

University of California

President's Task Force on Post-Employment Benefits

Retiree Health Work Team Meeting

May 6, 2010

Retiree Health Benefits

*Analysis of
Final Proposed
Plan Design*

Deloitte.

Audit • Tax • Consulting • Financial Advisory.

Agenda

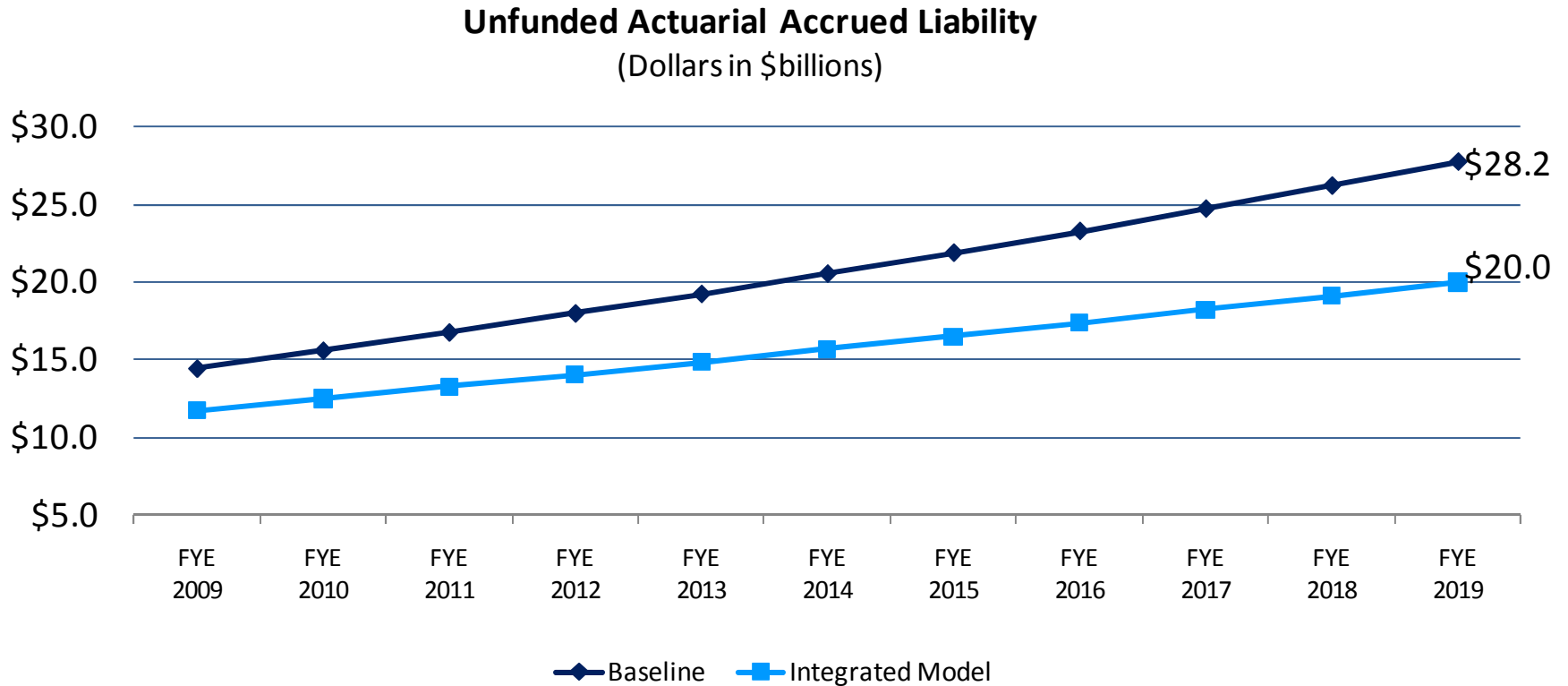
- Summary of Results
- Program Design Proposals
 - Graduated Eligibility
 - Employer Contribution Policy
 - Grandfathering
 - Non-Medicare Retirees over Age 65
 - Total Financial Impact of Plan Provision Changes
- Retiree Contributions
- Prefunding Considerations
- Appendix

Summary of Results

		Baseline	Integrated Model*		
Plan Provisions	Eligibility Age	50	50-54 (0%, access only) 55-65 (0%-100%)		
	Graduated Eligibility	10-20 Yrs (50%-100%)	10-20 Yrs (50%-100%)		
	Employer Contribution Policy	≈89% of Blended Premium	Decreasing 3% of Premiums Per Year Non-Medicare: 81% to 70% (Blended) Medicare: 89% to 70%		
Employees Grandfathered Under Current Eligibility Rules		N/A	Age + Service ≥ 50 and Service ≥ 5		
Retirement Assumptions		Current	Current	Moderate	High
Financial Impact on 7/1/2009 Valuation Results	Actuarial Accrued Liability	\$14.5 billion	\$11.8 billion (-19.0%)	\$11.8 billion (-18.7%)	\$11.9 billion (-18.4%)
	Normal Cost as a % of pay	7.9%	4.9% (-37.6%)	5.0% (-36.0%)	5.1% (-34.9%)
	Annual Required Contribution (ARC)	\$1.75 billion	\$1.32 billion (-24.5%)	\$1.34 billion (-23.7%)	\$1.35 billion (-23.1%)
Estimated Long-Term Normal Cost as a % of Pay		7.9%	3.9% (-50.1%)	4.1% (-47.5%)	4.4% (-44.5%)

* Graduated Eligibility Factor is determined as the Age Factor multiplied by the Service Factor – see appendix for full table of factors

10-Year Projection – Unfunded Actuarial Accrued Liability



- Results based on the Moderate assumption set
- Assumes UC continues the “pay-as-you-go” funding approach

Program Design Proposals – Eligibility

- Proposal: Graduated age and service eligibility
 - Age → Access only prior to age 55; graduated eligibility from age 55 to 65 (0% to 100%)
 - Service → Graduated eligibility for service unchanged from current policy: 10 to 20 years (50% to 100%)
 - UC Contribution → The two graduated eligibility percentages are multiplied together to determine the percent of the maximum University contribution (see Appendix for full table of factors)
- Impact on financial results before grandfathering compared to baseline (% change from baseline):
 - Actuarial Accrued Liability: \$2.7 billion decrease (18.3%)
 - Normal Cost as a % of pay: 2.4% decrease (30.1%)
 - Annual Required Contribution (ARC): \$0.37 billion decrease (21.4%)

Program Design Proposals – Grandfathering

- Proposal: Grandfather employees with Age + Svc ≥ 50 and Svc ≥ 5
 - Employees with age plus service 50 or higher and at least 5 years of service are not affected by the eligibility changes (still subject to changes in Employer Contribution policy; 52,000 (46%) employees grandfathered)
- Impact on financial results compared to eligibility changes without grandfathering (% change from baseline):
 - Actuarial Accrued Liability: \$2.1 billion increase (14.2%)
 - Normal Cost as a % of pay: 0.9% increase (11.5%)
 - Annual Required Contribution (ARC): \$0.22 billion increase (12.3%)

Program Design Proposals – Employer Contribution Policy

- Proposal: Decrease the maximum UC contribution by 3% per year to a target contribution of 70%

<u>Calendar Year</u>	<u>Integrated Model</u>	
	<u>Maximum UC Contribution as a percent of:</u>	
	<u>Non-Medicare Under Age 65 (Blended) Premiums</u>	<u>Medicare Premiums</u>
2010	84.0%	92.0%
2011	81.0%	89.0%
2012	78.0%	86.0%
2013	75.0%	83.0%
2014	72.0%	80.0%
2015	70.0%	77.0%
2016	70.0%	74.0%
2017	70.0%	71.0%
2018	70.0%	70.0%

- Impact on financial results compared to baseline (% change from baseline):
 - Actuarial Accrued Liability: \$2.4 billion decrease (16.6%)
 - Normal Cost as a % of pay: 1.4% decrease (17.7%)
 - Annual Required Contribution (ARC): \$0.28 billion decrease (15.9%)

Program Design Proposals – Non-Medicare Retirees over Age 65

- Proposal: Provide non-Medicare Retirees over age 65 with the same maximum UC contribution as active Pay Band 2 employees
- Medicare eligible retirees receive a decrease in net premiums when they reach age 65 under the proposed scenario; without this change, the Non-Medicare population would not receive a similar decrease
- Impact on financial results compared to baseline (% change from baseline):
 - Actuarial Accrued Liability: \$0.3 billion increase (2.0%)
 - Normal Cost as a % of pay: 0.03% increase (0.3%)
 - Annual Required Contribution (ARC): \$0.02 billion increase (1.3%)

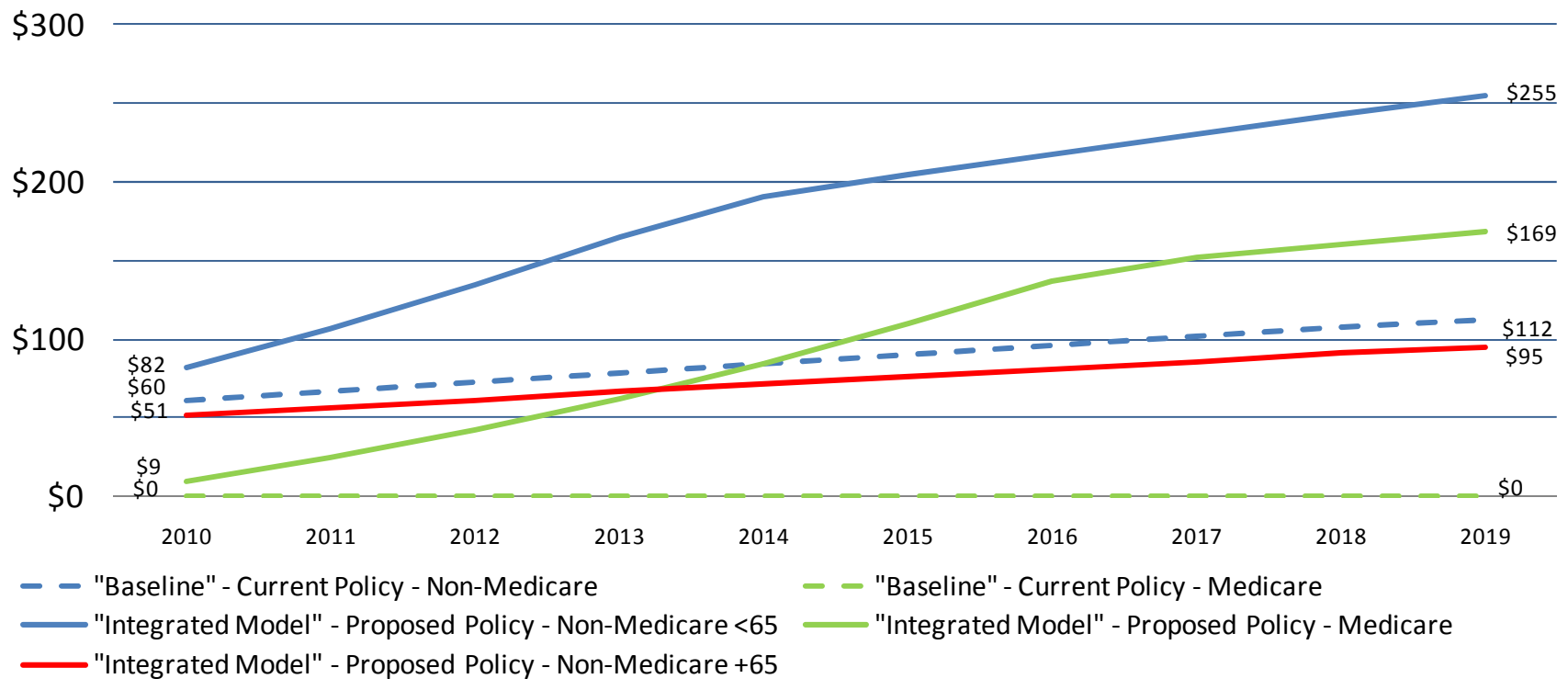
Program Design Decisions – Total Financial Impact of Plan Provision Changes*

	Actuarial Accrued Liability (% change)	Normal Cost as a % of pay (% change)	Annual Required Contribution (ARC) (% change)
Baseline	\$14.5 billion	7.9%	\$1.75 billion
Graduated Eligibility	-\$2.7 billion (-18.3%)	-2.4% (-30.1%)	-\$0.37 billion (-21.4%)
Grandfathering	\$2.1 billion (14.2%)	0.9% (11.5%)	\$0.22 billion (12.3%)
Employer Contribution Policy	-\$2.4 billion (-16.6%)	-1.4% (-17.7%)	-\$0.28 billion (-15.9%)
Non-Medicare Retiree Over Age 65	\$0.3 billion (2.0%)	0.0% (0.3%)	\$0.02 billion (1.3%)
Total (Integrated Model)	\$11.8 billion (-18.7%)	5.0% (-36.0%)	\$1.34 billion (-23.7%)

* Results based on the Moderate assumption set

Retiree Contributions – Single

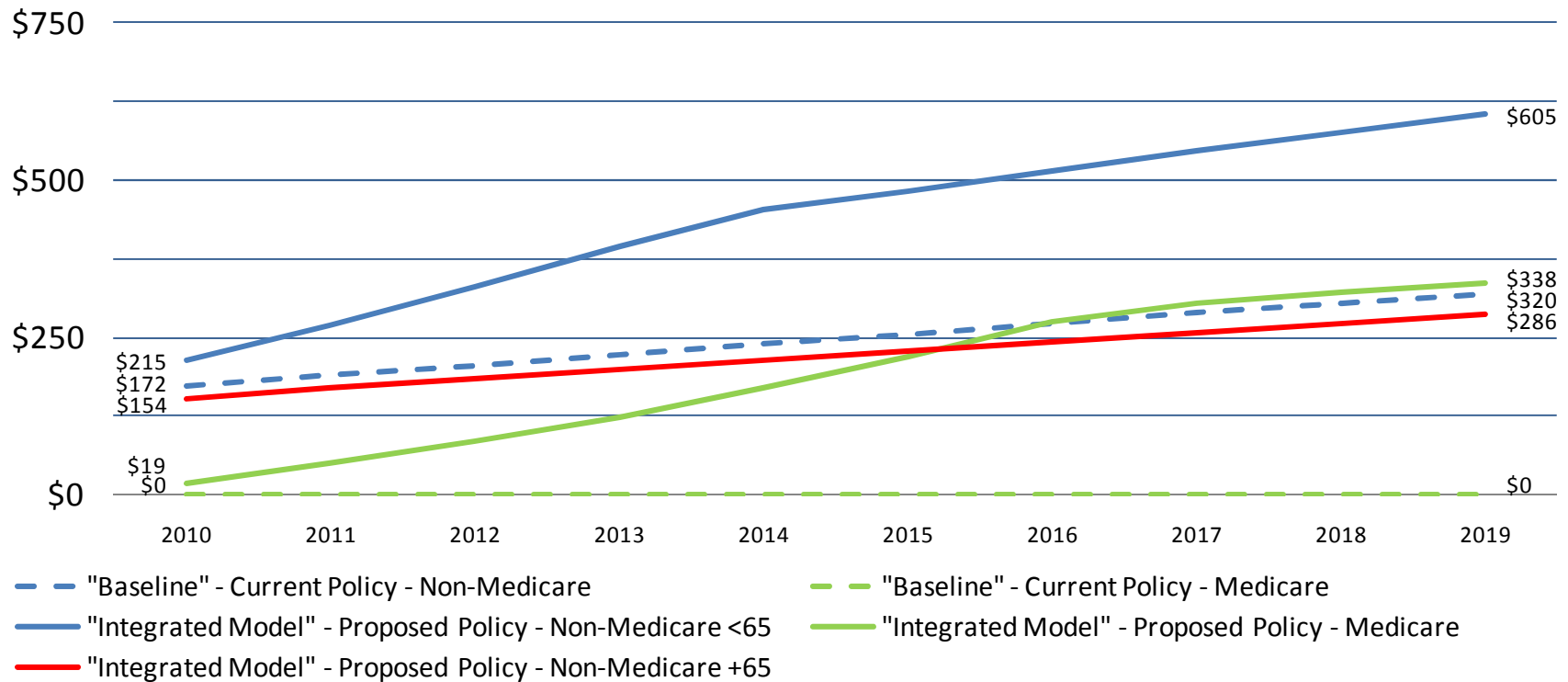
Projected Monthly Retiree Net Contributions
(Health Net Plan, 100% Graduated Eligibility, **Single**)



- Contribution policy annually targets a certain UC % in aggregate for all plans (not by individual plan)
- Pattern of decreasing premiums may create different results by individual plan (e.g., Health Net)

Retiree Contributions – Two Adults

Projected Monthly Retiree Net Contributions
(Health Net Plan, 100% Graduated Eligibility, **Two Adults**)



- Contribution policy annually targets a certain UC % in aggregate for all plans (not by individual plan)
- Pattern of decreasing premiums may create different results by individual plan (e.g., Health Net)

Retiree Contributions – 100% Graduated Eligibility

Based on Preliminary 2011 Premium Projections

Under 65 Non-Medicare

<u>Plan</u>	Single		Two Adults	
	Current Contribution Policy	3% Reduction in Contribution Policy	Current Contribution Policy	3% Reduction in Contribution Policy
Health Net	\$ 76	\$ 95	\$ 210	\$ 249
Kaiser	\$ 62	\$ 71	\$ 135	\$ 156
ABC PPO	\$ 107	\$ 127	\$ 277	\$ 316

Over 65 Non-Medicare

<u>Plan</u>	Single		Two Adults	
	Current Contribution Policy	Pay Band 2 Contribution Policy	Current Contribution Policy	Pay Band 2 Contribution Policy
Health Net	\$ 76	\$ 59	\$ 210	\$ 176
Kaiser	\$ 62	\$ 43	\$ 135	\$ 97
ABC PPO	\$ 107	\$ 90	\$ 277	\$ 243

Medicare

<u>Plan</u>	Single		Two Adults	
	Current Contribution Policy	3% Reduction in Contribution Policy	Current Contribution Policy	3% Reduction in Contribution Policy
Health Net	\$ 3	\$ 21	\$ 6	\$ 42
Kaiser	\$ 0	\$ 0	\$ 0	\$ 0
ABC PPO	\$ 15	\$ 34	\$ 30	\$ 67

Retiree Contributions – 50% Graduated Eligibility

Based on Preliminary 2011 Premium Projections

Under 65 Non-Medicare

<u>Plan</u>	Single		Two Adults	
	Current Contribution Policy	3% Reduction in Contribution Policy	Current Contribution Policy	3% Reduction in Contribution Policy
Health Net	\$ 318	\$ 328	\$ 693	\$ 713
Kaiser	\$ 262	\$ 266	\$ 552	\$ 563
ABC PPO	\$ 350	\$ 359	\$ 760	\$ 779

Over 65 Non-Medicare

<u>Plan</u>	Single		Two Adults	
	Current Contribution Policy	Pay Band 2 Contribution Policy	Current Contribution Policy	Pay Band 2 Contribution Policy
Health Net	\$ 318	\$ 309	\$ 693	\$ 676
Kaiser	\$ 262	\$ 252	\$ 552	\$ 533
ABC PPO	\$ 350	\$ 341	\$ 760	\$ 743

Medicare

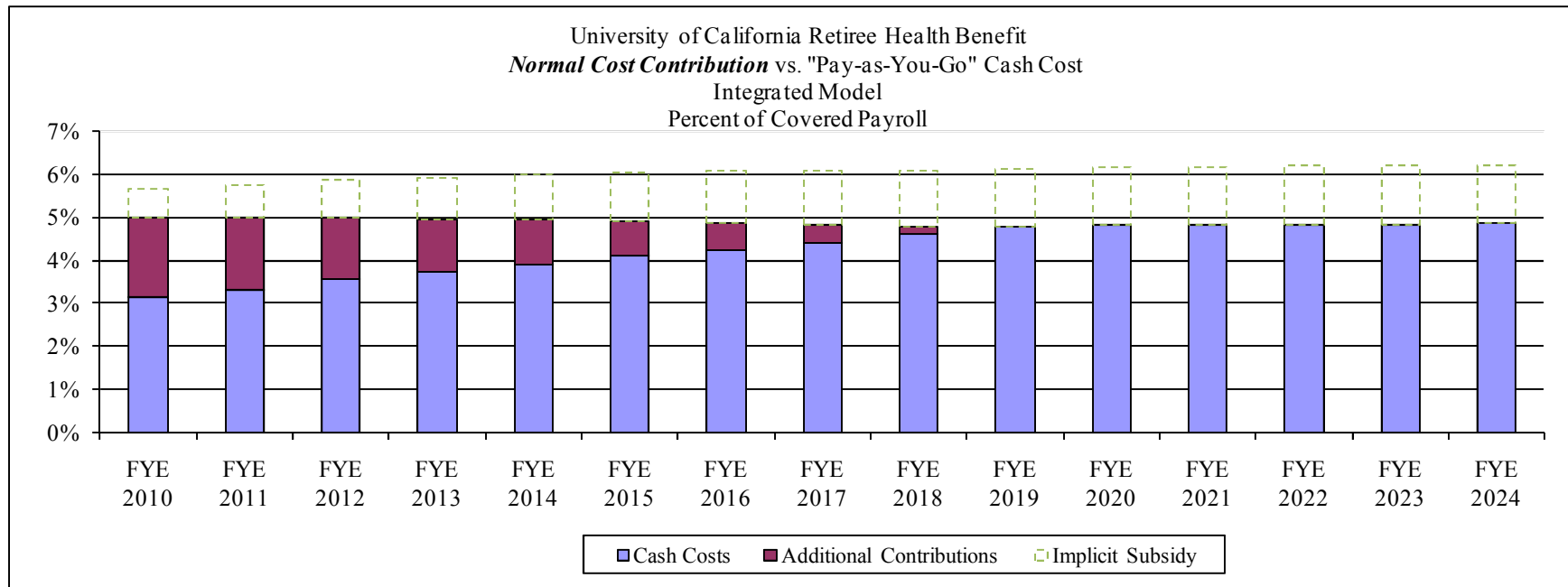
<u>Plan</u>	Single		Two Adults	
	Current Contribution Policy	3% Reduction in Contribution Policy	Current Contribution Policy	3% Reduction in Contribution Policy
Health Net	\$ 223	\$ 233	\$ 447	\$ 465
Kaiser	\$ 153	\$ 162	\$ 305	\$ 324
ABC PPO	\$ 236	\$ 245	\$ 472	\$ 490

Prefunding Considerations

Prefunding Considerations

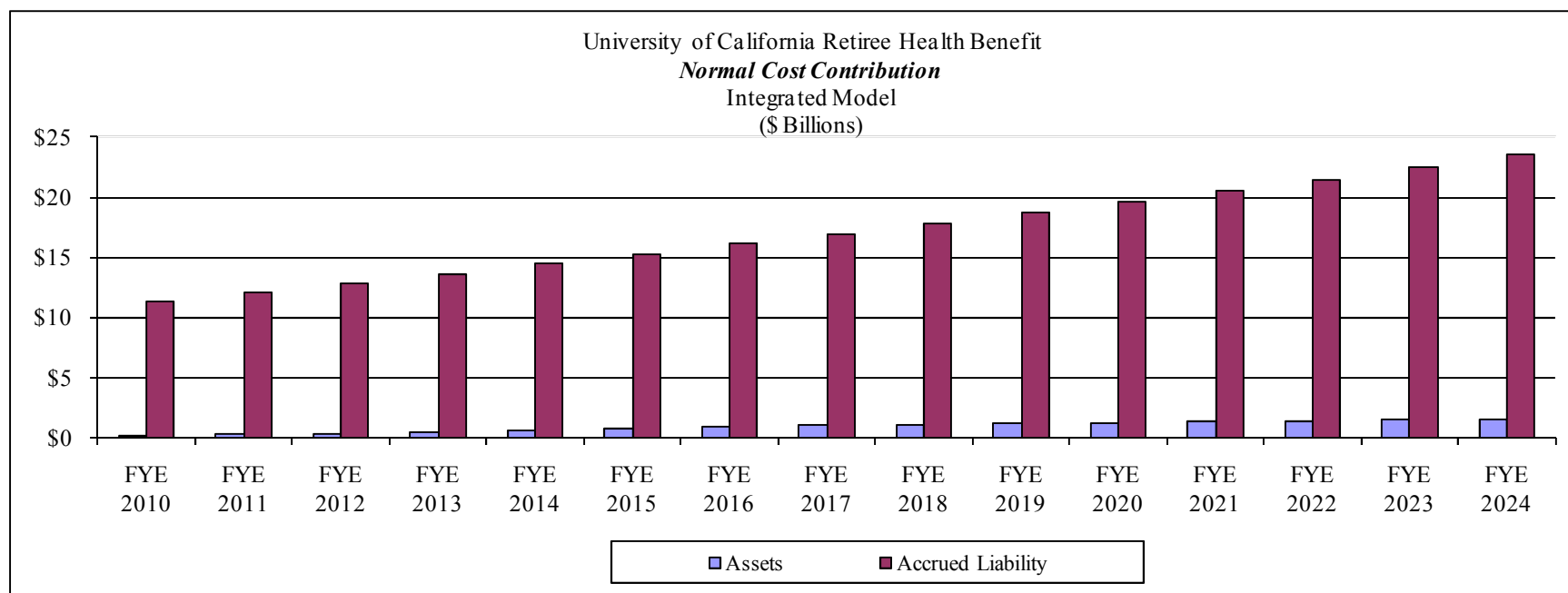
- Questions regarding prefunding:
 - Should UC prefund?
 - What should the goals be for prefunding?
- Prior discussion:
 - At the 2/25 meeting, the work group proposed an “aspiration” of funding the normal cost and eventually the ARC
 - Primary focus for now is on fully funding UCRP
- The graphs on the following slides provide some context for this discussion
- Three funding levels illustrated:
 - Pay-as-you-go: 5.5% discount rate
 - Funding the Normal Cost: 5.75% discount rate
 - Funding the ARC: 7.5% discount rate
- These projections reflect the “Integrated Model” using the “Moderate” assumption set

Funding the Normal Cost – % of Payroll



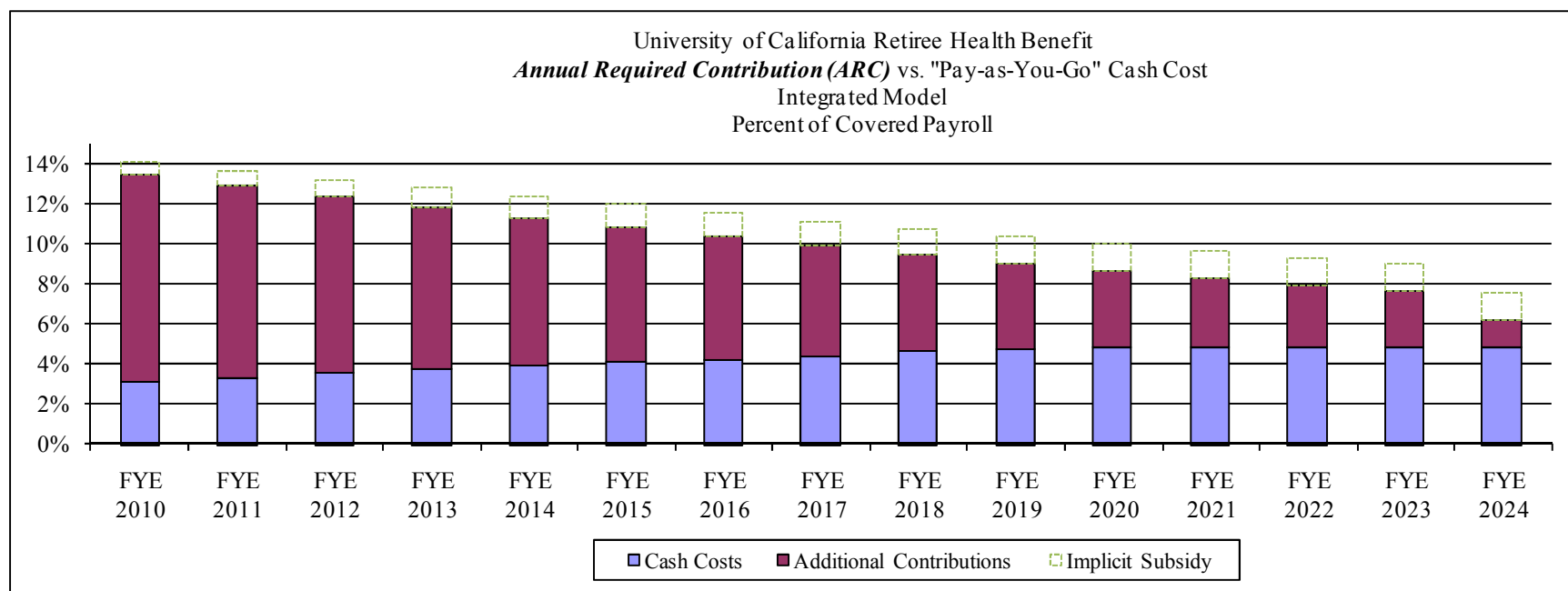
- 5.75% discount rate is used to reflect partial funding of the ARC
- Cash costs expected to exceed normal cost by FYE 2019
- Implicit subsidy exists because blended premiums are used for non-Medicare retirees

Funding the Normal Cost – Assets vs. Liabilities



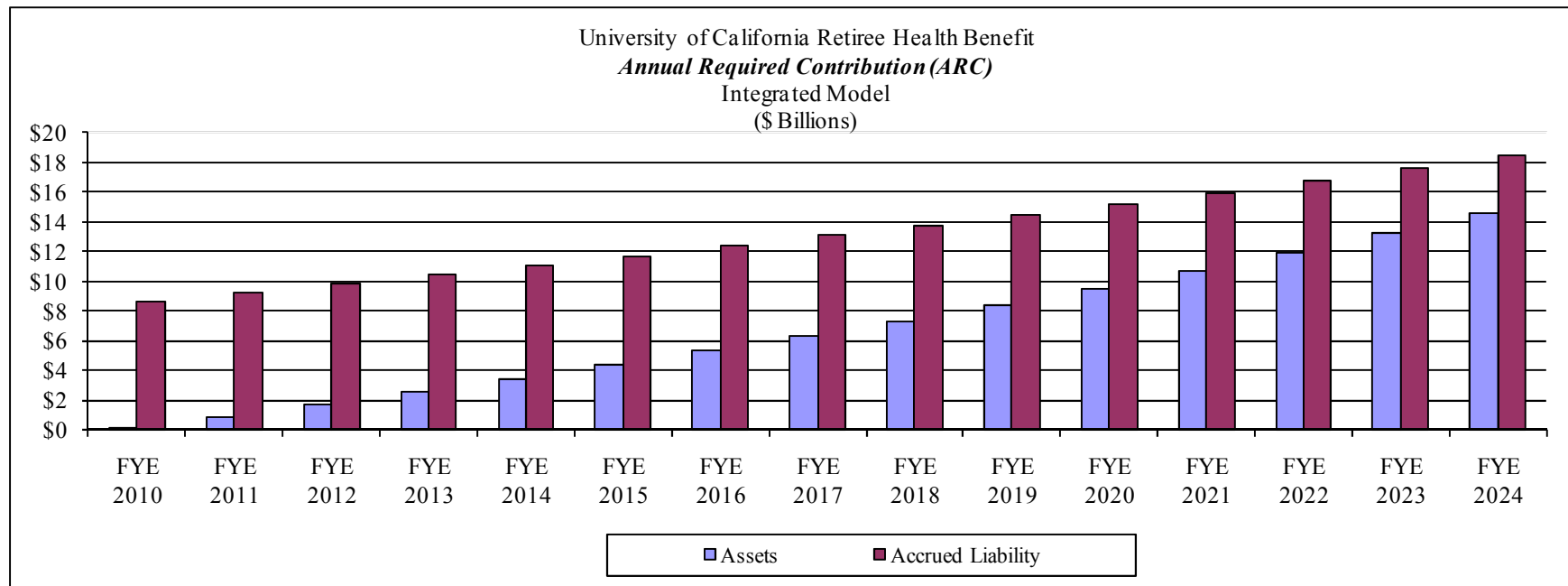
- The small amount of additional funding to reach the normal cost over the first nine fiscal years provides minimal prefunding

Funding the ARC – % of Payroll



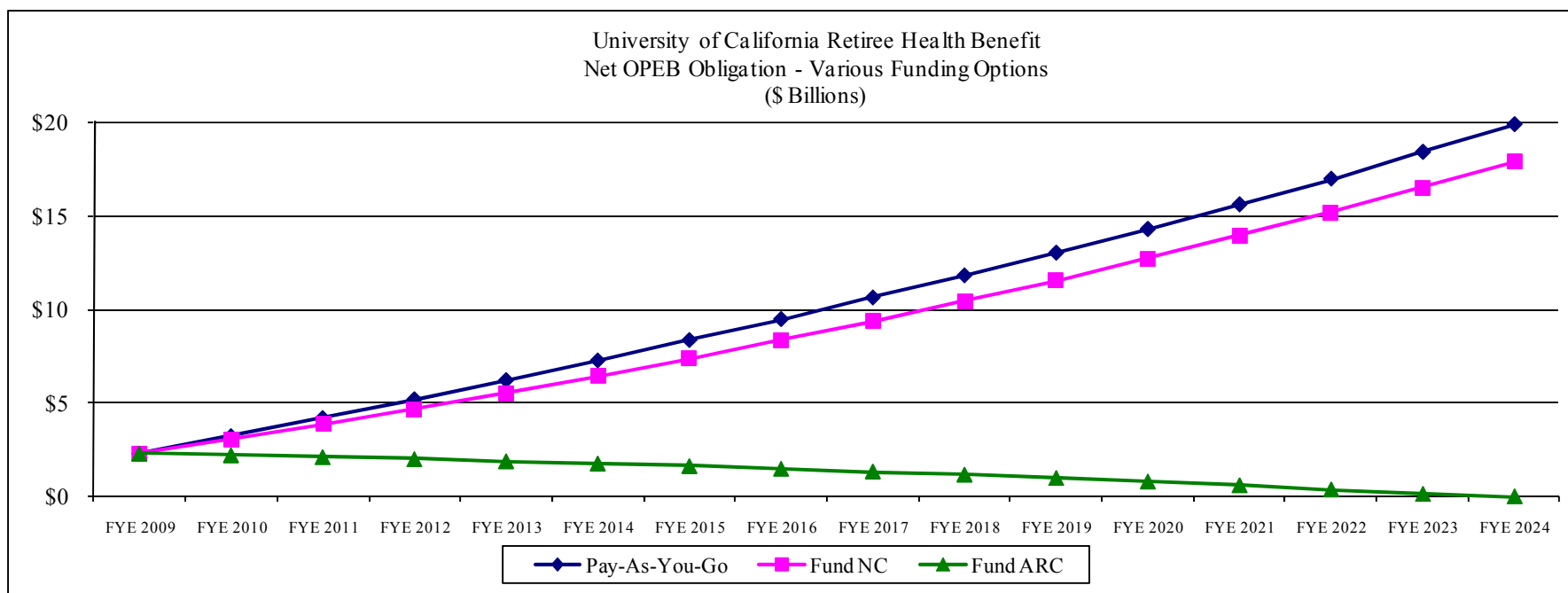
- 7.5% discount rate is used to reflect full funding of the ARC
- ARC decreases as a percent of pay because UC uses a level dollar amortization method
- Decrease in FYE 2024 contributions due to expiring amortizations from FYE 2009 (15-year period)
- Implicit subsidy exists because blended premiums are used for non-Medicare retirees

Funding the ARC – Assets vs. Liabilities



- Liability is assumed to be nearly fully funded after 15 years of contributing the ARC

Comparison of Net OPEB Obligation



- Funding the normal cost provides minimal prefunding beyond the cash costs in the near future
- Funding the full ARC brings the Net OPEB Obligation to zero in 15 years

Appendix

Integrated Model – Eligibility Factors

Age at Retirement

Years of Service at Retirement	Age at Retirement										
	50-55	56	57	58	59	60	61	62	63	64	65+
10	0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	45.0%	50.0%
11	0%	5.5%	11.0%	16.5%	22.0%	27.5%	33.0%	38.5%	44.0%	49.5%	55.0%
12	0%	6.0%	12.0%	18.0%	24.0%	30.0%	36.0%	42.0%	48.0%	54.0%	60.0%
13	0%	6.5%	13.0%	19.5%	26.0%	32.5%	39.0%	45.5%	52.0%	58.5%	65.0%
14	0%	7.0%	14.0%	21.0%	28.0%	35.0%	42.0%	49.0%	56.0%	63.0%	70.0%
15	0%	7.5%	15.0%	22.5%	30.0%	37.5%	45.0%	52.5%	60.0%	67.5%	75.0%
16	0%	8.0%	16.0%	24.0%	32.0%	40.0%	48.0%	56.0%	64.0%	72.0%	80.0%
17	0%	8.5%	17.0%	25.5%	34.0%	42.5%	51.0%	59.5%	68.0%	76.5%	85.0%
18	0%	9.0%	18.0%	27.0%	36.0%	45.0%	54.0%	63.0%	72.0%	81.0%	90.0%
19	0%	9.5%	19.0%	28.5%	38.0%	47.5%	57.0%	66.5%	76.0%	85.5%	95.0%
20+	0%	10.0%	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%

The Eligibility Factor is determined as the Service Factor multiplied by the Age Factor

- Age Factor = 0% for ages 50-55; 10%-100% for ages 56-65
- Service Factor = 50%-100% for 10-20 years of service

Retirement Behavior Considerations

- The “Current” and “High” assumption sets are illustrations
 - Provide a reasonable range that we believe the retirement rates (and resulting costs) will fall within
 - Not intended to represent an expected stand-alone result
- The “Moderate” assumption set is the Deloitte and Segal recommendation
 - Our recommendation of where within the range the actual retirement rates may fall
 - “Moderate” assumptions are reasonable for the PEB Task Force’s analysis purposes
- Separate rates for Faculty and Staff
 - Consistent with the current assumptions
 - Safety ignored due to size (<1%)

Retirement Behavior Considerations

- Deloitte and Segal worked collaboratively with members of the Faculty to determine how to analyze potential behavioral effects
- All assumptions are being applied consistently by Segal for UCRP and by Deloitte for Retiree Health
- New retirement assumptions only affect the portion of the population that are not grandfathered under the old eligibility provisions
- Developed three sets of retirement rates for each Scenario
 - “Current” – this reflects no change in retirement patterns due to the new eligibility provisions (many people retire with no health benefit from UC)
 - “Moderate” – this reflects a moderate change in retirement patterns with a reduction in retirement rates prior to age 65
 - “High” – this reflects a considerable change in retirement patterns with zero or very few retirements prior to age 65

Retirement Rates Analyzed for Staff

Age	"Current"	Integrated Model	
		"Moderate"	"High"
50	4.0%	2.0%	0.0%
51	4.0%	2.0%	0.0%
52	4.0%	2.0%	0.0%
53	4.0%	2.0%	0.0%
54	5.0%	2.5%	0.0%
55	5.0%	2.5%	0.0%
56	6.0%	3.0%	0.0%
57	6.0%	3.0%	0.0%
58	8.0%	4.0%	0.0%
59	14.0%	7.0%	0.0%
60	20.0%	15.0%	0.0%
61	20.0%	12.0%	0.0%
62	20.0%	12.0%	0.0%
63	20.0%	12.0%	0.0%
64	25.0%	15.0%	0.0%
65	30.0%	50.0%	88.0%
66	25.0%	35.0%	25.0%
67	25.0%	35.0%	25.0%
68	25.0%	35.0%	25.0%
69	25.0%	25.0%	25.0%
70	20.0%	20.0%	20.0%
71	20.0%	20.0%	20.0%
72	20.0%	20.0%	20.0%
73	20.0%	20.0%	20.0%
74	20.0%	20.0%	20.0%
75	100.0%	100.0%	100.0%

Retirement Rates Analyzed for Faculty

Age	"Current"	Integrated Model	
		"Moderate"	"High"
50	2.0%	1.0%	0.0%
51	1.0%	0.5%	0.0%
52	1.0%	0.5%	0.0%
53	1.0%	0.5%	0.0%
54	1.0%	0.5%	0.0%
55	2.0%	1.0%	0.0%
56	2.0%	1.0%	0.0%
57	2.0%	1.0%	0.0%
58	2.0%	1.0%	0.0%
59	3.0%	1.5%	0.0%
60	5.0%	4.0%	0.0%
61	5.0%	3.0%	0.0%
62	5.0%	3.0%	0.0%
63	5.0%	3.0%	0.0%
64	7.0%	4.0%	0.0%
65	8.0%	15.0%	41.0%
66	9.0%	12.0%	9.0%
67	10.0%	13.0%	10.0%
68	12.0%	15.0%	12.0%
69	15.0%	15.0%	15.0%
70	15.0%	15.0%	15.0%
71	12.0%	12.0%	12.0%
72	12.0%	12.0%	12.0%
73	12.0%	12.0%	12.0%
74	12.0%	12.0%	12.0%
75	100.0%	100.0%	100.0%