



# Health Care Sustainability Highlights

November 18, 2022

At the Board's November health care sustainability session, Christi Pepe, SERS' health care director, and Michael Steiner, SERS' health care plan administration senior manager, presented a review of the health care program's current financial condition, the sustainability outlook of SERS' Medicare and non-Medicare plans, a comparison of the Marketplace Wraparound HRA to SERS' group plan, and options for future health care sustainability efforts.

At the end of FY2022, the health care fund was projected to remain solvent through 2060, or a 38-year solvency period, exceeding the Board-adopted funding goal of 20 years. Despite an \$11 million loss in investment returns, the fund still closed at \$611 million, which was \$11 million more than FY2021's closing value.

Investment returns are not smoothed over a four-year period for the health care fund, as they are for basic pension benefits.

SERS' Medicare plan currently covers more than 36,000 enrollees and remains funded indefinitely. The primary source of income for the Medicare plan in the 2021 plan year was federal revenues of \$95 million, followed by premiums of \$45 million and prescription rebates of \$27 million. From 2019 to 2021, the net annual cost of Aetna Medicare Advantage and Part D was approximately \$500,000.

The System negotiated improved Aetna and Express Scripts contracts starting in 2023, saving money for both health care recipients and the System.

SERS' non-Medicare Aetna Choice group plan currently covers more than 3,000 enrollees. Approximately 84% of enrolled disability benefit recipients under age 65 select this plan.

In contrast to the Medicare plan, per member per year (PMPY) expenses in the non-Medicare group plan continue to grow.

In the 2021 plan year, SERS' health care subsidy paid \$44.9 million of the non-Medicare plan's costs, followed by premiums of \$17.8 million and prescription rebates of \$3.5 million.

For pre-Medicare enrollees, SERS also offers a Health Reimbursement Arrangement (HRA) coverage that "wraps around" and enhances essential health benefits provided by a Marketplace plan. For those with a lower household income, the combination of a Marketplace plan and the Wraparound HRA can provide more affordable coverage than SERS' non-Medicare plan due to larger federal subsidies available through the Marketplace and the reimbursement for out-of-pocket expenses under the Marketplace plan.

The Marketplace Wraparound HRA is the best financial option for many members, but most enrollees select SERS' non-Medicare group plan because of the substantial premium reduction SERS provides based on years of service and its resemblance to a traditional employer model.

Steiner provided [examples](#) of service retirees and disability recipients with various levels of service credit. The comparisons demonstrated that these enrollees would save thousands of dollars per year by enrolling in the Marketplace Wraparound HRA combination, and SERS would save \$10,000 to \$20,000 per member per year.

SERS staff then presented several health care sustainability efforts for the Board to consider:

- Implement a reduced premium subsidy structure for non-Medicare to encourage Marketplace/Wraparound selection and potentially save the System between \$9.5 million and \$21.4 million.
- Make disability and service premiums the same. Disability enrollees currently pay lower premiums based on years of service. This could save SERS an estimated \$3.2 million.
- Require Marketplace counseling for group plan enrollment (Medicare split families would be exempted). This would have an estimated annual impact of \$1 million for every 10% reduction in new enrollees to SERS' group plan.
- Continue, monitor, and fine-tune the current strategy.

SERS' actuary, Cavanaugh Macdonald Consulting, LLC, estimates that a \$5 million annual reduction in health care expenses would add four years of solvency to the health care fund and a \$10 million reduction would add 22 years.

It was emphasized that SERS intends to continue to provide access to a SERS-sponsored non-Medicare plan and that eligible retirees will continue to be able to select the SERS plan. The objective is to help retirees make an informed decision if the SERS plan is the best option for them.

SERS staff will continue to research sustainability strategies and present more information for the Board to take under consideration at the December health care sustainability session.