

## *Retiree Healthcare Financing Strategies*

2019 NCPERS Legislative Conference



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## Agenda

Current retiree healthcare landscape

Why pre-fund?

Pre-funding:

A. Vehicles

B. Sources

Key considerations



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## Current Retiree Healthcare Landscape

- Still prevalent in the public sector
- Costs are increasing at compounding rates:
  - Increasing numbers – baby boomers
  - Increasing longevity
  - General medical inflation
  - Prescription drugs
    - Appreciably higher usage than among actives
    - Leveraged trend for Medicare retirees, since Medicare is primary for medical costs



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## Current Retiree Healthcare Landscape

- Costs potentially consist of two elements:
  - Explicit costs – employer contribution for all/a portion of the retiree's premium
  - Implicit costs – where active and retiree premiums are the same, retiree rates are lower than actual retiree costs
  - In some cases, both are in place
- GASB 74/75
  - Has replaced GASB 43/45
  - Intended to capture both of the above future costs
  - More restricted in how liabilities are estimated versus GASB 43/45
  - Now is shown as an actual liability on CAFR, rather than a footnote
- Cadillac tax – still there? Scheduled to go into effect in 2022



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## Current Retiree Healthcare Landscape

- How to address costs?
  - Revise eligibility
  - Focus on Medicare retirees
    - Medicare Advantage/MediGap
    - Medicare Part D, Employer Group Waiver Program
    - Change level of benefits
- Improve chronic condition management
- Introduce narrow/value based networks
- Change employer contribution structure
- Where law permits, mitigate implicit subsidization



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## Why Pre-Fund?

- Better manage cash flow
- Reduce Annual Required Contribution under GASB 74/75, regardless of any other changes
  - Higher interest assumptions
- Secure assets
- Enhance/maintain financial ratings
  - Lower cost of debt



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## Pre-funding Vehicles

- Voluntary Employee Beneficiary Associations (VEBAs)
- IRC Section 401h program subordinate to underlying retirement program
- Integral part/state grantor trusts (IRC 115)
- General asset accounts – GASB 74/75 does not permit using higher investment earnings assumptions
- Health savings accounts (HSAs) – conditioned upon being enrolled in qualified high deductible health plan



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## HRAs

- Health reimbursement arrangements
  - Must be uniformly funded for the “group” – i.e., no individual discretion
- Since technically a self-funded health plan under IRC Section 105(h), subject to its own rules and impacted by the Affordable Care Act
- Inherent under other vehicles
- The defined contribution arrangement that is embedded in typical turn-key solutions
- Must be “employer” funded



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## Pre-funding Sources

- Additional employer/plan assets
- Re-allocation
  - Salary
  - Retirement
  - Health, whether contributions or design
- If by employee, must be “mandatory”
- Unused leave
  - Re-engineered paid time off



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## Key Considerations

- State/local legal constraints
- Underlying retirement programs
- Collective bargaining
- Current vs. future retirees
  - Defined benefit vs. defined contribution
- Broader objectives/needs
  - Challenge or opportunity?



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# Questions?

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