Marianne

I'm Marianne Steger at Via Benefits by WTW formerly called Willis Towers Watson. And welcome to this edition of Eye on 65, a podcast for people who want to explore ways to reduce retiree healthcare costs. I'm really excited about our episode today. We're gonna talk about OPEB that's O P E B liability and how you can reduce it. Now I'm not an actuary, but with me today is our chief actuary, Trevis Parson, Trevis, welcome to the podcast. And tell us a little bit about yourself.

Trevis

Thank you, Marianne. It's nice to be with you today. I've been with WTW for almost 22 years. I'm a fellow of the society of actuaries. I've served as chief actuary of both our individual marketplace and our health and benefits business. Much of my career here at WTW has focused on retiree healthcare, and I'm really excited about the current opportunities to help employers provide more choice in value to their retirees.

Marianne

Great, thanks again for being here, Trevis. So in the public sector, we see a lot of pressure on public employers or public pensions to reduce their OPEB liability. Travis, can you, first of all, tell us what do those letters mean? And can you describe what it is and why it is such a concern for public employers?

Trevis

Thanks Marianne OPEB liability, or OPEB, stands for other post-employment benefits. And the liability is the value that we place on the employer's future promise to provide financial support toward the retiree’s healthcare benefit. This liability, which actuaries like myself and others are in charge of estimating, is often a very big number and plan sponsors need to manage it effectively.

Marianne

And as I understand Travis, they also need to report it on their books now don't they?

Trevis

That's correct.

Marianne

Yeah. So let me just break this down into layperson's language. So another way of putting this is that future total healthcare costs of current retirees, as well as the healthcare costs for current workers when they retire, is what goes into calculating the OPEB liability. Did I get that right, Trevis?

Trevis

That that's exactly right. So we look at the value of that benefit today, both for the plan sponsor, the employer, as well as the participant, the retiree. And we make all kinds of assumptions to project the cost of that benefit into the future. Those assumptions include things like healthcare cost, trend, mortality assumptions, expectations around the level of the use of the benefit, all kinds of different things that go into determining what we think that OPEB liability is.

Marianne

Yeah, that's right. You know, and, and what I see what's happening around the country is there's this drive to lower the assumed rates of return, which right now I can understand why with what's happening in the stock market. Um, but you know, for years they were at 8% and now we're seeing a lot of funds adopting 7%, even some low, uh, lower than that. And, um, so, you know, I think these assumed lower assumed rates of return on investments is also having a big impact on driving up OPEB liabilities. iIs my thinking correct there as well?

Trevis

Well, there's all kinds of economic pressure today. You're absolutely right about that. And the reduced investment income that employers receive from the assets they have supporting these benefits just means there's less cash there to support the delivery of those benefits to retirees. And on the other side of the equation, the economic inflation that we are seeing today puts a lot of pressure on retirees, particularly because most of them have fixed income and now have less money to spend on healthcare because they're forced to spend on other things like groceries or gasoline. It's really a difficult time for retirees.

Marianne

You know, you, you mentioned a lot of challenges that we're seeing retirees have and you know, as you know, I'm on this mission to preserve retiree healthcare, because I don't think retirement is very secure if you don't also have the expense of healthcare covered.

Trevis

Well, I'm with you there. Healthcare and retirement is very expensive. In fact, a recent estimate that I saw put a price tag of over $300,000 on it for a couple over age 65. That's not to include any costs associated with those healthcare expenses one would incur before they turn 65 where Medicare isn't present. And so retirees rely really very heavily on the retiree healthcare benefits from their former employer when they have them and are rightfully concerned about what the future holds. These are not stable economic times.

Marianne

So, so Trevis, like you, I'm a big fan of the individual Medicare marketplace, also called exchanges, and a big part of the reason why I am a fan is that this model really does reduce the OPEB liability and annual spend of a fund, uh, or a plan sponsor. Can you talk about what happens with a move, uh, financially to the individual Medicare marketplace for our listeners?

Trevis

Absolutely. So many of the clients with whom we've had the privilege of working see reductions in their OPEB commitment between 10 to 25% or more when they move to the individual marketplace. It's really remarkable.

Marianne

Yeah. You know, that has been my experience too. You know, I actually managed a move like this and I've worked with a number of systems across the country and that number tends to hold true. Um, so being the actuary, explain how does that happen, Trevis?

Trevis

So first of all, if you move your retirees to individual Medicare plans through an exchange like Via Benefits, they're joining the largest risk pool in America. Over 40 million people are in individual Medicare plans today. Secondly, these plans maximize federal funding and pharma discounts for the medical and pharmacy benefits that these retirees enjoy. Finally, there are competitive forces in the marketplace, many carriers, many different plans in every geography that compete to keep premiums low. When you put all this together, you're really enhancing the purchasing power that you get when you support the purchase of individual products, as opposed to continuing to offer a group benefit. This allows former employers to help retirees essentially buy more with less.

Marianne

What I like about individual plans is that the retiree also saves. I've often seen retiree saving as much as $1000 to $3,000 a year. That's huge savings. And as you know, we measure these savings for plans, so they, and maybe their unions, uh, can make an informed decision. Can you talk a bit about the financial analysis we do for plan sponsors?

Trevis

Of course. First of all, no retiree is like any other retiree. That's why it's best to offer retirees a choice of healthcare coverage. The variety of individual healthcare coverages gives retirees the opportunity to make the best choice for them. Our financial analysis evaluates the total cost of the individual products available to each retiree, our employer clients cover. So for example, it compares the retiree's current costs on the group plan today to their potential costs on individual Medicare products, under thousands of utilization scenarios. So it's not just a premium difference, but also an estimate of how one would fare depending upon their health.

Marianne

Yeah, and that's important because we know many group plans have a deductible, co-insurance, copays, or some of those cost sharing, um, components. Um, and they exist also in individual plan. They could barely exist if you pick a really robust plan or there could be a little more, um, at each place you use healthcare. So it's important to look at all those scenarios, um, because there's, uh, a lot of variation.

Trevis

That's, that's exactly right Marianne. And in fact, in most all cases that we've worked with a large majority of retirees have opportunities to lower their healthcare spend without compromising the value of coverage. Folks often think that if I'm spending less, I must be getting less. And that's just not the case in many of the situations that we've looked at because of the increase in purchasing power that I talked about before that increase in purchasing power benefits, often both the plan sponsor, which helps lower the OPEB liability about which we talked a moment ago, as well as the cost for the retiree who sees more choice at a better price point.

Marianne

Yeah. And, and also, I don't know that we mentioned this, but OPEB is one piece, but I have seen that first year reduction in healthcare spend drop significantly for plan sponsors. Um, and you know, if you could, if you could lower the baseline and then with the small amount of inflation we see with these individual, um, Medicare plans, um, that's certainly gonna keep your costs, uh, stable, uh, over the future years and at a lower rate, you've seen that as well, Trevis?

Trevis

Absolutely. You know, we see many group plans today that offer less value than individual plans. Not only because they don't provide choice, but because they suffer from things like anti-selection. Those plans have become very expensive. Many people have waived that coverage in favor of purchasing individual plans on their own. That leaves the less healthy risks in the group plan, which drives up the cost even more. Via Benefits can run complimentary financial estimates for your clients to help them determine what savings opportunities might be present for them and their retirees. To learn more, please . visit optimizeretireebenefits.com forward slash F I A. F I A for financial impact analysis.

Marianne

Great. Thank you, Travis. Just to repeat that again, that's optimizeretireebenefits.com/fia

Trevis, I really wanna thank you for taking time. I know you're very busy, um, but I appreciate your giving the actuary's point of view here. Uh, reducing the cost of retiree healthcare is a key strategy of mine to preserve affordable quality healthcare. And in the 16 years, that Via Benefits has been helping retirees, nearly a thousand plan sponsors have moved to this model, locking in healthcare for the retirees. And I still run into retirees who are using the Via Benefits model and they're so grateful for the savings they have found there for them and their spouse. It's a really good model. So that's it for this episode, uh, hope you'll tune in next time.