manage expenses, make direct-to-provider payments, request reimbursements, upload receipts



Mail
Request reimbursements



Retiree Health Care

- HCSP could be used to cover retiree health insurance premiums before Medicare eligibility is met
- MERS retirees make their healthcare dollars go further with the **Mercer Marketplace 365+ Health Care Exchange**



OPEB Management Strategies



Managing OPEB Liabilities

Funding Strategies

- A qualified medical trust
- Bonding



Plan Design Strategies

- Making provision changes
- Discontinuing coverage
- Offering defined contribution style health care account

A Qualified Medical Trust

- RHFV is a qualified medical trust
- Assets in the trust are creditor protected
- Assets offset OPEB liability
- Pre-funding the liability can lead to a positive credit rating



Bonding

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

Considerations

- Retiree health care 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

Retiree coverage changes may reduce total plan liability



Considerations

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

Discontinuing Coverage

New Hires

- Do not offer retiree health insurance
- Eliminate future liability



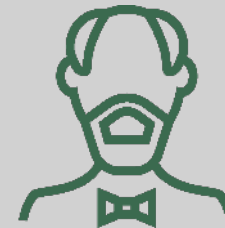
Existing Employees

- Discontinue retiree health insurance
- Considerable reduction of current liability



Retirees

- Discontinue retiree health insurance*
- Considerable reduction of current liability



Defined Contribution Style Accounts

- Tax-advantaged investment program, such as **HCSP** to save for future health care costs
- **Do not** accrue liability
- Reduce/eliminate future liability
 - Incentivize employees to opt out of retiree health care coverage
 - Mandatory conversion from retiree health care coverage



Providing Retirees a Stipend

- Deposited into a tax-advantaged investment program (HCSP)
- Combine stipend with a private health care exchange to transition away from group coverage
 - Reduces OPEB liability while maintaining commitment to providing quality benefits
 - Reduced administrative cost and employer challenges as compared to supporting a group plan



Private Health Care Exchange



Mercer Marketplace 365+ Retiree Exchange

Transitioning from group medical insurance to individual policies reduces healthcare costs and simplifies administration

What is it?

Individual insurance products coupled with personalized support to help retirees find the best and lowest cost coverage to meet their needs

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High-touch and personalized experience that builds confidence in health coverage decisions

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Retiree benefits

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Employer benefits

Significant annual and long-term savings while eliminating administrative burdens

Preferred Partnership

Mercer Marketplace 365+SM



Options for both pre-65 and Medicare-eligible individuals

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Options for both pre-65 and Medicare-eligible individuals



A retiree-centric customer service model

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Mercer Marketplace 365+SM



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

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Consultants experienced with MERS programs

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Local offices in Michigan (Grand Rapids and Southfield)

Preferred Partnership

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Coordination with the **MERS Health Care Savings Program (HCSP)** and **Retiree Health Funding Vehicle (RHFV)**

MERS Employer Analysis

18

employer adoptions

\$355

average group plan
cost per month

\$215

average recommended
monthly stipend

40%

of retirees realize annual
savings of \$1,800

45%-65%

estimated reduction
in actuarial liabilities

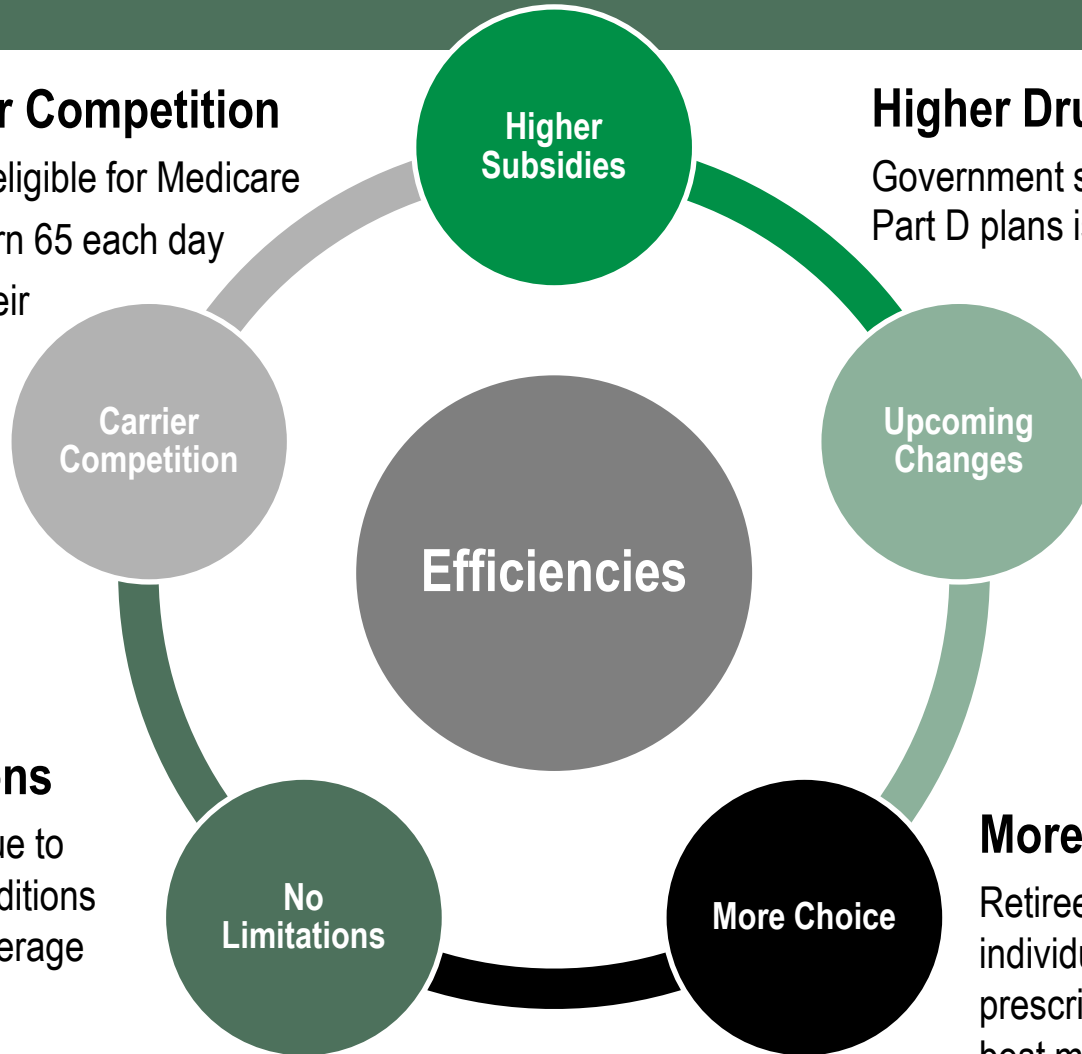
50

average size of MERS groups
moving to the exchange

Individual Plan Efficiencies

Insurance Carrier Competition

- 64M Americans are eligible for Medicare
- 11,000 Americans turn 65 each day
- Most retirees pick their Medicare coverage once and stay with it



Higher Drug Subsidies

Government subsidy of individual Part D plans is significantly higher

Upcoming Changes

Upcoming Changes

Inflation Reduction Act will cap Rx out-of-pocket expenses at \$2,000 in 2025

No Limitations

No limitations due to pre-existing conditions when group coverage is discontinued

More Choice

Retirees can enroll in the individual medical and prescription drug coverage that best meets needs

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 Does it Work?



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

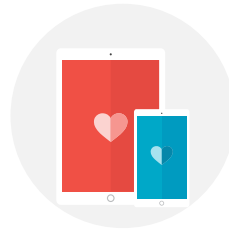
Easing the Transition

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

How does the exchange drive savings?



Sandra in fair health

Age 70
Traverse City, MI
Receives a stipend in her HCSP account of \$250 per month or \$3,000 per year

| | Sample employer plan | Medicare Supplement (Plan G) + Part D Drug Plan | Medicare Advantage Prescription Drug Plan (PPO)* |
|-----------------------------|----------------------|---|--|
| Premium cost of plan | \$5,600 | \$1,740 | \$288 |
| Retiree out of pocket costs | \$1,275 | \$522 | \$1,300 |
| Employer subsidy | (\$5,600) | (\$3,000) | (\$3,000) |
| Total retiree costs | \$1,275 | \$738 surplus | \$1,412 surplus |
| Retiree savings | | \$2,013 | \$2,687 |
| Employer savings | | \$2,600 | \$2,600 |

*Additional benefits include over the counter drug allowance, meals, dental, vision, hearing aid and fitness membership.

Success Stories

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

*Aaron Desentz,
Former 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*

MERS

Participant Testimonial



Mayor David Tossava

Hastings, Michigan

“MERCER helped step-by-step pick out an insurance plan for me and my wife and set up a Health Benefits account with MERS. They put me in contact with an insurance expert that looked at the current insurance coverage

As a result, I have better insurance with better benefits than what I had before at no cost. I owe this all to MERS and MERCER for all the hard work and understanding in helping me get insurance from the marketplace.”

Calhoun County

A Case Study in Success



What was the situation?

- Retiree health care was provided through board policy for pre- and post-65
 - Participated in employer group plans
 - Retirees paid illustrated premium, less monthly discount based on years of service
- Bond Credit Rating Agency (S&P Global) noted OPEB liability as significant risk

Calhoun County

12/31/2020

- 294 retirees and beneficiaries (including pre-65)
- Actuarially Determined Contribution (ADC) = 3.4% of payroll
- County had not been making annual ADC
- 0.89% funded

What strategy did we use?

2020

Net OPEB liability = \$21.6M, 65% of covered payroll

Began investing assets through **MERS RHFV** in November

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2022

County adopted **MERS HCSP**

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

Net OPEB liability = \$13.6M, 32% of covered payroll

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2023

Began depositing retiree stipend
into **MERS HCSP** purchase
individual health care plans:

\$150 >15 yrs service

\$200 >20 yrs service

Post-65 retirees no longer
eligible for County-sponsored
health insurance

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2023

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retiree stipend into
MERS HCSP purchase
individual health care
plans:

\$150 >10 yrs service

\$200 >20 yrs service

Post-65 retirees no
longer eligible for
County-sponsored
health insurance

2024

Starting in 2024, County
will reinvest savings to
make annual ADC,
further reducing
unfunded liabilities

What were the results?

County budget
Savings in Post-65
health ~ \$1,000/yr per
retiree



\$244
Per Month

Avg Net Cost of group plan



\$150
Per Month

New Stipend amount

County liability
reduction (improved
balance sheet)



\$105K

Annual Savings

Initial Projected Annual savings
of retiree healthcare costs



\$8M or 37%

Reduction

In Net OPEB liabilities

How was the change received?

Initial resistance

- Fear of change
- Skepticism that this was a “win-win”
- HR staff struggled to handle negative calls



Education sessions helped

- WHAT, HOW and HOW MUCH about the Exchange
- Reassured help is available from Benefits Specialists
- Emphasized benefit of keeping excess funds



Ultimately well-received by most retirees

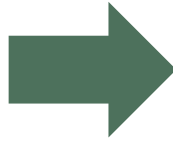
- Nearly all purchased plans for less than the stipend provided; others say they’ll shop this year
- # participants dropped by 17%



What did retirees choose?

30%

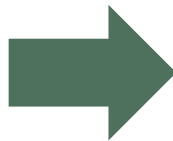
Medicare Supplement plan
+
Part D drug plan



- 85% chose Plan G \approx \$150/month
- 15% chose Plan F \approx \$185/month
- Part D \approx \$30/month

70%

Medicare Advantage
prescription drug (MAPD) plan



- Carriers included, Priority, Aetna, Wellcare and Humana
- Majority chose Priority PPO's
- Premiums generally \leq \$30/month

Key Takeaways



Using the Programs Together

MERS Retiree Health Funding Vehicle



Employers
invest assets
for funding
OPEB
expenses

Using the Programs Together

MERS Retiree Health Funding Vehicle



Employers invest assets for funding OPEB expenses



MERS Health Care Savings Program



Stipend is deposited into each retiree's HCSP account

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Mercer Marketplace 365+



Retirees use their account to purchase a plan through private health exchange

We want your feedback on today's session!

**Please scan this QR code to
take a short survey.**



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