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## Catastrophic Disability Medical Insurance

### INITIAL CONSIDERATION

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### ISSUE STATEMENT

LEOFF Plan 2 catastrophic disability retirees and their survivors have different medical insurance access than survivors of members killed in the line of duty.

### MEMBERS IMPACTED

The LEOFF Plan 2 catastrophic retirement benefit took effect on March 4, 2006. To date, DRS has approved 52 retirees. This is an average of about 4.5 retirees per year.

### OVERVIEW

LEOFF Plan 2 catastrophic retirees receive a reimbursement of their health insurance premium costs up to the amount paid by their former employers for COBRA<sup>1</sup> benefits.

In 2009 the LEOFF Plan 2 Board (Board) proposed HB 1679, which would have covered catastrophic LEOFF Plan 2 retirees and their survivors through PEBB. The Health Care Authority (HCA) fiscal notes estimated a high cost, which contributed to the bill's demise. The 2010 substitute version of the bill replaced the proposed PEBB coverage with the current reimbursement system.

Actual experience in the intervening years indicates that the cost of the PEBB participation may be less than originally estimated. Primarily this is because the actual number of catastrophic retirees is much lower than estimated in 2009 and 2010.

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<sup>1</sup> "COBRA" stands for Consolidated Omnibus Budget Reconciliation Act of 1985. It includes a provision allowing separated employees to purchase insurance through the former employers risk pool for up to 18 months.

## BACKGROUND AND POLICY ISSUES

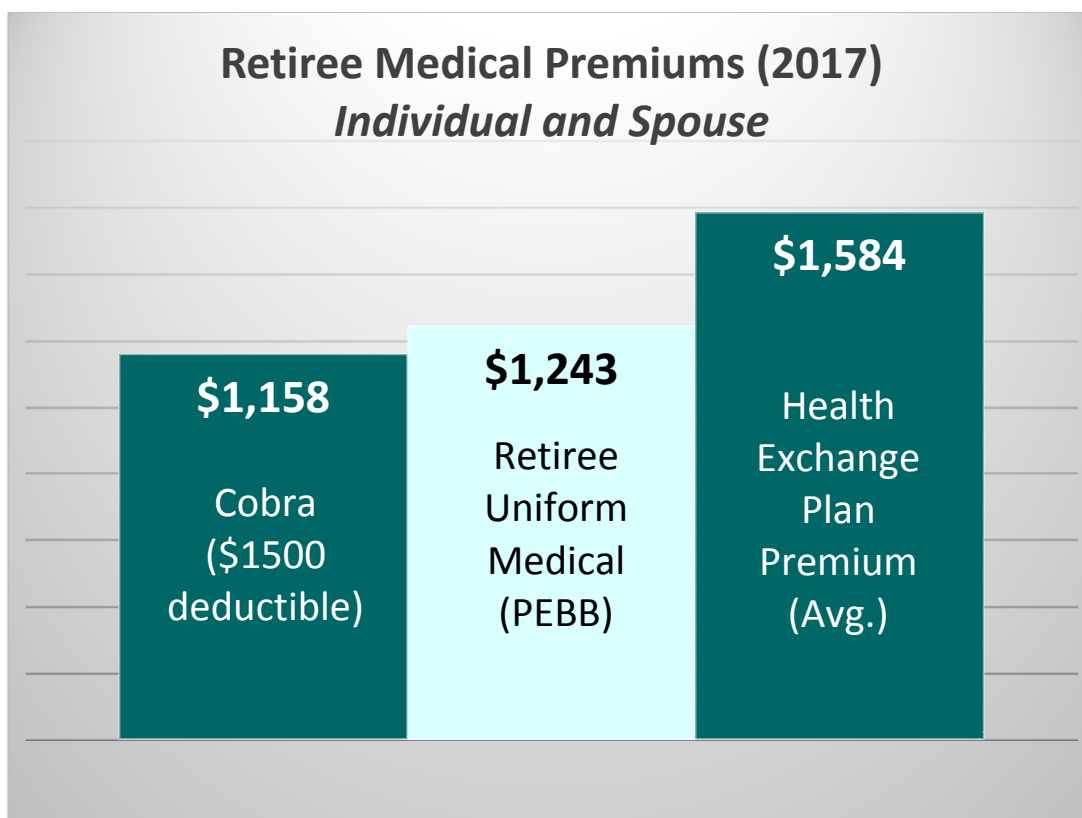
### Background

#### *Health Insurance Premium Reimbursement for Catastrophic Retirees and Survivors*

LEOFF Plan 2 reimburses medical insurance premiums for LEOFF Plan 2 catastrophic retirees and their survivors. The reimbursement is capped at the former employers COBRA or other employer provided retiree medical insurance premium amount. RCW 41.26.470(10).

The actual amount reimbursed depends on the health insurance plan selected by the retiree or surviving spouse. Shopping for private coverage can be confusing. Tracking and paying a diverse and shifting field of individual providers creates administrative challenges for DRS.

The following table compares retiree health insurance premiums through COBRA, the Washington Health Exchange and PEBB retiree health premium. While comparable, the plans are not identical. Please see Appendix A for coverage and premium details.



<sup>2</sup> The premium estimates are based on an “average” retiring LEOFF 2 member:

- 56 years old
- \$60,000 annual pension

Medicare qualified retirees receive reimbursement of Medicare Part A and B premiums. Most LEOFF members have Medicare and therefore have no Part A premium. The current Medicare Part B Premium is \$134. Other Medicare premiums, such as Part C and D (Prescription drugs) are not reimbursed.

The original benefit proposed by the Board on catastrophic retiree health coverage was very different than the bill that eventually passed the Legislature.

## History of Premium Reimbursement

The Legislature began authorizing enhanced health care coverage for LEOFF Plan 2 members killed or catastrophically disabled in the line of duty in 2001:

- The surviving spouses of emergency service personnel (including LEOFF Plan 2 members) killed in the line of duty on or after January 1, 1998, may purchase health care benefits from the Public Employees' Benefits Board (PEBB). The premium was paid by the insured. (ESHB 1371 (2001)).
- The Legislature authorized the LEOFF trust fund to reimburse surviving spouses for that insurance premium in 2006<sup>3</sup>.

### How PEBB Works

Participation in the PEBB benefit system has two advantages:

1. Implicit Subsidy: The participant belongs to an insurance pool including all public employees participating in PEBB. Participating in an insurance pool typically provides a lower premium than can be purchased by an individual.
2. Explicit Subsidy: PEBB pays Medicare Part A and B premiums for Medicare covered retirees.

During the 2008 interim, the Board studied options for extending the health care premium assistance to catastrophic retirees and their survivors. At the Board's request, the Legislature introduced HB 1679 in 2009. The original bill proposed including catastrophically disabled LEOFF Plan 2 members, their spouses and dependent children in the PEBB risk pool, with the individuals paying their own PEBB premium until Medicare eligible.

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- Non-smoker
  - Coverage for self and spouse

<sup>3</sup> A similar reimbursement benefit for survivors of WSPRS members was enacted in 2007.

The Health Care Authority fiscal note estimated a total cost of \$1.5 million the first biennium, ramping up to 4.7 million by the 2013-15 biennium. The fiscal note assumed, among other things, 14 new catastrophic retirees added on January 1 of each year.

The 2009 version of HB 1679 failed. The 2010 Legislature substituted a new bill containing the provisions now found in law. SHB 1679:

- Did not expand PEBB participation
- Authorized the LEOFF trust fund to reimburse catastrophic retirees and their survivors for health insurance premiums up to authorized COBRA levels

The Actuary's fiscal note estimated a cost of about \$1.8 million per biennium, increasing contribution rates by .26% total. However, when the actuary presented supplemental rate increase options to the Board in June of 2010, it did not include a rate increase from SHB 1679.

### **Experience May Lower Cost of Board's Original Proposal**

Writing a fiscal note during the heat of session requires predicting the future. Sometimes actual experience does not track those predictions. With the benefit of hindsight, it appears the estimates of future costs for including catastrophic retirees and their families in PEBB may have been overstated, due primarily to an overestimate of the number of catastrophic retirees.

#### ***Assumed Number of Retirees***

Both the actuarial and health care authority fiscal notes assumed a higher rate of catastrophic retirements than current experience demonstrates. In 2009 and 2010 the catastrophic disability retirement law was still new, leaving little experience to predict future retirement rates. The Actuary's office has completed two experience studies since that time showing a significantly lower catastrophic retirement rate.

<b>Catastrophic Retirement Rates: Original vs. Revised</b>	
<b>2009 HCA Assumed Rate</b>	14/year
<b>Current Experience Study rate</b>	4.5/year

The Actuary's sensitivity analysis in the original SHB 1679 fiscal note found that cutting the estimated number of retirees in half reduces the estimated cost of the bill nearly by half. Given that analysis, the lower rate of actual catastrophic retirements indicates a significantly lower cost than estimated in the original fiscal notes.

## ***Mortality Assumptions***

LEOFF Plan 2 provides a lifetime benefit. Cost estimates, therefore, are highly sensitive to mortality assumptions – i.e. how long a group is expected to live. Identifying the affected group is key to honing future benefit cost estimates. Possible mortality groupings for the Board’s original proposal expanding PEBB eligibility include:

- General membership mortality: Mortality assumptions for all LEOFF members, most of whom are healthy – this provides the longest lifespan estimate.
- Disabled mortality: Mortality assumptions for disabled persons, includes slightly disabled to fully disabled – this provides a reduced lifespan estimate.
- Social Security Disabled Mortality: Mortality assumptions for persons that are fully disabled from any work – the same standard as LEOFF Plan 2 catastrophic disability. This should provide the shortest lifespan estimate of the three options.

The shorter the projected lifespan, the lower the estimated cost of a lifetime benefit increase. Whether that cost difference is significant remains to be seen.

## ***Time Constraints***

Fiscal notes prepared during session are subject to strict, short, deadlines. Assumptions must be made and numbers crunched on a tight timeline. This can limit the opportunity for feedback loops and revising analysis. A fiscal analysis prepared during the interim, while not necessarily better or different, can avoid some of those risks.

## **NEXT STEPS**

The Board could:

1. Direct staff to prepare a comprehensive report to include an updated fiscal analysis of the cost of covering LEOFF 2 catastrophic disability retirees and spouses in PEBB; or
2. Take no further action on this topic.

## **SUPPORTING INFORMATION**

Appendix A: Health Insurance Premiums for New Retirees

## APPENDIX A: HEALTH INSURANCE PREMIUMS FOR NEW RETIREES - 2017

The following table compares the cost of insurance purchased through the Washington Health Exchange with PEBB retiree rates. Because of the many variables in health plan design, the comparison is not exact. It is intended to give an idea of what an individual retiree might pay for health insurance.

We calculated the estimated based on the following “average” new LEOFF 2 retiree:

- 56 years old
- \$60,000 annual pension
- Non-smoker

The Health Exchange provides bronze, silver, or gold coverage levels. To get as close as possible to the level of coverage available through employer provided health plans, the comparison looks only at “gold” plans and compares that to the Uniform Medical Classic plan. The costs, deductibles, and out-of-pocket maximums are for an individual and spouse.

Plan Provider	Individual Deductible	Individual Out of Pocket Max	Emergency Room Copay/ Coinsurance	Primary Care Copay	Premium (rounded)
Uniform Medical Retiree (State)	\$250	\$2000	\$75/ 15%	15%	\$1243 <sup>i</sup>
<b>Plans Available From Washington Health Exchange (Gold level)</b>					
Ambetter	\$1000	\$6350	\$250	20% coinsurance	\$1170
Bridgespan	\$1200	\$7,150	\$0/10%	\$30/10% coinsurance	\$1653
Community Health Plan	\$650	\$4800	\$250	\$0	\$1895
Kaiser Permanent	\$850	\$5000	\$200/ 20%	\$10	\$1402
LifeWise	\$1000	\$4500	\$200 / 30%	\$30	\$1560
Premera Blue Cross	\$1000	\$4500	\$200/30%	\$10	\$1823
<b>Average Private Market Premium</b>				<b>\$1584</b>	

The current premiums for different levels of COBRA coverage calculated for the Northwest Fire Benefits Trust are provided below:

## Northwest Fire Fighters Benefits Trust 2017 Benefit Options & Rates (WA COBRA Rates)

Plan Design	Plan \$50	Plan \$100	Plan \$200	Plan \$200A	Plan \$500	Plan \$750	Plan \$1,000	Plan \$1,500	Plan \$2,000	HSA \$1,500
Deductible	\$50	\$100	\$200	\$200	\$500	\$750	\$1,000	\$1,500	\$2,000	\$1,500
Coinsurance (In-Network/Out-of-Network)	100%/70%	90%/70%	80%/60%	80%/60%	80%/60%	80%/60%	80%/60%	80%/60%	80%/60%	80%/60%
Out-Pocket-Maximum	\$1,050	\$1,100	\$1,700	\$500	\$2,500	\$2,750	\$2,000	\$2,000	\$2,500	\$4,500
Office Visit Copay (Primary Care/Specialist)	\$0	\$10	\$10	\$10	\$15	\$15	\$20	\$20	\$25	Ded/Coins
Rx Copay	\$5 Generic / \$25 Formulary / \$50 Non-Formulary									Ded/Coins
Vision Coverage	Exam Every Year, No Copay, 100% / \$200 Hardware Every Year									
Plan Design	Plan \$50	Plan \$100	Plan \$200	Plan \$200A	Plan \$500	Plan \$750	Plan \$1,000	Plan \$1,500	Plan \$2,000	HSA \$1,500
Employee Only	\$829.85	\$681.23	\$647.78	\$805.09	\$609.39	\$584.61	\$579.66	\$530.12	\$511.55	\$453.32
Employee & Spouse	\$1,812.06	\$1,488.79	\$1,414.47	\$1,758.82	\$1,331.49	\$1,277.00	\$1,264.60	\$1,158.10	\$1,117.21	\$989.63
Employee & Child	\$1,355.02	\$1,112.26	\$1,057.76	\$1,314.15	\$994.58	\$953.72	\$945.04	\$864.54	\$833.56	\$739.43
Employee & Children	\$1,629.99	\$1,338.91	\$1,272.02	\$1,581.69	\$1,195.24	\$1,146.93	\$1,137.02	\$1,040.42	\$1,003.26	\$889.32
Employee & Spouse & Child	\$2,337.22	\$1,919.82	\$1,824.44	\$2,267.88	\$1,716.68	\$1,646.10	\$1,629.99	\$1,492.52	\$1,439.24	\$1,275.73
Employee & Spouse & Children	\$2,612.20	\$2,146.48	\$2,038.71	\$2,535.42	\$1,917.32	\$1,839.32	\$1,821.98	\$1,668.38	\$1,608.93	\$1,425.62

**DiMartino Associates**  
EMPLOYEE BENEFITS CONSULTING

<sup>1</sup> Subsidized rate available through Public Employees' Benefits Board (PEBB) for state retirees.



# Catastrophic Disability Medical Insurance

Initial Consideration - September 27, 2017

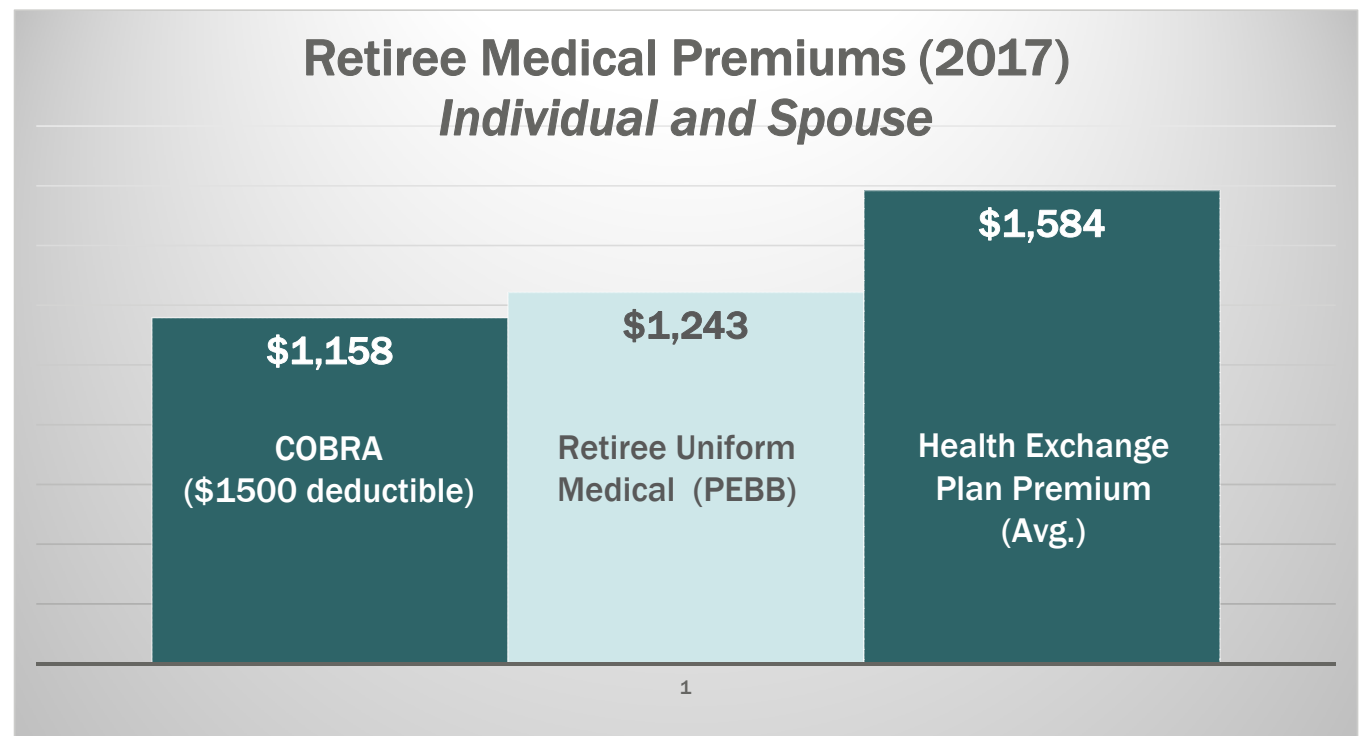


# Current Law

- **Catastrophic retirees and surviving spouses premium reimbursement:**
  - **Before Medicare eligibility:**
    - Reimbursement of health insurance premiums
    - Up to former employer's COBRA limit
  - **At 65, Reimbursement of Medicare Premiums:**
    - Part A (if any)
    - Part B
    - Not eligible for reimbursement of part C and D premiums

# Post-retirement Medical Premiums

- Pre-Medicare
- Medicare Part B reimbursement: \$134 per month



# Survivor Premium Reimbursement

- **Line-of-duty death benefit:**
  - Survivors of LEOFF 2 members killed in the line of duty allowed to participate in PEBB (2001)
  - PEBB Premiums reimbursed by LEOFF (2006)
- **Participation in the PEBB benefit system has two advantages:**
  - Implicit Subsidy: Pay same rate as entire PEBB pool
  - Explicit Subsidy: PEBB pays Medicare part B premiums for Medicare covered retirees

# Extending Benefit to Catastrophic Retirees

**Version 1: Proposal to include catastrophic retirees and survivors in PEBB, with insured paying their own premium – HB 1679 (2009)**

- **Health Care Authority (HCA) Fiscal Note: estimated cost of extending PEBB subsidy to catastrophic retirees**
  - **Estimated costs:**
    - **\$1.5 million cost first biennium**
    - **\$4.7 million 2013-15 biennium**

# Extending Benefit to Catastrophic Retirees

Version 2: Premium reimbursement – SHB 1679 (2010)

- No PEBB membership, so no HCA cost
- Actuary supplemental rate increase not recommended

# Cost Mitigation – Catastrophic Retirement Rate

## Catastrophic Retirement Rates: Original vs. Revised

<b>2009 HCA Assumed Rate</b>	<b>14/year</b>
<b>Current Experience Study rate</b>	<b>4.5/year</b>

# Cost Mitigation – Catastrophic Retiree Mortality

- How long is benefit expected to last?
  - Longer: General membership mortality: Average life expectancy for healthy and disabled retirees
  - Shorter: Disabled mortality: Average life expectancy for disabled individuals
  - Shortest: Social Security disabled mortality: Average life expectancy of catastrophically disabled individuals
- HCA fiscal note used disabled mortality table
- OSA examining whether use of Social Security disabled mortality table appropriate

# Should Cost be Revisited?

- Does Board still support extending PEBB coverage to catastrophic retirees and survivors depending upon cost?
  - Does Board want staff to update cost analysis?
  - Include reimbursement for Medicare C and D premiums?
- Other questions?





**Thank You**

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