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OPERS STRIVES TO PROVIDE RETIREES WITH ACCESS TO QUALITY HEALTH CARE COVERAGE

Although not required by statute, the OPERS Board of Trustees recognizes that providing access to quality health care coverage is an important element in providing retirement security for our retirees and their dependents. The Board is committed to providing access as long as resources allow.

A Brief History of OPERS Retiree Health Care Coverage

OPERS has a long history of providing dependable retirement benefits and retiree health care coverage. OPERS first offered health care coverage to its retirees in 1962, though the original plan was not subsidized by the system. The retirees paid the entire premium; however, retirees enjoyed the benefit of large group rates. In 1974, OPERS first began paying premiums for retirees and began to set aside funds to fund health care over the long term. Over the years, OPERS, like other providers of health care coverage, has experienced significant inflationary pressures resulting in increased annual costs.

Through careful planning, OPERS has been able to establish a $12.3 billion trust fund to prefund health care coverage. The System has also exercised the same discipline and thoughtful leadership to control expenditures and keep costs in line to provide access to health care coverage for as long as possible.

> **"Although retiree health care coverage is discretionary, OPERS is seeking pension benefit changes that will allow us to continue providing meaningful coverage."**

Every year OPERS monitors industry developments, retiree population tendencies and financial market factors that drive health care decisions for the future. Between 2007 - 2010 OPERS designed and implemented a dedicated program for wellness, worked collaboratively with the other Ohio retirement systems during the medical Request For Proposal (RFP) process, finalized the transition to a new Pharmacy Benefit Manager (PBM), and introduced a Medicare Advantage Plan.

OPERS recently announced that most of its health plan participants will not see a monthly premium increase in 2012. Our continued commitment to maintaining a 20 percent retiree cost-share for both Medicare and non-Medicare plan participants has helped minimize premium increases. Participants must continue to share in the cost of coverage with OPERS if we expect to preserve the health care plan. Even so, there are a few things that will change for retirees in 2012, including adjustments to deductibles, out-of-pocket maximums, co-pays and co-insurance. This has been communicated to retirees before our open enrollment period.

The Continued Response to Challenges

The OPERS Board of Trustees and staff are aware of the challenges ahead in the form of rising health care costs, increased life expectancy, and a growing retiree population due to the retirement of the baby boomer generation. In 2009, in response to these and a need for legislative changes to pension benefits, the Board adopted a schedule of reduced contributions to the health care fund. In this environment, we continue to seek legislative changes to meet these challenges that will allow us to continue to provide access to meaningful health care coverage for our retirees, now and into the future.

EXAMPLES OF RECENT OPERS RETIREE HEALTH PLAN DEVELOPMENTS

- In 2010, OPERS modified our medical plan design to continue the gradual increase in the retiree cost-share to 20 percent. The increase was reflected in changes driven by utilization such as increased out-of-pocket maximums, deductibles and co-pays, as opposed to charging retirees more to participate in the plan. Some retirees did, however, experience minimal increases in premiums.
- Also during 2010, the health care fund returned 13.5 percent on its investments and outperformed its customized benchmark of 12.9 percent for the year by approximately 60 basis points.
- Health care expenses reached $1.6 billion in 2010 while the number of retirees, eligible dependents and beneficiaries increased 4.4 percent. Health care expenses have increased by 4.9 percent since 2009.

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Why Legislative Action on the Proposed Pension Changes is Needed to Protect Retiree Health Care

In 2009, in order to remain below the statutorily-required 30-year amortization period, the OPERS Board voted to accelerate its plan to reallocate new employer contributions from the retiree health care fund to the pension fund. Following this decision, OPERS has been gradually reducing the portion of employer contributions directed to fund retiree health care coverage until 2014, when it will discontinue allocating employer contributions to the retiree health care fund. OPERS reduced the portion of the total employer contribution rate directed to fund health care from 7.0 percent in 2008 to an average of 5.88 percent in 2009. The 2010 employer contribution rate was further reduced to an average of 5.08 percent. This percentage will continue downward if the Ohio General Assembly does not act on the benefit plan changes. *(See the chart below.)*

As noted above, health care coverage is a discretionary benefit, and is subject to change by the Board to ensure the long-term solvency of the fund and OPERS' ability to provide future benefits. However, when the Ohio General Assembly approves the Board's recommended benefit plan changes, OPERS intends to restore health care funding to four percent of the employer contributions moving forward.

In the absence of legislative action, beginning in 2014, OPERS may well need to discontinue contributions to the health care trust fund. First, the Board may be required to make significant benefit cuts to the current health care plan for all retirees. In the alternative, at the current coverage levels, the Board may be required to spend down the health care trust fund and potentially convert to a "pay-as-you-go" plan. Each of these choices would have a significant impact on both current and future retirees, as well as to Ohio's economy. Significant cuts would mean reduced payments for local health care providers while reduced coverage would increase pressure on other taxpayer-supported safety net programs. Timely adoption of the Board's recommended plan design changes will allow OPERS to continue to provide adequate health care coverage for retirees for the foreseeable future.

BOARD APPROVED CONTRIBUTION RATE ALLOCATION CHANGES TO RETAIN 30-YEAR FUNDING

	Pension	Health Care	Total
2009	8.5%	5.5%	14.0%
2010	9.0%	5.0%	14.0%
2011	10.0%	4.0%	14.0%
2012	10.0%	4.0%	14.0%
2013	13.0%	1.0%	14.0%
2014	14.0%	0.0%	14.0%
2015	14.0%	0.0%	14.0%
2016	14.0%	0.0%	14.0%
2017	14.0%	0.0%	14.0%
2018 and beyond	14.0%	0.0%	14.0%

Goal is to restore health care funding to 4% for all years, but this would *require significant reductions in liabilities*

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OPERS

The Ohio Public Employees Retirement System (OPERS) is the largest public pension fund in Ohio and the 11th largest public pension fund in the U.S. In operation since 1935, OPERS serves nearly 954,000 members, including more than 176,000 retirees and beneficiaries.