Ohio Public Employees Retirement System

Preserving Health Care for the Future

April 8, 2004
Agenda

• Key themes to OPERS health care preservation
• The health care dilemma
  – General
• OPERS funding structure
• Target solvency period
• OPERS efforts to moderate costs
  – What we have done so far
  – Actions taken
  – 2004 plan design changes
• Draft Health Care Preservation Plan
  – Philosophy
  – HCPP Elements
    • Draft plan changes effective 2007
    • Investment Allocation
    • Contribution rate increases
    • Activism at the national level
• Conclusion
Health care preservation – key themes

• OPERS is doing everything in its power to minimize increasing costs for members and retirees. As alternatives, we are seeking national health care reforms (example, Medicare drug bill), aggressive vendor negotiations and other cost saving techniques (Leapfrog, disease management)
• Proposed plan is balanced and asks all our stakeholder groups to share in the solution – employers through increased contributions; employees through cost sharing and increased contributions; and retirees through cost sharing.
• Trying to avoid significant cost increases for current retirees or active workers who are near retirement because they have fewer options and a shorter time horizon for planning.
• Design of plan gives the Board maximum flexibility to adjust benefit levels if conditions are more favorable (investment return higher, national reforms occur)
• The current health care challenge is serious and OPERS must act now in order to preserve the solvency of our health care fund and health care benefits for current and future retirees. If we do nothing, it is very likely that our health care fund will be depleted in just a few years, and health care benefits for current and future retirees may only be available by a retiree paying approximately 80% of the full cost of the coverage.
The health care dilemma

Health care costs are up

- Costly, new technologies emerging
- Prescription advertising continues
- Population is aging
- Managed care has peaked
- Providers have more negotiating power
Retiring Younger, Living Longer

Life Expectancy at Birth

Average age at retirement
• The retiree population will double in 20 years, from the current 140,000 to 280,000 by 2023. In just 10 years the retiree population will increase to 225,000.
• 2% of each annual increase is caused by increasing retirees, and this will grow dramatically.

• The remainder of the increase is caused by utilization, inflation, technology and medical improvements.
Effects on retiree health care coverage

- Private sector retiree health coverage is dropping
  - 1991 - 80% offered retiree coverage
  - 2003 - 57% offered retiree coverage

Future Trends

- Private sector
  - 86% likely to increase cost sharing and retiree contributions
  - 20% likely to terminate health care plans for future retirees

- Public sector
  - 64% of states likely to increase cost sharing and retiree contributions
  - 10% of states likely to terminate health care plans for future retirees

Actions Taken in other Ohio retirement systems

- Dramatic reductions in plan coverage levels
- Significant increases in premium contributions for current and future retirees
- Increase in years of service required for any coverage from 10 to 15 years
- Spouse pays full cost of coverage
- No phase-in of changes
Pension & Health Care Funding

The investment “pump” adds and takes away funding through income, gains, and losses.
• Considerations for targeting a solvency period
  – Inter-generational equity
  – Plan participants should be able to rely at least to some extent on an approximate continuation of benefit levels that were enjoyed at or near retirement.
  – Actions that lead to abrupt, drastic changes should be avoided.
  – A longer targeted solvency period increases the likelihood of sustaining benefits similar to those in place at the beginning of the period.
  – Life expectancy of retiree
OPERS Health Care Fund Solvency

* Health Care assets divided by annual Health Care costs

Intermediate health care inflation.

2001 projection with “Choices Plan”

Intermediate health care inflation.

Pessimistic health care inflation.
The OPERS Board is targeting a solvency period of approximately 20 years for the health care fund.

Target solvency period will be reviewed on an annual basis to maintain a rolling solvency period.

If we do nothing and the health care fund is depleted, health care coverage will be funded by contributions only and retirees will pay 80% of the cost for benefits.
What have we done so far to manage costs?

**Plan Design**
- Co-pays that encourage use of network doctors and providers
- Drug plan that encourages generics, use of mail order pharmacy
- Excludes cosmetic surgery and limits certain services

**Managing Medical Plan Utilization**
- Requiring medical necessity and patient improvement
- Case management on high cost procedures - before and after
- Encouraging preventive screenings, healthy lifestyle choices
- Demand Management encourages use of lower cost services
- Tough negotiations with providers

**Managing Drug Cost and Utilization**
- Prior authorization for certain drugs
- Substitution of lower cost yet therapeutically equivalent drugs
- Managing over-utilization, drug interactions, limits based on age/gender/quantity, duplication
- Generics programs
- Encourage use as prescribed
- Tough negotiations with providers
Actions taken

Original Choices plan adopted in 2001 for new hires effective 2003

– “Choices” Health Care Plan is the only option offered to persons newly hired after 1/1/03 unless they have prior service.

– Instead of ten year “cliff” eligibility, new plan uses a graded scale based on length of service just like a pension.

– Benefit will vary, from 10 to 30 years of service.
Actions taken

Choices Cafeteria Plan

– Our traditional Health Care and Rx plans will be offered as the premium choice.

– In addition, we will add other, more affordable options to serve a broad range of needs . . .

– Mid-range and minimum coverage Health Care and Rx plans will be added.

– Benefit recipient will make up difference if cost of plans exceeds monthly allocation.

– Any leftover allocation may be used for dental, vision, Long Term Care, or . . .

– Placed in a Retiree Medical Account to be used for other/future Health Care expenses. Money will roll from one year to the next.
Focus Groups
December 2002, OPERS held 3 focus groups to gauge possible changes to the OPERS health plan with (1) retirees, (2) active members, and (3) members of various OPERS constituency groups.

The focus groups produced several key themes:

–Current OPERS health plan is extremely good one with reasonable costs
–Some cost increases for retirees are seen as inevitable
–Flat co-pays are preferred over percentage co-pays
–Varying coverage based on service credit is a better approach than “one size fits all”
–Willingness to use generic drugs when they are as effective as brand name drugs, but preserve choice at the cost of the benefit recipient
–Participants felt that OPERS has an obligation to provide health care benefits (and subsidize some of the cost) for spouses and dependents
Actions taken

• Workgroup created in early 2003 to research health care preservation alternatives

• Workgroup consists of
  – Representatives from OPERS retiree, member and employer interest groups and associations
  – OPERS Board members and staff
  – Health care, finance and investment consultants

• Workgroup initiated the following studies
  – Expansion of Choices to all actives and retirees
  – Health care medical and drug plan design changes
  – Contribution rate increases
  – Activism on National issues
## Plan Design Comparison

<table>
<thead>
<tr>
<th>Major Medical Coverage</th>
<th>2003 Plan Design</th>
<th>2004 Plan Design</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Network</td>
<td>$100/$200</td>
<td>$150/$300</td>
</tr>
<tr>
<td>Out of Network</td>
<td>$150/$300</td>
<td>$200/$400</td>
</tr>
<tr>
<td>(single/family)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out-of-pocket (co-insurance/year)</td>
<td>$500/$750</td>
<td>$750/$1,500</td>
</tr>
<tr>
<td>In Network</td>
<td>$750/$1,125</td>
<td>$1,500/$3,000</td>
</tr>
<tr>
<td>Out of Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(single/family)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Visits/Emergency Room</td>
<td>$10 office copay/$45 ER</td>
<td>$15 office copay/$50 ER</td>
</tr>
<tr>
<td>In Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out of Network</td>
<td>70% *</td>
<td>60% *</td>
</tr>
<tr>
<td>Other Medical Services (includes most in-office procedures, diagnostics, chemo, radiation, X-rays, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Network</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Out of Network</td>
<td>70% *</td>
<td>60% *</td>
</tr>
<tr>
<td>Hospitalization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi-private room</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Out of Network</td>
<td>70% *</td>
<td>70% *</td>
</tr>
<tr>
<td>Pre-admission testing</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Out of Network</td>
<td>70% *</td>
<td>70% *</td>
</tr>
</tbody>
</table>

* Payments for Out of Network charges are subject to UCR (usual, customary and reasonable) limitations.
## Prescription Coverage

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Generic</th>
<th>Single-source Brand</th>
<th>Formulary **</th>
<th>Non-formulary **</th>
<th>Brand when Generic Available</th>
<th>Difference up to $100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Plan - 34 day supply</td>
<td>$4.50</td>
<td>$9.00</td>
<td>$10.00</td>
<td>$25.00</td>
<td>$12.00</td>
<td>Difference up to $100</td>
</tr>
<tr>
<td>Mail Plan - 120 day supply</td>
<td>$4.50</td>
<td>$9.00</td>
<td>$20.00</td>
<td>$50.00</td>
<td>$12.00</td>
<td>Difference up to $100</td>
</tr>
</tbody>
</table>

### Member Contributions

<table>
<thead>
<tr>
<th>Category</th>
<th>Benefit Recipient</th>
<th>Spouse - under age 65</th>
<th>Spouse - Medicare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Recipient</td>
<td>$0</td>
<td>$60</td>
<td>$20</td>
</tr>
<tr>
<td>Spouse - under age 65</td>
<td>$60</td>
<td>$80</td>
<td>$40</td>
</tr>
</tbody>
</table>

** Denotes implementation of "Rx Selections" formulary as of 2004
• Employees with less service will be charged more for health care than someone with more service
• Retirees may share in cost of health care inflation after retirement
• Those who are retired or close to retirement will be less affected by plan changes than those who have more years prior to retirement to plan and save.
• Changes will be phased in over 5 years
• There will be “grandfathering” of certain groups
• Making changes now will prevent making drastic changes later
Current retirees and those near retirement (eligible before January 1, 2007) receive 100% allocation and spouses receive 75 – 90% of retiree allocation.

Future retirees (eligible after January 1, 2007) receive graded allocation based on years of service:

- 50% allocation with 15 years of service.
- 100% allocation with 30 years of service.
- Retirees with 10 to 15 years are eligible at OPERS cost (members with between 10 and 15 years on Jan. 1, 2007 are grandfathered at 15 year level).
- Spouses receive 50 – 90% of retiree allocation depending on years of service.
- Five-year phase-in.

Future Hires (eligible after January 1, 2003)

- 25% allocation with 15 years.
- 100% allocation with 30 years.
- Retiree with 10 to 15 years are eligible at OPERS cost.
- Spouse receives 50-65% of retiree allocation depending on years of service.
### Benefit Recipient's Health Care Coverage Cost

All dollar figures are monthly premiums, based on a projected $800/month system cost to insure an under-65 individual in 2005.

**Benefit recipient Only**

<table>
<thead>
<tr>
<th>Years of Service:</th>
<th>30</th>
<th>25</th>
<th>20</th>
<th>15</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percent</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Premium</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

- **Current Retiree/Eligible**
  - 0.00% $0
  - 0.00% $0
  - 0.00% $0
  - 0.00% $0
  - 0.00% $0

- **Current Active, eligible after 2006**
  - 0.00% $0
  - 16.67% $133
  - 33.33% $267
  - 50.00% $400
  - 100.00% $800

- **Hired after 1/03, no prior service credit**
  - 0.00% $0
  - 25.00% $200
  - 50.00% $400
  - 75.00% $600
  - 100.00% $800

### Additional Premium - Spouse

<table>
<thead>
<tr>
<th>Years of Service:</th>
<th>30</th>
<th>25</th>
<th>20</th>
<th>15</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percent</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Premium</strong></td>
<td>$80</td>
<td>$120</td>
<td>$160</td>
<td>$200</td>
<td>$200</td>
</tr>
</tbody>
</table>

- **Current Retiree/Eligible**
  - 10.00% $80
  - 15.00% $120
  - 20.00% $160
  - 25.00% $200
  - 25.00% $200

- **Current Active, eligible after 2006**
  - 25.00% $200
  - 44.44% $356
  - 61.11% $489
  - 75.00% $600
  - 100.00% $800

- **Hired after 1/03, no prior service credit**
  - 50.00% $400
  - 62.50% $500
  - 75.00% $600
  - 87.50% $700
  - 100.00% $800
More features of the Health Care Preservation Plan

- Annual Board review of benefits and solvency
- Re-employed retirees – OPERS secondary
- Establish Retiree Medical Accounts (RMA)
- Low Income Discount Program
- Promote health care consumerism
- Plan design indexing
- Includes “Philosophy and Guiding Principles” as adopted by Board
• Changing investment philosophy regarding the health care fund to preserve assets.

• Employing a more conservative investment approach reduces volatility of health care fund assets.

• Moderates the vulnerability of the solvency period

• Maintains sufficient liquidity to meet health care payment obligations
Contribution rate increases

Implement alternative 1 or 2

**Alternative 1** phases in the employer and employee contribution rate increases at a rate of 0.25% increase per year up to the statutory maximum as follows:

- Local rates reach 14% in 2 years.
- State rates reach 14% in 3 years.
- Law Enforcement rates reach 18.1% in 6 years.
- Employee rates reach 10% in 6 years.
- Health care contribution rate increases from 4% to 5.5% in 6 years.

**Alternative 2** phases in the rate increase after a three-year period as follows:

- Local rates increase by 0.15% per year from 13.55% to 14% in 2007.
- State rates increase by 0.23% per year from 13.31% to 14% in 2007.
- Employee rates increase by 0.5% per year from 8.5% to 10% in 2007.
- Health care contribution rate increases by 0.5% per year from 4% to 5.50% in 2007.
National Issues on health care

• OPERS is committed to serving as your advocate for affordable health care coverage. We are taking on an activist role and have joined with other pension systems and with international coalitions aimed at achieving health care reforms that benefit our membership.

• Efforts have already been effective
  – OPERS had significant influence on Medicare prescription drug benefit application to public systems

• Additional efforts are underway
  – CEM coalition
  – Pharma Futures
  – Drug reimportation
  – Generic drugs to market faster
Conclusions

• OPERS is doing everything in its power to minimize increasing costs for members and retirees. As alternatives, we are seeking national health care reforms (example, Medicare drug bill), aggressive vendor negotiations and other cost saving techniques (Leapfrog, disease management)

• Proposed plan is balanced and asks all our stakeholder groups to share in the solution –employers through increased contributions; employees through cost sharing and increased contributions; and retirees through cost sharing.

• Trying to avoid significant cost increases for current retirees or active workers who are near retirement because they have fewer options and a shorter time horizon for planning.

• Design of plan gives the Board maximum flexibility to adjust benefit levels if conditions are more favorable (investment return higher, national reforms occur)
Conclusions

• OPERS is serving as an advocate for affordable health care coverage. We are taking on an activist role and have joined with other pension systems and with international coalitions aimed at achieving health care reforms that benefit our retirees and the System.

• OPERS has developed a long-term plan (HCPP) to keep our health care fund solvent.

• The current health care challenge is serious and OPERS must act now in order to preserve the solvency of our health care fund and health care benefits for current and future retirees. If we do nothing, it is very likely that our health care fund will be depleted in just a few years, and health care benefits for current and future retirees may only be available by a retiree paying approximately 80% of the full cost of the coverage.

• OPERS needs to know how our membership feels about the HCPP concept.
Questionnaire