Health Care and Pension Funding Update for Trustees

Ohio Township Association
December 2019

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Agenda

• Health Care overview
• Health Care packages
• Funding path forward (Pension)
  – COLA changes
  – Potential future member changes
• Timeline of next steps

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Health Care Overview

3
Pension Funding is Primary

Pension is a required benefit and must be funded first

Health Care funding is discretionary; it cannot jeopardize pension funding

Unfunded Actuarial Accrued Liability

Illustration of Funding

- Pension Fund: $6 Billion in Pension Payments
- Health Care Fund: $900 Million in Health Care Payments

Member Contributions

Employer Contributions

Investment Income

Stop
Health Care Contributions

<table>
<thead>
<tr>
<th>Year</th>
<th>Planned</th>
<th>Actual</th>
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<tbody>
<tr>
<td>2013</td>
<td>1%</td>
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<tr>
<td>2014</td>
<td>2%</td>
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</tr>
<tr>
<td>2015</td>
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<tr>
<td>2019</td>
<td>4%</td>
<td>0%</td>
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</table>

Health Care Solvency

The Health Care Fund solvency period is projected at 11 years.

$11.3 Billion $0

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2021</th>
<th>2023</th>
<th>2025</th>
<th>2027</th>
<th>2029</th>
<th>2031</th>
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<tr>
<td>Funding</td>
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Estimated Timeline of Available Health Care Funds

The Health Care fund must support both current and future retirees.

Health Care Funding Question

When can OPERS begin funding health care?

If the OPERS pension fund earns its assumed rate of return of 7.2% for the next 15 years, we could begin funding the Health Care Trust Fund in 2034.
Health Care Funding Question

When can OPERS begin funding health care?

A more realistic scenario is that we will not earn 7.2% for the next 15 years. If this were to occur, we could not begin funding the Health Care trust fund until somewhere between 2034 and 2067.

Health Care Funding Issue

But, the math doesn’t add up!

Out of funds in 11 years — Stop
Begin contributing again in 15 - 48 years — Start

In order to maintain health care, OPERS will need to make changes to the current plan design.

Health Care Project Goal

Our objective is to continue offering Health Care. In order to do so we need to implement changes that will extend the solvency of the Health Care Trust Fund.

We cannot fund health care until the pension funding improves.
Health Care Packages
Health Care Changes Effective Jan. 1, 2022

Health Care Package Terms

**Eligibility** – the age and years of service required to receive health care assistance.

**Base Allowance** – the dollar amount that health care assistance is based upon, of which retirees receive a percentage using an allowance table.
- The current Medicare base is $450
- The current pre-Medicare base is $1,306

Allowance for Medical/Pharmacy Costs

<table>
<thead>
<tr>
<th>Medicare Example</th>
<th>BASE ALLOWANCE</th>
<th>ALLOWANCE PERCENTAGE</th>
<th>HRA DEPOSIT</th>
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<tr>
<td></td>
<td>$450</td>
<td>75%</td>
<td>$337</td>
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We use years of qualified service at retirement and age at enrollment to determine allowance.
We use years of qualified service at retirement and age at enrollment to determine allowance.

### Allowance for Medical/Pharmacy Costs

**Pre-Medicare Example**

<table>
<thead>
<tr>
<th>Allowance</th>
<th>Amount</th>
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<tr>
<td>BASE ALLOWANCE</td>
<td>$1,380</td>
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<tr>
<td>75% ALLOWANCE</td>
<td>$1,035</td>
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<td>MONTHLY PREMIUM</td>
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### Health Care Allowance Percentage Chart

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<th>62</th>
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</table>
Health Care Package Terms

**Grandfathering** - a provision in which an old practice continues to apply to some existing situations while a new practice will apply to future cases.

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Grandfathered</td>
<td>Grandfathered</td>
<td>Current Eligibility</td>
<td>Future Eligibility</td>
</tr>
<tr>
<td>5 years of service</td>
<td>10 years of service</td>
<td>Age 60 / 20 years, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(A) Any age / 30 years</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(B) Age 52 / 31 years</td>
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<tr>
<td></td>
<td></td>
<td>(C) Age 55 / 32 years</td>
<td></td>
</tr>
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</table>

Health Care Package Summary

Packages would be effective Jan. 1, 2022

- **Package 1**: No Health Care / Potential Annual Deposit
- **Package 2**: Under 65, No Coverage or Plan
- **Package 3**: Health Care for All, Under 65 w/ Group Eligibility
- **Package 4**: Health Care for All, Under 65 w/ Group Eligibility
- **Package 5**: Health Care for All, Under 65 w/ Group Eligibility

Note:
Packages 2, 3 & 4 phase out grandfathering
Package 5 retains grandfathering with reductions to the allowance

Package 5
Health Care for All, Under 65 w/ Group Eligibility

**Eligibility**

- Current retirees maintain grandfathering for access to health care, future retirees will have new requirements
- Group eligibility requirements apply for Pre-Medicare (under 65) retirees:
  - **Group A**: 30 years at any age
  - **Group B**: 32 years at any age or 31 years min. age 52
  - **Group C**: 32 years and min. age 55
- Medicare (65 and over) – must have 20 years of service with min. age of 65
Package 5
Health Care for All, Under 65 w/ Group Eligibility

Allowance
- Medicare retirees – base allowance from $450 to $350
- Pre-Medicare retirees – base allowance $600 or $900
to be used to purchase a health care plan on the
individual market
All pre-Medicare retirees will move from a group plan
to an individual plan effective Jan. 1, 2022
- Retirees who were subject to the 75% allowance
grandfathering will be reduced based on their actual
position on the allowance table with a floor of 51%

Package 5 – Non Grandfathered Retiree Example

Cathy retired on Jan. 1, 2009 at
age 60 with 35 years of service.

On Jan. 1, 2022, Cathy (age 73)
will be impacted by the reduction
in the base allowance which will
reduce her current allowance
amount.

Now: 78% x $450 = $351
2022: 78% x $350 = $273

Package 5 – Grandfathered Retiree Example

Denise retired on Jan. 1, 2013 at
age 64 with 12 years of service.

On Jan. 1, 2022, Denise (age 73)
will maintain eligibility but will
receive a reduced allowance
based on the 51% allowance
floor.

Now: 75% x $450 = $337
2022: 51% x $350 = $178
Joe retired on Jan. 1, 2015 at age 55 with 33 years of service.

On Jan. 1, 2022, Joe (age 62) will no longer be in the OPERS group plan and will be provided an allowance subsidy to purchase a plan on the individual market.

Now: $1,380 \times 76\% = $1,049
(premium reduction)

2022: $900 \times 76\% = $684

Derek is an active member, eligible to retire with an effective date after Jan. 1, 2022.

He plans to retire with a reduced benefit at age 57 with 25 years of service. He would not have immediate access to health care, but will age in at 65.

Age 65: $350 \times 76\% = $266
Possible Path Forward

1. Take steps to address/reduce current UAAL
2. Modify Defined Benefit Plan to provide more flexibility to expand and contract and establish reserves
3. Modify Member Directed and Combined Plans to address plan issues
4. Modify health care plan to extend the solvency of the Health Care Trust Fund

COLA Changes
Effective Jan. 1, 2022

Unfunded Actuarial Accrued Liability

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
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<tr>
<td>2022</td>
<td></td>
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Board Approved COLA (Effective Jan. 1, 2022)

Approximate Savings $3.44 Billion
Freeze COLA for 2 years (no COLAs for 2022 and 2023)
After freeze, return to current conditions
85% purchasing power restored
First COLA - delay for future retirees to 2nd pension anniversary 24 months after retirement.

"Current Conditions" is defined to mean that retirees receiving a fixed 3% COLA prior to the freeze will receive a 3% COLA following the freeze period. Retirees receiving a COLA subject to a cap will return to receiving a COLA subject to a cap following the freeze period.

Fixed 3% COLA Freeze

COLAs are paid on the anniversary date of your retirement.

<table>
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<tr>
<th>COLA Freeze</th>
<th>COLA Freeze</th>
<th>COLA Freeze</th>
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<td>2020</td>
<td>2021</td>
<td>2022</td>
<td>2023</td>
<td>2024</td>
</tr>
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</table>

Fixed 3% COLA Example

Retired: March 1, 2012
Initial Gross Benefit: $2,000 per month
3% COLA: $60.00

He will receive a COLA on his March 1, 2021 anniversary date increasing his monthly benefit to $2,540.
For 2022 and 2023, he will not receive a COLA increase.
On his March 1, 2024 anniversary date, his 3% COLA will resume providing him a monthly benefit of $2,600.
CPI-W Based COLA Freeze

COLAs are paid on the anniversary date of your retirement.

You receive a CPI-W based COLA if your effective date is Feb. 1, 2013 or after.

<table>
<thead>
<tr>
<th>COLA</th>
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<th>COLA Freeze</th>
<th>COLA Freeze</th>
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<td>2021</td>
<td>2022</td>
<td>2023</td>
<td>2024</td>
<td>2025</td>
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As written in statute, OPERS uses the CPI-W index to determine COLAs.
For example, the 2024 COLA will be determined by the average CPI-W from July 1, 2022 to June 30, 2023.

CPI-W Based COLA Example

Retired: August 1, 2018
Initial Gross Benefit: $3,000 per month
2019 COLA 3%: $90, 2020 COLA 1.4%: $42

Assuming a 2% COLA* on her August 1, 2021 anniversary date her monthly benefit will increase to $3,192.
For 2022 and 2023 she will not receive a COLA increase.
On her August 1, 2024 anniversary date, her CPI-W based COLA will resume.

*The future cost of living increases stated in this example are hypothetical only, not projections of the CPI-W average.

Board Approved COLA (Effective Jan. 1, 2022)

What’s Next?

• Board approval was the first step.

• The next steps involve approval from the House of Representatives, Senate and the Governor.
Defined Benefit Plan Changes
Effective Jan. 1, 2022

Group D Under Consideration

Additional Changes to active members (future retirees). These changes referred to as Group D would impact members hired on or after Jan. 1, 2022:

- 11% contribution rate
- Age 62 with 35 years of service for unreduced eligibility
- 10 year Final Average Salary
- 2.0% benefit multiplier
- CPI-based COLA, not to exceed 2.0%
- Health care provided by funds accumulated in a member’s retiree medical account (RMA) anticipated to be funded at 2% of the employer contribution rate

Combined and Member-Directed Plan Changes
Effective Jan. 1, 2022
Board Approved Changes (Effective Jan. 1, 2022)

- Consolidate the Combined Plan into the Traditional Plan (Closed to new participants, existing participants will continue)

- Update the following features associated with the Member Directed Plan:
  - Vesting Schedule
  - Mitigating Rate
  - Annuitzation
  - Retiree Medical Account
  - COLA

Next Steps

1. Reduce Unfunded Liabilities
   - Discussion: Intro. legislation

2. Modify DB Plan
   - Discussion: Intro. legislation

3. Modify DC Plans
   - Discussion: Implement

4. Modify Health Care
THANK YOU.