Overview of Retiree Health Benefits & Funding

5/23/2022

NATIONAL PERSPECTIVE

- Retiree health benefits for public employees, often referred to in the broader class of Other Post-Employment Benefits (OPEB), vary among states and in Kentucky.

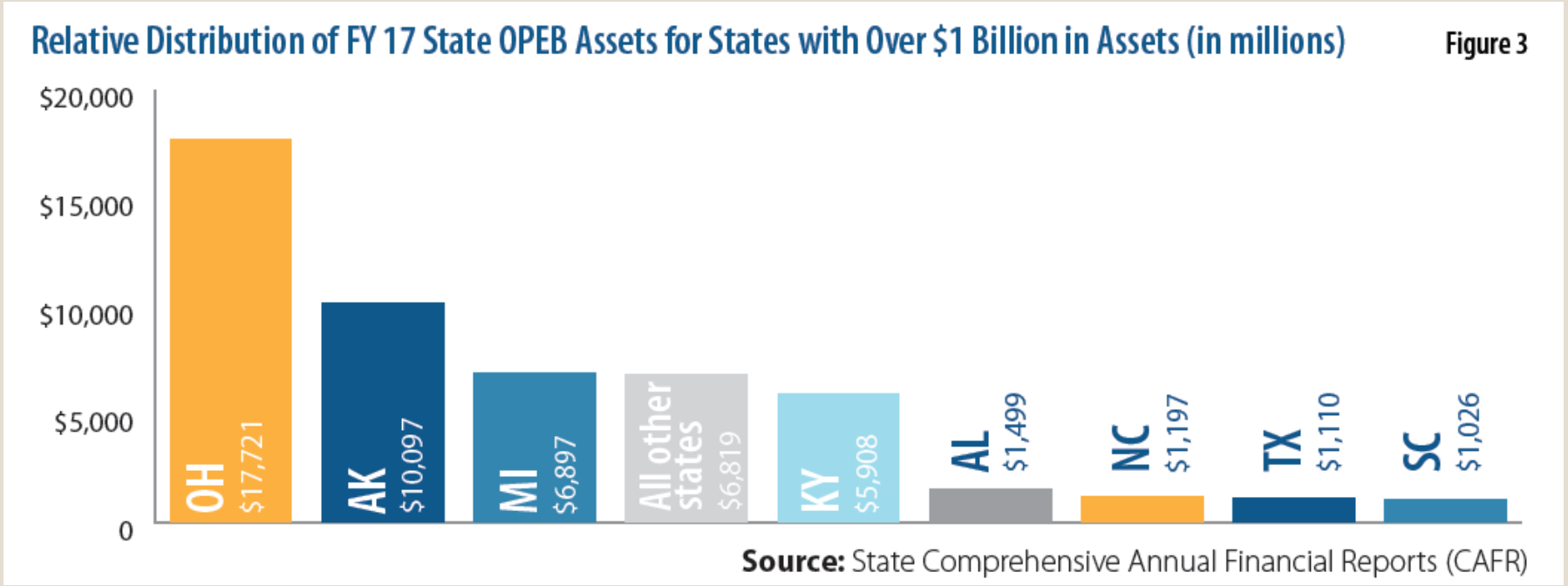
Item	Financing	Benefits	Protections	Adm./Funding
Most States	"Pay as you go"	Most states provide a retiree health benefit under 3 common broad plan designs: • % of Premium • Fixed $ subsidy • Implied subsidy (in same health plan w/employees)	Few legal protections	Separate from retirement systems
KY	Prefunded *(Some systems more recently)*	• All of the above, varies by system/tier	Varied legal protections	Part of retirement systems

- Per NCSL, nationwide on about 7% of retiree health liabilities are funded and wide variation among the states (2020 NCSL Legisbrief).
- Like pensions, we have numbers for funding, reporting (GASB), and bond rating, etc.

Tabled adapted from National Association of State Adm. Retirement Systems via https://www.nasra.org/opeb

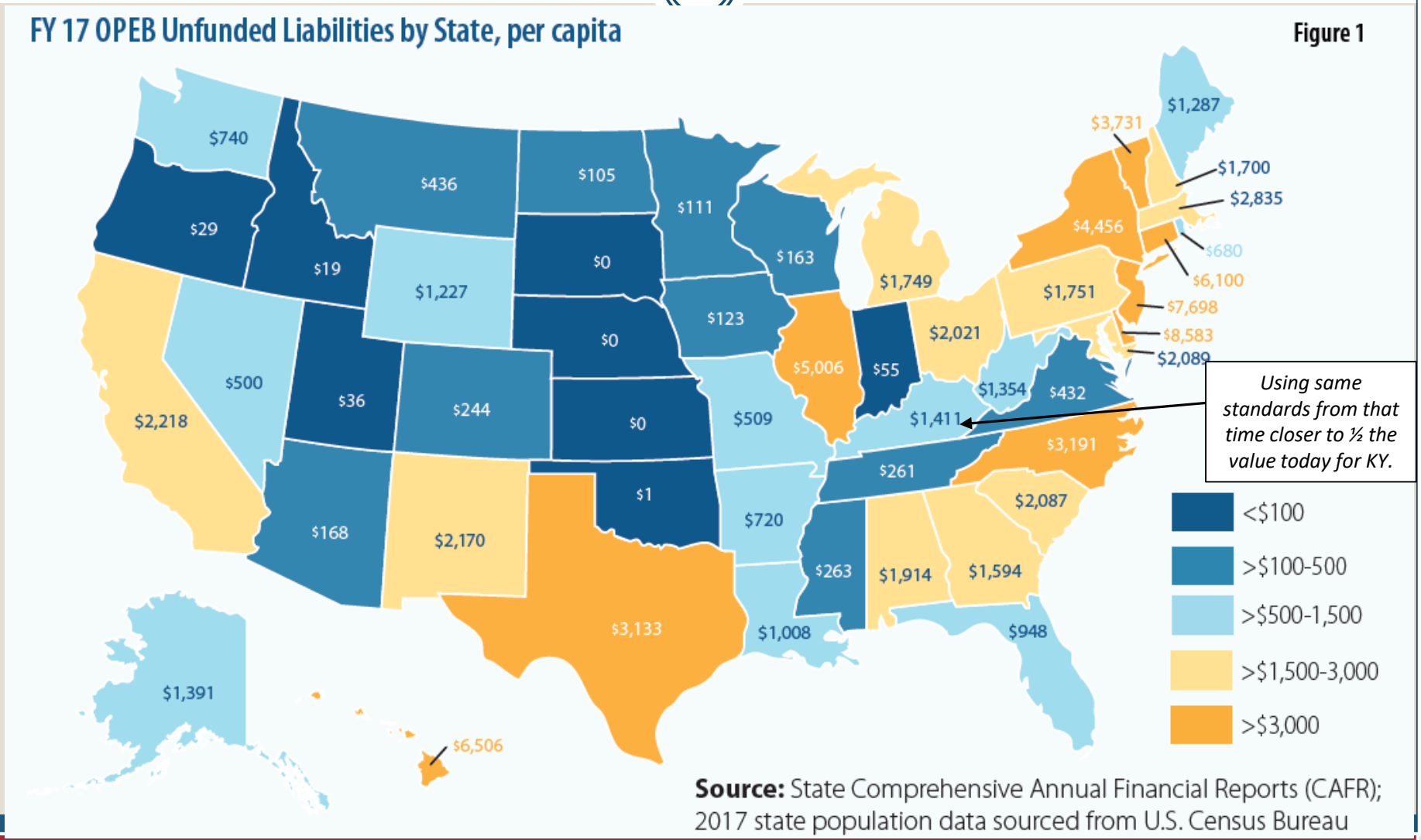
NATIONAL PERSPECTIVE

- Center for State & Local Govt. Excellence
  - OPEB assets by state
  - KY reported as $5.9 billion in FY 17, FY 21 $9.5 billion



Source: Center for State and Local Government Excellence, Other Post-employment Benefits by State https://www.slge.org/assets/uploads/2019/07/opebs2019.pdf

NATIONAL PERSPECTIVE



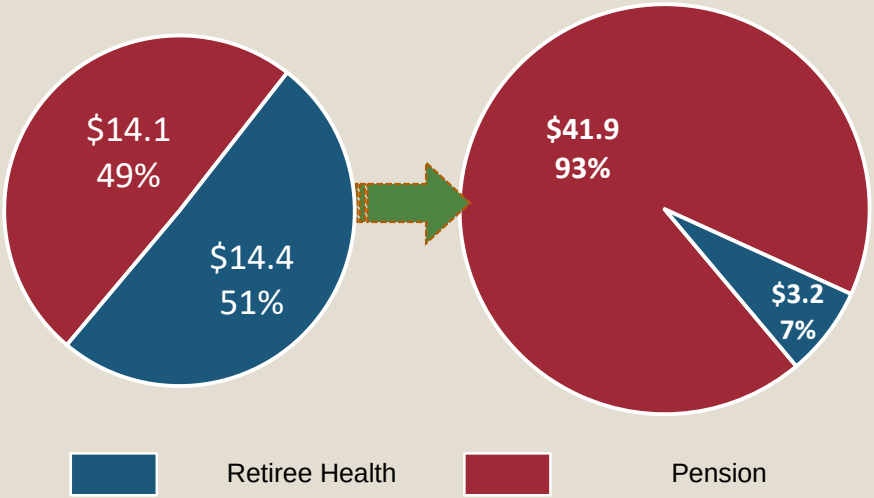
Source: Center for State and Local Government Excellence, Other Post-employment Benefits by State https://www.slge.org/assets/uploads/2019/07/opebs2019.pdf

ALL SYSTEMS HEALTH FUNDS→ *Background*

Unfunded Liabilities

2007 vs. 2021 ($ in billions)

2007: $28.5 Billion | **2021: $45.2 Billion**



2019 to 2020: Retiree Health UL reduced by $1.3 B

2020 to 2021: Retiree Health UL reduced by $0.3 B

Retiree Health Funds

Factors for Improvement

- Reform Packages
  - KPPA: Changes in 2003, 2004, 2008
  - TRS: Changes in 2008, 2010 ("shared solution")
  - JFRS: Changes in 2013
- Movement to Full Funding
  - Most states on "pay as you go" method for OPEB
  - All Kentucky OPEB plans now actuarially prefunded model
  - KPPA/JFRS have ADC; TRS has statutory rates from "shared solution"
  - Prior GASB Standards
- Positive Actuarial Experience
  - Positive medical inflation

ALL SYSTEMS HEALTH FUNDS→ *Actuarial Data*

Ret. Health Fund	2007 Valuation	2021 Valuation		2025 Valuation (Projected)	Projected Full Funding*
System	Funding Level	**Funding Level**	**UL ($ in billion)**	Funding Level	Valuation Year
KERS NH	12%	**50%**	**$1.283 B**	62%	2049
KERS H	50%	**136%**	**($0.151 B)**	152%	NOW
SPRS	27%	**82%**	**$0.049 B**	95%	2049
CERS NH	29%	**85%**	**$0.503 B**	96%	2049
CERS H	31%	**84%**	**$0.276 B**	96%	2049
TRS	2%	**60%**	**$1.384 B**	94%	2026
JRP	97%	**273%**	**($0.068 B)**	376%	NOW
LRP	108%	**363%**	**($0.041 B)**	547%	NOW

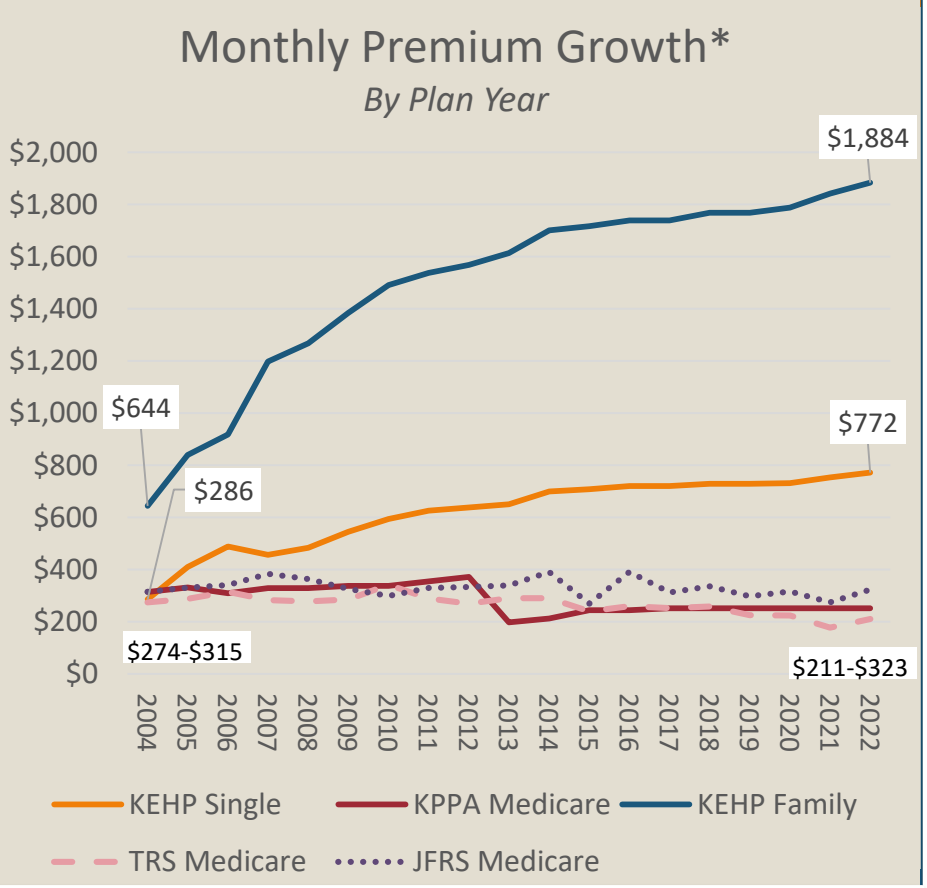
*Data provided in annual valuations from systems. *Each system has varied statutory funding policies that have changed over time.*

BENEFITS→ *Coverage & Premium Costs*

Coverage/Subsidy

- Coverage:
  - Non-Medicare Eligible: Provided via the Ky. Employees Health Plan (KEHP)---the same plan provided to state/school employees (adm. by Personnel Cabinet).
  - Medicare eligible: Provided through a plan offered by systems (coordinates with Medicare for delivery of health benefits).
    - Must pick up Medicare Part A & B
- Level of Subsidy:
  - Determine how much of the premium is paid on behalf of retiree & in some cases dependents.
  - All systems have undergone changes in last 15 years.
  - KPPA: Statutorily determined, varies based upon participation date in the system, and type of service (nonhazardous or hazardous duty).
  - TRS: TRS board determines based upon "availability of funding" per statute.
  - JFRS: Statutorily determined, varies based upon participation date in the system.

Premium Growth Over Time



**For non-Medicare eligible retirees, the KEHP plans have changed over time & vary. The premiums represent a Living Well PPO in 2022 and similar plans in the past.*

BENEFITS→ *KPPA/JFRS Subsidies*

KPPA/JFRS Statutory Subsidy

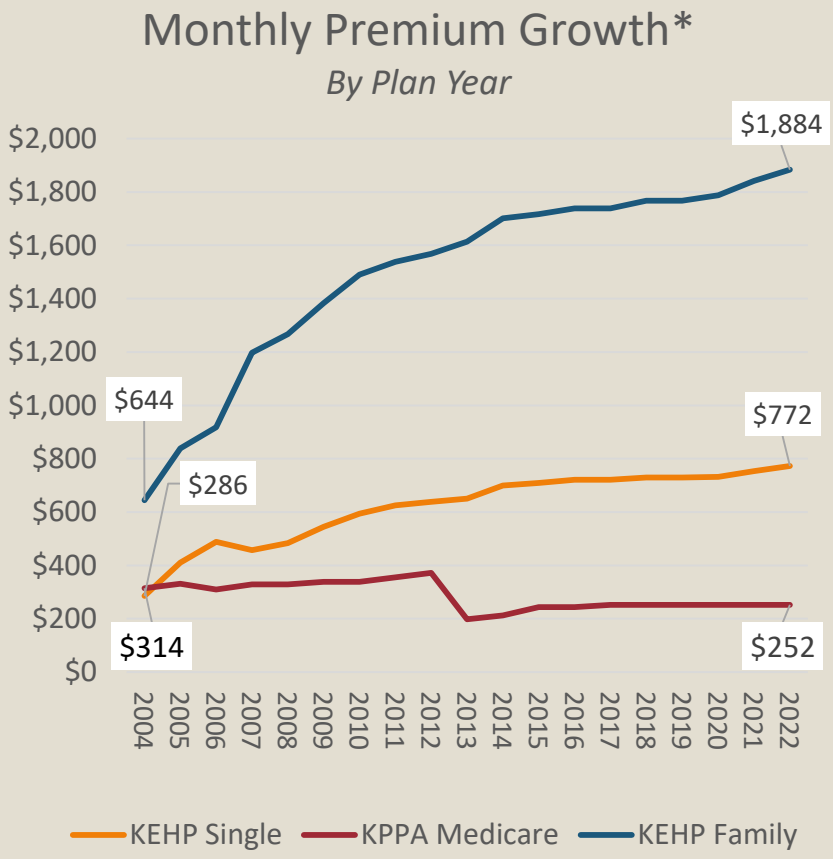
Based upon participation date

KPPA (KERS, CERS, SPRS)

- Prior to July 1, 2003---% of premium.
  - NH sliding scale with a full single premium paid at 20 years service.
  - H sliding scale with a full single, parent plus, couple, or family premium paid at 20 years hazardous service.
- On or after July 1, 2003---set dollar value that is adjusted by 1.5% annually, must meet minimum service requirement.
  - NH: $10 per month for each year of service
    - Currently $13.99 per month.
  - H: $15 per month for each year of hazardous service, $10 per month for surviving spouse.
    - Currently $20.99 per month
  - Examples:
    - H-20 year: $419.80/month subsidy ($20.99 X 20)
    - H-25 years: $524.75/month subsidy ($20.99 X 25)
    - NH- 30 years: $419.17/month subsidy (13.99 X 30 years)
  - SB 209---for KPPA health funds 90% funded, adds an $5 per month for each year of service towards the non-Medicare eligible plans for each year of service beyond career threshold.

JFRS: Similar to H prior to 1/1/2014 but based upon judicial/legislative service; After 1/1/2014 same provisions as KPPA nonhazardous.

Premium Growth Over Time



**For non-Medicare eligible retirees, the KEHP plans have changed over time & vary. The premiums represent a Living Well PPO in 2022 and similar plans in the past.*

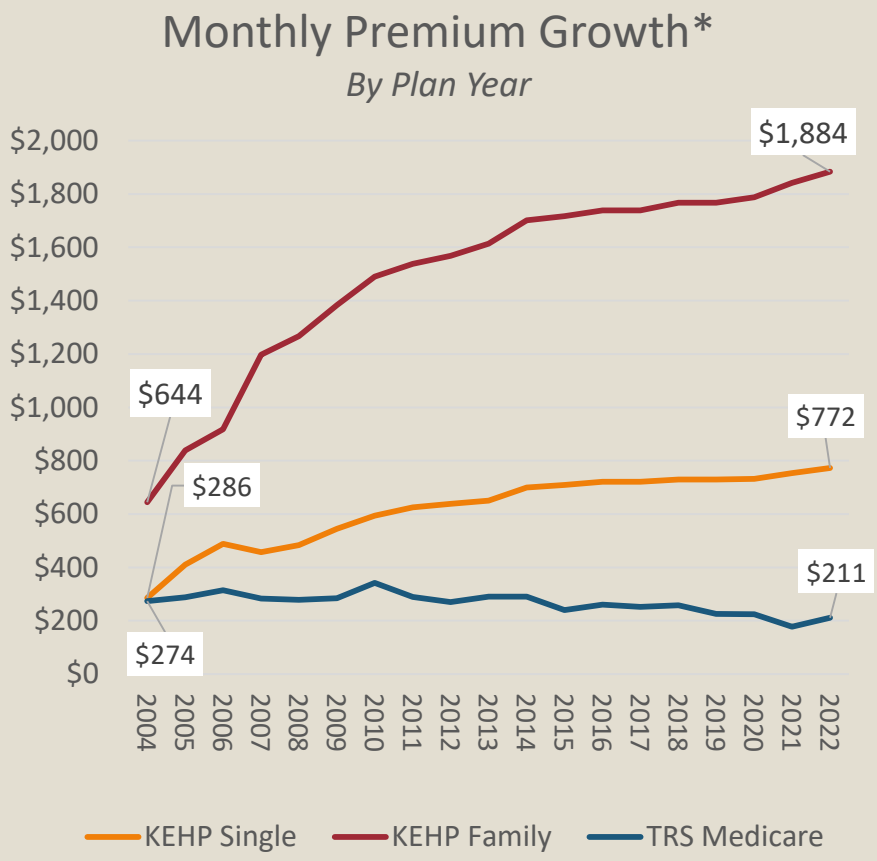
BENEFITS→ *TRS Subsidies*

TRS Board Est. Subsidies

Based upon participation date

- Subsidies est. by TRS board based upon "available funding". Must meet minimum service requirement.
- Sliding scale w/full subsidy paid at:
  - 20 years service if part. date prior to 07/1/02.
  - 27 years service if part. date on or after 07/1/02.
- Full subsidy:
  - Non-Medicare eligible retirees:
    - Subsidy cannot exceed single premium per statute.
    - Member pays:
      - Same amount as state employees on single plan+
      - Equivalent of Medicare Part B premium
        - $170.10 in 2022, part of shared solution
    - Example: Living Well PPO single premium of $772 per month. Member eligible for full subsidy pays $259.24, leaving subsidy payment by TRS of $512.76 per month.
  - Medicare eligible: Full premium paid for retiree.
    - 2022: $211 per month.

Premium Growth Over Time



**For non-Medicare eligible retirees, the KEHP plans have changed over time & vary. The premiums represent a Living Well PPO in 2022 and similar plans in the past.*

FUNDING OF SUBSIDIES

KPPA/JFRS FUNDING

- Actuarially determined contribution (ADC) based upon valuation.
- Employee contributions:
  - 1% of pay
    - KPPA: Part. date of 9/1/08 or after
    - JFRS: Part date of 1/1/2014 or after
- Employer Contributions for retiree health (FY 23 from 2021 valuation):
  - KERS NH
    - Normal Cost 9.97% of pay (7.82% pension, 2.35% retiree health
    - UL Payment: $994 M ($906 M pension, $88 M retiree health)
  - CERS NH: 26.79% of pay (23.40% pension 3.39% retiree health)
  - CERS H:49.59% of pay (42.81% to pension and 6.78% to retiree health).
  - SPRS: 99.43% of pay (85.32% to pension, 14.11% of pay to retiree health)*
  - KERS H/JRP/LRP: No contributions to retiree health (due to high funding level)
- Employer costs projected to go down in short to mid-term for KERS NH, CERS, and SPRS

TRS FUNDING

- Fixed statutory contributions
- 2010 RS HB 540/531 (the "shared solution" measures)
  - Employee contribution: 3.75% of pay (phased-in additional 2-3% of pay).
  - Employer contribution: 3% by Local school districts into the retiree health funds (phased-in).
  - Pre-Medicare retirees: Required under 65 retirees to contribute the equivalent of the Medicare Part B premium towards retiree;
  - State Contributions/costs:
    - Required additional funding from the state in the form of additional contributions (pay for all new non-Medicare eligible retirees who retire on or after July 1, 2010). This amount subject to reduction based upon needs of Commonwealth.
    - Bonded monies "borrowed" from the pension fund to fund retiree health benefits in the past (roughly $465 million) and to provide transitional retiree health funding (another $423 million in bonds).
    - State also continued to provide 0.75% of pay contribution.
- 2021 Valuation:
  - 4.64% of pay needed to fund benefit (1.92% NC, 2.72% UL payment).
  - Statutory rates in excess of ADC, means fund is projected to achieve full funded status quickly.

**SPRS rate is budgeted rate since GA made additional payment towards UL.*

KEY ASSUMPTIONS

	Investment Return	Payroll Growth	Medical Inflation
KPPA	• 6.25%	• KERS/SPRS: 0% • CERS: 2%	• 6.30% trending to 4.05%
TRS	• 7.1%	• 2.75%	• Non-Medicare: 7% trending to 4.5% • Medicare: 5.125% trending to 4.5%
JFRS	• 6.5%	• Level dollar amortization (0%)*	• 6.25% trending to 4.04%

*Based upon change enacted in 2022 SB 32 and effective with 2023 valuation.

KEY QUESTIONS/CONSIDERATIONS

- What happens when and if additional retiree health funds reach 100+% funded?
  - KPPA adjusts employer ADC until 0% of pay like KERS H but what happens if there is a surplus or growing surplus?
  - TRS: Fixed statutory rates continue, who gets a break first and how much? How is volatility accounted if reductions occur?
    - TRS is required to recommend adjustments to employee/school district rates. TRS can by board action modify costs paid by retirees (i.e. costs paid by non-Medicare eligible retirees as part of shared solution).
  - JFRS: Already well above 100% funded and continuing to grow.
- Will we see increased assumption volatility in near future?
  - FY 22 investment returns are likely to be below assumption
  - Does medical inflation increase in near term
- How do the Medicare eligible plans differ among the systems and what can they learn from each other?