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.

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
HOW HISTORY CAN HELP INFORM A STRATEGY

- Retiree medical benefits are inexpensive
- Pay-as-you-go and a revocable benefit appear in sync
- Tax revenues readily support benefit costs
- Medical costs and accruals push-up against/too high ability
- GASB 45 phased in
- Rating credit by rating agencies provided for funding

Private Exchanges for pay-as-you-go benefits emerge

- Governments begin moving from medical indemnity (P-A-D) to DC structures
- Some forward planning governments create trusts and fund

PAY-AS-YOU-GO

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PRIVATE EXCHANGES

- Governments begin moving from medical indemnity (P-A-D) to DC structures
- Some forward planning governments create trusts and fund

THE EXCHANGE MODEL DRIVES SAVINGS

Year 1 Cash Savings

- Defined Contribution design reduces OPEB by removing many of the risk factors used for traditional group medical plan

RETIREE EXCHANGE MODEL

- Individual coverage purchased through the exchange costs exactly the same as identical coverage purchased directly from the insurer
- Individual plan rates may vary by geography, age, gender and benefits
MANAGING THE EMPLOYER SUBSIDY

Employer allocates benefit dollars to each retiree's HRA account

- Eligibility rules
- Eligible expenses
- Allocation amount
- Allocation frequency
- Account structure
- Year end forfeiture or rollover

Your HRA Account
Administered by OneExchange

- Claims are paid daily
- Premium Auto reimbursement
- Direct deposit option
- Online account tools
- Customer service
- Reporting

- Retirees are reimbursed for premium and eligible health care expenses using HRA benefit dollars

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MANAGING THE PROCESS OF CHANGE

By, Nancy Kenny, City Manager
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Presentation at League of California Cities Annual Conference, October 2016
PRESENTATION OUTLINE

Process of Change Management
• The process of changing for employees and organizations
• Changing benefit structures is very difficult

Confronting Reality
• “The OPEB issue” must be solved
• Keeping the citizenry in focus is key

City of South Lake Tahoe’s Approach
• Our results and outcomes
• Brief summary of Plan Design

Recommendations

CHANGE MANAGEMENT

• One of the highest duties of public sector (and private sector) managers is the responsibility of effective fiscal management of their organizations
• Public agencies do not exist for the benefit of employees, rather for the benefit of the public
• Over a long period of time public sector employers, elected officials and the organizations themselves approved benefit structures that are no longer sustainable
• 20-30 years ago, when the benefit structures were designed, health benefits were not the primary cost of employees
• Medical industry costs have risen exponentially beyond affordability
• Most health benefit structures did not change to keep pace with the rising costs
• These are national concerns, not the fault of employees, managers
• Any change is difficult, but changing from a defined benefit structure to a defined contribution, will be very difficult
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”

The Wild Ride of Change

The Change Curve
Changing medical / health benefits is difficult
Start with confronting the reality of the cost burden
CONFRONTING THE REALITY

OPEB must be reduced

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?

CITY OF SOUTH LAKE TAHOE’S APPROACH
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

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

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
**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

**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”

**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
“Courage is resistance to fear, mastery of fear — not absence of fear.”
— Mark Twain

“Courage is doing what you are afraid to do. There can be no COWARDICE unless you are scared.”
— Eddie Rickenbacker

Change is a Process

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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 PEBP account.

- 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.
Annual Health Plan Rates* - Retirees

Shift Costs
- Higher Deductibles
- Copays
- Coinsurance
- Reduced Benefits

Network Options
- Narrow Network Providers
- Eliminate HMO

Marketplace Solutions
- Lower costs through private marketplace solutions

Alternative Strategies
- Cost Containment / Service Direction
- Accountable Care Organizations (ACOs)
- Dependent Eligibility Audit

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.”
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

- 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

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
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

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

Questions
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