2013 TELERGEE ALLIANCE CONFERENCE

MANAGING POST-RETIREMENT MEDICAL COSTS

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STANLEY BENEFITS

Actuaries. Consultants. Administrators.

TODAY'S DISCUSSION

- Types of Post-retirement Benefits
- Expense vs. Cash
- Measuring Annual Expense
- Long-Term Assumptions
- Plan Eligibility
- Plan Design
- Retiree Cost Sharing
- Funding Plan Liabilities
- Conclusions / Questions

TYPES OF POST-RETIREMENT BENEFITS

Types of retire health and welfare benefits (other than Pension)

- Medical and Dental
- Life Insurance
- Phone Service, Cable
- Legal benefits, etc.

Today's focus is on <u>Medical Benefits</u>

EXPENSE vs. CASH

Accounting Expense and Cash are two distinct measures of plan cost

- Annual expense from ASC 715 accrual accounting
- Annual cash cost is the actual amount spent during the year (claims, premiums, expenses, etc.)

Managing ASC 715 expense may change expense timing, but may not change ultimate plan costs

MEASURING ANNUAL EXPENSE

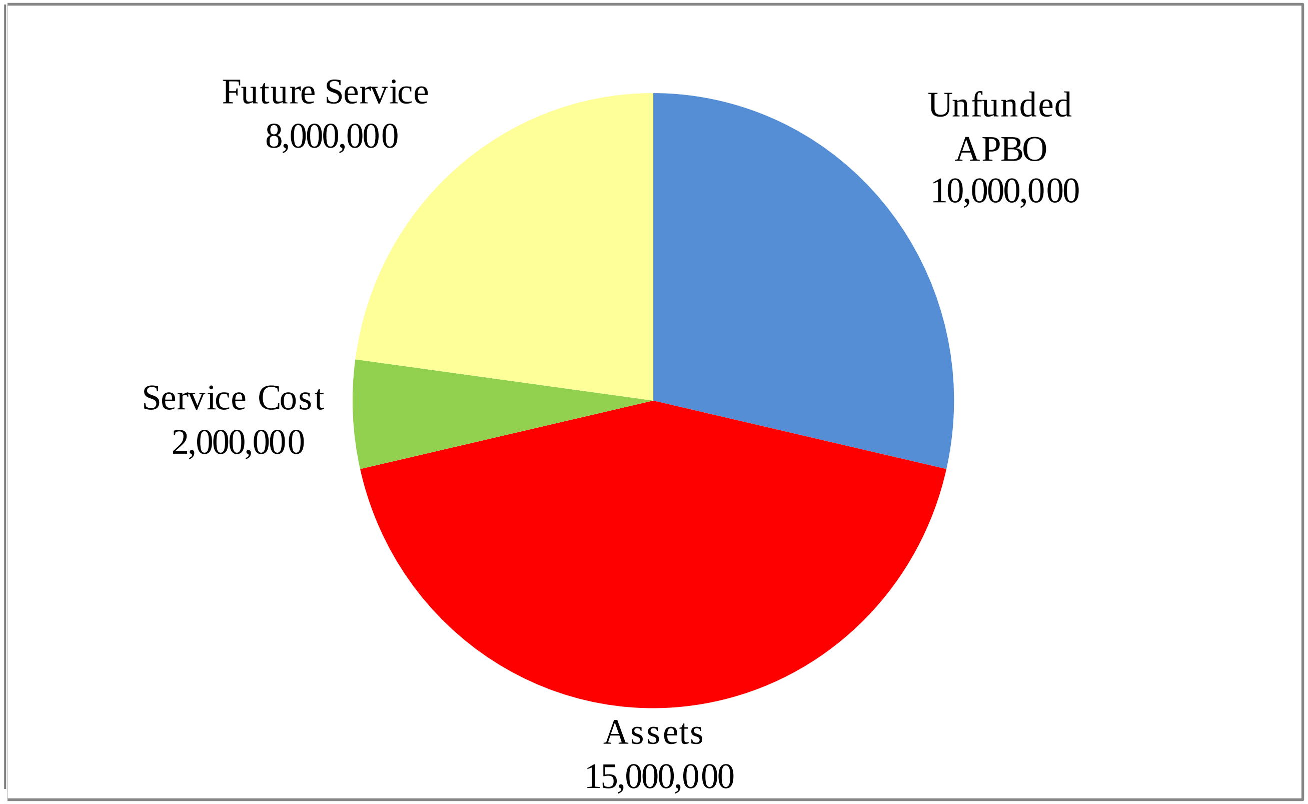
- Service Cost
- Interest Cost
- Return on any Plan Assets (VEBA, 401(h) account)
- Amortization of
  - Transition asset/obligation
  - Change in prior service cost
  - Amortization of gains/losses

MEASURING ANNUAL EXPENSE

1.	**Service Cost**		
	a. Include 5.25% interest to the end of the fiscal year		**1,126,600**
2.	**Interest Cost at 5.25%**		
	a. On APBO at beginning of year	1,387,900	
	b. On Expected benefit payments, weighted for timing	13,100	
	c. Interest Cost = (a) - (b)		**1,374,800**
3.	**Expected Return on Assets at 8.00%**		
	a. On Market-related value at beginning of year	850,200	
	b. On Expected benefit payments, weighted for timing	19,800	
	c. On Expected contribution, weighted for timing	19,800	
	d. Expected return on assets = -[(a) - (b) + (c)]		**(850,200)**
4.	**Amortization Amounts**		
	a. Amortization of Transition Obligation/(Asset)	0	
	b. Amortization of Prior Service Cost	(134,000)	
	c. Amortization of Net (Gain) or Loss	434,300	
	d. Net Amortization and Deferral = (a) + (b) + (c)		**300,300**
5.	**Net Periodic Postretirement Benefit Cost/(Income)**		**1,951,500**

MEASURING LIABILITY

2013 EPBO = 35,000,000



LONG TERM ASSUMPTIONS

Financial

- Discount Rate
- Current Retiree Medical Cost
- Medical Trend Rate
- Expected return on Plan Assets (VEBA/401h)
- Medicare Increases
- Retiree contributions

Demographic

- Employee Turnover
- Mortality
- Expected Retirement Dates
- % Employees Married
- Male/Female %'s

Changing assumptions does <u>not</u> change ultimate plan costs

CHANGING ASSUMPTIONS

- Consider changes in ASC 715 assumptions if you are interested in changing the ***timing*** of accounting expense recognition

- Best practice might be to set assumptions to be as realistic as possible. The result should result in less volatility in the annual accounting expense.

IS IT TIME TO ACT?

- More employers are now funding their post-retirement obligations, just as they do their retirement plan liabilities.
  - Key Employees-IRC 415 issues
- Due to rising Medical costs, many employers are taking steps to limit & control their obligations:
  - Shift some cost to employee/retirees
  - Redesign plan coverage
  - Lengthening eligibility requirements

MEASURING CURRENT MEDICAL COSTS

- If active employees and retirees have the same medical premium, the blended rate may include a hidden cost:
  - Active
  - Retirees, pre-65
  - Retirees, over 65
- Normally pre-65 active employees have higher medical premium rates than post-65 retirees who get Medicare benefits.
- Fully-Insured Plans vs. Self-Funded Plans

GROUP- BASED SOURCING

- Modified approaches, such as
  - Splitting active and retiree plans
  - Contracting with group-based Part D plans
  - Group-based Medicare Advantage plans

- Rapidly evolving toward individual market-based sourcing

INDIVIDUAL SOURCING

Market-Based

- Robust market now for Medicare-Eligible
- 2014 Reform should create pre-65 market
- Health Care Exchanges will assume some responsibilities currently held by employers
    - Plan design
    - Insurance carrier selection
    - Plan administration

CONTROLLING COSTS

- Plan Design
  - Limit spouse coverage
  - Offer Medicare Supplemental Plan
  - Change deductible(s)
- Plan Eligibility
  - Rule of 85
  - Minimum Age and/or Service
- Funding Plan - Investment Returns
- Cost Sharing with Retiree

PLAN DESIGN

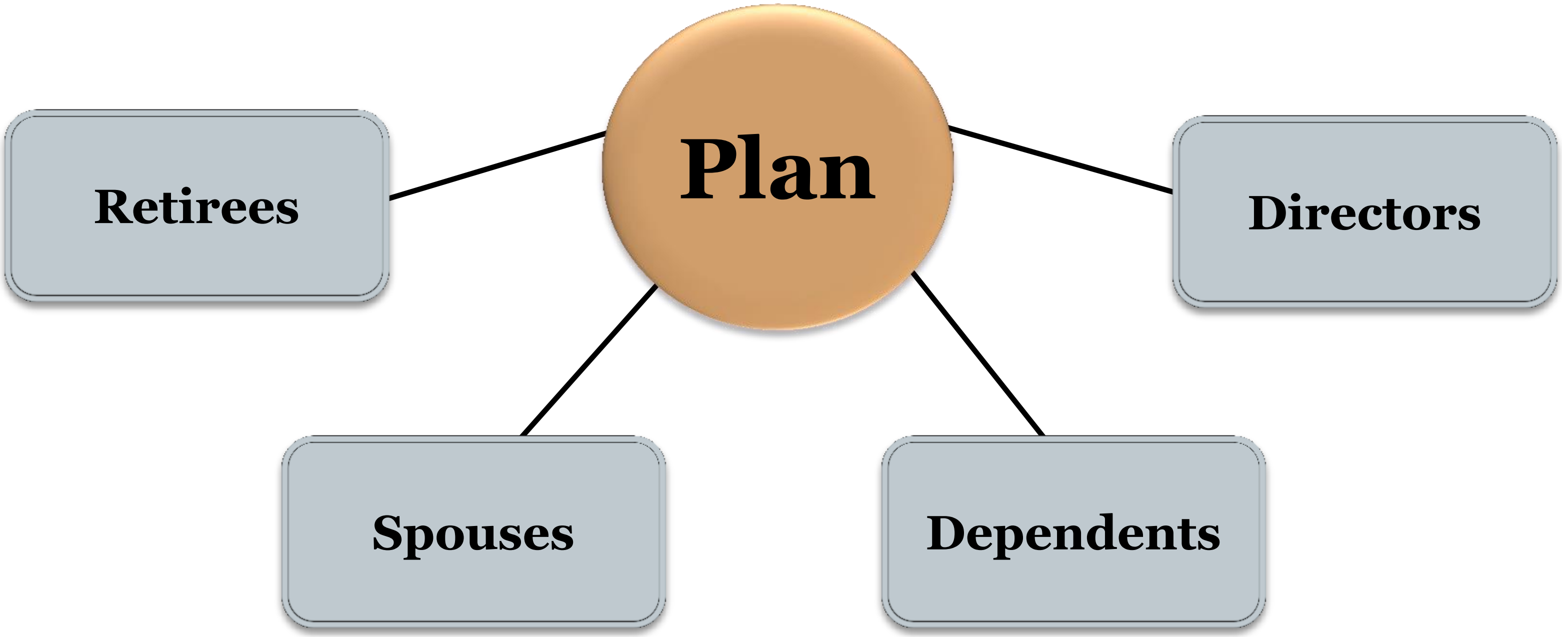
- Consumer Driven Health Plans (CDHP)
  - High deductible HMO/PPO plan with an HSA
  - Lower premiums than traditional plans
  - Higher deductibles and out of pocket limits
  - Wellness and preventive visits paid 100%
  - Plan focuses on catastrophic protection
  - Consumer pays more ordinary costs
  - Consumer wins when health spending is low

PLAN DESIGN

- Many variations
- Annual fixed dollar subsidy at retirement:
  - Flat Dollar - ER pays $500 per month, EE pays excess
  - Variable Dollar - EE credit of $20 per month per YOS
  - Using Health Reimbursement Account (HRA)
- Annual contribution for actives:
  - ER Contribution to Health Savings Account (HSA)
  - ER Contribution to VEBA accounts

ELIGIBILITY

Who should be eligible?



COST SHARING WITH RETIREE

Defined Benefit

Employer pays % of Cost

- Age 55 w 10 YOS = 25%
- Age 60 w 20 YOS = 50%
- Age 62 w 25 YOS = 75%
- Age 65 w 30 YOS =100%

Defined Contribution

Employer pays $ Credit

- Less than 10 YOS= N/E
- 10 YOS x $20 = $200
- 20 YOS x $20 = $400
- 30 YOS x $20 = $600

Retiree pays cost in excess of dollar Credit

CONCLUSIONS / SUMMARY

Health Care Reform

- Creates opportunities:
  - to reduce plan costs
  - to reduce risk
  - to reduce administrative burdens

- Shifts to individual market-based solutions
  - creates some separation from employer

An <u>unprecedented</u> time to make health care decisions

QUESTIONS?

- Trust
- Performance
- Dependability
- Service
- Value
- Flexibility

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