Retiree Health Benefits

NCSL Legislative Summit
August 8, 2017

Public Sector Retirement System Project
The Pew Charitable Trusts

- More than 40 active, evidence-based research projects
- Projects include public safety, immigration, elections, transportation, pensions, and state tax incentives
- All follow a common approach: data-driven, inclusive, and transparent

Pew’s Public Sector Retirement Systems Project

- Research since 2007 includes 50-state trends on public pensions and retiree benefits relating to funding, investments, governance, and employee preferences
- Technical assistance for states and cities since 2011
Overview

• Public Sector Retirement Benefits – Key Trends

• 50 State OPEB Update

• Retiree Health Benefits Across States

• Cost and Liability Management

• Key Takeaways
Public Sector Retirement Benefits — Key Trends
Key Trends
State Pension Debt and Risk Levels

2015 State Pension Funding Gap - Aggregate

- $1 trillion gap
- Change in reporting standards in 2014

State & Local Pension Debt as a Share of GDP

State and local pension debt as a share of GDP spiked after the Great Recession and remains at a historically high level.

Pension Fund Risk Premium at Historic High

Average Annual Returns: Stock Market & Median Pension Fund

States with the lowest funded ratios, 2015: NJ (37%), KY (38%), IL (40%), CT (49%), PA (56%)
States with the largest unfunded liability, 2015: CA, NJ, IL, PA, TX (which combined equal 49% of 50-state total UAAL)
Key Trends
National Health Expenditures as a Percentage of GDP

Source: Centers for Medicare & Medicaid Services; National Health Expenditure Projections 2015 – 2015
Key Trends – Pensions
Stress Testing, Investments Fee Transparency, Risk Managed Hybrid Plans

*Note: South Carolina and Virginia also recently commissioned a 50 state comparative study of retirement benefits and policies
Key Trends - What about OPEB?

• Reported liabilities ($692 B for states) have stabilized, pre-funding remains low (6%)

• Dramatic differences in level of benefit and liabilities across states

• Pre-funding and cost containment policies offer a menu of options, but no cohesive strategy

• Do higher cost states have a plan to pay for benefits if high cost growth resumes?

• Should OPEB policy be considered with pensions?
50 State OPEB Update
50 State OPEB Update
Total State Reported OPEB liability of $692 B as of 2015
On Average, OPEB liabilities are 6% Funded

Note: Nebraska does not report an OPEB liability.
Source: Analysis of data from states' Comprehensive Annual Financial Reports, actuarial reports and valuations, other public documents, or from plan officials
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Retiree Health Benefits Across States
Retiree Health Benefits Across States
Definitions of Benefit Types

- **Contribution tied to health insurance premium.** States typically pay a percentage of the premium for the plan selected. If premium costs increase, states using this contribution method must increase their spending, decrease their contribution, or introduce lower-cost plans.

- **Fixed-dollar contributions.** Retirees pay the difference between the fixed subsidy from the state, which may grow with standard inflation, and the actual premiums for their benefits. Because they are shielded from health plan premium increases, states that structure contribution options in this manner typically have lower and more predictable retiree health insurance costs from year to year.

- **Coverage with no state contribution.** Nine states provide access to health care coverage but do not make a contribution toward premiums for their retirees. (two states do not provide access)
Retiree Health Benefits Across States
Distribution of Benefit Types

- Contributions Tied to Premium: 27
- Fixed Premium Contribution: 12
- Coverage without Contribution: 9
Retiree Health Benefits Across States

2015 OPEB Liabilities As a Percentage of Personal Income

Premium Classification:
- Contributions Tied to Premium
- Fixed Premium Contribution
- Coverage without Contribution or No Coverage

Note: Alaska, which is ranked #50 and equals 42.2%, is excluded from the graph.

Source: Data for this graph was collected from Comprehensive Annual Financial Reports (CAFRs), actuarial reports and valuations, or other public documents, or as provided by plan officials.
Cost and Liability Management
Cost Management Strategies

• **Pre-funding.** Ohio has the highest funded ratio among higher cost states.

• **Michigan** provides between 30% and 80% of the premium for workers hired before 2012. For newly hired workers, the state provides a $1000-$2000 HRA contribution.

• In 2012, **Ohio** raised the minimum years of service required to become eligible for benefits from 10 to 20, starting in December 2014, and reduced the state’s future premium contributions – additionally, Ohio has increased pre-funding efforts.

• In 2011, **West Virginia** capped the growth of the per-retiree employer contribution for health premiums at 3 percent, lowering its liabilities by $2.6 billion - if health care costs grow faster, retirees will have to pick up the difference. (West Virginia also has a prefunding policy, and ended subsidies for workers hired after July 1, 2010.)
Key Takeaways
Key Takeaways

• Cost of retiree health care has been constrained recently, but projected to return to high rates of growth

• Level of benefit and liability varies across states — in some cases, by orders of magnitude

• States with % of premium benefits are most in need of cost and liability management strategies

• Policies in place provide a rich menu of options

• Policymakers continue to explore a comprehensive approach to managing retirement liabilities (health and pensions)
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Appendix
Most States Tie Contributions to Premiums’ Total Cost
State premium contribution method for Medicare-eligible retirees

Notes: Nevada provides its Medicare-eligible retirees access to health coverage through a private exchange.
Source: Analysis of publicly available data on retiree health benefit plans, verified by states
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Most States Prorate Their Contributions to Retiree Premiums
Prorating policies for these contributions

Number of states

- 16 states have no contribution
- 15 states prorate contributions
- 29 states have no prorating
- 28 states prorate contributions

* Iowa provides a credit for unused sick leave.

Note: This reflects the most recent set of benefits as instituted by states at the time of our data collection as of February 2015. See Appendix D to learn to which retirees these data are applicable, by state.

Source: Analysis of publicly available data on retiree health benefit plans, verified by states. (See Appendix A.)

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States Require a Median of 10 Years of Service for Premium Contribution Eligibility

Minimum years of service required

Note: Florida, Idaho, Indiana, Kansas, Minnesota, Mississippi, Montana, Nebraska, Nevada, Oregon, South Dakota, Utah, West Virginia, and Wisconsin either provide coverage but do not make contributions toward retiree health care premiums or do not provide coverage to either their early or Medicare-eligible retirees. This reflects the most recent set of benefits as instituted by states at the time of our data collection as of February 2015. See Appendix D to learn to which retirees these data are applicable, by state.

Source: Analysis of publicly available data on retiree health benefit plans, verified by states. (See Appendix A.)

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OPEB Liabilities Are Concentrated Among Several States
13 states represent 81% of total, 2013

<table>
<thead>
<tr>
<th>2013 population</th>
<th>54%</th>
<th>46%</th>
</tr>
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<tbody>
<tr>
<td>2013 OPEB liability</td>
<td>81%</td>
<td>19%</td>
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Percentage of U.S. aggregate

- AK, CA, CT, GA, IL, MA, MI, NC, NJ, NY, OH, PA, TX
- All other states

Source: Analysis of data from states’ Comprehensive Annual Financial Reports, the U.S. census, actuarial reports and valuations, other public documents, or from plan officials

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Publications

• Our paper, State Retiree Health Care Liabilities: An Update will be released this month.

• Previous report, State Retiree Health Care Liabilities, may be found here: http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/05/state-retiree-health-care-liabilities