

# PEEHIP UPDATE

*House Ways and Means Education Committee*

February 12, 2019

Diane Scott, CPA, CGMA

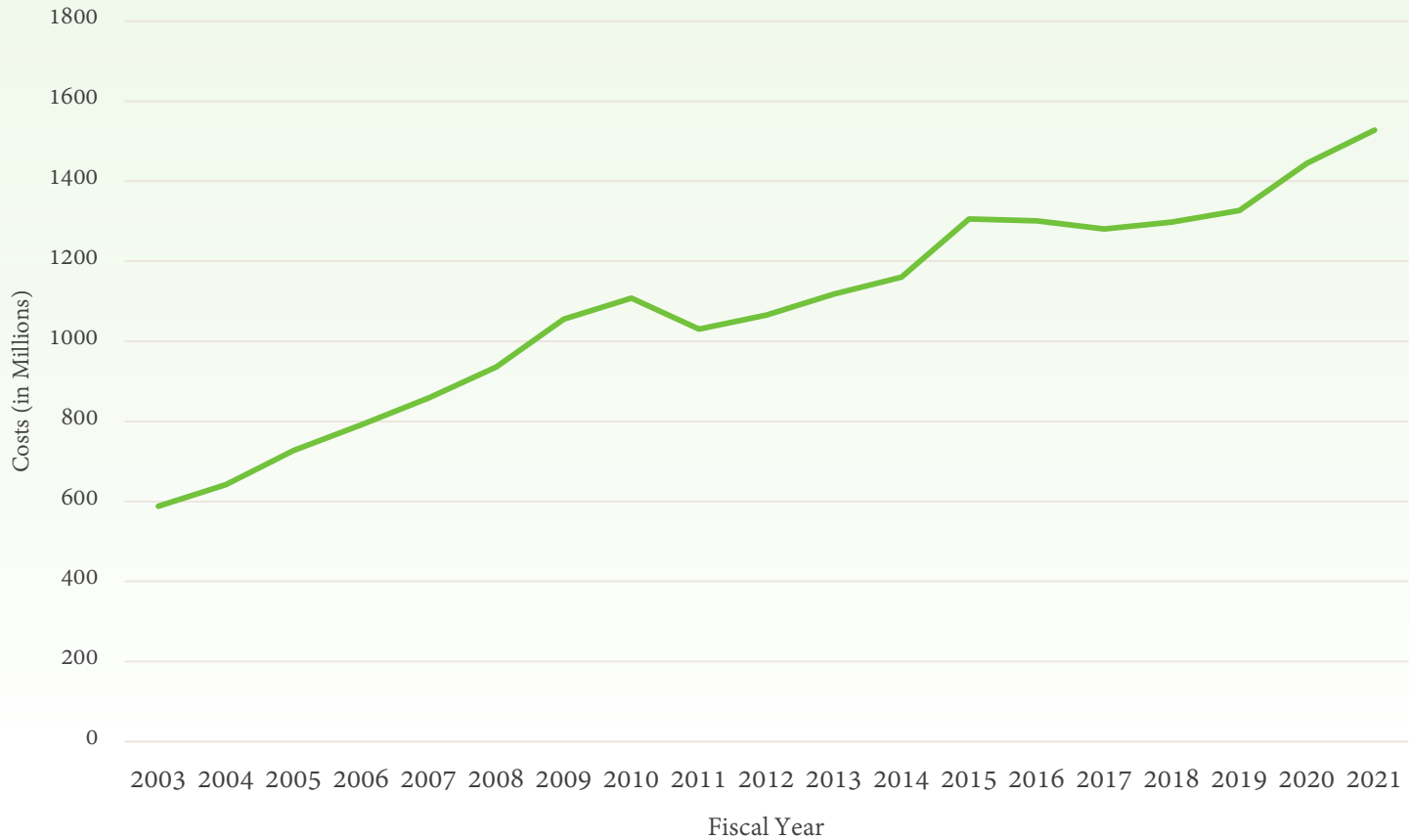
Retirement Systems of Alabama



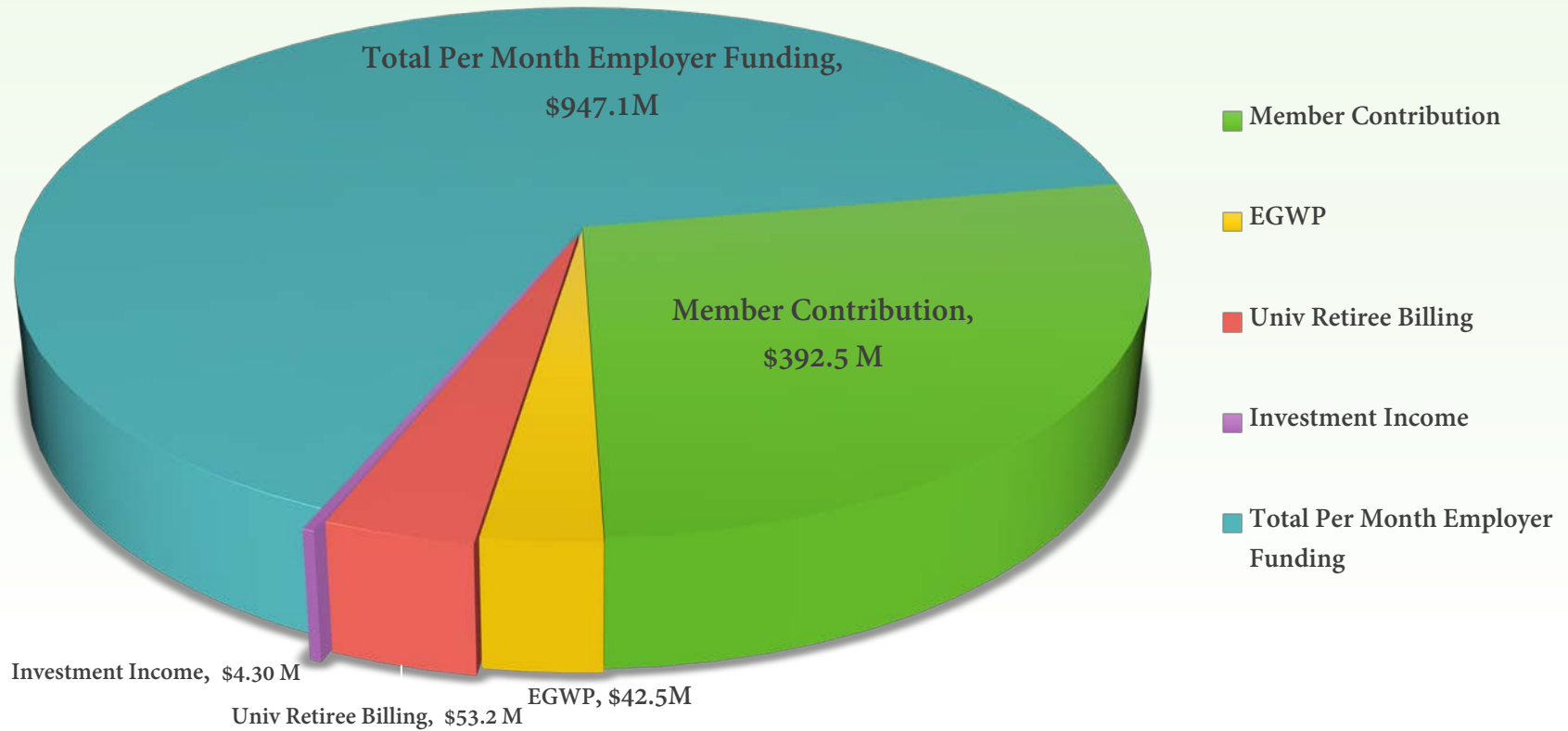
# THE PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN

- PEEHIP was created in 1983 to provide health insurance benefits to active and retired public education employees.
- PEEHIP offers three Hospital/Medical plans, four Optional Coverage plans, one Supplemental plan, and two Flexible Spending Accounts.
- By statute, PEEHIP is governed by the same board as TRS.
- PEEHIP has over **300,000 covered lives** including 83,223 actives, 68,070 retirees, and 149,851 dependents under its Hospital/Medical plans.

# PEEHIP'S MEDICAL AND PHARMACEUTICAL COSTS 2003-2020



# FY18 PEEHIP FUNDING SOURCES



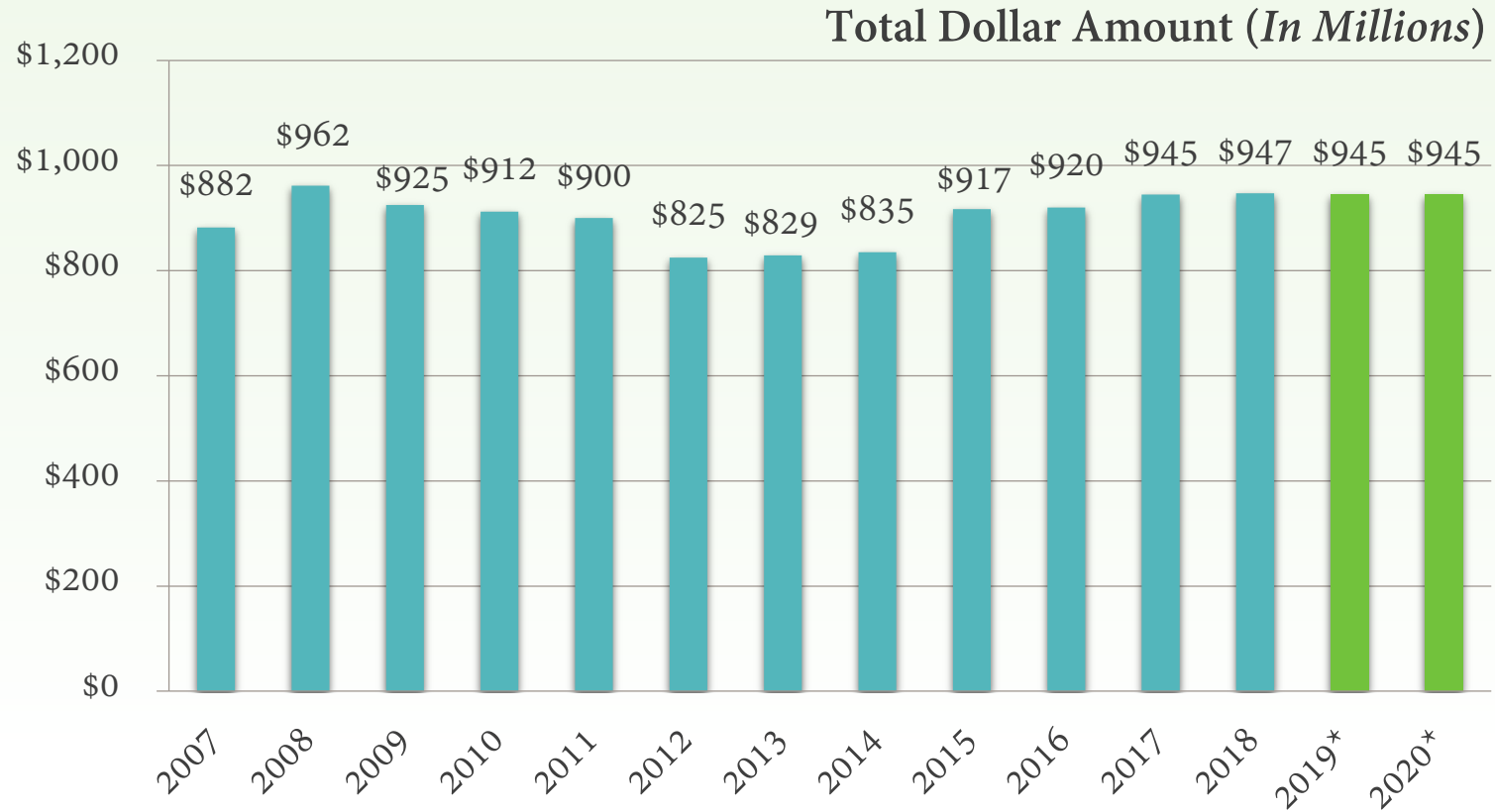
# FY18-FY20 PEEHIP EMPLOYER CONTRIBUTION RATES

	FY18	FY19 (Current)	FY20 (Requested)	Increase (Decrease) from FY19
Per Active Member Per Month	\$800	\$800	\$800	\$0
Total Employer Cost	\$947.1M	\$944.7M	\$944.7M**	\$0
Est. Amt. from ETF*	\$675M	\$673.3M	\$673.3M	\$0

\* Based upon estimates from the EBO using FY16 data, approximately 71.27% of total employer cost comes from the ETF; the remainder is paid by PEEHIP participating employers from other funds (12.64% Federal, 6.92% Tuition, 0.77% Non-Government, and 8.40% Local).

\*\* The estimated cost to universities for retiree healthcare coverage (\$57.0M) is not included in this amount.

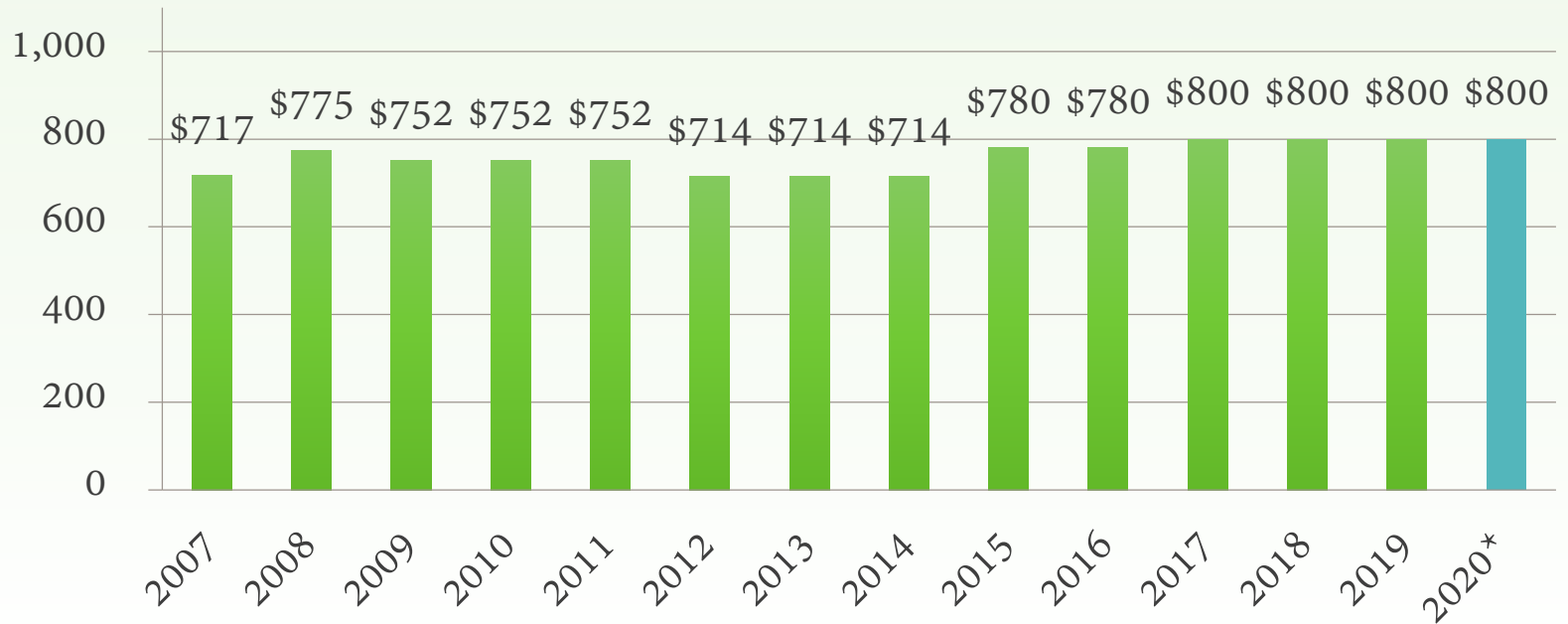
# PEEHIP'S EMPLOYER COSTS 2007-2020



\* Based upon \$800 per active (98,205 actives) rate for FY19 and FY 20.

# PEEHIP'S FUNDING RATES 2007 - 2020

Rate Per Active Employee Per Month



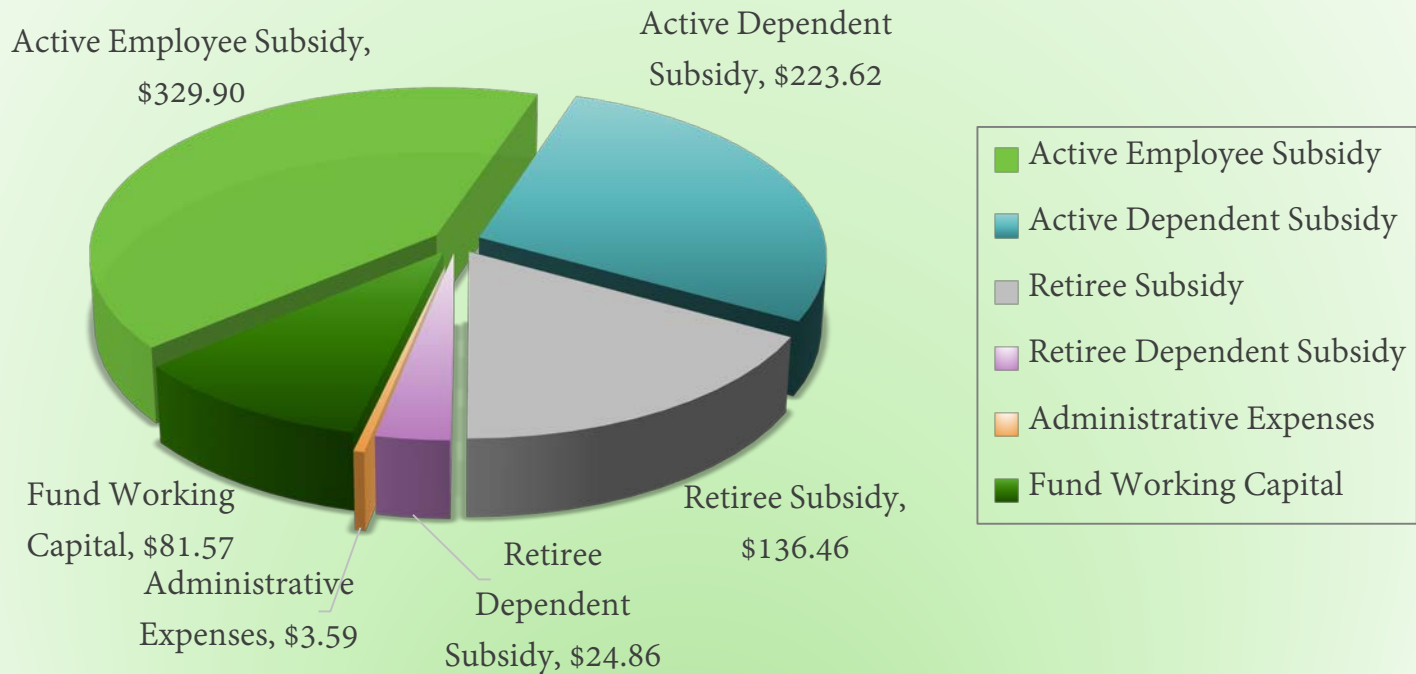
\* Requested Rate for FY 2020, estimated to generate \$945M.

# PEEHIP \$800 PER ACTIVE PER MONTH USAGE FOR FY18

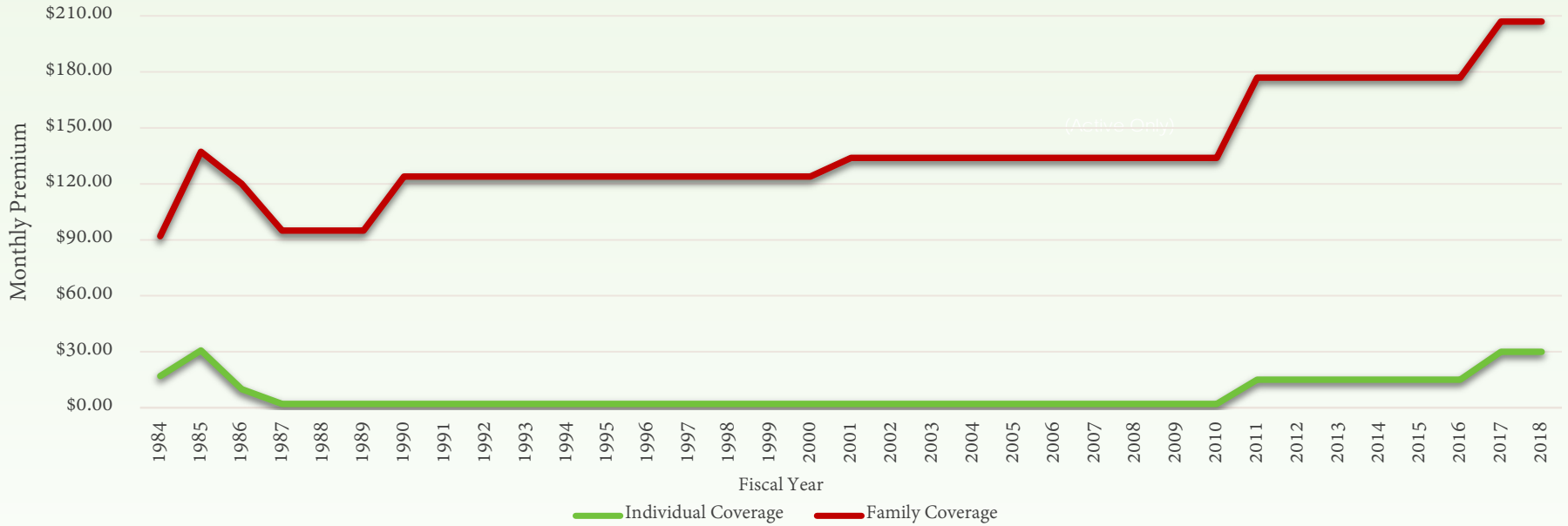
- PEEHIP received \$800 per active per month in funding from the Legislature for FY18 (\$947.1 million). This amount is used to cover the cost for the following after members have paid their monthly premiums and all other sources of funds are received:
  - Active subsidy
  - Retiree subsidy (except University Retirees)
  - Dependent subsidy (Active & Retiree)
  - Administrative expenses
- PEEHIP also received funding in FY18 from the following sources:
  - Universities to cover their retirees when only University retirees are covered by PEEHIP (\$53.2 million)
  - Employer Group Waiver Plan funds for Medicare eligible retirees (\$42.5 million)
  - Investment Income (\$4.3 million)
  - Member premiums (\$392.5 million)



# PEEHIP \$800 PER ACTIVE PER MONTH USAGE FOR FY18



# HISTORIC EMPLOYEE MONTHLY PREMIUMS



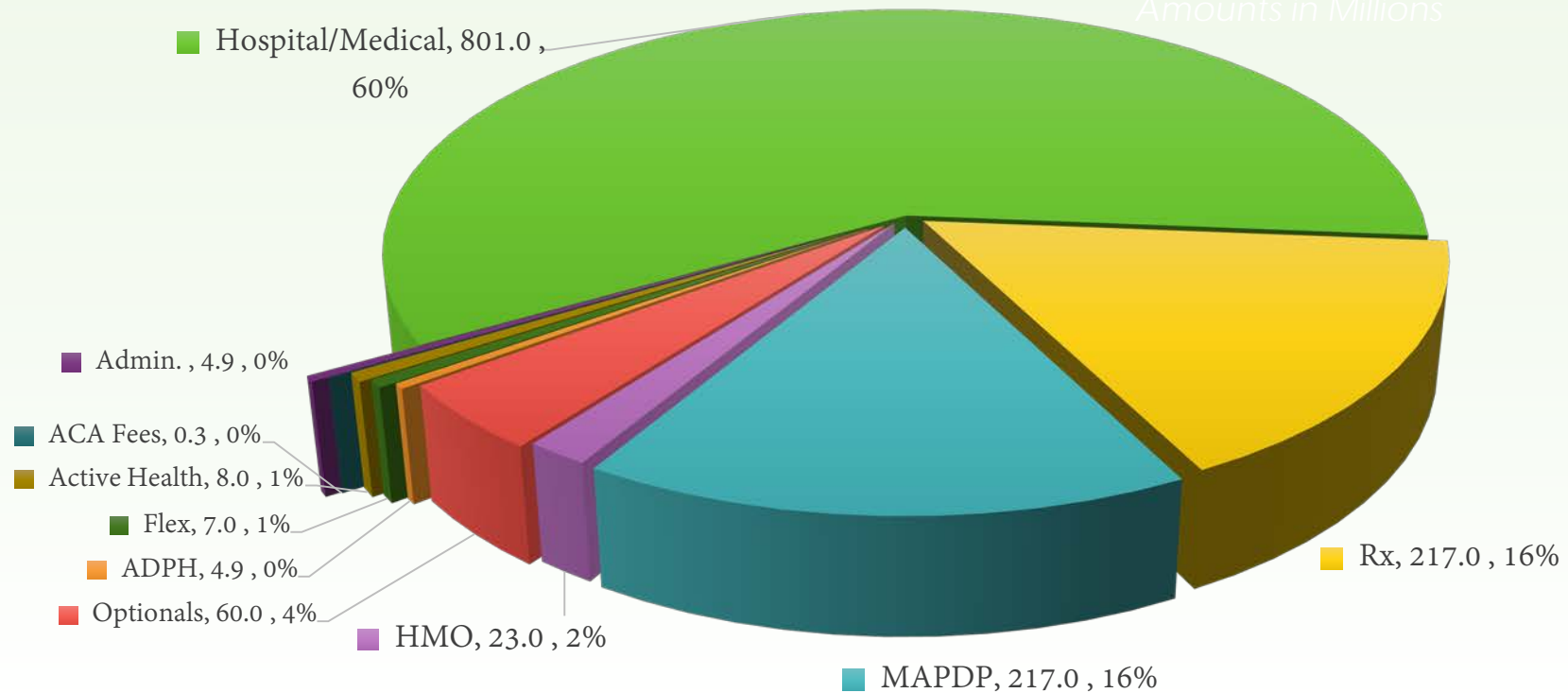
Fiscal Year	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Individual Coverage	\$17.00	\$30.75	\$10.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Dependent Coverage	\$75.00	\$106.50	\$110.00	\$93.00	\$93.00	\$93.00	\$122.00	\$122.00	\$122.00	\$122.00	\$122.00	\$122.00	\$122.00	\$122.00	\$122.00	\$122.00	\$122.00
Family Coverage	\$92.00	\$137.25	\$120.00	\$95.00	\$95.00	\$95.00	\$124.00	\$124.00	\$124.00	\$124.00	\$124.00	\$124.00	\$124.00	\$124.00	\$124.00	\$124.00	\$124.00

Fiscal Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Individual Coverage	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$30.00	\$30.00
Dependent Coverage	\$132.00	\$132.00	\$132.00	\$132.00	\$132.00	\$132.00	\$132.00	\$132.00	\$132.00	\$132.00	\$162.00	\$162.00	\$162.00	\$162.00	\$162.00	\$162.00	\$177.00	\$177.00
Family Coverage	\$134.00	\$134.00	\$134.00	\$134.00	\$134.00	\$134.00	\$134.00	\$134.00	\$134.00	\$134.00	\$177.00	\$177.00	\$177.00	\$177.00	\$177.00	\$177.00	\$207.00	\$207.00

# PEEHIP FY 2018 PROGRAM COST CHART

*Amounts in Millions*

*Amounts in Millions*



# PEEHIP FUNDING PROJECTION

	2018	2019	2020	2021
Unrestricted funds expected @ year end (in millions)	\$ 292.2	\$ 253.8	\$ 149.5	\$ ( 5.6)
Working capital requirement (in millions)	\$ 107.1	\$ 112.4	\$ 120.0	\$ 127.9
Amount over (under) working capital required (in millions)	<u>\$ 185.1</u>	<u>\$ 141.4</u>	<u>\$ 29.5</u>	<u>\$ (133.5)</u>
\$ Required increase to per active/mo amount	\$ 0.00	\$ 0.00	\$ 0.00	\$ 113.00
\$ Projected per active per month	\$ 800.00	\$ 800.00	\$ 800.00	\$ 913.0

*Updated based upon Segal projections through 9/30/18, received 10/26/18.*

**Assumptions:** No funds restricted, no premium rollback, 5/1/18 premium structure remains, FY19 includes \$ 24.7 million transfer out of PEEHIP to TRS to pay for the TRS retiree lump sum COLA paid June 2018, FY21 includes a 3% transfer from the retiree trust (\$40 million per year) to PEEHIP.

**Conclusion:** if premium increases remain and no refunds are issued, an additional \$113 per active per month (or \$133.5 million) will be required in FY21 to maintain an 8% reserve.

# WHAT HAPPENED IN 2018?

## Projection Reconciliation (*in millions*)

Prior Projection (computed based upon 3/31/18 claims)	\$1,297.7
Gain due to reduction in Pre-65 retiree enrollment	(13.4)
Gain due to claims experience and rebates offset by ABA coverage	(36.9)
Actual claim results at 9/30/18 (medical and Rx)	\$1,247.4

- Trend was projected at 3.1% for medical and 9% for pharmacy.
- For FY18, actual composite PMPM trend was 2.72%. Wellness programs and tight Rx plan management continue to keep trend down.
- Effective May 1, 2018, PEEHIP implemented a new premium tier : Member + Spouse.

# ASSUMPTIONS FOR 2019

- FY19 projection at 9/30/18 is improved from the FY19 projection at 3/31/18 by \$14 million. This is primarily due to improved trends in FY18 for both medical and pharmacy continuing to have an impact in FY19.
- Trends used for FY19 are 2.5% for medical and 9.0% for Rx. This equates to a 4.53% composite trend projection.
- Projection for FY19 includes transfer of \$ 24.7 million to TRS for Retiree lump sum COLA paid June 2018. This transfer was completed 10/1/18.

# ASSUMPTIONS FOR 2020 AND 2021

- 3% (\$40 million) budgeted as transfer from Retiree Trust Fund to be used to pay retiree healthcare costs for FY21.
- Trends for FY20 and FY21 are projected at 2.5% for medical and 9.0% for pharmacy.
- Assumes minimal growth of pre-65 retirees.
- Procurement will occur in FY19 for rates applicable 2020 – 2022.

# PREMIUMS IN 2020 BUDGET

Revenue From Member Premiums		Projected Hospital Medical Claims		% Covered by Member	
Current Coverage	\$ 305.2				
Retirees - New	6.1				
Total Hospital Medical	\$ 311.3				
Premium Discount	(5.2)				
Tobacco Surcharge	12.0				
Wellness	4.8				
<b>Subtotal Hospital Medical</b>	<b>\$ 322.9</b>	<b>\$ 1,405.1</b>		<b>22.98%</b>	
Optionals	69.6				
Flex	6.6				
<b>Total Member Premiums (Estimated in FY 2020 Budget)</b>	<b>\$ 399.1</b>				



# ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTHCARE TRUST FUND

- The Retiree Trust had a market balance of \$1.436 Billion as of 9/30/18. The assets of the Trust help to offset PEEHIP's unfunded liability.
- The Retiree Trust has been funded by two transfers from PEEHIP in 2007 and 2008 (totaling \$631M), by monies from federal programs between 2007-2014, and by investment income.
- Monies were transferred from the Trust to PEEHIP in 2015 (\$92M) and 2016 (\$32M) to address funding shortfalls.
- The Legislature has never appropriated money to this Trust.
- No member money has ever been placed in this Trust.

# PEEHIP RETIREE HEALTHCARE LIABILITY (OPEB)

*Amounts in millions*

Actuarial Valuation	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded AAL (UAAL)
2009	\$ 11,916	\$ 670	\$ 11,246
2010	\$ 11,585	\$ 750	\$ 10,835
2011	\$ 9,081	\$ 778	\$ 8,303
2012	\$ 8,957	\$ 930	\$ 8,027
2013	\$ 8,994	\$ 1,075	\$ 7,919
2014	\$ 9,523	\$ 1,208	\$ 8,315
2015*	\$7,463	\$ 1,154	\$ 6,309
2016	\$7,920	\$1,240	\$6,680
2017	\$8,482	\$1,349	\$7,133

\* The 9/30/2015 Valuation reflects the move to MAPD for post-65 benefits and the change in funding method from projected unit credit to entry age normal

# RETIREE TRUST INVESTMENT RETURN

*Amounts in millions*

Fiscal Year	Market Value	Return %
2008	\$ 598.9	-11.91
2009	\$ 682.7	8.01
2010	\$ 768.0	8.22
2011	\$ 802.7	1.09
2012	\$ 953.3	15.26
2013	\$ 1,073.6	11.34
2014	\$ 1,184.9	10.21
2015	\$ 1,097.5	0.19
2016	\$ 1,182.9	10.79
2017	\$1,322.0	11.60
2018	\$1,435.7	8.60

# QUESTIONS?

**Diane E. Scott, CPA, CGMA**  
Chief Financial Officer  
(334) 517-7302  
[diane.scott@rsa-al.gov](mailto:diane.scott@rsa-al.gov)

**Neah M. Scott**  
Legislative Counsel  
(334) 517-7180  
[neah.scott@rsa-al.gov](mailto:neah.scott@rsa-al.gov)