



## LOWERING OPEB LIABILITY THROUGH THE LEAGUE HEALTH BENEFITS MARKETPLACE

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*A powerful technology solution that makes the  
delivery of health benefits easier and more cost  
effective for you and your entire workforce.*

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### SOLVING FOR “THE RISING COST OF RETIREE HEALTHCARE”

Challenges among cities managing retiree healthcare include:

1. **Rising costs and the associated OPEB liability**
  - Trend continues to push healthcare costs upward
  - GASB revisions increase pressure to solve for the liability
2. **Desire from retirees to personalize their benefits**
  - Retirees leave the plan for most cost effective options, resulting in the group plan having less favorable risk pool
  - Medicare retirees primarily focus on the Rx plan
3. **How to continue providing subsidy and competitive benefits**

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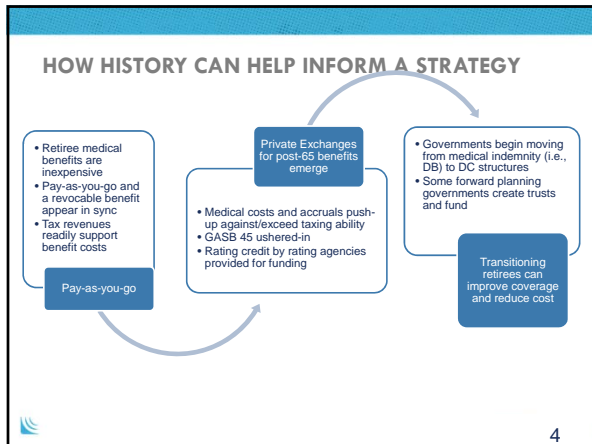
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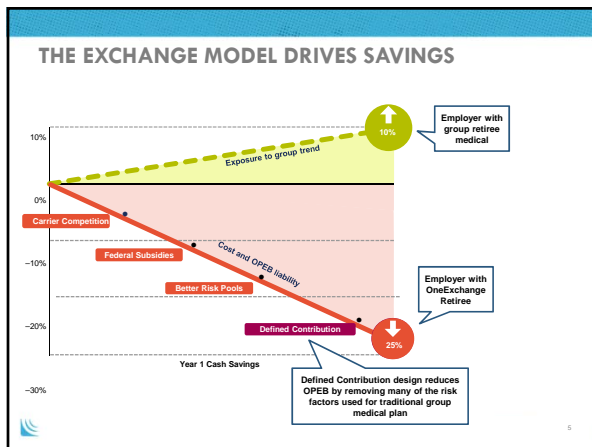
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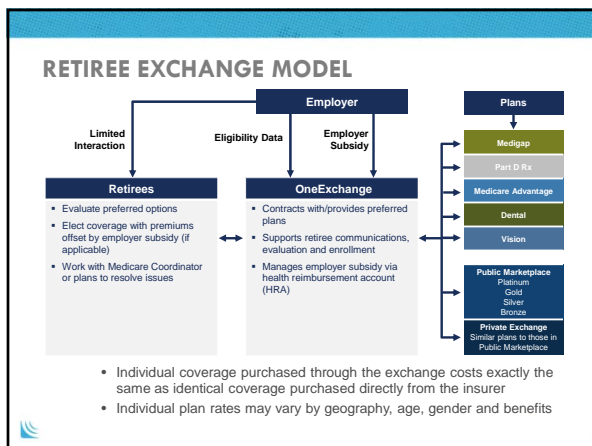
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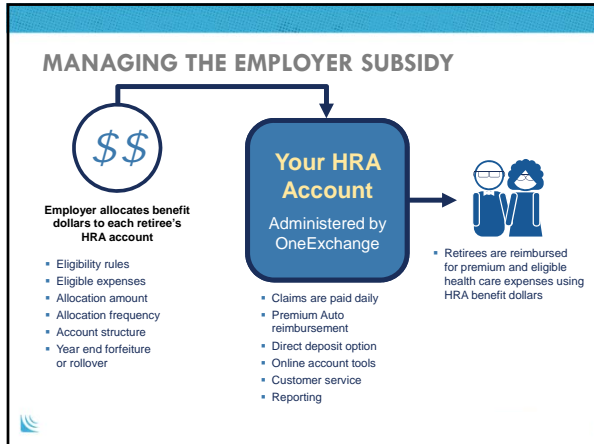
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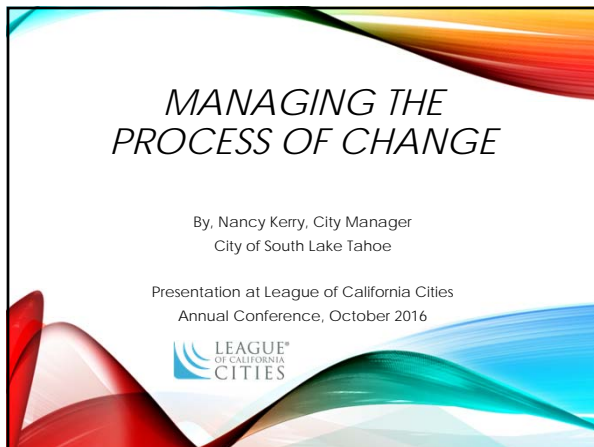
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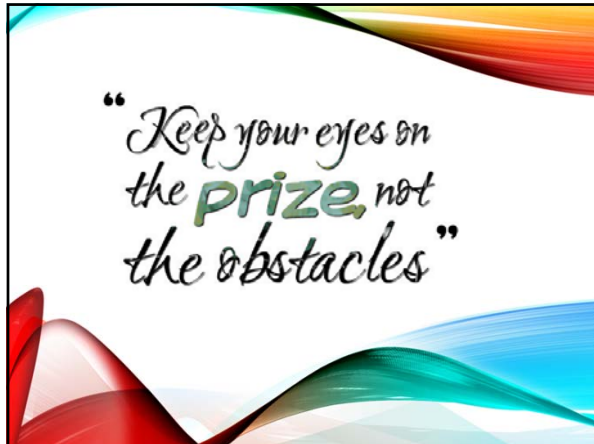
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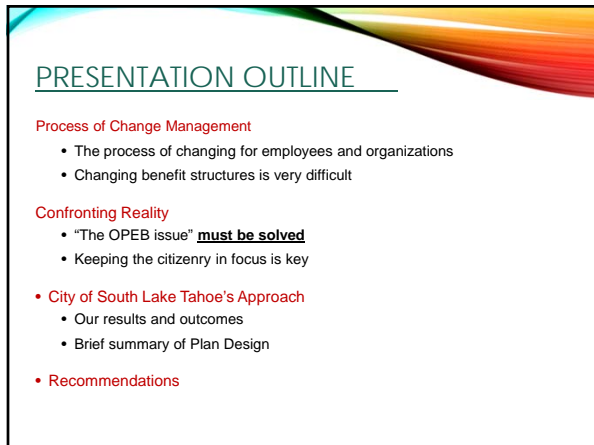
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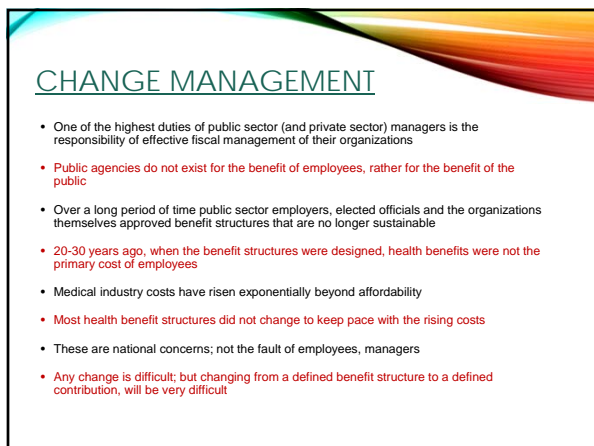
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## CHANGE MANAGEMENT

- It is not personal – It is personal (Which is it?)
- Employees and retirees expect to be “taken care of”
- Changing from “employer based decisions” to “employee based decisions” creates fear and concern among plan participants
  - Who is to blame if “I” make a wrong decision?
- Employers providing a benefit, insurance/plan design, they can be held responsible if things go wrong
- Employees being provided funding to make their own decisions are often afraid and very concerned about being placed in the decision-making role
- It's up to the management team and the Change Process Managers (do you have one?) to explain the powerful benefits of “choice”

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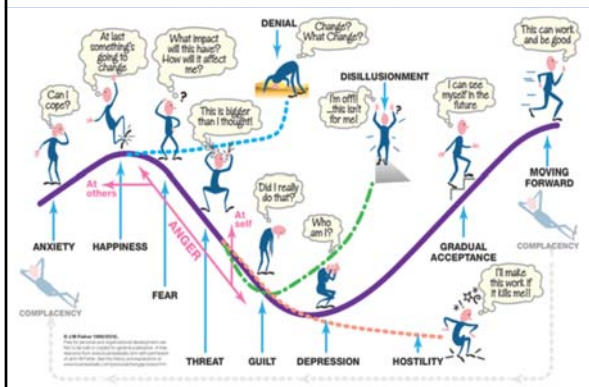
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## The Wild Ride of Change




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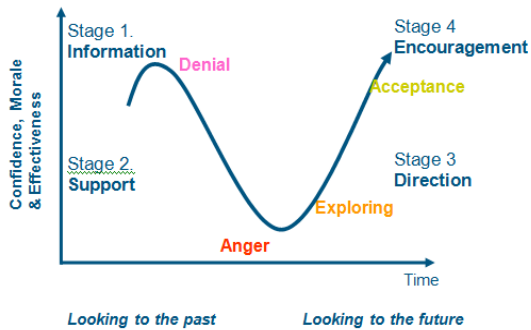
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## The Change Curve

Personal/Organizational




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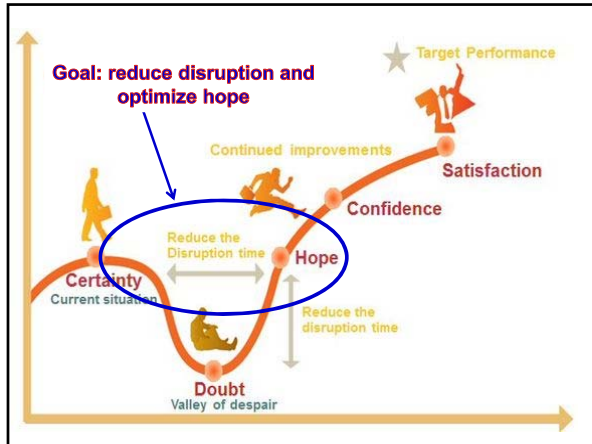
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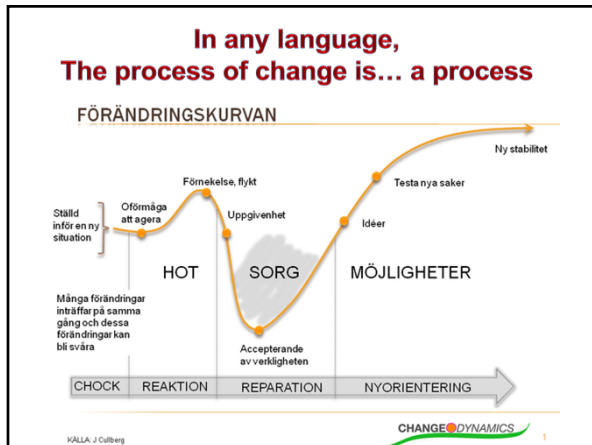
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**OTHER POST EMPLOYMENT  
BENEFIT STRUCTURES(OPEB)**

Changing medical / health benefits is difficult  
Start with confronting the reality of the cost burden

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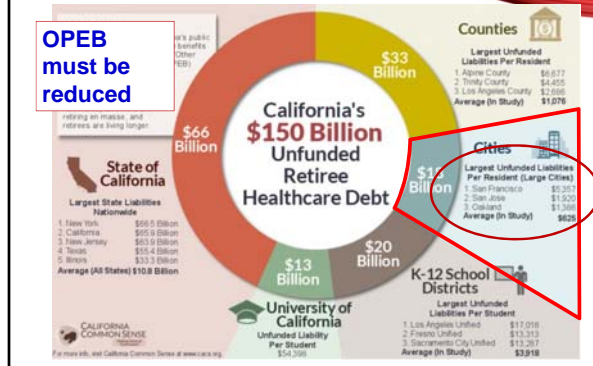
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## CONFRONTING THE REALITY




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## CONFRONTING THE REALITY

Keep the citizenry in focus: they are our stakeholder/stockholder

- Residents simply **cannot afford \$150 billion dollars**
- During Great Recession, the cost burden was 'hot topic'; the financial pressure on agencies provided opportunity for change
- GASB is bringing a renewed pressure to the conversation, which is necessary and helpful to the need for change
- Keeping the citizenry in focus shapes the discussion
  - Determine the OPEB cost per household or resident
    - Would the community vote for a tax increase to fund OPEB?
    - What services are impacted by OPEB contributions?
    - What public services could be improved if without funding OPEB ?

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## CITY OF SOUTH LAKE TAHOE'S APPROACH




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**BEGIN WITH THE END IN MIND**

**Our Goals:**

- *Substantially* reduce OPEB liability
- Reduce Retiree Health Benefit annual costs
- Resolve or mitigate exponential rise in health care costs

**Clear about outcomes to be achieved; no gamesmanship**

- OPEB liabilities were not fundable
- Expectations with employees were clear and accountable
- Current structure of plan was not sustainable

**Employees and Management were not in agreement**

- "Agreement" by itself not necessarily the goal
- It was and remains a desired outcome

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**SOLUTION – ORIENTED**

- **Collaborated with Labor Groups**
  - We sought their ideas
  - We were open to various paths toward the achievement of goals
- **We were direct, honest and confronted reality – frequently**
- Invited the public to become engaged in the process
- **Brought in experts and hired new broker**
- Workshops, meetings (retirees and employees)
- **Demonstrated SLT is not unique**
  - **Skyrocketing medical costs is national issue**
- Solicited advice, expertise, listened to unique solutions

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**RESULTS – PLAN DESIGN**

**A new 5-Step Medical Plan**

- First, Medicare-age retirees shifted to Medicare
- Early Retirees (under 65) by contract allowed to stay in City's medical plan as long as a plan is available
- Actives and early retirees in City's new 5-step Medical Plan (Plans A thru E)
- City offers Basic Plan A – high deductible, defined contribution by City
- Actives and Early Retirees allowed to "buy up" to improved plans (B-E\_
- Functions like small pool exchange

**Employees, through negotiations:**

- Eliminated all tiered benefits
- *\*\*\* Shifted from a "not yet hired" approach to "if you haven't yet retired" approach\*\*\**
- Plan is a blend of defined contribution (Plan A) and Section 125 funds

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## RESULTS – OPEB

- City's OPEB Liability was \$53 million dollars and growing exponentially
- 92% *unfunded*
- Primary cost burden was due to "defined benefit" structure -- City covered premiums for benefit plans
- Today, the City's OPEB liability is \$19 million of which 58% is funded, this was an immediate change
- Expect to be 95% funded in 8 years
- At that time, the General Fund will no longer cover retiree health; OPEB Trust will make payments
- Primary change in cost was (1) eliminating retiree health from those not yet retired and (2) moving toward blend of defined contribution and providing optional plans
- Negotiations (2017) we'll bring Marketplace to bargaining table

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## CULTURE

- We need to improve the 'government culture'
  - We need to share in the responsibility to fix the system
  - Government Managers & Leaders must help to change the culture
- Model sacrifice, model service, model leadership
  - SLT City Council was strong and committed to fixing the issue
  - City Council and Exec Team were willing to lead by example, they sacrificed their benefits shoulder – to – shoulder with employees
  - Public agency managers may need to lead by example by eliminating retiree health benefits if "not yet retired"

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## RECOMMENDATIONS

- Can't "manage" change, manage the process
- The process of change needs to take its course
  - Don't stifle the change; leverage the opportunities
  - Find common ground and where there is agreement – "change is needed"
  - Focus on the outcomes; public benefits
  - Involve all levels of the organization
  - Communicate frequently, honestly, and free-flowing
  - Understand the fear employees / retirees may have
  - Explore all solutions to the problem

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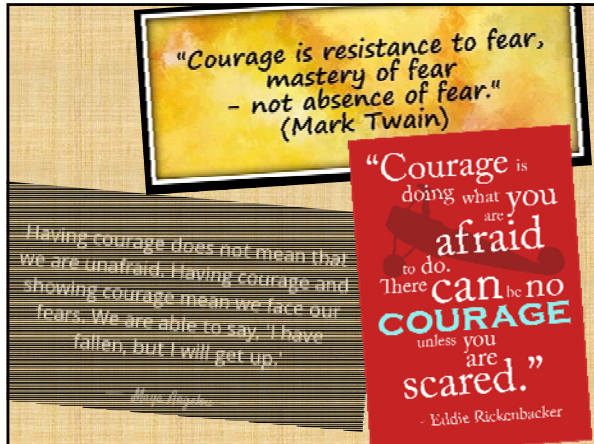
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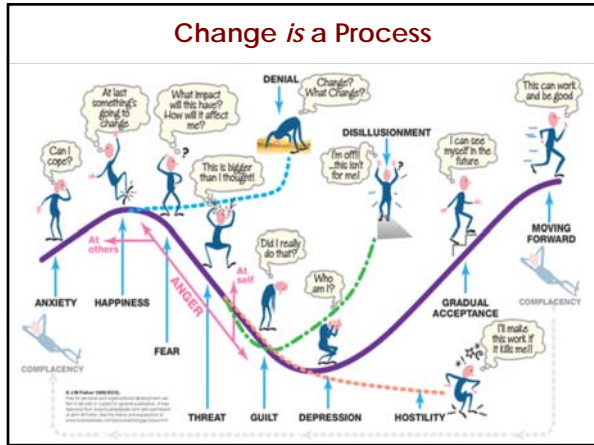
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Using a Private Healthcare Exchange

MARY KYLE  
RETIRED ASST. HUMAN RESOURCES DIRECTOR  
CITY OF PHOENIX

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The City of Phoenix Decision ...

Background

- In 2007, employees and retirees were placed into separate groups for medical coverage and premium calculations
- Retirees pay full cost of health care premiums
- Some may receive MERP contributions, or, have access to a PEHP account

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The City of Phoenix Decision ...

- City-sponsored health care costs have increased by nearly \$65 million in the past seven years
- Health care is one of the City's top 10 on-going expenses
- An excise tax may impact the City beginning by 2022, this tax could be over \$11 million
- Many large employers are rethinking their role in employee health care
- The private health insurance marketplace is an option

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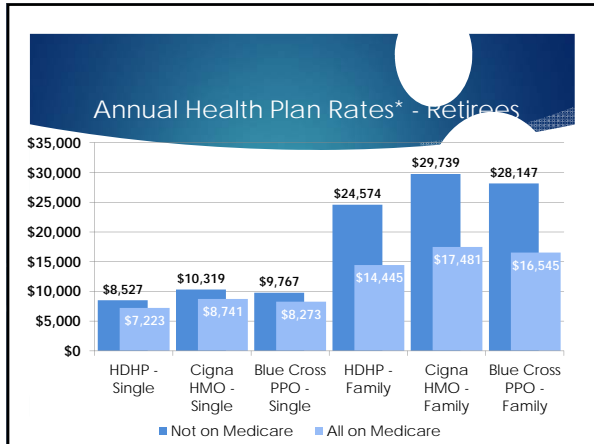
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- 1 Shift Costs**
  - Higher Deductibles
  - Copays
  - Coinsurance
  - Reduced Benefits
- 2 Network Options**
  - Narrow Network Providers
  - Eliminate HMO
- 3 Marketplace Solutions**
  - Lower costs through private marketplace solutions
- 4 Alternative Strategies**
  - Cost Containment / Service Direction
  - Accountable Care Organizations (ACOs)
  - Dependent Eligibility Audit

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### Why a Medicare Exchange?

- ▶ An employer group plan's premiums may not be competitive with the individual Medicare market premiums.
  - ▶ Give retirees more affordable options.
- ▶ Gives retirees more choice.
  - ▶ Each selects the plan that best suits their personal needs.
- ▶ Reduces FASB or GASB liabilities.
- ▶ Helps employers avoid the "Cadillac Tax."




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## Communication

- ▶ Explaining all the aspects of a private healthcare exchange to retirees is complicated and requires careful planning and preparation.
- ▶ Begin communication at least six months in advance
  - ▶ Co-branded mailings
    - ▶ Include a calendar with key dates
  - ▶ Group information meetings
    - ▶ in-person and by phone
    - ▶ Include a "Medicare 101" class
  - ▶ Webinar-formatted meetings
  - ▶ Phone outreach from the Exchange



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## Communication

- ▶ Retirees may be confused, overwhelmed and even angry at first.
- ▶ Explain why this change is occurring and how it benefits everyone.
  - ▶ Current retiree health benefits are not sustainable
  - ▶ The employer is not abandoning its retirees
  - ▶ A private exchange is not "Obamacare"
  - ▶ Encourage retirees to answer or return calls from the Exchange
  - ▶ Enrollment in Medicare Parts A and B is required if Medicare-eligible

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## The Process

- ▶ Involvement of employee bargaining groups
- ▶ Retiree Subcommittee
- ▶ Competitive Bid Process (RFP)
- ▶ Site visit to call center
  - ▶ Lessons learned
- ▶ Customized communication strategy
  - ▶ Included our Retiree Association in communication strategy

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## Overall Results

- ▶ Enrollment by Plan:
  - ▶ MA/MAPD = 340 (average premium \$28.12)
  - ▶ Medigap = 1,377 (average premium \$199.37)
  - ▶ PDP = 1,443 (average premium \$30.56)
  - ▶ Dental = 790 (average premium \$38.72)
  - ▶ Vision = 422 (average premium \$13.99)
- ▶ Unique Plans Selected: 188
- ▶ Total Carriers: 48

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## Lessons Learned

- ▶ Overall, the majority of retirees found better value and understood the process. However, some lessons learned include:
  - ▶ Retirees will be angry due to change
  - ▶ Be prepared for lots of calls and questions
  - ▶ Have a thick skin and don't take it personally
  - ▶ People don't read or pay attention to the communication materials you send them
  - ▶ Spend time with the call center folks to ensure they understand your population and your processes

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## Questions



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