FDAC Conference

Healthcare Reform Update and GASB Liability: A big Number?

Presented By:

Bordan Darm and Nick Gedestad

April 7, 2016

Innovative Solutions. Enduring Principles.

Keenan & Associates

Update: What's New With Healthcare Reform

2016: 6055 and 6056 Reporting

- Judgment Day
- IRS Reporting – Is it really necessary?
  - Yes, the IRS reporting provides the information needed to validate compliance, and penalties for:
    - the Employer Mandate (IRC Section 6056)
    - the Individual Mandate (IRC Section 6055)
  - Confirms to the IRS eligibility on the public exchanges (Covered California) for Individual Premium Tax Credits and Cost-Sharing Subsidies

Reporting Under IRC Section 6055

IRC Section 6055 – Insurance Companies and Self-Insured Plans	
The Requirement: Requires health insurers, non-ALE* self-insuring employers, and other health coverage providers providing MEC to: 1. provide coverage information to the IRS about the entity providing coverage, and 2. provide coverage information to "responsible individuals" (employees) with information about their coverage	
The Reason: Will assist the IRS with enforcing the Individual Mandate	
The Forms:	
1094-B: Transmittal of Health Coverage Information Returns	Transmits coverage information to the IRS.
1095-B: Health Coverage	Provides coverage information to the responsible individuals including the type of coverage provided, period of coverage and for whom coverage was provided, including each dependent.

*ALE: Applicable large employer (50+ full-time Equivalent employees)
Medicare received a 1 year compliance waiver for reporting

Innovative Solutions. Enduring Principles.

Reporting Under IRC Section 6056

IRC Section 6056 – ALE Reporting	
Requires ALE large employer subject to the employer shared responsibility provisions (Employer Mandates) to file for each employee who was an FTE of the employer and/or for each employee who has MEC through the employer's plan (even if not an FTE) for any calendar month during the year. Each employer member of the controlled group with employees must separately file.	
The Reason: Will assist the IRS with enforcing the Employer Mandate	
The Forms:	
1094-C: Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns	Transmits coverage information to the IRS and administering the Premium Tax Credit offered through the Public Marketplace.
1095-C: Employer-Provided Health Insurance Offer and Coverage	Provides coverage information to the responsible individuals including the type of coverage provided, period of coverage and for whom coverage was provided, including each dependent. Parts I & II apply to all ALEs. Part III applies to self-funded ALEs.

Innovative Solutions. Enduring Principles.

Keenan & Associates

Reporting – You Want it When?!

Form	Recipient	Original Due Date	Extended Due Date	Original E-Filing Due Date	Extended E-Filing Due Date
1095-B	Individual	1/31/16	3/31/16	1/31/16	3/31/16
1094-B	IRS	2/29/16	5/31/16	3/31/16	6/30/16
1095-B	IRS	2/29/16	5/31/16	3/31/16	6/30/16
1095-C	Individual	1/31/16	3/31/16	1/31/16	3/31/16
1094-C	IRS	2/29/16	5/31/16	3/31/16	6/30/16
1095-C	IRS	2/29/16	5/31/16	3/31/16	6/30/16

Individual E-Filing can be used only if specific notice, individual consent, software & hardware requirements are met (E-Filing and Non-E-Filing have the same due date).

If Filing 250 or more forms, then E-Filing is required.

For 1095-B and 1095 C reporting to individuals, "Substitute statements" may be furnished instead of 1095-B and 1095-C, however the form & content must comply with the rules in IRS Publication 5223.
Easiest option is to provide the employee a copy of the Form 1095-B or 1095-C filed with the IRS for that employee.

Innovative Solutions. Enduring Principles.

Reporting – Penalties for Noncompliance

Type of Penalty	Amount per Return	Maximum Amount per Calendar Year
Failure to file an information return	$250	$3,000,000
Failure to provide a correct payee statement	$250	$3,000,000
Remember – 2016 penalties will not be imposed on entities who make good faith efforts to comply. - Bottom line - Make a good faith effort. If you make mistakes, fix them.		

Innovative Solutions. Enduring Principles.

The Cadillac Tax: The Basics

- The “Cadillac” Tax is a 40% non-deductible Excise Tax on calendar year 2020 (delayed from 2018) “high-cost” benefit plans above federal thresholds.
- Applies to Fully Insured and Self-Funded (ASO) employer-sponsored health plans.
- The Tax calculation is applied to all health plans on a separate basis. Employers may not average all plans to determine the Cadillac Tax liability.
- The Tax is actually calculated on a monthly basis (using 1/12 of annual thresholds and premium amounts).

Innovative Solutions. Enduring Principles.

Keenan & Associates

The Cadillac Tax: The Basics

- Costs include:
  - Employer and employee contributions toward premium, including medical, Rx, behavioral health, chiropractic, EAP, on-site clinics
  - Employer and employee contributions to FSA contributions, employer HRA contributions, and employer and pre-tax employee contributions toward an HSA.
  - Pre-tax premiums for specified diseases (e.g., Cancer), Critical Illness and Hospital Indemnity plans
- The Tax is not applicable to insured standalone dental and vision plans. Self-Funded dental and vision benefits are likely to be excluded pending future guidance.

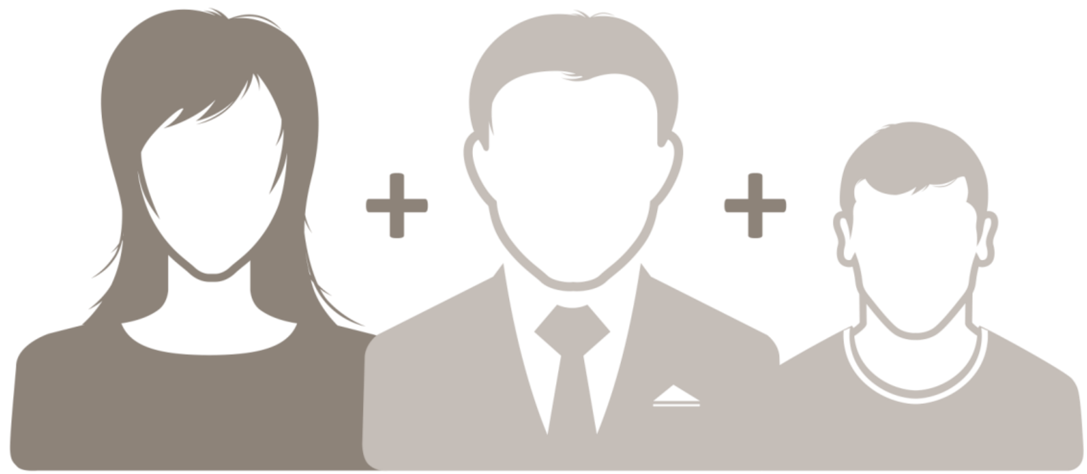
Innovative Solutions. Enduring Principles.

The Cadillac Tax: The Basics

Only two categories: “self-only” and “other than self-only”

$10,200 for individuals

$27,500 for families



$11,850 for individuals
high-risk employees (fire fighters)
Pre-65 retirees

$30,950 for families
high-risk employees (fire fighters)
Pre-65 retirees

Innovative Solutions. Enduring Principles. Keenan & Associates

Is Your GASB Liability a BIG number?

The California Public Agency Unfunded Health Plan Landscape

Table 1: California State and Municipal OPEB Liabilities (in billions)

Type	Actuarial Accrued Liabilities (AAL)	Assets	Unfunded Liabilities	Funding Ratio (Value Weighted)
State	64.58	0.01	64.57	0.02%
Counties[5]	34.89	1.63	33.26	4.67%
Cities	23.22	5.22	18.00	22.49%
School Districts	20.61	0.33	20.25	1.60%
UC System	13.03	0.04	12.98	0.34%
Trial Courts	1.39	0.02	1.37	1.23%
Total	**$157.72**	**$7.25**	**$150.44**	**4.60%**

- GASB 45 has allowed the unfunded actuarial liability to be amortized over 30 years starting as early as 2008.
- GASB 75 requires that 100% of unfunded liability be placed on the face of the balance sheet.

Source: California Common Sense Report

Innovative Solutions. Enduring Principles. Keenan & Associates

Major Changes to GASB Statements

- GASB 74 & 75 replace 43 & 45 Respectively
- Unfunded liability goes on balance sheet
- Expanded note disclosures
- Discount Rate calculation
- Shorter time horizons for OPEB expense
- Actuarial valuation every 2 years
  - Plans with less than 100 participants may use Alternative Method
- Inclusion of the Implied Subsidy
- Affordable Care Act “Cadillac” tax impact must be included

Innovative Solutions. Enduring Principles.

Recording the Liability

- Liability needs to be placed on the face of the balance sheet
  - Formerly placed in the Note Disclosures
- Dramatically expanded Note Disclosures and Supplementary Information Schedule
  - Significant assumptions
  - Sensitivity to discount rate changes and healthcare trend rate
  - 10 year history
    - Plan's net OPEB liability reconciliation
    - Investment returns
    - Actuarially determined contributions

Innovative Solutions. Enduring Principles.

Recording the Liability

- Project assets to see if they always cover benefit payments
  - Assets must be invested so as to generate the expected rate of return
  - Project future employer contributions by looking at funding policy and last 5 years actual contributions

Innovative Solutions. Enduring Principles.

Discount Rate

- Well-funded plans use expected rate of return on assets
- Unfunded plans use 20 year AA Municipal Bond rate
  - Rate is volatile
  - Net OPEB liability will be volatile
  - OPEB expense will be volatile
- In-between plans use in-between rate
- 1% change in discount rate will cause a 10% change in liability

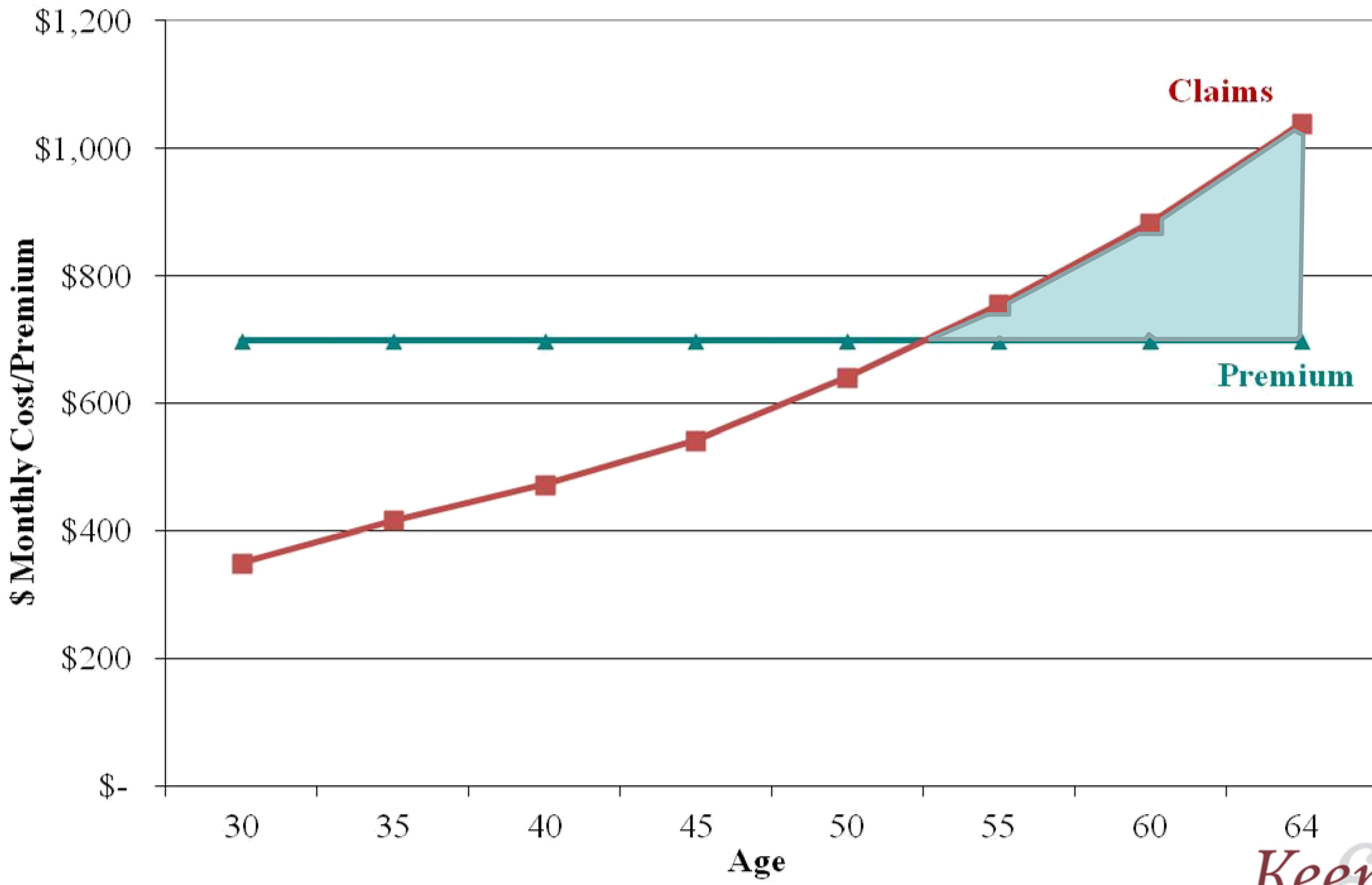
Innovative Solutions. Enduring Principles.

Implied Subsidy

- GASB 75 requires age-adjusted premiums or claims
- Change to actuarial standards requires this for large pooled plans (like CalPERS PEMHCA) for valuations after 3/31/15

Innovative Solutions. Enduring Principles.

Implied Subsidy Illustration



Keenan & Associates
Innovative Solutions. Enduring Principles.

Implications

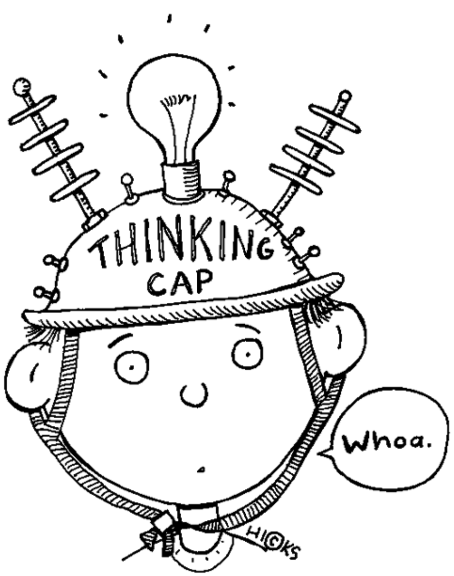
- Increase in balance sheet OPEB liability
- Increase in volatility of OPEB expense
- Increased importance of setting aside assets
- Need to develop a plan to limit the impact of the changes

Innovative Solutions. Enduring Principles.

What are Agencies Looking at Today?

How can they control retiree costs?

- Revise eligibility and benefits
- Unblend rates
  - – Retirees' reimbursement based on the real cost
- Medicare Exchange- over age 65
- ACA public/private exchange
  - Under age 65
- Establish a Retiree HRA
- Create a Trust to prefund the liability



Innovative Solutions. Enduring Principles.

Revise Eligibility and Benefits

- Who do you allow to enroll in your plans?
  - Spouse
  - Dependents
- Rich plan designs
- How much premium is covered?
- What is available to offset premium costs?
- Change to a 3-tier rate structure
  - Retirees will be rated at their true cost
  - Eliminate implied subsidy

Innovative Solutions. Enduring Principles.

Keenan & Associates

Public or Private Exchanges

- Each individual has different needs
- Consumerism
- Plans available where the retiree lives
- Covered CA for early retirees
  - May qualify for a subsidy
  - Only eligible for one subsidy (state or former employer)
- Medicare Exchange
  - Medicare Advantage plans with low premiums
  - Medigap plans that do not have a network

Innovative Solutions. Enduring Principles.

Establish a Retiree HRA

- Employer only money may be deposited
- Plan document limits reimbursements
  - Must be retired
  - Medical expenses only
- Triple tax-free benefits
- Earn interest on deposits

Innovative Solutions. Enduring Principles.

Establish a GASB Qualified Trust

- 3 Features:
  - Contributions are irrevocable
  - OPEB plan assets are restricted to paying OPEB
  - OPEB plan assets are beyond the reach of creditors
- Target rate of return used as discount rate
- 1% change in discount rate causes a 10% change in the liability
- May be invested in the market

Innovative Solutions. Enduring Principles.

Keenan & Associates

City of Glendale

- Glendale has allowed retirees to stay enrolled in the Glendale plans when they retiree
- The retiree pays 100% of the rate

- The practice was not negotiated but simply allowed administratively for the last 30 years
- There are now 750 retirees covered
- The practice has created an Implied Subsidy

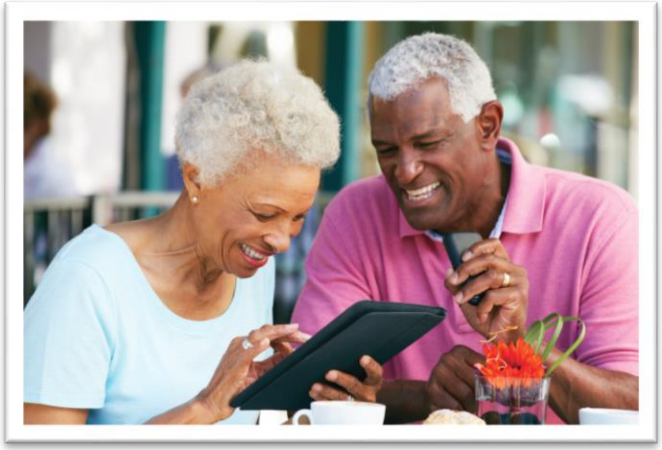
Innovative Solutions. Enduring Principles.

Glendale’s Situation

- Glendale’s OPEB liability is almost entirely from the “Implied Subsidy” created by blending insurance premiums for current employees and retirees.
- OPEB liability has grown significantly
  - $103M in 2009
  - $191M in 2011
  - $214M in 2013
  - $229M in 2014
  - $240M in 2015
- All unfunded

Innovative Solutions. Enduring Principles. Keenan & Associates

Options for Addressing OPEB?



- Continue status quo; OPEB liability grows approx. $20M+/year
- Fund OPEB Trust – 20.2% of payroll
  - Estimated $25.2M per year
- Two-tier system
  - Grandfather retirees, eliminate benefit for current employees; impacts on compensation strategy
- Life insurance policies on employees
  - No benefit to heirs, estates, or individuals
- Unblending current employees and retirees

Innovative Solutions. Enduring Principles. Keenan & Associates

How will Glendale Address OPEB?

- Unblending current employees and retirees.
  - Eliminates about 90% of OPEB liability.
    - Retirees still able to stay on City unblended plan(s).
    - Eligible retirees will continue to receive Medicare Part A reimbursement.
  - Short-term bridge subsidy given to those who remain the group plan due to rate changes.
  - Meet and confer with bargaining groups regarding “buy-out” of future benefit.
    - Allows City a sustainable compensation strategy.

Innovative Solutions. Enduring Principles. Keenan & Associates

City of South Lake Tahoe Situation

- OPEB liability was $53 million in 2013.
  - 93% unfunded
- Benefits continued to be reduced up to 2014.
- Medicare retiree premiums were close to $500 for nearly catastrophic benefits.

Innovative Solutions. Enduring Principles.

South Lake Tahoe's Solution

- Changed to defined contribution plan and "total comp" approach to salary and benefits
- Broker designed private 'exchange' for actives
  - 5-step benefit options
  - Base plan provided to employees
  - Employees/retirees can 'buy up' to better plan
- Over 65 – used private exchange
- Agreement among all labor groups
- Reduced annual medical benefits costs by 35%
- Current OPEB liability is $19 million and 58% funded
  - Will be 95% funded in 10 years

City of South Lake Tahoe

“Four years ago the City of South Lake Tahoe’s OPEB liability was approximately $48 million — of which 92 percent was *unfunded.”*

“In fall 2014 we reached agreements with all bargaining units and unrepresented employees that established an entirely new medical insurance plan and benefit structure”

“An actuarial analysis completed in March 2015 indicates the city’s OPEB liability has been reduced *by 73 percent* as a result of these changes. Further, the city expects to be 95 percent funded in 11 years”

Innovative Solutions. Enduring Principles.

Additional GASB 74/75 Information

- There are many changes being implemented from GASB 74 and 75.
- For more in-depth information visit the Keenan website.
  - www.keenan.com/resources/webinars
  - On-Demand Webinars

Innovative Solutions. Enduring Principles.

Keenan & Associates

THANK YOU FOR ATTENDING

Nick Gedestad Sr. Account Manager	Bordan Darm Account Executive
Keenan & Associates	