# HEALTH BENEFITS COMMITTEE
# A G E N D A

**APRIL 18, 2012 - 2:00 P.M.**

**CITY HALL CONFERENCE ROOM**
**15 LOOCKERMAN PLAZA**
**DOVER, DELAWARE**

***Public comments are welcomed on any item and will be permitted at appropriate times. When possible, please notify the City Clerk (736-7008 or e-mail at cityclerk@dover.de.us) should you wish to be recognized.***

AGENDA ADDITIONS/DELETIONS

1. Review and Discussion of Health Care Alternatives

2. Adjournment by 3:30 p.m.

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*THE AGENDA ITEMS AS LISTED MAY NOT BE CONSIDERED IN SEQUENCE. THIS AGENDA IS SUBJECT TO CHANGE TO INCLUDE THE ADDITION OR THE DELETION OF ITEMS, INCLUDING EXECUTIVE SESSIONS.*



# City of Dover, Delaware Health Benefits Committee

**April** 18, 2012

Scott Porter, FSA

Milliman

# Agenda

A. OPEB Funding Basics
   - Benefit Obligations
   - Contributions

B. Impact of Alternate Premium Sharing Arrangements
   1. Option 1 – City caps costs at HMO plan
   2. Alternative 1 - HB 81: Retiree contribution varies by option elected (6.5% HMO; 13.25% PPO)
   3. Alternative 2 – 15% pre-65; 10% post-65
   4. Alternative 3 – 10% for all ages

# OPEB Funding Basics - Total Benefit Obligation

- Present value of expected benefits to be paid by the plan for current retirees and future retirees as well as their dependents

- Based on three key elements:
  - Plan provisions
  - Actuarial Assumptions
  - Plan demographics

# OPEB Funding Basics - Plan Provisions

- Underlying health plan design
  - City has little control due to participating in State plan
- Access or eligibility conditions to the benefits
- Premium Cost Sharing
  - Reduction in percentages paid by City shifts costs to all members, including Medicare-eligible members
  - 4 alternatives being discussed today

# OPEB Funding Basics - Actuarial Assumptions

- Demographic assumptions – when members are expected to retire and how long are expected to receive benefits
- Healthcare Trend – expected percentage increase in plan costs in future years
  - Reflects expectation of 40% excise beginning in 2018 due to healthcare reform
- Discount Rate – rate future payments should be discounted to determine present value in today's dollars
  - Funding expectation 7%; for financial statements 5.2%

# OPEB Funding Basics - Actuarial Liabilities

- Total benefit obligation allocated into 3 components
- Actuarial Accrued Liability
  - Total liability for current retirees
  - Liability attributable to past service for future retirees
- Present Value of Future Normal Cost
  - Portion of liability attributable to future service and future contributions
- Normal Cost
  - Portion of liability attributable to current service

# OPEB Funding Basics - Contributions

- 2 components that comprise the City's contribution
- Amortization
  - Portion of Unfunded Accrued Liability (UAL) allocated to current year
  - UAL equals actuarial accrued liability less assets in trust
  - Unfunded liability amortized over 30 years
- Normal Cost
  - Portion of liability attributable to current service

# OPEB Funding Basics - Contribution Terminology

- Full Funding Contribution
  - Prefunding retiree OPEB obligation
- Cash Flow – expected payments made on behalf of current retirees
- Funding Policy Contribution
  - Reflects 10-year phase-in of full funding contribution
- GASB 45 Annual Required Contribution
  - Amount recognized in City's financial statements

# OPEB Funding Basics - Full Funding Contribution

- Assumes City is completely prefunding retiree OPEBs
  - City (and retirees) contributes money to the trust and the trust pays the State premiums
  - Expected to occur at end of 10-year phase-in
- Based on long-term return that trust assets are expected to earn
  - Currently 7% (although continued low interest rates may reduce this expectation)
- Represents long-term contribution savings to the City

# OPEB Funding Basics - Cash Flow

- If the City had not started prefunding the retiree OPEB obligation, this would represent 100% of the City's costs
- Since the City is phasing into full prefunding, changes in the cash flow continue to directly impact the City's short term cash costs
- The discounted value of the expected benefit payments equals the plan's liability
  - Reductions in expected City cash flows result in reductions in liabilities and City's prefunding contributions

# OPEB Funding Basics - Funding Policy Contribution

- City has implemented a 10-year phase-in schedule to 100% prefunding of Full Funding Contribution
- Funding Policy contribution reflects weighted average of Full Funding Contribution and expected benefit payments
- In this analysis, fourth year of phase-in assumed
- Changes in Funding Policy Contribution reflect 40% change in Full Funding Contribution and 60% change in expected benefit payments
- Represents short-term contribution savings to the City

# OPEB Funding Basics - Funding Policy Contribution Example

- Reduction in Full Funding Contribution is $125,000
- Reduction in expected benefit payments in first year is $75,000
- Reduction in Funding Policy Contribution is $95,000
  - 40% x $125,000 = $50,000
  - 60% x $75,000 = $45,000

# OPEB Funding Basics - GASB 45 Annual Required Contribution

- Based on Governmental Accounting Standards
- Does not dictate funding, but how benefits are accounted for in City's financial statements
- Calculation is consistent with City's Full Funding Contribution, except it uses a different discount rate
- Discount rate reflects 10-year phase-in policy
  - If fully phased-in, ARC would be based on 7% discount rate
  - If there would be no prefunding, discount rate would be 4%
  - Fourth year of phase-in is 5.2%

# Alternative Premium Sharing Arrangements - Key Plan Provisions and Assumptions

- Retirees contribute 0% for single coverage
- Retirees contribute 25% of additional cost for dependent coverage (if retired after 1991)
- All options assumed to apply to all current and future retirees
- Other than option 1, other alternatives result in increase in City's cost for dependent coverage if retired after 1991
- No change in health plan election is assumed in analysis which may impact the savings estimated
- Actual savings/costs will be based on actual experience

# Alternative Premium Sharing Arrangements - Option 1 – City's contribution capped at HMO

- No change in 25% dependent contribution
- Savings limited to pre-65 liabilities
- Approximately 2% reduction in liability
- Estimated financial impact:

| | | |
|---|---|---|
| **Actuarial Accrued Liability** | | ($1,048,000) |
| | | |
| **Full Funding Contribution** | | ($117,000) |
| **Funding Policy Contribution** | | ($93,000) |
| | | |
| **Projected Cash Flow - Year 1** | | ($76,000) |
| **Projected Cash Flow - Year 2** | | ($74,000) |
| **Projected Cash Flow - Year 3** | | ($74,000) |
| **Projected Cash Flow - Year 4** | | ($78,000) |
| **Projected Cash Flow - Year 5** | | ($84,000) |

# Alternative Premium Sharing Arrangements - Alternative 1 – HB 81

- 13.25% retiree contribution (6.5% for pre-65 HMO)
- Reduction in 25% dependent contribution increasing City's costs for coverage to pre-1992 spouses
- Approximately 6% reduction in liability
- Estimated financial impact:

| | |
|---|---|
| **Actuarial Accrued Liability** | ($2,939,000) |
| **Full Funding Contribution** | ($329,000) |
| **Funding Policy Contribution** | ($193,000) |
| **Projected Cash Flow - Year 1** | ($103,000) |
| **Projected Cash Flow - Year 2** | ($104,000) |
| **Projected Cash Flow - Year 3** | ($110,000) |
| **Projected Cash Flow - Year 4** | ($121,000) |
| **Projected Cash Flow - Year 5** | ($132,000) |



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# Alternative Premium Sharing Arrangements - Alternative 2 – 15% < 65, 10% >=65

- Separate contribution rates for those eligible or not eligible for Medicare
- Reduction in 25% dependent contribution increasing City's costs for coverage to pre-1992 spouses
- Approximately 5% reduction in liability
- Estimated financial impact:

| | | |
|---|---|---|
| **Actuarial Accrued Liability** | | ($2,342,000) |
| | | |
| **Full Funding Contribution** | | ($263,000) |
| **Funding Policy Contribution** | | ($184,000) |
| | | |
| **Projected Cash Flow - Year 1** | | ($132,000) |
| **Projected Cash Flow - Year 2** | | ($128,000) |
| **Projected Cash Flow - Year 3** | | ($129,000) |
| **Projected Cash Flow - Year 4** | | ($139,000) |
| **Projected Cash Flow - Year 5** | | ($149,000) |



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# Alternative Premium Sharing Arrangements - Alternative 3 – 10%

- Equal contribution percentage for all retirees
- Reduction in 25% dependent contribution increasing City's costs for coverage to pre-1992 spouses
- Approximately 3% reduction in liability
- Estimated financial impact:

| | |
|---|---|
| **Actuarial Accrued Liability** | ($1,382,000) |
| **Full Funding Contribution** | ($156,000) |
| **Funding Policy Contribution** | ($97,000) |
| **Projected Cash Flow - Year 1** | ($58,000) |
| **Projected Cash Flow - Year 2** | ($58,000) |
| **Projected Cash Flow - Year 3** | ($59,000) |
| **Projected Cash Flow - Year 4** | ($65,000) |
| **Projected Cash Flow - Year 5** | ($70,000) |