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Dec. 13, 2016

The Interim Study: TRTA Analysis

Tim Lee, *Inside Line*, 11-18-16

The November 17 report provides two options for the Legislature to consider: provide a $400 monthly stipend to non-Medicare eligible retirees to purchase health insurance, or create a high-deductible plan for non-Medicare eligible retirees. Each option would require all Medicare eligible participants, retirees who are 65 and older, to go into Medicare Advantage or choose another plan outside of TRS-Care.

OPTION 1:
Health Reimbursement Account & Medicare Advantage Plan ("HRA Plan")

Non-Medicare participants: Receive $400 per month in a Health Reimbursement Account (HRA). These participants would purchase health care via the federal exchange and would be prohibited from using TRS-Care plans until Medicare eligible.

Non-Medicare participant dependents: Unable to use TRS-Care plans until the retiree becomes Medicare eligible.

Medicare-eligible participants: Must use TRS-Care Medicare Advantage plus Medicare Part D for prescriptions, the only plan available through TRS, or utilize an option outside of TRS-Care.

Non-Medicare eligible dependents of Medicare eligible retirees: Eligible to enroll in the TRS-Care 2 plan.

Proposed effective date: January 1, 2018

Concerns:

This option assumes that the health care exchange will still be available in January 2018, an issue TRTA has concerns about.

A retiree-only HRA is not subject to the Affordable Care Act's insurance market reform rules.

Though many TRS retirees who are Medicare eligible enjoy the Medicare Advantage plan, retirees in rural areas struggle with having adequate access to providers.

It is unclear from the report whether or not Medicare Part B only participants will be required to purchase Medicare Part A out-of-pocket, which would be an additional cost of approximately $400 per month.

The out-of-network maximums are not limited by federal law, meaning the maximums would be set by the TRS Board.

OPTION 2:
High Deductible & Medicare Advantage Plan ("HD Plan")

Non-Medicare participants: Eligible to enroll in a high deductible health care plan similar to TRS-Care 1. The plan would feature a $4,000 in-network deductible.

Non-Medicare participant dependents: Eligible to enroll in a high deductible health care plan similar to TRS-Care 1. The plan would feature a $4,000 in-network deductible.

Medicare-eligible participants: Must use TRS-Care Medicare Advantage plus Medicare Part D for prescriptions, the only plan available through TRS, or utilize an option outside of TRS-Care

Non-Medicare eligible dependents of Medicare eligible retirees: Eligible to enroll in the TRS-Care HD plan

Proposed effective date: January 1, 2018

Concerns:

A $4000 in-network deductible would be very difficult for retirees to afford, in addition to the maximum out-of-pocket limits.

Though many TRS retirees who are Medicare eligible enjoy the Medicare Advantage plan, retirees in rural areas struggle with having adequate access to providers.

It is unclear from the report whether or not Medicare Part B only participants will be required to purchase

Medicare Part A out-of-pocket, which would be an additional cost of approximately $400 per month.

The out-of-network maximums are not limited by federal law, meaning the maximums would be set by the TRS Board.

Below is the committee's prediction of FY 2018 premium costs for retirees assuming no plan design changes and no increase in contributions from the state, school districts, or active school personnel. These amounts would increase year over year as medical costs continue to rise.

The Bottom Line

Let's all come together and do our best to educate our legislators about the need to improve funding for TRS-Care! Our response will not be measured by fear and misinformation, but by leadership, courage and the belief that when we come together and work in good faith, better solutions will be the outcome.

There is no silver bullet to resolve this issue. Our work with the Legislature in providing quality, affordable health insurance for our public education retirees is far from over.

Members, know this: while the options presented by the study group may cause you concern and are far from the solutions TRTA wanted to see, inevitably, TRS-Care faces a $1.3 to $1.5 billion shortfall by the end of the next biennium.

These may not be the options that pass, but drastic measures must be taken during the 85th Legislative Session! If the Legislature does nothing at all, retiree premiums would have to cover the entire $1.3 to $1.5 billion shortfall. <u>This also means increased copayments, deductibles, and out-of-pocket expenses for all plan levels.</u>

We have many friends in the Texas Legislature. We must work hard, together, with them, with a strong, unified voice to find the best solutions for your health care!

TRS Board discusses Pension Fund, Legislative Study on Health Care

Tim Lee, Inside Line, 12-2-16

The Teacher Retirement System of Texas (TRS) Board of Trustees met December 1 to discuss topics such as the actuarial valuation of the pension fund, the current state of the TRS-Care retiree health insurance program, and the conclusions provided by the Legislative Interim Study Group regarding retiree health care….. [The major report on the TRS pension fund as August 31, 2016 was given by] Gabriel, Roeder, Smith & Company (**GRS**), a national actuarial and benefits consulting firm....

Actuarial Condition of the Pension Fund

2016 is the first year that changes from the 2013 Legislative Session made through Senate Bill 1458 have been fully implemented, which has an impact on the fund's liabilities, funded ratio and funding period. GRS's forecast is mostly unchanged from their previous valuation. Market assets returns for 2016 are 7.3 percent, net of investment expenses. A small liability loss continues to occur primarily due to active employee salary increases being larger than expected. A 2.3 percent population growth has held the funding period down. The 34-year funding period is based on smoothed assets. All figures assume that all current statutory contribution levels continue and that there are no further benefit enhancements, such as cost-of-living adjustments (COLAs)….

[Tim Lee's unedited report is available at trta.org.]

….The funded ratio of TRS ranks in the 64th percentile in a comparison with other large public employee retirement systems. The funding period is better than expected due to a 2 percent growth in active membership, meaning more public school employees were hired in 2016 and are now contributing to the fund.

The pension fund has a 5.88 percent average compound return (on market value) over last 10 years. That figure is 7.48 percent over last 20 years, and 8.78 percent since 1989….

GRS (Gabriel, Roeder, Smith & Company) stated that it will take better than anticipated investment experience (higher market returns), better than anticipated demographic experience (more active employees, for example), increased contributions, time, or a combination of these factors to attain a funding period at or below 30 years and make the fund actuarially sound again….

TRTA believes it is vital that the Legislature make a plan to help retirees by working with TRS to improve funding, as a cost-of-living increase is a top priority for many of our TRTA members.

Update on TRS-Care, TRS Board Discussion of Legislative Interim Study Group Report

The TRS-Care retiree health insurance program is a vital retirement benefit for our public school employees. TRS-Care is facing growing financial distress. In the first few days of December, the TRS Board of Trustees was provided with an overview of the program, its costs, projected funding shortfalls for the next several fiscal years, and the recommendations provided in the recently released legislative study group report.

In 2016, $1.3 billion was provided by multiple funding sources to pay for TRS-Care. Of this, retiree contributions (premiums) accounted for 28.9 percent, state contributions for 24.7 percent, active employee contributions for 16.1 percent, school district contributions for 14.6 percent, and federal programs for 15.3 percent.

State, district and active employee contributions are based on a percentage of active employee payroll rather than medical trends. TRTA has criticized the funding mechanism for many years, as medical and pharmacy costs continue to skyrocket, while payroll growth is slow or stagnant….

Growing shortfalls are expected for the program if nothing is done during the coming legislative session to alleviate TRS-Care's funding woes. By FY 2018, the shortfall is projected to be $335 million, growing to over $1 billion by FY 2019, and to more than $2 billion by FY 2020.

TRS Executive Director Brian Guthrie provided a high-level overview of the legislative interim study… [saying] "It is important to emphasize that this is a starting point—a lot of work needs to be done and will be done during session." **Guthrie indicated that the bottom line is something needs to be done to address the long-term solvency of TRS-Care. He also emphasized that the legislative group was tasked with looking at recommendations under the assumption that no new funding would be available for TRS-Care, and the report is written from that perspective.** TRS will continue to be a resource to the Legislature, as will TRTA, when session begins and other solutions are considered.

Guthrie reviewed the varied cost drivers for TRS-Care mentioned in the report. There have been increases in the cost of medical services, as well as prescription drug costs. Other factors include maintaining access and choice in managing providers, increased utilization of the program due to an aging population, and changes in the number of retirees using the plan--particularly **Non-Medicare participants. Non-Medicare retirees cost up to four times more than Medicare-eligible participants. The report states that "in FY 2015, each non-Medicare eligible participant in TRS-Care 3 cost the plan $13,640 versus $2,855 for a retiree enrolled in Medicare Advantage and Medicare Part D plans."**

…[T]he study group presented two plan options to improve TRS-Care solvency while assuming that current funding levels by the state, school districts and active employees would remain the same: provide a $400 monthly stipend to non-Medicare eligible retirees to purchase health insurance, or create a high-deductible plan for non-Medicare eligible retirees.

Each option would require all Medicare eligible participants, retirees who are 65 and older, to go into Medicare Advantage or choose another plan outside of TRS-Care. The Medicare Advantage plan would look much like the current Medicare Advantage plan level 2. If this plan were put into place, the

Legislature would "direct TRS to develop a policy to ensure retirees have sufficient provider access by offering alternative providers in those areas."

….As Guthrie continued his explanation of the report, he cited the report's claim that **"if drastic measures are not taken during the 85th Legislative Session, the TRS Board of Trustees would have limited flexibility in providing a new plan design to continue any type of health care plan," and would be "forced to increase retiree premiums to account for the projected $1.3 to $1.5 billion shortfall."**

…. "Making no changes (to TRS-Care) is really not an option," said Guthrie, stressing that something must be done to prevent a situation like this one from occurring.

Members, please know that this report is a STARTING POINT for discussion on how to resolve funding issues with TRS-Care. Our friends in the Texas Legislature have reached out to us, expressing a strong desire to keep the lines of communication open and work with TRTA on other solutions….

Aetna MA participants will be automatically enrolled in the new Humana MA plan.

Tim Lee, Inside Line, 12-5-16

This information is on the TRS website:

"If you are already enrolled in a TRS-Care Medicare Advantage plan through Aetna, you do not need to take any action. Humana will be the insurer for your plan beginning January 1, 2017.

If you are in a standard TRS-Care 2 or 3 plan, you can enroll in a corresponding level of Medicare Advantage (or lower) between October 15 and December 7. To enroll, contact TRS Health Benefits directly at 1-888-237-6762. If you want to keep your standard TRS-Care plan, you don't need to take any action."

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