Health Care Sustainability: How Did We Get Here and Where Are We Now?

July 17, 2019

Michael and Emily Madalena of Madalena Consulting, LLC, an independent health care consultant, along with members of the SERS Health Care Services Staff, presented the sustainability Review: 2019.

How Did We Get Here?

The presentation examined SERS' financial status over a 10-year period in relation to health care expenses and actuarial projections. Michael Madalena noted for the Board that the Health Care program's financial status is stable, and it is positive that long-term strategies can be considered thoughtfully, without the pressure of a fiscal emergency.

Discussion ensued regarding different measures of financial solvency, which included an entity's ability to pay for a percentage of its future expenses, SERS' current funding policy, and actuarial valuation of future solvency. A timeline of historical health care changes, subsidization, enrollment, eligibility, and other landmarks also was reviewed.

One of the topics examined was the fact that if SERS were to make changes to the health care program to extend plan longevity, not all changes would have equal effect. Specifically, the premium subsidy was identified as the most significant and impactful area of change available to decision makers. Subsidy changes which "grandfather" or protect current retirees have less effect than those which apply to all current enrollees. The SERS Board has made changes in subsidy which have been both prospective and retrospective at different times in the program's history.

Further analysis of the premium subsidy and its history showed that SERS' health care subsidy is worth $95 million per year to members. While 48% of subsidy dollars were in the Medicare population, 52% were in the non-Medicare population, even though the non-Medicare population only accounts for 12% of all enrollees. This is partially due to the fact that the base premium for non-Medicare is over six times more expensive than Medicare. Of the non-Medicare enrollees, 99% are receiving a subsidy.

Staff observed that service retirees accounted for 86% of subsidy dollars while health care enrollees with more than 20 years of service accounted for 92% of subsidy dollars. The current subsidy structure, in place since 2011, provides the most benefit to disability benefit recipients and retirees with higher years of service.

The presentation also made note of SERS' unique demographics. Compared to its sister systems, SERS' membership was older, mainly female, had fewer years of service, and had markedly lower salaries. The Medicare and non-Medicare plans also were compared and examined by expenses, claims, and enrollment.

Where Are We Now?

Based on the analytics gathered to create the presentation, it became clear that subsidization drives enrollment, which drives demographics, which drive expense distribution.

The program's expenses were reviewed, also noting that the current level of reimbursements from Medicare for both medical and prescription drugs substantially offset expenses and the Medicare program, if measured independently, would be solvent indefinitely.

Another issue of consideration is the need for SERS to review the existing Guiding Principles document as part of future health care sustainability discussions.

Further discussions related to heath care sustainability will take place during the September Board meeting.