INTRODUCTION

The retiree health insurance program at the University of Idaho is based on a system of "tiers" that were originally developed in response to the accounting and reporting requirements associated with the implementation of Governmental Accounting Standards Board (GASB) Statement 45. GASB 45 was significant because it required the university to either fully fund or record as a liability the amortized value of its retiree benefits costs, with interest. The amortized value reflected actuarial assumptions regarding future benefit cost escalations, participant mortality rates, and other factors. The benefits accounted for under GASB 45 are collectively known as Other Post-Employment Benefits (OPEB), meaning those benefits not associated with a pension plan.

Before GASB 45, the university was only required to recognize the cost of retiree benefit payments for the current year (premiums, claims, and other expenses paid during the year for current retirees, less any retiree contributions) on the financial statements. This practice is commonly referred to as "pay as you go." GASB 45 required that the university recognize not only the value of retiree benefit payments for the current year, but also the value of benefit payments promised to retirees for future years, retiree benefits promised to active employees that were earned during the current year, and retiree benefits promised to active employees for their services in previous years. GASB 45 did not require trusts to be established or budgets to change; it only required that the projected cost associated with non-pension postemployment benefits be calculated and reported.

GASB 45 allowed the university to amortize the portion of the cost attributed to past service over a period not to exceed 30 years. A balance sheet liability would arise if the university failed to make contributions to cover both the cost for a current year as well as the cost associated with amortizing the obligation from past service (collectively, the Annual Required Contribution, or ARC). If the university fully funded the ARC each year, it would not have a balance sheet liability (but the unfunded accrued actuarial liability was disclosed in a footnote comment).

Ahead of GASB 45 implementation, a valuation study set the Actuarial Accrued Liability (AAL) at $222M. By funding the ARC, the university was able to apply a higher discount rate to the calculation of the AAL, reducing the amount to $124M. However, the university also chose to engage in plan design change, **including creation of the tiered retirement system**, which further reduced the AAL. The university created the Health Benefits Trust and began to make the Annual Required Contribution each year, as recommended by a university taskforce. By establishing an irrevocable trust to receive annual required contributions and pay the benefit costs, the university was able to count the trust assets as an offset to the calculated liability.

As reported in the financial statements for FY2008, the present value of benefits was $90M, the Accrued Actuarial Liability (AAL) was $83M, the Annual Required Contribution (ARC) was $7.1M, and actual annual

contributions were $7.2M. In the year of implementation, the university had a funding excess of almost $100K. By FY2017, the accumulated funding excess had grown to $2.7M, demonstrating a commitment by the university to build a reserve for these future obligations.

HISTORY

The University of Idaho first made health insurance available to employees, at their own expense, in 1949. In 1957, the university began paying 50% of the employee premium as a fringe benefit. In 1960, the Board of Regents approved the university's participation in the State of Idaho group life insurance program for both employees and retirees, with the university paying the premium. In 1962, the Regents authorized a program change allowing retirees (who met certain qualifications) the option to continue participation in the university health plan, at their own expense. Shortly thereafter, in 1963, the Regents authorized the university to participate in payment of health premiums for retirees (who met certain qualifications) on the same percentage basis as for active employees.

University of Idaho retiree benefits have undergone numerous changes over the years, including eligibility requirements, cost sharing, and plan design. The decade of the 1990's, in particular, saw several actuarial studies to estimate future liabilities associated with these benefits, as well as discussions with faculty, staff, and retirees which sensitized campus constituent groups to the challenges faced by the university.

TIERED RETIREMENT SYSTEM

The university taskforce mentioned above recommended a 4-tier eligibility structure, with the least impact on individuals at or near retirement. As implemented by the university, the system included the following terms, conditions, eligibility requirements, and benefits:

Tiered Eligibility for UI Retiree Benefits

	Tier I	Tier II	Tier III	Tier IV
Rule	Current Rule of 80	New Rule of 80	New Rule of 90	New Self-Pay Options (Retiree does not meet criteria for other tiers or was hired after 1/1/2002)
If Met On	Sept. 30, 2007 (may retire later)	Oct. 1, 2007 – June 30, 2011 (may retire later)	After July 1, 2011	Effective July 1, 2007
Minimum Age	NONE; If 30 years or more years of service; Otherwise age 55	NONE; If 30 years or more years of service; Otherwise age 55	NONE; If 30 years or more years of service; Otherwise age 55	Age 55
Years of UI Service	30 years regardless of age or 5 years minimum	30 years regardless of age or 15 years minimum	30 years regardless of age or 20 years minimum	10 years of UI service Minimum
Years of Plan Enrollment	5 years	15 years	20 years	10 years
Eligibility	Current Rule of 80 If met by 9/30/2007	New Rule of 80 If met after 9/30/2007 or by 6/30/2011	New Rule of 90 07/1/2011 or after	New Self-Pay Options (Retiree does not meet criteria for other tiers or was hired after 1/1/2002)
Medical/ Prescription Drug (Coverage does vary by plan & tiers)	UI retiree Medical & UI Drug Coverage	UI retiree Medical & Medicare Part D Stipend paid to eligible retiree *	UI retiree Medical & Medicare Part D Stipend paid to eligible retiree*	UI Retiree Medical 100% retiree paid; Sick leave conversion capped at 600 hours; Medicare Part D paid by retiree
Life Insurance	$10,000 retiree w/ Port options Regardless of age	Port options to age 75	Port options to age 75	Port options to age 75
Retiree Contributions	Rates in effect for current plan year	Rates in effect for current plan year	Rates in effect for current plan year	Rates in effect for current plan year
Rate increases	Capped at 10% of the previous rate for each year	No caps on rate increases	No caps on rate increases	No caps on rate increases
Resources	Faculty Staff handbook http://www.webs.uidaho.edu/fsh/3730.html general retiree policy http://www.webs.uidaho.edu/fsh/1565.html#E. faculty emeritus benefits			

*Stipend paid to the qualifying retiree for enrollment in Medicare Part D under retiree health Plan A, not paid to directly to Medicare. ***Tiers I, II, III - hire date must be January 1, 2002 or before.***

CLASS ACTION LAWSUIT

In 2008, in response to changes in benefits (and cost of benefits) imposed by the university, a group of Tier I retirees, who were also participants in either the university early retirement incentive program (ERIP) or the voluntary separation and retirement opportunities program (VSROP) filed a class action lawsuit against the university. The class members argued that the university did not have the right to change the benefits (or cost of benefits) that existed when the class members enrolled in either the ERIP or the VSROP. While the university won at summary judgment in the district court case, the class members filed a notice of appeal with the Idaho Supreme Court in 2010, and the university subsequently agreed to settle the dispute with the class members.

The terms of the settlement agreement set the cost of traditional retiree health plan coverage available to Tier I eligible retirees at $33/month prior to Medicare eligibility and $20/month after Medicare eligibility. The rate of increase was limited to 10% per year for the lives of the members of the subclasses (or persons entitled to benefits by virtue of their relationship to the members of the subclasses). The university retained the right to modify terms of coverage, but agreed to never modify coverage for class members in a fashion different than it modified coverage for active employees. The university also reserved the right to change and/or eliminate benefits upon a declaration of financial exigency by the Board of Regents.

CURRENT CHALLENGE

GASB issued Statement 75, which supersedes GASB 45, and requires that the Net OPEB Liability (NOL) be reported on the balance sheet. The university implemented GASB 75 in FY2018 (06/30/18). Under GASB 45, the Unfunded Actuarial Accrued Liability (UAAL) was reported in the footnotes to the financial statements. While there are some technical differences between the UAAL and the NOL, the most significant impact of the new accounting standard is the move from the footnotes to the balance sheet, and the associated impact on net position.

The Total OPEB Liability (TOL) under the new accounting standard is equal to the Actuarial Accrued Liability, calculated under the GASB-specified individual entry age actuarial cost method. The NOL is equal to the TOL minus the market value of any trust assets.

As reported in the financial statements for FY2018, the TOL was $68M, the market value of trust assets was $35M, and the NOL was $33M. The posting of the NOL reduced unrestricted net position by $33M and caused the university to fall below the board's 5% reserve requirement (available unrestricted net position must be greater than or equal to 5% of annual operating expenses). In an effort to reduce the impact of the NOL, the university now wishes to consider the impact of various plan design changes.

RECOMMENDATIONS

In response to the impact of implementing GASB 75, the university formed an OPEB advisory group, consisting of representatives from Division of Finance and Administration, Office of General Counsel, Health Benefits Trust, and Sibson Consulting (the university's health plan actuary). The advisory group was charged with developing recommendations to manage the university's OPEB obligations into the future. After meeting to review multiple scenarios, the group makes the following recommendations:

TIER I CONSIDERATIONS: After discussing the matter at length, the OPEB advisory group recommends that the university make no changes to the benefits for Tier I retirees. Because those benefits are established by a legally-binding settlement agreement, we do not believe the potential gains justify a costly legal battle and the associated reputational damage to the institution. In addition, Tier I retirees have little to no time to adapt to changes in benefit plans and rates. Therefore, all recommendations in this document focus on changes for employees and retirees in Tiers II, III, and IV.

PRE-MEDICARE CONSIDERATIONS: After considering the challenges associated with obtaining retiree health care before Medicare eligibility, the group recommends retaining pre-Medicare coverage for retirees in Tiers II, III, and IV. Detailed discussions have revealed that health care markets for post-Medicare retirees are well established and offer many viable and affordable options. However, health care markets for pre-Medicare retirees are not nearly as robust. Available plans are more expensive, only limited coverage options exist, and retirees may face underwriting and other related challenges. For post-Medicare retirees, Medicare supplements may provide comparable (or even superior) coverage at comparable cost. Coverage is robust and participants have known monthly costs. Medigap Plan G coverage typically costs less than $200 per month and covers gaps in Medicare, except for the $198 Part B deductible. Adding the average premium and the Part B deductible produces a typical total annual medical exposure of about $2,400. The UI retiree Plan A premium is about $400 annually and the maximum out-of-pocket cost is $3,350. This produces a total annual medical exposure of about $3,750. For this reason, many Tier II and III retirees waive coverage coincident with Medicare enrollment. Note that in both cases the cost exposure excludes prescription drugs and Medicare Part B premiums.

Medicare Supplement Plans can be paired with a separately purchased Prescription Drug Plan (PDP). Another attractive individual market option is a Medicare Advantage Prescription Drug Plan (MA-PDP), which may offer comprehensive medical and prescription coverage with little to no annual premium cost. There are many resources available to Medicare-eligible people who would like guidance in finding the right individual market plan. This guidance ranges from the official medicare.gov plan finder website tool to licensed insurance brokers/agents who specialize in these plan options for Medicare-eligible people.

FULL COST CONSIDERATIONS: The group recommends against considering options that allow post-Medicare retirees to retain coverage by paying the full cost (Tiers II and III). Any such option would

"contaminate" the Tier I pool by creating significant selection bias and an eventual selection spiral. Spouses of retirees (and surviving spouses) already and always pay full cost, so no need for changes there. When coverage is free or inexpensive, most individuals (both healthy and not) in the pool will retain coverage. However, if Tier II and III participants must pay the full cost of coverage, most healthy participants will seek cheaper options elsewhere in the market. Only the less-healthy Tier II and III participants will remain on the plan. This shift will increase the average cost per person for all remaining plan participants in the pool. This calculation impacts the cost of coverage for Tier I participants, and creates a selection spiral where successive waves of healthy participants exit from the plan because of cost increases, which again increase the average cost per person, which causes more healthy participants to exit, etc.

TIER II/III CONSIDERATIONS: In all scenarios considered by the OPEB advisory group, there was not sufficient return associated with eliminating pre-Medicare benefits for Tier II and III retirees. This is especially true when considering the challenges faced by pre-Medicare retirees in finding quality coverage at an affordable price in the individual market. Contrast this with post-Medicare retirees who have many mature options in the individual market, with guaranteed issue protections.

After reviewing all the scenarios prepared by the health plan actuary, the group recommends that the university phase out coverage for post-Medicare retirees in Tiers II and III. This recommendation assumes retirees will pay 25% of the cost for coverage in calendar year 2021, 50% of the cost for coverage in calendar year 2022, and 75% of the cost for coverage in calendar year 2023. Beginning with calendar year 2024, post-Medicare coverage would no longer be available for retirees in Tiers II and III. This recommendation affects only Tier II and III active employees who are not eligible to retire by January 1, 2021 (does not affect current Tier II and III retirees). This recommendation is based on "eligible to retire" dates and not "retired by" dates, in order to prevent productive employees from rushing to retirement just to secure health coverage.

As reported in the financial statements for FY2019, the Total OPEB Liability is $64.7M, trust assets are $33.8M, and the Net OPEB Liability is $30.9M. If this recommendation was adopted, the Total OPEB Liability would have been $53.6M. With total trust assets of $33.8M, the Net OPEB Liability would have been $19.8M. This would have resulted in an increase of $11.1M in unrestricted net position, which was reported at ($13.9M) in the FY2019 financial statements. These calculations are actuarial estimates, developed for the purpose of assessing the general magnitude of plan changes. GASB 75 implementation guidance suggests that plan changes do not need to take effect ahead of the measurement date (but do need to be adopted and communicated ahead of the measurement date) in order to be reflected in valuation results. Accordingly, final liability and net position calculations will depend on many factors, including adoption date, communication date, and/or effective date of any plan changes.

The group also evaluated the impact of requiring that pre-Medicare retirees in Tiers II and III pay a greater share of the cost of coverage. The current contribution for Plan A is about 8% of cost. Increasing the

required contribution to 15% and 30% of cost only decreases the net OPEB liability by $400K and $1M respectively. As was true in evaluating the impact of eliminating pre-Medicare benefits entirely, there does not appear to be sufficient return to justify increasing the required contribution from pre-Medicare retirees. The liability reduction for these two scenarios is limited because the window of pre-Medicare participation is finite. Therefore, the OPEB advisory group recommends against increasing the required contribution.

TIER IV CONSIDERATIONS: The OPEB advisory group recommends that the institution eliminate the Tier IV sick leave conversion program for all future employees (effective July 1, 2020). This recommendation "ties off" the final element of the OPEB program, and truly makes this a closed group of employees and retirees. The group is a living/open group today, as every new employee is hired with Tier IV (sick leave conversion) benefits. Leaving the sick leave conversion benefit in place ensures that the OPEB liability will exist in perpetuity (although at a greatly reduced level over time). The advisory group also recommends that Tier IV post-Medicare coverage be eliminated in calendar year 2024, to coincide with the phase-out of post-Medicare coverage for Tier II and III employees and retirees.