# ANALYSIS

**Public Employees Retirement System**
**Health Insurance Plans**

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**Analyst**: John Borden

**Request**: Acknowledge receipt of a report on a health insurance plans.

**Analysis**: The budget report for HB 5033 (2023), the primary budget measure for the Public Employees Retirement System, included the following budget note:

> The Public Employee Retirement System (PERS) is directed to review the healthcare insurance marketplace and report back to the Joint Committee on Ways and Means during the 2024 session on whether the pre-Medicare population within the PERS Health Insurance Program should be combined with other groups in acquiring healthcare coverage under the Oregon Health Insurance Market Place plans and whether the Affordable Care Act or Oregon Health Insurance Market Place could provide coverage for the Medicare Plan policy holders under the PERS Health Insurance Program.

<u>Background</u>
The PERS Health Insurance Program offers optional medical and dental insurance plans to eligible Tier One/Tier Two retired members, judges, their spouses, and dependents. Upon retirement, these insurance options become a choice available to all PERS retired members. While primarily serving the Medicare-eligible population, the PERS Health Insurance Program (PHIP) also offers insurance coverage options for those not yet Medicare eligible. Active members, their spouses, and dependents are not eligible for this program. These plans are permitted as 401(h) plans under Internal Revenue Service code. PERS states that the agency utilizes a third-party administrator to provide insurance services directly to members. Administrative staffing of the Health Insurance Program is budgeted under the Operations Division.

The PERS Retiree Health Insurance program is available for Tier One, Tier Two, and Judge Member Program retirees that meet enrollment and eligibility requirements. Premiums are paid by PERS to the carriers that participate in the program with funding from member benefits, premium subsidies, and member payments. These payments are administered through the Standard Retiree Health Insurance Account (SRHIA). Only Tier One and Tier Two retired members are eligible for the following subsidies (Oregon Public Service Retirement Plan members are ineligible), which are funded as part of participating employer's contribution rates:

- Retirement Health Insurance Account (RHIA): provides a $60 health insurance premium subsidy for eligible retired members who had eight or more years of qualifying service with any PERS employer and are eligible and enrolled in Medicare. Member health and dental insurance premiums are paid by the member through pension deductions, direct payments, and electronic funds transfer. Premium payments are then remitted by PERS to the health insurance carriers.

- Retiree Health Insurance Premium Account (RHIPA): provides an insurance premium subsidy for non-Medicare coverage. The subsidy is a percentage of the cost difference between the retired member coverage available through PHIP and the state employee (i.e., state agencies and the state judiciary only) coverage available under the Public Employees Benefits Board. Only retired members who have eight or more years of qualifying service and retire from a state agency are eligible. The amount of the subsidy varies with years of state service, from 50% to 100% of the difference.

RHIA has 42,750 retired members receiving benefits and RHIPA has 675 retired members. The RHIA funding level, as of December 31, 2021, was $763.2 million in assets and $369.2 million in liabilities for a surplus of $394 million and funded status of 207%. RHIPA has $82.9 million in assets and $45.9 million in liabilities for a surplus of $37 million and a funded status of 180%.

The legislatively adopted budget for the RHIP totals $217.3 million Other Funds Nonlimited. The budget is set at a level expected to cover projected retirement system benefit payments. There is also an additional cost of $2.5 million Other Funds and four positions (4.00 FTE) to administer the program.

Report Findings

The PERS report offers a thorough analysis of the agency's current health insurance program and environment and examines a number of what appear to be viable alternative options for pre-Medicare health insurance coverage for eligible PERS retirees and beneficiaries. For background, the current program has a membership in decline with, according to PERS, "...It appears the biggest reason for the drop in enrollment is due to members becoming Medicare eligible and that population not being replaced by new enrollments. This is most likely due to the rising cost of premiums for PHIP pre-Medicare plans in combination with a declining population eligible for the RHIPA subsidy." The PERS report then identifies a number of alternative options to the current PHIP including:

A. Return the PHIP to Public Employers: retirees/beneficiaries obtained pre-Medicare coverage offered through former employer.
B. Move the PHIP to the Oregon Health Insurance Market Place: retirees/beneficiaries obtained pre-Medicare coverage through the Oregon Health Insurance Market Place.
C. Expand Eligibility: expand program eligibility to allow state agency Oregon Public Service Retirement Plan retirees/beneficiaries to receive RHIA/RHIPA subsidies.
D. Eliminate the RHIPA Subsidy to Prospective Entrants: eliminate the RHIPA subsidy by closing the RHIPA plan to new entrants, but leave current participants grandfathered into the program.

The advantages and disadvantages of these options are outlined in the report along with an initial assessment of the impact to retirees and beneficiaries, employers, along with some administrative and financial considerations, including governmental accounting standards, as well as identifying the need for statutory change.

Prior Reporting

Of note, is that PERS, based on legislative direction (SB 5537, 2013), produced a similar study in 2015 albeit not as comprehensive as the current 2024 report, and reached a comparable conclusion in that RHIPA for its pre-Medicare population could be altered to allow PERS to provide that subsidy to plans outside of PHIP and that the low enrollment in this program merits further study as to the feasibility of moving this population into individual coverage under the ACA or other commercially available health plan(s).

The Joint Committee on Ways and Means recommended acknowledging receipt of the 2015 report, with direction that PERS return to the Interim House and Senate Committees on Healthcare and the Interim

Joint Committee on Ways and Means in September of 2015 on the feasibility of moving the Retiree Health Insurance Premium Account population into individual coverage under the Affordable Care Act or other commercially available health plan(s). Since those nine intervening years when that direction was provided, no substantive legislative change has been made to the PHIP.

Analysis

The PERS report is of exceptional quality and in many ways sets the standard by which reports to legislature should be measured. The report makes a compelling case that the continuance of PHIP merits further examination. Such an examination better falls under the purview of the health care policy committees of the legislature rather than the Joint Committee on Ways and Means. The challenge, however, is that health care policy committees face many completing challenges and the potential reform of PHIP may once again fail to advance. There is, however, nothing precluding the executive branch and PERS from developing a cogent strategy related to PHIP and formally presenting a legislative proposal to the legislature.

**Legislative Fiscal Office Recommendation**: The Legislative Fiscal Office recommends that the Joint Committee on Ways and Means acknowledge receipt of the report.

**Request:** Report on the review of healthcare insurance marketplace as directed in a budget note contained in House Bill 5033 (2023) by the Public Employees Retirement System (PERS).

**Recommendation:** Acknowledge receipt of the report.

**Discussion:** During the 2023 Legislative Session, PERS received the following budget note to report back to the 2024 Legislative Session, as part of the budget report for House Bill 5033:

> **<u>Budget Note</u>**
> *The Public Employee Retirement System (PERS) is directed to review the healthcare insurance marketplace and report back to the Joint Committee on Ways and Means during the 2024 session on whether the pre-Medicare population within the PERS Health Insurance Program should be combined with other groups in acquiring healthcare coverage under the Oregon Health Insurance Market Place plans and whether the Affordable Care Act or Oregon Health Insurance Market Place could provide coverage for the Medicare Plan policy holders under the PERS Health Insurance Program.*

Working with several consultants, PERS provided a report addressing the elements required in the budget note. As background, PERS offers both Medicare and non-Medicare health plans, as well as dental coverage to eligible PERS retirees and their spouses and dependents through the PERS Health Insurance Program (PHIP). Currently, PHIP includes the following three statutorily mandated programs, but the focus of this report is on the Retiree Health Insurance Premium Account (RHIPA), which covers pre-Medicare eligible members and plans.

*<u>Retiree Health Insurance Premium Account and the PERS Health Insurance Program</u>*

RHIPA pays a monthly subsidy for certain Tier One and Tier Two state retirees who are not yet eligible to receive Medicare benefits. A surviving spouse or dependent, receiving a retirement benefit from PERS may also be eligible for the subsidy. Once a retiree is eligible for Medicare, they must move to a Medicare plan. The current monthly subsidy ranges from approximately $250-$500 per month, depending on length of state service.

PHIP currently offers pre-Medicare health benefit plans through two contracted health plans, a dental plan is also available. PHIP membership has been on the decline for the last several years. In 2015, there were 2,689 members and in 2023 there were only 1,150 members enrolled. PERS believes the largest drop in enrollment is due to the fact that members are aging into Medicare and are not being replaced by new enrollments.

In addition to PHIP, public sector employees have access to other pre-Medicare benefits. These options included offerings from the Public Employees Benefit Board, the Oregon Educators Benefit Board, and local municipalities. In addition to these options, the Oregon Health Insurance Market Place (Market Place) is another option for retirees can receive pre-Medicare benefits. In general, PHIP pre-Medicare benefits premiums are more expensive than other options available without RHIPA subsidy.

*Alternatives to PHIP for Pre-Medicare Retirees and Dependents*

Option 1: Return to Former Employer Plans
Often, pre-Medicare coverage is available to retirees through their former employer. These plans often have price advantages as the total member population includes younger, healthier individuals allowing for a lower overall cost of coverage. In addition to the potential price advantages, these plans often offer more generous benefits. Moving members back to these plans does include some potential drawbacks, including the potential for plan premiums to increase for the employers as the PHIP pre-Medicare population likely has higher costs. Additionally, employers would need to agree to accept these retirees back into their medical plans, this could include the need for statutory or rule changes.

In addition to the impact on former employers, there would also need to be a determination on RHIPA subsidy payments to those outside PHIP, which would include the need for legislative changes to existing statutes. If pre-Medicare retirees outside of PHIP become eligible for the subsidy, it is likely more members would elect to receive it. Pre-Medicare retirees rejoining former employer plans would receive greater benefit choices and reduced premiums when compared to PHIP offerings. If members, were allowed to continue participating in the subsidy, there would likely be little financial impact to members.

Option 2: Move to Oregon Health Insurance Market Place
Like the first option, this would allow pre-Medicare retirees access to a greater menu of plan coverages to meet their health and financial needs. If the member is allowed to receive the RHIPA subsidy, there would likely be little financial impact in the overall monthly cost of coverage but depending on plan selections members could be responsible for more out-of-pocket expenses. Drawbacks of this option include the need for legislative changes to allow RHIPA subsidies for Market Place participants, inability to provide support to members utilizing Market Place plans, potential loss of Medicare age participants in PHIP as members elect to stay with their Market Place plans even after reaching Medicare age, and finally, the lack of potential dental plan offerings in the Market Place.

*Financial Considerations*

As of June 30, 2023, the RHIPA fund has a balance of $91.4 million. As of July 1, 2023, state agencies do not currently pay into the program as RHIPA is considered fully funded; consequently, the current contribution rate of 0.28 percent is offset by funds from current surplus. PERS offered several options to utilize the excess RHIPA funding:

- Allow Oregon Public Service Retirement Plan members to participate in the program. As the population of Tier One and Tier Two dwindles allowing OPSRP members to participate in the program would increase participation which could help improve overall rates. It is also assumed there would be a smaller participation from the OPSRP members as many do not retire until they are eligible for Medicare.

- Eliminate the RHIPA subsidy by closing RHIPA plans to new entrants, this would effectively end the program once current members reached Medicare age. Any funds in the account at the close of the program would be refunded to state agencies.

In closing, PERS provided several options for consideration and notes selection of any would likely require additional research into the administrative and operational challenges of changing RHIPA program. Additionally, any changes to the existing program would take several years to implement to ensure members are properly transitioned to new offerings.

Oregon
Tina Kotek, Governor

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January 9, 2024

The Honorable Senator Elizabeth Steiner, Co-Chair
The Honorable Representative Tawna Sanchez, Co-Chair
Joint Committee on Ways and Means
900 Court St NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

**Subject: HB 5033 (2023) PERS Budget Note Report**

The Joint Committee on Ways and Means approved House Bill 5033 (2023) with a budget note requiring the Public Employee Retirement System (PERS) to review the healthcare insurance marketplace and report back to the Joint Committee on Ways and Means during the 2024 session on whether the pre-Medicare population within the PERS Health Insurance Program should be combined with other groups in acquiring healthcare coverage under the Oregon Health Insurance Market Place plans and whether the Affordable Care Act or Oregon Health Insurance Market Place could provide coverage for the pre-Medicare Plan policy holders under the PERS Health Insurance Program.

In accordance with that budget note, PERS is reporting on our review of the healthcare insurance marketplace as it applies to the pre-Medicare population within the PERS Health Insurance Program (PHIP) program.

## Agency Action

PERS engaged with both Segal, our PHIP consultant, as well as Milliman, our consulting actuaries in developing this budget note. The following reports on the elements requested above.

## Background

PERS serves as a group sponsor for PHIP, providing health insurance services to retired members and dependents. PERS works with insurance carriers to design benefit packages, determine specifications, solicit proposals, analyze carrier responses, and award contracts based on quality of care and cost containment. PERS utilizes a third-party administrator to provide insurance services directly to members.

PHIP is comprised of three statutorily-mandated programs:

Retirement Health Insurance Account (RHIA)
Retiree Health Insurance Premium Account (RHIPA)
Standard Retiree Health Insurance Account (SRHIA)

For the purposes of this budget note, we will be addressing plans under the RHIPA statutorily-mandated program as that covers pre-Medicare eligible members and plans.

**Retiree Health Insurance Premium Account**

The Oregon Legislature established the RHIPA in ORS 238.415 in 1993, which pays a monthly contribution toward the cost for health care coverage for some state of Oregon Tier One or Tier Two retirees who are not yet eligible for Medicare. OPSRP members are not eligible for RHIPA.

The RHIPA premium subsidy is a contribution available to non-Medicare retirees who retire from a state agency and whose PERS service or disability retirement allowance or benefit effective date is the first of the month after termination from state employment. The premium subsidy is based on the number of years of qualifying state service time. The minimum service time amount to receive a subsidy is eight years, or a PERS disability retirement allowance that is computed as if the retiree had eight or more years of creditable state service time and had attained the earliest service retirement age.

A surviving spouse or dependent may be eligible to receive a RHIPA premium subsidy if they are receiving a retirement allowance or benefit from PERS or were covered under a PHIP health plan at the time of the retiree's death and the eligible retired state employee retired on or after September 29, 1991.

A retiree that is eligible for Medicare would no longer be eligible for RHIPA and must move to a Medicare plan.

Monthly subsidies are determined and provided as follows:

| **RHIPA (State of Oregon Non-Medicare) Subsidy**<br>***To determine your monthly premium, deduct the subsidy amount (based on your total years of STATE service) from your total premium amount*** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Years of State Service** | **Less than 8 years** | **8 but less than 10 years** | **10 but less than 15 years** | **15 but less than 20 years** | **20 but less than 25 years** | **25 but less than 30 years** | **30 and more years** |
| **2024 RHIPA Subsidy** | $0.00 | $253.76 | $304.52 | $355.27 | $406.02 | $456.77 | $507.52 |

**PERS Health Insurance Program (PHIP), Generally**

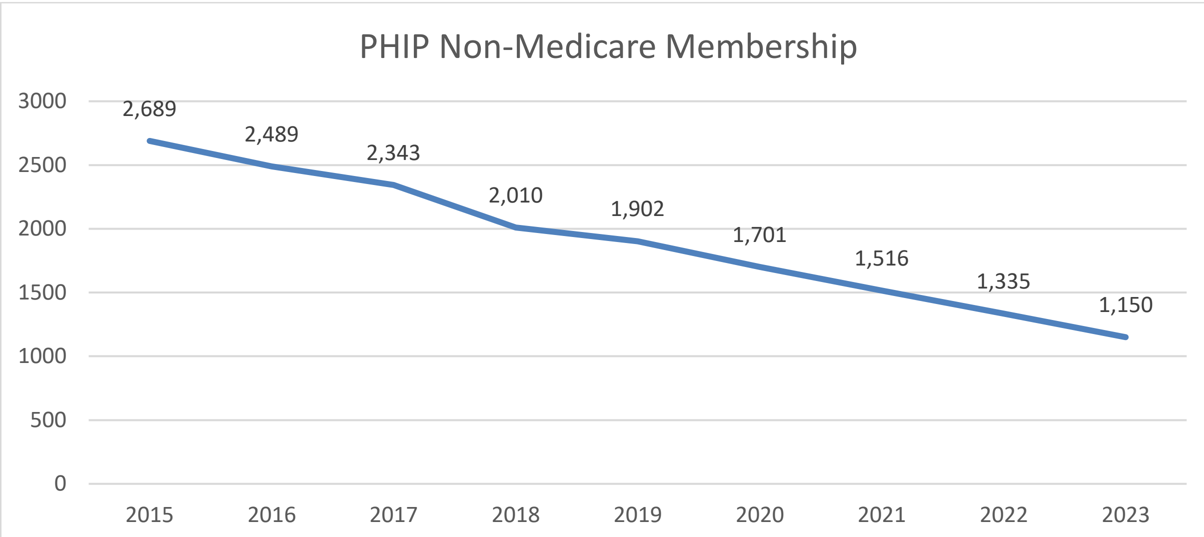
PERS contracts with various contracted health plans (CHP) on a fully insured, conventionally funded insurance basis and remits premiums collected from participating members to the CHPs monthly. PHIP offers eligible members these pre-Medicare health benefit plans through Kaiser and United Healthcare (UHC). Members have a choice of Preferred Provider Organization (PPO)/Health Maintenance Organization (HMO) plans and High Deductible Health Plans (HDHP's) with a Health Spending Account (HSA).

Members who elect medical coverage are also eligible to elect dental coverage. There may be a twelve-month waiting period for some dental services if a member has not had twelve months of continuous employer-sponsored dental coverage immediately preceding enrollment into a PHIP dental plan.

In selecting a PHIP health plan and participating, a member must maintain a permanent residence (not simply a mailing address) within a health plan's service area and reside in the United States.

## Current Membership

PHIP's pre-Medicare medical membership has been declining over the last several years. Total pre-Medicare membership is approximately 1,150 of which 435 are with Kaiser and 715 are with UHC. The following is the membership trend over the past ten years which shows a steady decline in membership.




It appears the biggest reason for the drop in enrollment is due to members becoming Medicare eligible and that population not being replaced by new enrollments. This is most likely due to the rising cost of premiums for PHIP pre-Medicare plans in combination with a declining population eligible for the RHIPA subsidy.

We've further broken down the past four years to show which members receive a RHIPA subsidy out of the total population, as well as the average total monthly RHIPA subsidy paid on behalf of those members receiving RHIPA.

| YEAR | TOTAL MEMBERS | TIER ONE/ TIER TWO MEMBERS RECEIVING RHIPA | AVERAGE TOTAL MONTHLY RHIPA SUBSIDY | NON RHIPA TIER ONE/ TIER TWO MEMBERS | NON RHIPA OPSRP MEMBERS |
|---|---|---|---|---|---|
| 2020 | 1701 | 801 | $319,752 | 883 | 17 |
| 2021 | 1516 | 704 | $292,332 | 777 | 35 |
| 2022 | 1335 | 619 | $267,093 | 687 | 29 |
| 2023 | 1150 | 528 | $235,256 | 594 | 28 |

Out of the retired members not receiving RHIPA, the two main reasons are: either the member is a Tier One/Tier Two member and did not retire from a state agency, or they are an OPSRP member who does not qualify for the subsidy. Additionally, many retirees have returned to work after retirement as a result of SB 1049 (2019) where members' ability to return to work post-retirement, was changed. This may be impacting PHIP pre-Medicare enrollment numbers and account for some of the decline in PHIP membership over the past few years. Members may have the ability to enroll back on to their employer plan upon returning to work. Agencies most likely have different rules as to how this population is classified upon return and whether they are considered as active employees for insurance purposes.

As noted in the Budget Note request, public sector employees within Oregon have access to other offerings outside of PHIP for pre-Medicare benefits. These benefit offerings can be through the group plans offered by the Public Employees Benefit Board (PEBB), Oregon Educators Benefit Board (OEBB), and other local municipalities (cities, counties, etc.). There is also the Oregon Health Insurance Market Place (Market Place) where members can also elect to receive benefits as a pre-Medicare retiree. Due to these market dynamics, it is likely that the PHIP plan offerings are being selected against.

Given that PHIP pre-Medicare premiums are considered more expensive and other choices are available, the eligible retirees and/or dependents that join PHIP as a PERS pre-Medicare retiree primarily do so for financial reasons, given they may receive the RHIPA subsidy. PHIP may also be a convenient choice for a pre-Medicare spouse who is a dependent to a PHIP Medicare retiree, especially if the spouse does not have any other pre-Medicare group medical plan options. As noted below, many of the employer plans will likely result in lower member premiums when compared to PHIP's, however, under current state statute, members are not eligible to receive the RHIPA subsidy if they don't participate in the PHIP plans.

It appears members joining PHIP likely fall into one or more of these scenarios:

- Seeking more generous benefits as they are higher utilizers of care, have higher severity of conditions, and/or higher prescription drug spending.
- Cannot afford coverage from the Market Place plans because of their higher utilization or prescription drug spending.
- Outside of the Marketplace, eligible participants don't have any other group medical plan coverage available. This is likely the case for many dependents of PHIP Medicare retirees when a dependent is not yet age 65.
- Are eligible to receive the maximum RHIPA subsidy which results in lower net premiums compared to other plan options.
- Wishing to continue dental coverage.

As a result of these factors, the anti-selection toward PHIP plans arises. In general, with declining membership that becomes increasingly made up of higher risk members, the costs result in increased overall premiums that then deter healthier members with other plan options from joining.

## Potential alternatives to PHIP for pre-Medicare retirees and dependents

### Returning Current PHIP pre-Medicare retirees and dependents to Former Employer Plans

Many public sector employees within Oregon have access to other group benefit plan offerings for their pre-Medicare benefits in addition to PHIP, such as with their former employer. These programs often have a price advantage on PHIP's plans as they are underwritten with the active member population who are a younger and healthier group. This blending of actives with the retirees results in plan premiums that can be much lower than PHIP's offerings. Additionally, many of these plans also offer more generous benefits.

Due to pre-Medicare retirees' higher cost, including them back into an active population may have a negative impact on the individual employer plans' current premiums.

Operationally and legislatively, several items should be considered for this scenario to be implemented, some which are as follows:

- PEBB, OEBB and the other employer sponsored plans must agree to accept these additional retirees into their medical plans.
- Plan rules for PEBB, OEBB, and other employers would also need to be updated to allow those retirees who declined retiree coverage previously to become eligible once more. In addition, plan rules would also need to be reviewed to ensure pre-Medicare dependents may continue to participate in the former employer plans until Medicare eligible and then be allowed to move to PHIP plans in the case where member is participating in a PHIP Medicare plan.
- Legislative consideration with updated rules surrounding the RHIPA subsidy and acceptance into a non-PHIP program would also need to be explored and potentially brought forth.
- Members participating in the PHIP HDHP with an HSA account and coordination.
- Participation rules in the PHIP dental plan and coordination with any dental plan coverage under former employer should be considered.

*PHIP Potential Impacts*

If these current pre-Medicare retirees and their dependents return to their former employer plans, and if PHIP would continue to pay the same RHIPA subsidy to pre-Medicare retirees who are eligible, there would not be any financial impact to PHIP. In addition, PHIP's Other Post-Employment Benefits (OPEB) liabilities should also not be impacted given no change in benefit obligation, i.e. the subsidy. However, legislation and operations would need to change for PHIP to pay RHIPA subsidies to eligible retirees not in PHIP plan offerings.

Importantly, the lack of financial impact is only true if this change is narrowly targeted to current PHIP pre-Medicare retirees and dependents who receive a RHIPA subsidy. If any changes made to allow RHIPA subsidies to be paid to those in non-PHIP plans were also applied to either future retirees or retirees who previously would have been eligible for a RHIPA subsidy but chose a non-PHIP plan, the financial impact and change to RHIPA liabilities would be significant. In recent years less than 20% of members who are eligible for a RHIPA subsidy have ultimately elected to receive it, presumably because many are electing non-PHIP plan options. If the criteria for paying the RHIPA subsidy was expanded to include non-PHIP plans the election percentage would be expected to increase dramatically, which would have a direct impact on the expected OPEB liabilities**.**

A benefit to PHIP could be reduced administration associated with eliminating the pre-Medicare plans. However, there will be also the administrative / operational logistics of passing information (and potentially subsidies) over to PEBB, OEBB, and other employer plans which would need to be solved.

Another consideration is handling of families who may have coverage in different health care plans in this scenario. Given split families are handled today within various former employer groups, this is likely not a significant issue.

One other consideration for PHIP, although likely small in this scenario, is a potential membership loss of the age-in Medicare membership. Currently, retirees can "age-in" to the PHIP Medicare programs. By joining the PHIP program as a pre-Medicare retiree (either as a retiree or a dependent) these retirees are more likely to then move into the PHIP Medicare programs as they age. However, with good communication strategies, we believe that PHIP could mitigate the impact of this dynamic and maintain high membership in its Medicare plan offerings.

PHIP should consider any potential consequences in the loss of the paternalistic nature of having retired members for their entire retiree lifespan. While this may be to a lesser extent in this scenario, consideration should be made of only having the retirees during their time within Medicare plans. There are different vendors in some former employer plans which are not aligned with PHIP's. When a member becomes Medicare eligible and joins a PHIP Medicare plan, their claims and medical history as a pre-Medicare retiree could be lost in this transition until claims associated with their condition are generated to activate the Medicare programs. This could be happening today as well, however, it will likely be more dramatic in this scenario.

Lastly, the impact on PHIP dental plan offerings should be considered. Currently the pre-Medicare retirees are pooled with Medicare retirees for all dental plan offerings. If these pre-Medicare retirees are removed from the dental risk pool (which would be the case if they are moved to a different to another group benefit pre-Medicare medical plan under current plan rules), there is the potential for a negative impact to the plan premiums for those older Medicare retirees still on the PHIP dental plans.

*PHIP Retiree Impacts*

From a retiree perspective, members would likely benefit in joining their former employer's health insurance program given potential additional benefit choices, reduced premiums and better benefits when compared to the pre-Medicare PHIP benefit plans. Assuming members who are eligible for a RHIPA subsidy would continue to receive that subsidy, there would not be a financial impact for the affected members. However, legislation would need to change, to allow those retirees who are eligible to receive RHIPA to receive it outside of the PHIP program.

In the PHIP plan, pre-Medicare retiree premiums are rated separately on the risk of these members. Pre-Medicare retirees, based on industry standards, can cost anywhere from 150% to 190% more than the cost of actives. In other employer programs, pre-Medicare retirees are combined with actives and rated as a combined risk pool. Given there tends to be a much higher proportion of actives versus retirees participating in a combined risk pool, the actives subsidize the retiree costs, resulting in much lower premiums for the pre-Medicare retirees when compared to a stand-alone pre-Medicare plan.

On the flip side, premiums can increase for actives in a combined risk pool. However, it tends to be a more mitigated increase, given the ratio of active to retired members. The impact to premiums when combining a risk pool will vary by plan, membership makeup, actives to retiree ratio, and number of PHIP pre-Medicare retirees who opt to join a plan.

As with the PHIP program considerations, other benefits available to PHIP members should be considered such as dental and HSA offerings that may or may not be available from other sources.

*PEBB, OEBB and Other Public Plans Potential Impacts*

From the other public plans' perspectives of incorporating pre-Medicare retirees back into their pool, there are a couple of issues if PHIP pre-Medicare retirees and dependents join their program.

First, overall premiums in their respective plans may increase because of adding more expensive retirees to a risk pool, as noted above. A second potential financial consideration for the non-PHIP plans would be the introduction of an additional OPEB implicit subsidy liability. Government Accounting Standards Boards (GASB) 75 rules indicate that the “true” cost of pre-Medicare retirees must be reflected in the OPEB liabilities. Because actives would subsidize the true cost of pre-Medicare retirees, this generates an implicit subsidy liability, thus adding to the OPEB liabilities for each non-PHIP plan. Note the GASB 75 disclosures would be the responsibility of each employer from which the retiree (and dependents) resides. It is our understanding that this implicit subsidy liability generated for each retiree would be an additional GASB 75 liability for each employer entity in which the pre-Medicare retiree participates. Discussions with the actuary performing the GASB 75 valuations for the employer plans would be warranted to determine the additional liability associated with this implicit subsidy.

A summary of the impacts under this scenario is below:

**Return to Active Plan Offerings**

| Impacted Entity | Benefits/Pros | Considerations/Cons | Neutral |
|---|---|---|---|
| OR PHIP | Reduced administration; overall PHIP plan cost reduction | Split families; Subsidy transfers; Loss of age-ins; Paternalistic nature of having member for entire retirement; RHIPA subsidy | Annual subsidy cost impact; OPEB liability cost impact |
| PEBB, OEBB and Other Public Group Plans | Additional membership | Increased administration; Split families; Increased plan costs; Additional OPEB liability associated with implicit subsidy; administrative issue with RHIPA subsidy | |
| Member | Reduced costs; potentially more generous benefits; more choice | Different entity providing retiree benefits; loss of advocacy services provided via PHIP; programs not designed specifically for retiree needs, HSA accounts, dental plans, and RHIPA subsidy | |

Note: Neutral considerations  would be neutral only where current PHIP pre-Medicare retirees continue to receive the subsidy.

**Move to Oregon Health Insurance Market Place (Market Place)**

*PHIP Impacts*

A benefit to PHIP in moving pre-Medicare members to the Market Place would be reduced administration, similar to the first scenario. In addition, PHIP costs could be neutral, assuming current pre-Medicare members would retain their RHIPA subsidy, like the above scenario. However, for this to take place, legislation will need to be updated to allow members to receive RHIPA payments outside of the PHIP program. Additionally, member education would be required to help members review subsidies that may be available through the exchange and compare those to their current RHIPA subsidy, if any.

A potential consideration would be the removal of PHIP's paternalistic nature of its program. While also a consideration in the prior scenario, it could be a larger impact under this option. If a pre-Medicare member moves to the Market Place, PHIP will no longer receive member information to potentially assist the member. Medicare carriers would not receive claims information on members coming from the Market Place or have insights to support them initially. Many times, a member's medical conditions are not known until they generate a claim associated with their condition. As a result, vendors tend to be conservative when pricing in these situations.

In addition, another consideration for PHIP under this scenario could lead to loss of Medicare age-in membership. While this is a consideration under both scenarios, it could have a greater impact in this scenario. Given members in this scenario would already be on an individual product in the Market Place as a pre-Medicare retiree, members may choose to stay on the individual Medicare market vs. moving back to PHIP group Medicare plans. Given all the communication a retiree receives from Medicare plans during age-in enrollment, this can be confusing to a member. PHIP may struggle to bring these retirees into the Medicare program due to a number of factors; including the convenience of staying in individual plans that are chosen to tailor a member's situation, different and many plan options available via the individual marketplace, premiums, etc.

Lastly, consideration would need to be given to the impact on the dental plan offerings. Currently the pre-Medicare retirees are pooled with Medicare retirees for all dental plan offerings. As these pre-Medicare retirees are removed from the dental risk pool, there is the potential for a negative impact to the plan premiums for those older Medicare retirees still on the dental plans.

*PHIP Member Impacts*

From a member's perspective, there is choice with Market Plans; the member could choose a plan based on their personal financial and medical circumstances. The financial benefit to a member depends on their economic situation, the PHIP subsidy, the plan chosen, and their eligibility for any federal subsidies. In general, ACA plans, like the Market Place, tend to be less generous (higher deductibles and out-of-pocket maximums, increased member cost sharing, particularly for utilizers), with more narrow networks and stricter pharmacy formularies. While the premiums may be lower, members could pay higher out-of-pocket costs when utilizing these benefits as compared to group plans. However, for some pre-Medicare retirees, the Market Place plans could potentially be more financially beneficial, even when compared to former employer plans. It depends if they are eligible for any federal subsidies based on their income and how they utilize the plan.

For the pre-Medicare retirees who would no longer have access for dental via PHIP, an additional challenge presents itself. Many Market Place plans do not include dental coverage. So, for those retirees who desire dental, they would need to find an individual solution to fit their needs.

A summary of the impacts under this scenario is below:

**Move to Oregon Health Insurance Market Place (Market Place)**

| Impacted Entity | Benefits/Pros | Considerations/Cons | Neutral |
|---|---|---|---|
| OR PHIP | Reduced administration | Loss of claims history, conditions; Loss of paternalistic benefits, member details to aid in supporting member; Potential increased costs from Medicare vendors; disjointed plan offerings between Pre- and Medicare; impact to dental plan | Annual subsidy cost impact |
| Member | Potentially reduced costs: More choice, fit to member situation | Narrow networks; less generous plan designs, potential additional costs when utilizing plan; potential loss of RHIPA subsidy, dental plan offerings, and HSA; loss of PHIP member advocacy services | |

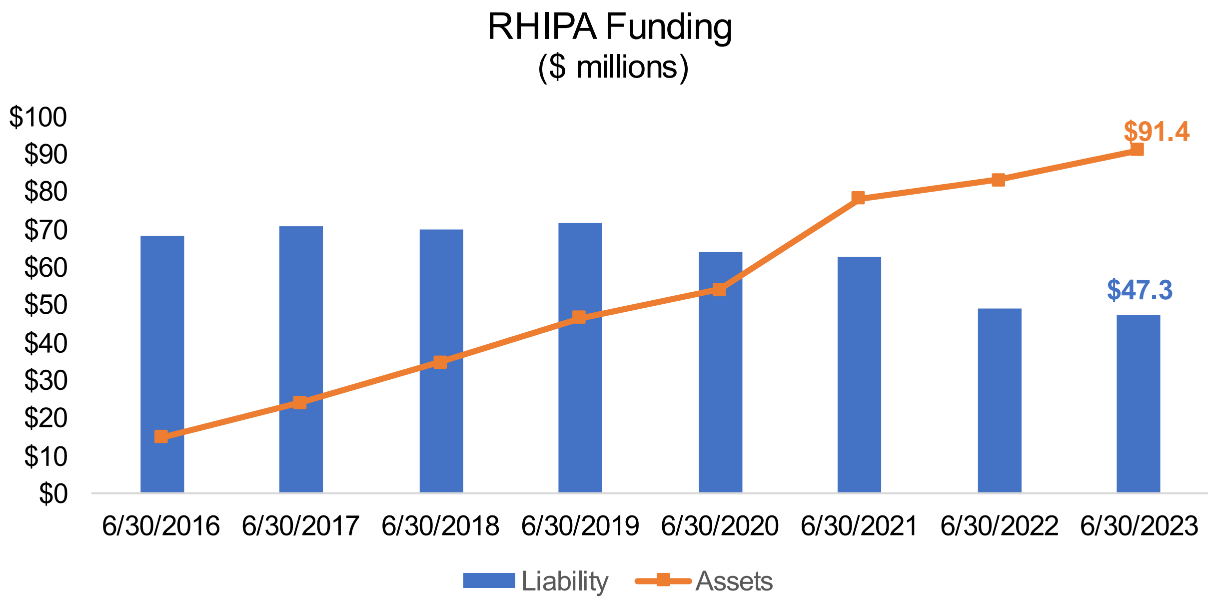
Note: Neutral considerations would be neutral only where current PHIP pre-Medicare retirees continue to receive the subsidy.

**Financial Considerations**

For the fiscal year ended June 30, 2023, state agencies contributed 0.11% of PERS covered salaries for Tier One and Tier Two members to fund the normal cost portion of RHIPA benefits. State agencies contributed 0.17% of all PERS-covered salaries to amortize the unfunded actuarial accrued liability of the RHIPA program over a fixed period with new unfunded actuarial accrued liabilities being amortized over 10 years. The first 10-year amortization base for outstanding RHIPA UAL amounts began December 31, 2007. These rates were based on the December 31, 2019, actuarial valuation. As of July 1, 2023, the rates paid by state agencies for RHIPA benefits fell to 0.00% reflecting the program's funded status of well over 100% in the December 31, 2022 actuarial valuation.

The number of RHIPA participants receiving benefits was 529 for the fiscal year ended June 30, 2023. As of June 30, 2023, there were 9,716 active members who meet the requirements to receive RHIPA benefits when they retire. Inactive members are not eligible for these benefits. All subsidy payments from the RHIPA are initially deposited in the Standard Retiree Health Insurance Account and subsequently remitted to the appropriate PERS health plan.

The RHIPA plan fiduciary net position balance represents the program's accumulation of employer contributions and investment earnings, less premium subsidies and administrative expenses. As of June 30, 2023, the balance of this account was $91.4 million. The following chart shows the RHIPA funded status over the past eight years.




**Possible uses of current excess RHIPA funding**

*Allow OPSRP retirees to receive RHIA/RHIPA subsidies.*

Currently only Tier One and Tier Two retirees are eligible to receive the RHIA and RHIPA health insurance subsidies. Both programs are over 100% funded. With the percentage of OPSRP members increasing, we will have a decreasing population of Tier One and Tier Two members eligible to receive the subsidies. Extending the subsidies to **state agency** OPSRP members may increase OPSRP participation in the health insurance programs, which, in turn, should improve rates (by increasing numbers and including younger retirees as the Tier One and Tier Two population ages). Note that, since all retirees are eligible for Medicare at age 65, and the normal retirement age for OPSRP is 65, a smaller population of OPSRP retirees will be able to participate in the RHIPA subsidy (i.e. police & fire, early retirees, retirees eligible by age and years of service). The RHIPA assumed participation rate ranges from 10% for members eligible for the lowest subsidy level to 25% for members who qualify for the maximum subsidy with 30+ years of state service.

The following is an initial analysis on the financial implications of providing the RHIA/RHIPA subsidies to state agency OPSRP members on a prospective basis.

This analysis assumes:

- OPSRP members are immediately granted eligibility for future RHIA and RHIPA subsidies on the same terms as Tier One/Tier Two members (including all service-related criteria). Only OPSRP members working for state agencies are eligible for RHIPA.
- Previous service in OPSRP counts towards service requirements for RHIA and RHIPA eligibility.
- The RHIA subsidy remains at a flat $60 and the RHIPA subsidy continues to increase with the current assumed trend.
- Only OPSRP retirees who first become eligible for a PHIP plan in the future will be allowed to receive a RHIA or RHIPA subsidy. No liability is assumed for allowing current OPSRP retirees who already made their election decision (whether or not currently participating in a PHIP plan) to benefit from these subsidies or revise their election. This means in our analysis the only current OPSRP retirees eligible for RHIA would be those younger 65 as of

the December 31, 2022 valuation date. Only current OPSRP actives working for state agencies would be eligible for the RHIPA subsidy and only when retiring directly from employment prior to age 65.

The tables below show the effect of expanded eligibility on RHIA and RHIPA liabilities from the December 31, 2022 actuarial valuation and the minimal overall financial impact to the funds. The chart shown below is in millions.

| | Baseline 12/31/2022 Valuation | Future OPSRP Retirees Eligible |
|---|---|---|
| **RHIA Subsidy** | | |
| Total Actuarial Accrued Liability | $345.0 | $400.0 |
| Normal Cost | 1.3 | 5.6 |
| Actuarial Value of Assets | 720.0 | 720.0 |
| **Funded Percentage** | **209%** | **180%** |
| **Unfunded Accrued Liability (if any)** | **$0.0** | **$0.0** |
| Covered Payroll | $3,388.6 | $13,856.6 |
| Normal Cost Rate | 0.04% | 0.04% |
| UAL Contribution Rate | (0.04%) | (0.04%) |
| **Total RHIA Rate*** | **0.00%** | **0.00%** |
| **Illustrative Annual Contribution** | | **$0.0** |
| **RHIPA Subsidy** | | |
| Total Actuarial Accrued Liability | $41.3 | $65.0 |
| Normal Cost | 0.9 | 2.9 |
| Actuarial Value of Assets | 85.9 | 85.9 |
| **Funded Percentage** | **208%** | **132%** |
| **Unfunded Accrued Liability (if any)** | **$0.0** | **$0.0** |
| Covered Payroll | $1,008.9 | $4,278.2 |
| Normal Cost Rate | 0.09% | 0.07% |
| UAL Contribution Rate | (0.09%) | (0.03%) |
| **Total RHIPA Rate*** | 0.00% | 0.04% |
| **Illustrative Annual Contribution**** | **$0.0** | **$1.7** |

**Rate shown is applicable to Tier One/Tier Two payroll in the Baseline scenario and to combined payroll in the scenario with OPSRP members eligible.*
***Based on projected 2023 payroll and includes rates applied to Tier One/Tier Two and OPSRP payroll.*

*Eliminate the RHIPA subsidy by closing RHIPA plans to new entrants*

As noted above, approximately 529 retirees are receiving the RHIPA subsidy. Participation in the pre-Medicare plans are generally low and even fewer receive the RHIPA subsidy. Currently, RHIPA is over 100% funded. If the plans under RHIPA were to be closed and current members grandfathered, consideration would need to be given to retirees currently receiving the subsidy and either grandfathering the subsidy out, or not allowing new retirees to enter.

RHIPA was established as an IRC 401(h) account under ORS 238.415. ORS 238.415(7) states that upon satisfaction of all liabilities for providing the RHIPA subsidy benefit, any amount remaining in the RHIPA shall be returned to the state. So, the question comes down to whether eliminating the RHIPA subsidy on a prospective basis or preventing future entrants into the PHIPA subsidy would mean that the RHIPA account has satisfied all liabilities.

Eliminating the RHIPA subsidy on a prospective basis means closing the RHIPA account and, since it is currently running a surplus, any remaining funds can be refunded to the state. A pro-rata distribution formula would be reasonable for the respective state agencies.

On the other hand, excluding future new entrants into RHIPA does not mean satisfaction of all liabilities since we would continue to provide subsidies to existing retirees. In that scenario, we would need to wait until no existing retirees are left in RHIPA before we can distribute any remaining funds back to the state.

**Conclusion**

We have provided a high-level summary of the potential impacts of the Budget Note to consider. There are multiple operational and administrative challenges to work through in considering the best avenue for pre-Medicare retirees to receive health coverage. Additionally, a number of these scenarios may call for changes to current legislation to ensure retirees are not losing out on important benefits offered via the PHIP program. Lastly, any change would likely require a multi-year process to ensure the retirees are educated on what is changing and to ensure that all operational logistics are appropriately addressed.

**Action Requested**

Acknowledge receipt of the report.

**Legislation Affected**

This report reflects Budget Note directives as approved in House Bill 5503 (2023). Please contact Kevin Olineck, Director at (503) 603-7695 with any questions.

Sincerely,

Kevin Olineck, Director
Oregon Public Employees Retirement System