Willis Towers Watson

Eye on 65
Episode 4 Transcript

John From Willis Towers Watson welcome to Eye on 65, a podcast for public sector employers concerned about retiree health care.

We've talked a lot in our first three podcasts about the difficulties plan sponsors have with maintaining their Medicare health care programs, and we've explored some options that they could use to reduce the cost of their retiree health care programs specifically.

Marianne And John, let's not forget, we've talked a lot about the importance of my mission to preserve retiree health care for public employees.

John We have, and you've convinced me it's a noble mission, but Marianne, how would a plan sponsor know that they need to make a change in their Medicare retiree health care program? Are there warning signs that they should pay attention to?

Marianne There are John, and in fact, I recently did a Webinar on this very subject with Governing Magazine and in it I shared my stress test for Medicare retiree health care.

John Well, that sounds exciting. Would you be willing to share with our listeners?

Marianne Absolutely. I'm happy to do it. It really should give plan sponsors a sense of if they have a problem with sustainability of their Medicare health care program.

John How is it designed? Are there questions and answers?

Marianne Yeah, there's seven questions, John. And if you answer "yes" to three or more, in my opinion, your retiree health care program could be in some serious trouble with sustainability.

John All right. Well, can we walk through that stress test right now?

Marianne Absolutely.

John Okay, let's get started. So listeners, if you are taking notes at home, we're going to walk through these seven questions. You tally "yes"

or “no” for each one and then at the end, if you have three or more than you might consider looking at your retiree health care program, and maybe making a change. So, all right, let's get started. Marianne, what's question number one?

Marianne

Question number one, has your OPEB liability increased significantly year after year? And John, a little refresher, OPEB is other post-employment benefits, typically retiree health care. It's a number that plan sponsors have to report on their books, the future liability of their retiree health care. So, if this has increased significantly year after year for your plan then you need to give yourself a “yes.”

John

We’ve talked about OPEB liability before Marianne, in the context of new rules that came out recently that require public sector entities or plan sponsors to publicly and clearly report their OPEB liabilities. That has an impact on bond ratings too. Is that right?

Marianne

That's correct. And so, as we all know, local governments and state governments need to borrow money to build bridges, to build schools, to do all kinds of infrastructure and other items. And if they get a lower bond rating, then when they borrow that money, John, they're going to pay higher interest. So, that's just another way they're going to be losing money. So, you don't want to impact your bond ratings negatively.

John

Okay. So, let's move on to question number two. Is your solvency period less than 25 years, or worse, are you pay-as-you-go? Can you explain this Marianne?

Marianne

Sure. So, a solvency period is a measure that many plan sponsors use. They'll say things like, well, we have enough money in our fund to pay for health care for today, tomorrow and into the next X number of years. It should be at least 25 years, it would be great if it was higher than that. But there's also a number of systems out there that are what we call pay-as-you-go, meaning they don't have any funding. And so if you're less than 25 years or you’re pay-as-you-go, then you need to give yourself a “yes.” And let me just add John, this is a tricky number. I have seen systems have 100 years of solvency, which sounds fantastic. And in a number of years, a short number of years, they go to only 10 years. And how did that happen? Well, maybe a new mortality table comes out and says, everybody's living longer, so you're going to need more money

because you're going to be providing retiree health care over a longer period of time. Everybody's lowering assumed rate of return. And if you do that, then you're not going to be earning as much money on your fund, and therefore, you're not going to be solvent for as long as you used to be. Even, John, a bad a year in the stock market, I have seen really dropped that solvency number. So, if you're seeing that you're a less than 25 years or worse yet, you're pay-as-you-go, you need to give yourself a "yes" on the test.

John Our next question is, have you read articles in the media about your unfunded liability?

Marianne And if you have, you need to give yourself a "yes," John. It seems every day I pick up the paper or listen to the radio and there is some system getting beat up about their huge unfunded liability. We see it on the pension side, and now we're seeing it more and more on the health care side. And this could get really ugly. It really makes the systems look bad and it could create legislative activity, to maybe, get rid of that liability by ending the program.

John Okay, here's question number four, is your group Medicare plan premium more than $250 a month? I can tell you they're going to be some listeners who are nodding their heads cause I've seen some group Medicare premiums as high as $500 a month.

Marianne Yes, John, my experience is that these plans on the group side are the most expensive option for providing retiree Medicare health care. If we look to the individual Medicare marketplace, we generally see the plans cost about half of what a group plan is, sometimes even two-thirds. If your group plan is that high, you're bleeding a lot of money and you need to give yourself a "yes."

John Marianne, many of these plans are more comprehensive than group plans. So, retirees not only enjoy the lower premiums, but they get greater coverage as well.

Marianne That's right, John. And that leads to our next question. Is your plan design less comprehensive than plans in the individual Medicare marketplace? How does your plan, for example, compare to a Medigap Plan G, which John, is 100% coverage on the medical side after just a $187 annual deductible. It's a pretty rich plan. So, if your

plan is not as comprehensive as that, there's a possibility that you're not competitive, and you need to give yourself a "yes."

John And there really is great coverage out there in the individual market. Retirees like these plans, not just on the medical side, but many of them find them to be more affordable on the drug side, as well. So, you really have to consider this option when you're looking at these questions.

Marianne Yeah, and John, you know, if your plan doesn't compare well on premium or coverage, you may find that retirees are leaving your plan. Which leads to the next question.

John That's right. Question number six, are a significant number of enrollees leaving your group plan for the individual marketplace? If so, give yourself "yes."

Marianne And that John, leads to the very last question we have, and that is, do you have difficulty recruiting and retaining public employees for key jobs like public safety due to reduced retiree health care options?

John Yeah. Marianne, this is a really big deal, isn't it?

Marianne You know, it is, John. First of all, in the public sector, there's been this trade-off for years where retirees come to a job, earn less salary, but know in the end when they retire, they'll have a stable pension and decent retiree health care coverage. You're going to find people not as willing to come and work in the public sector. Some of these jobs we've talked about are very difficult if they don't also have those benefits to count on at retirement.

The other thing that's important to note, John, is that on average, public employees start their career with the public sector at age 32. So, they're closer to beginning thinking about their retiree health care, their pension and those sorts of things.

John Okay, so that was question seven, and that is the end of the test. So, if you're a plan sponsor listening at home, and you answered "yes" to three or more questions, what should you do?

Marianne Well, you need to look at your options. John, as I work with public sector plan sponsors across the country, I see a number of them still

having a Med Sup Plan, they still have their actives and retirees commingled, they might just have an RDS drug plan. The next step for that group is to go to a Medicare Advantage Plan with an EGWP. But that really doesn't save enough money, and you still have the risk of large drug claims, which, for retiree group, drugs are a big part of the medical expenses. If you're not competitive on premium, your retirees are still going to leave you, which could put you into a really bad situation. So, that's where I really would encourage plan sponsors to look to the individual Medicare marketplace as their next and maybe even the best option. In my opinion, it is.

John

Yeah, we've talked about this earlier on in this discussion. Out there in the individual Medicare marketplace, you can find a Plan G for around 180 bucks that has only a small amount of money out-of-pocket every year. Just an annual deductible of 187 bucks. You know, that really could save money for both retirees and plan sponsors.

Marianne

Well, and John, as you know, we spent a lot of time in our first three episodes describing the model of the individual Medicare marketplace and how it saves money. So, I would encourage our listeners for a refresher, certainly listen to episodes two and three of Eye on 65 to learn more about that model, how it works, and how it can save money for you and your retirees.

John

Okay, that's it for today. Thanks for listening to another episode of Eye on 65. I'm John Barkett and on behalf of my co-host, Marianne Steger, thanks for listening. Talk to you soon.