

State Health Benefit Plan Other Post Employment Benefits (OPEB)

Presentation to
Board of Community Health
October 30, 2008



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Topics of Discussion

- June 30, 2008 OPEB Trust Fund Balance
 - Long Term Investment Fund Balance
- SHBP Strategies with Impact on OPEB
- June 30, 2007 Valuation
- Impact of Future Strategies on OPEB



OPEB Trust Fund

Trust Fund Functions since FY 2007:

- Used to deposit employer revenues earmarked for retirees as well as retiree premiums and pay expenses for current retirees (assets=liabilities)
- Used to deposit contributions earmarked for Future OPEB liability for state employees (goes to Long-Term Investment)
 - FY 2007 year-end fund balance attributable to all retirees also deposited into Long Term Investment



FY 2008 Statement Of Retiree Revenue And Expense

REVENUE

Retiree Type:	Retiree Premiums	Earmarked for Retirees from Department of Education	From Active Employer Revenue for:		Subtotal Employer Share	Total
			Pay As You Go	Long-Term Investment		
State Employee	43,299,189.94		148,789,539.79	146,297,862.52	295,087,402.31	338,386,592.25
Teacher	61,134,024.26	9,700,000.00	196,186,885.96	28,913,027.41	234,799,913.37	295,933,937.63
School Service	20,618,273.21	500,000.00	69,131,685.81	9,622,771.48	79,254,457.29	99,872,730.50
Contract	13,139.39			88,855.38	88,855.38	101,994.77
TOTAL REVENUE	125,064,626.80	10,200,000.00	414,108,111.56	184,922,516.79	609,230,628.35	734,295,255.15

EXPENSE

Retiree Type:	(a) Claims Payments	HMO Capitation	Other Premium Expense	Administration	Total
State Employee	173,847,123.95	7,329,045.16	133,807.00	10,778,765.96	192,088,742.07
Teacher	244,227,811.64	7,364,126.26	126,298.00	15,302,674.32	267,020,910.22
School Service	78,470,526.53	5,677,970.94	45,401.00	6,056,060.55	90,249,959.02
Contract	6,764.15	782.26		3,086.19	10,632.60
TOTAL EXPENSE	496,552,226.27	20,371,924.62	305,506.00	32,140,587.02	549,370,243.91

Surplus/(Deficit)

184,925,011.24

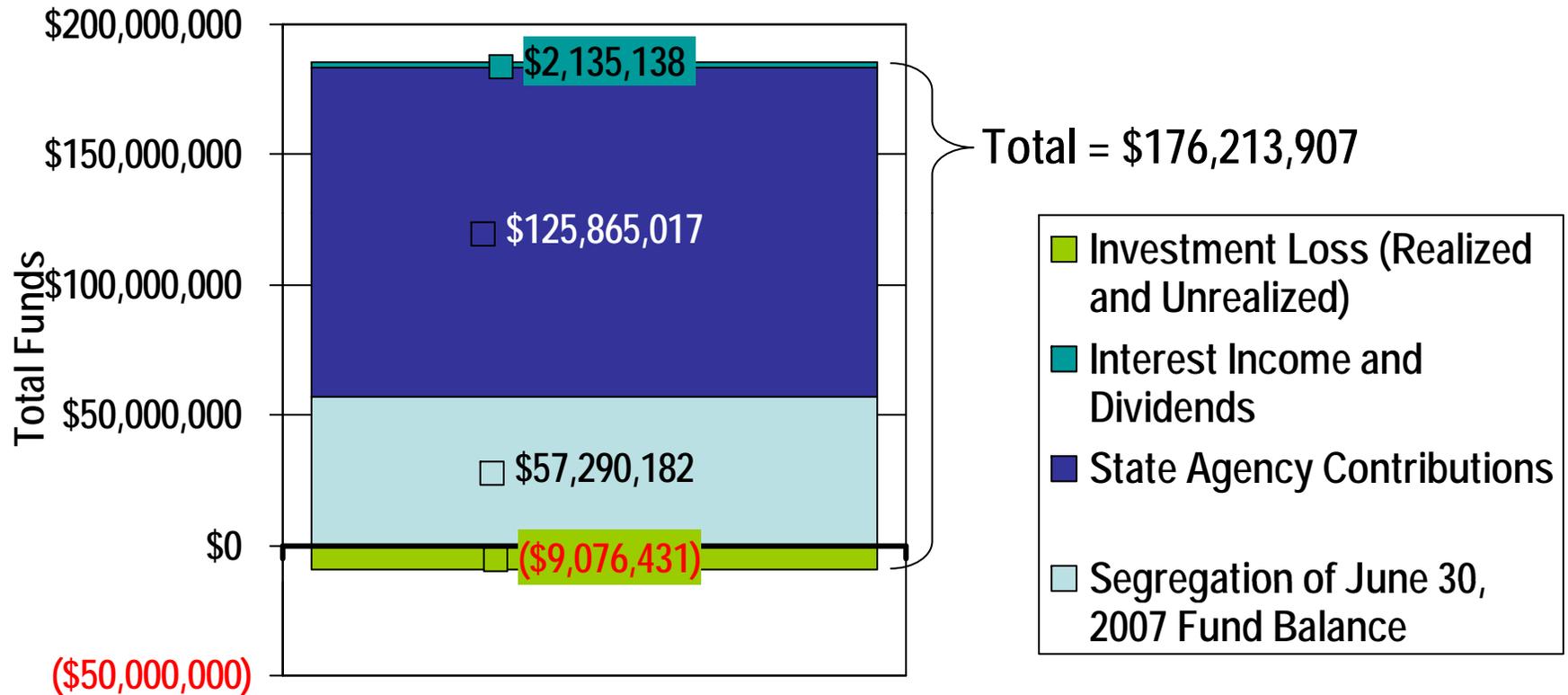
(a) Includes IBNR adjustment

Note: Schedule is unaudited and does not reflect net investment loss of \$6,941,292.89



June 30, 2008

OPEB Long Term Investment Fund Balance



Components of Fund Balance

Does not include \$1,764,641.24 in June contributions and \$2,676.08 in related interest not transferred until 7/10/08.

SHBP Implemented Strategies with Impact on OPEB Valuation

CY 2008

- Consumer Directed Healthcare Plan option available statewide (4.3% enrollment)
- No new enrollment in the Indemnity Plan
- Reduction in HMO Options from 4 to 3 plans
- 10% increase in employee premiums

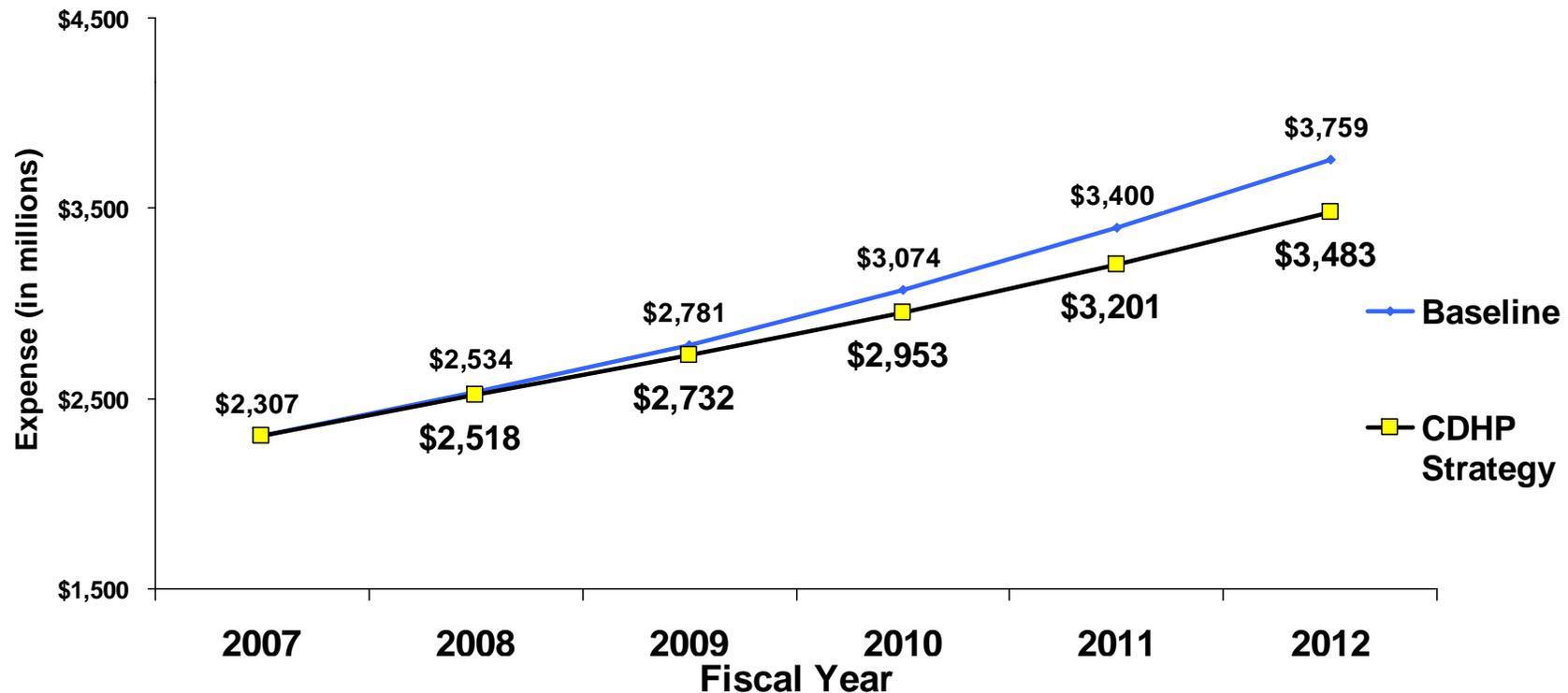
CY 2009

- Major procurement moving to two statewide health plan vendors, each offering 5 plan designs, including a Medicare Advantage plan.
- Strategic premium pricing utilized to provide incentives to enroll in CDH plans



SHBP Multi-Year Strategy

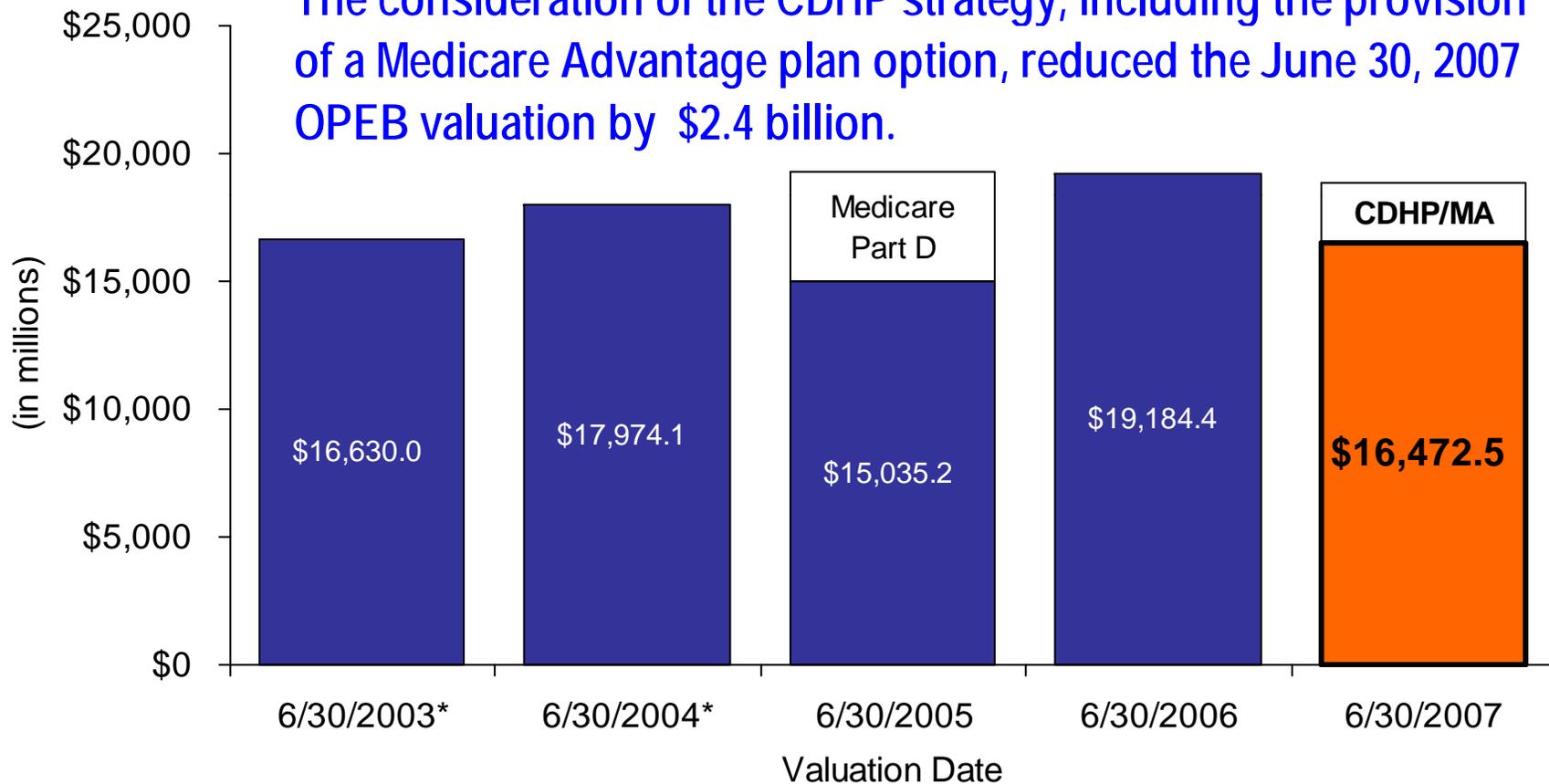
The CY 2008 implementation of the CDHP strategy (including offering a Medicare Advantage plan) is expected to reduce annual expenditures by over \$661 million between FY 2008 and FY 2012.



SOURCE: Aon Projections, Oct 2008

OPEB Valuations

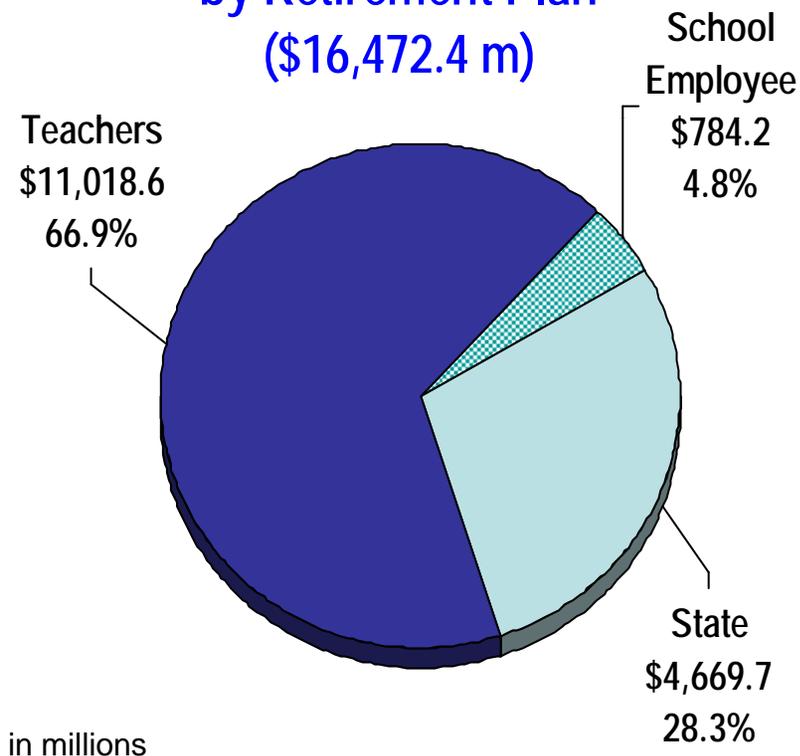
The consideration of the CDHP strategy, including the provision of a Medicare Advantage plan option, reduced the June 30, 2007 OPEB valuation by \$2.4 billion.



* Estimates used for planning purposes only

2007 GASB 43 Valuation – SHBP

TOTAL Accrued Liability by Retirement Plan (\$16,472.4 m)



Annual Contribution Requirements

(in millions)

Employee Type/ Retirement Plan	Annual Required Contribution	Equivalent Percent of Payroll
State/ERS	\$347.8	12.7%
Subtotal	\$347.8	12.7%
Teacher/TRS	\$992.7	10.5%
School Employee/ PSERS	\$87.3	9.5%
Subtotal	\$1,080.0	10.3%
Total	\$1,427.8	10.9%



SHBP Future Strategies with Impact on OPEB Valuation

CY 2009

- Enrollment options for new SHBP entrants after January 1, 2009 will be limited to CDHP options during the first plan year after enrollment.
 - At the next open enrollment period, a new entrant will then have all plan designs available for selection in the event they want to change.
- Beginning July 1, 2009, retirees age 65 and older who do not participate in Medicare Part B will pay higher premiums to offset the loss of Medicare cost avoidance.
 - The SHBP will pay any late entrant penalties for members who are greater than 65 years of age and not already in Medicare Part B.
 - Retirees age 65 and older can sign up for Medicare Part B between January and March 2009.



SHBP Future Strategies with Impact on OPEB Valuation

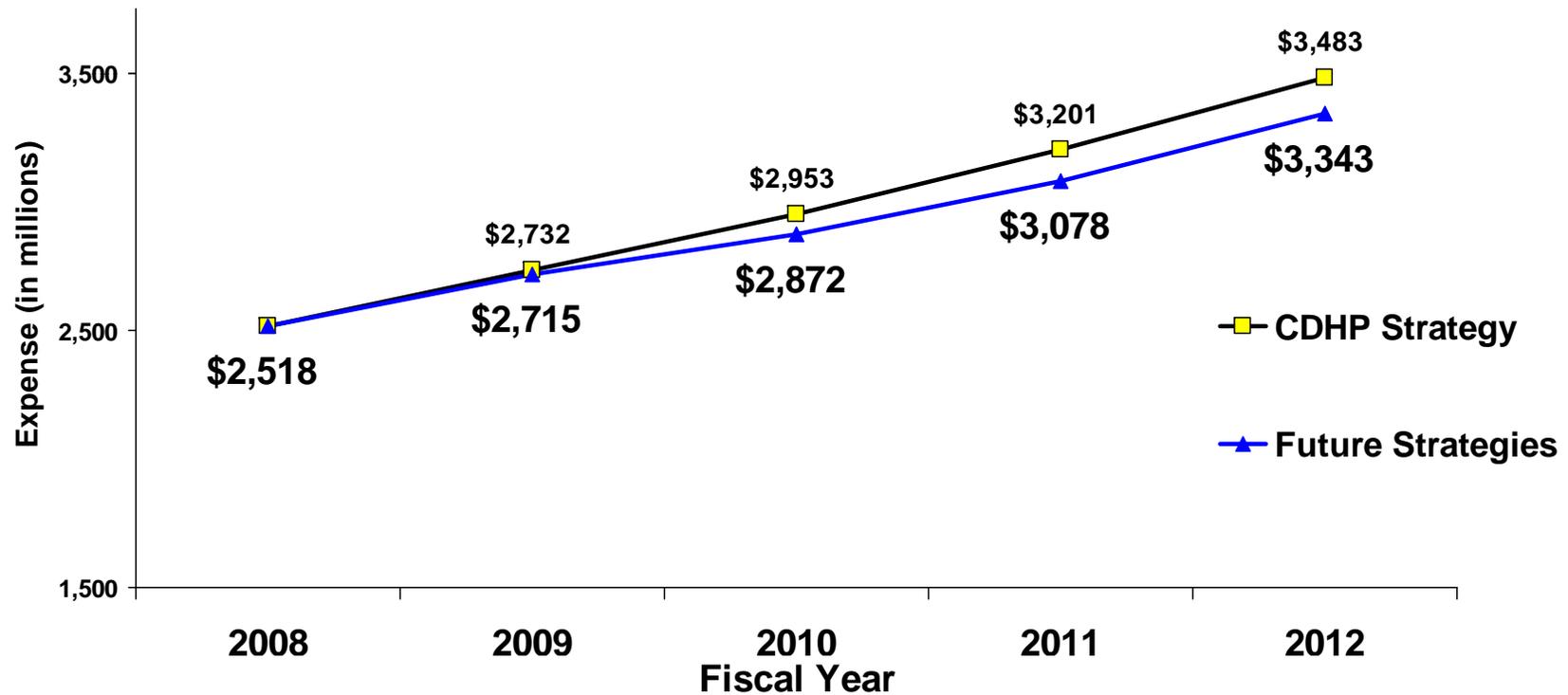
CY 2010

- Retirees age 65 and older will be required to enroll in a Medicare Advantage plan to continue to receive the state subsidy toward the cost of SHBP premiums.
 - Retirees age 65 and older not participating in a Medicare Advantage plan can continue to participate in the other SHBP plan options, but will not receive a state subsidy.
 - The member must be in at least Part B to qualify for Medicare Advantage Plan participation.



SHBP Future Strategy Impact

The implementation of the additional strategies is expected to further reduce annual expenditures by over \$360 million between FY 2009 and FY 2012.



SOURCE: Aon Projections, Oct 2008

SHBP Future Strategies

Impact of EACH Future Strategy on OPEB				
		Future Strategy		
(in millions)	June 30, 2007 Baseline	New Entrants in CDHP	Part B Pricing	Mandatory MAP
Unfunded Accrued Liability	\$16,472.4	\$16,267.4	\$16,405.5	\$15,753.9
Change in UAL vs. Baseline		(\$205.0)	(\$66.9)	(\$718.6)

Source: Cavanaugh Macdonald Consulting, LLC

Combinations of strategies do not necessarily result in an additive impact.



Next Steps - Timeline

- Notice of new policy for new hires/new SHBP entrants to payroll locations for January 1, 2009 implementation date (November 2008)
- Education campaign for retirees age 65 and older to enroll in Medicare Part B between January and March 2009 (between now and March 2009)
- Board resolution for July 1, 2009 retiree rates to consider Part B coverage (April 2009)
- Board resolution for January 1, 2010 retiree rates to consider Medicare Advantage Plan participation (August 2009)

