November 20, 2019

PEBB Coverage for Catastrophic Retirees

COMPREHENSIVE REPORT
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ISSUE STATEMENT

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

OVERVIEW

This report will provide information on health insurance premium reimbursement benefits for survivors of members who are killed in the line of duty and to members who are retired for catastrophic disability.

BACKGROUND AND POLICY ISSUES

Survivor Premium Reimbursement

Legislation enacted in 2001[1] enabled surviving spouses of emergency service personnel killed in the line of duty on or after January 1, 1998, to purchase health care benefits from the Public Employees Benefit Board (PEBB). "Emergency service personnel" for this purpose included fire fighter and law enforcement members of the Law Enforcement Officers' and Fire Fighters' Retirement System and the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension System. Under the 2001 legislation, the cost of the insurance was paid by the surviving spouses and dependent children.

Under legislation enacted in 2006[2], the retirement allowance paid to survivors of all LEOFF Plan 2 members killed in the course of employment includes reimbursement for the cost of participating in a PEBB health insurance plan. The survivors of members killed in the line of duty prior to January 1, 1998, as well as on or after January 1, 1998, are eligible to participate in the PEBB health insurance plans under the 2006 bill. This benefit (right to reimbursement for the health care insurance costs) is not considered a contractual right, and the Legislature reserved the right to amend or repeal the 2006 act for future reimbursements.

[1] Engrossed Substitute House Bill 1371 (2001)
[2] Senate Bill 6723 (2006)

Catastrophic Disability Premium Reimbursement

LEOFF Plan 2 does not provide access to health care insurance for any disability retirees. A disability retiree may have access to health care insurance through employer or employee associations or the open market. Catastrophic disability retirees/survivors do not have access to benefits through PEBB unless they were already receiving PEBB benefits through their employer. This means these members are receiving benefits through the federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) coverage (18 months only), through coverage offered to retirees through their employer, or individual coverage from the open market. Shopping for private coverage can be challenging and expensive. Tracking and paying a diverse and shifting field of individual providers creates administrative challenges for the Department of Retirement Systems (DRS). The cost for coverage can be much greater under private coverage, then under PEBB.[3]

Since 2010, LEOFF Plan 2 has provided a reimbursement to the disability allowance of a LEOFF Plan 2 member that is totally disabled in the line of duty that includes reimbursement for any payments made for employer-provided health insurance. This includes health insurance offered under the federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and Medicare Parts A and B.[4] The reimbursement is capped at the former employer's current COBRA amount or other employer provided retiree health insurance premium amount.[5] The actual amount reimbursed depends on the health insurance plan selected by the retiree or surviving spouse.

Administrative Process for Reimbursements

The process that a catastrophic disability retiree must navigate in order to find health care coverage and then receive a reimbursement from DRS for that coverage is complex and often exacerbated for members suffering from catastrophic disability conditions. In fact, there are currently four catastrophic disability retirees who have never received a reimbursement, presumably because they either do not have health care coverage or have not completed the process of applying for a reimbursement.

DRS annually sends catastrophic disability retirees a *LEOFF Plan 2 Request for Medical Premium Reimbursement Form* in November and again in May. The request for reimbursement is submitted for the previous six months. However, the retiree can submit more frequently if they would like to be reimbursed sooner. The retiree must submit copies of two document types: proof of insurance and proof of payment. If the retiree does not submit the paperwork for reimbursement, DRS reaches out to them via a phone call to see if they can assist them with the reimbursement paperwork. According to DRS, some catastrophic disability retirees have told

[3] In 2019, retiree medical premiums for an individual and spouse in non-Medicare eligible PEBB (Uniform Medical Classic) are $1,344.
[4] Medicare Part A is hospital insurance (inpatient) and Medicare Part B is health insurance (outpatient).
[5] RCW 41.26.470(10).

them they have not applied for reimbursement because “it’s not worth it to them, or they don’t want to be bothered with more paperwork.”

This process is simpler if a catastrophic disability retiree is covered by a health insurance provider who has set up vendor pay with DRS. If a retiree is covered by a provider with vendor pay, they are able to skip the process of requesting a reimbursement. Instead DRS makes direct payments to the health insurance provider on behalf of the catastrophic disability retiree.

Determining whether to set up vendor pay is up to the discretion of the health insurance provider. A provider wanting to allow for vendor pay must complete the *DRS Broker/Vendor Packet*. DRS does not initiate the request for vendor pay, instead the member must do so, unless their health insurance provider already has set up vendor pay. This deduction process is used for other retirees and other types of payments, not just health insurance premiums for Catastrophic Disability Retirees.

If Catastrophic Disability Retirees were enrolled in PEBB, like Line-of-Duty Death survivors, the process would be much simpler for retirees. When LEOFF Plan 2 has a Line-of-Duty Death, a copy of the Labor and Industries approval form is sent to PEBB – informing them who was approved for the duty death benefit and the surviving spouse’s name who will be contacting them for medical benefits. Each month, DRS receives a report detailing the Line-of-Duty Death medical premiums and the funds are transferred to PEBB to pay for the medical premiums. Once signed up with PEBB the spouse and the dependent children are covered and they do not have fill out any additional forms from DRS.

There is not a time limit for a Catastrophic Disability Retiree requesting reimbursement for health insurance premiums. In fact, DRS recently issued a reimbursement of $73,764.36 to a member who completed their request for reimbursement after almost 10 years of being retired.

History of Catastrophic Health Insurance Premium Reimbursement

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 2009 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. The bill failed to pass, due in part to the cost. The Health Care Authority (HCA) 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 14 new catastrophic retirees added on January 1 of each year.

Updated Fiscal Costs

HCA provided the LEOFF Plan 2 Board with an updated fiscal analysis (See Appendix B) of the estimated costs of adding LEOFF Plan 2 catastrophically disabled retirees to the PEBB risk pool (the “implicit costs” of this policy proposal). HCA adjusted the assumed number of new catastrophic retirees down to 4.5 (matching the number utilized by OSA). However, due in part to the increased number of existing catastrophic disability retirees (there were only four catastrophic retirees when this bill was first proposed), the estimated costs have increased to $7.8 million in the first biennium of coverage, ramping up to $15.6 million for the 2025-2026 biennium.

HCA identified costs in the following tables:

Expenditures						
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Pre-Medicare	$ 576,000	$ 1,206,000	$ 1,228,000	$ 1,288,000	$ 1,312,000	$ 1,376,000
Medicare	$ 1,904,000	$ 4,156,000	$ 4,755,000	$ 5,377,000	$ 6,081,000	$ 6,812,000
Total	**$ 2,480,000**	**$ 5,362,000**	**$ 5,983,000**	**$ 6,665,000**	**$ 7,393,000**	**$ 8,188,000**

LEOFF Catastrophically Disabled Member Breakdown (Dependents not Included)						
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Pre-Medicare	11	12	11	12	11	12
Medicare	51	55	60	64	69	73
Total	**62**	**67**	**71**	**76**	**80**	**85**

The LEOFF Plan 2 contribution rate impact of the implicit costs identified by HCA has not been identified.

OSA provided the LEOFF Plan 2 Board with updated fiscal analysis (See Appendix D) of the estimated cost to provide LEOFF Plan 2 retirees with duty-related catastrophic disabilities access to PEBB healthcare coverage and premium reimbursement (the “explicit costs” of this policy proposal). Therefore, this analysis is for the estimated cost impact of LEOFF Plan 2 reimbursing catastrophic retirees for PEBB premiums, instead of reimbursing them for their current health care coverage. OSA’s was based on the following key assumptions:

- All eligible retirees would choose the Uniform Medical Plan (UMP), which is the most popular plan choice for retirees with post-retirement medical through PEBB; and,
- One third of all retirees would have single coverage, the remaining two-thirds would be married and cover their spouse and child(ren).

OSA identified these costs in the following tables:

What-If Analysis Impact on Contribution Rates	
LEOFF 2	
Current Members	
Employee	0.03%
Employer	0.02%
State	0.01%

Contribution rate increase is assumed to occur September, 2020 through a supplemental contribution rate.

What-If Analysis Estimated Budget Impacts			
(Dollars in Millions)	2020-21	2021-23	2023-25
Total Employee	**$0.6**	**$1.3**	**$1.3**
General Fund-State	0.2	$0.5	$0.5
Local Government	0.4	$0.8	$0.8
Total Employer	**$0.6**	**$1.3**	**$1.3**

To help explain these costs, OSA provided the following table which shows the difference in what was paid under current law and what OSA assumes would have been paid under PEBB:

What-If Analysis 2018 Premium Assumptions		
(Dollars in Millions)	Pre-Medicare	Medicare
Current Law Premiums	$13,700	$6,000
PEBB Premiums	$17,000	$13,100

It is our understanding LEOFF 2 retirees with catastrophic disabilities become eligible for Medicare after 29 months of retirement.

The increase in costs is due in part to an assumption that a larger percentage of retirees would opt to have their spouse and children covered, as identified in OSA's key assumptions listed above.

POLICY OPTIONS

Option 1: PEBB coverage for Catastrophic Disability retirees
Catastrophic Disability retirees and their families would be covered under PEBB, like Line-of-Duty Death survivors.

Option 2: No change to current law
Catastrophic Disability Retirees would continue to be responsible for finding health insurance coverage and seeking reimbursement for premiums from DRS.

SUPPORTING INFORMATION

Appendix A: Fiscal Note for SHB 1679 (2009)
Appendix B: Health Care Authority Memo Re: Adding LEOFF Plan 2 Catastrophically Disabled Members to PEBB Benefits, November 22, 2019.
Appendix C: Milliman Memo Re: Estimated Cost of LEOFF 2 Catastrophically Disabled Employees, November 19, 2019.
Appendix D: Office of the State Actuary Email re: PEBB Coverage for Retirees with Catastrophic Disabilities, December 10, 2019.

Multiple Agency Fiscal Note Summary

Bill Number: 1679 HB	**Title:** Catastrophic disability med

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Washington State Health Care Authority	0	1,585,297	0	3,226,020	0	4,698,303
Total $	**0**	**1,585,297**	**0**	**3,226,020**	**0**	**4,698,303**

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	0	0	.0	0	0	.0	0	0
Washington State Health Care Authority	.0	1,019,970	1,585,297	.0	1,850,960	3,226,021	.0	2,268,110	4,698,303
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	.0	0	0	.0	0	0
Total	**0.0**	**$1,019,970**	**$1,585,297**	**0.0**	**$1,850,960**	**$3,226,021**	**0.0**	**$2,268,110**	**$4,698,303**

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

The Office of the State Actuary has prepared an estimate of the effect on the state's Other Post-Employment Benefits (OPEB) liability.
Please see the Actuary's fiscal note, on the page labeled "4 of 9" for more information.

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Pending Distribution

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 24414

Individual State Agency Fiscal Note

Revised

Bill Number: 1679 HB	Title: Catastrophic disability med	Agency: 035-Office of State Actuary

Part I: Estimates

[X] **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

OFM Contact:	Monica Jenkins	Phone: 360-902-0561	Date: 01/27/2009
Agency Preparation:	Nelsen Dave	Phone: 360-786-6144	Date: 04/18/2009
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 04/18/2009
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 04/20/2009

Request # -2

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part IV: Capital Budget Impact

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**4/18/09**	**HB 1679 / SB 5541 Revised**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2009 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This bill will not affect the funding of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 retirement system. Please see the rest of the fiscal note for further discussion on the impact to the pension system.

This bill will provide access to insurance products offered by the Public Employees' Benefits Board (PEBB) to members of LEOFF Plan 2 who qualify for a total line-of-duty disability benefit.

It is expected that this bill will have an impact on the state's Other Post-Employment Benefits (OPEB) liability. Please see the attachment for further discussion on the impact to the OPEB liability.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

A member of LEOFF Plan 2 who qualifies for a total line-of-duty disability benefit under RCW 41.26.470 (8) would be eligible to participate in insurance products offered by the PEBB. This eligibility is granted regardless of whether the member was covered by PEBB benefits as an active employee.

Effective Date: 90 days after session.

What Is The Current Situation?

LEOFF Plan 2 members who have coverage under PEBB as active employees are able to purchase PEBB benefits offered to retirees when they choose to retire, whether retiring for service or disability. While all local government employers are eligible to offer PEBB benefits to their employees, not all employers do so.

Who Is Impacted And How?

We estimate this bill could affect all 16,099 active members of LEOFF Plan 2 through improved benefits. Of the 924 retirees and members with disabilities, there are currently four members with total disabilities incurred in the line of duty that would be affected. Furthermore, we expect approximately 16 additional members per year will actually receive improved benefits.

We estimate this bill will increase the benefits for a typical member by providing access to PEBB insurance products, along with the associated healthcare subsidies provided through PEBB.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Does Not Have A Pension Cost

This bill would affect pension funding if one of two conditions were met:

- The pension plan made healthcare premium payments on behalf of the member.
- Member behavior was altered due to the introduction of this bill (for example, members chose to retire earlier).

Neither of these conditions are met, so there is no cost to LEOFF Plan 2. This bill does not allow the pension plan to make any premium payments on behalf of the member. Also, members do not choose when catastrophic events occur, so their behavior is not affected. If, instead, this bill gave access to all LEOFF Plan 2 retirees, members might choose to alter retirement behavior based on access to subsidized healthcare.

Why This Bill Has A Cost To PEBB

This bill has a cost to PEBB because the healthcare premiums paid by retirees do not cover the full cost of the underlying benefits. The difference between the full cost of retirees and the healthcare premiums they pay gets subsidized. More information on this cost is available in the OPEB attachment to this fiscal note.

Who Will Pay For The Costs To PEBB

The Health Care Authority (HCA) will prepare a fiscal note covering the costs of subsidization and who will pay for those costs.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. We prepared this fiscal note for the Legislature during the 2009 Legislative Session.
2. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this fiscal note.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Matthew M. Smith, FCA, EA, MAAA
State Actuary

OPEB Liability Attachment - Revised

BACKGROUND

Please see page 1 of the fiscal note for the intended use, summary of the benefit change, current situation, and members impacted.

PURPOSE OF THIS ATTACHMENT

The purpose of this preliminary actuarial communication is to estimate the impact of this bill on the State's OPEB liability. We intend this communication to supplement any HCA fiscal note provided. This communication identifies the long-term expected actuarial impact of this bill whereas the HCA fiscal note identifies the short-term budget impact. The Office of the State Actuary's communication and HCA's fiscal note, when taken together, are meant to provide a more complete picture of the estimated cost of this bill.

This communication represents an estimate since we are using the same underlying assumptions as those disclosed in the most recent statewide actuarial valuation report for OPEB. The provisions of this bill modify the PEBB population so the underlying healthcare assumptions may change as a result. Therefore, the actual cost of this bill, and any associated healthcare assumption changes, will be included in the next statewide actuarial valuation report for OPEB.

SUMMARY OF RESULTS

Impact on Total OPEB Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Health Subsidies	$13,010	$64	$13,074
Today's Value of All Earned Health Subsidies	$7,905	$28	$7,933

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why this Bill Has a Cost

PEBB provides subsidized healthcare insurance for certain members of the state's retirement systems. This subsidy generally increases with age. Allowing more retirees to join PEBB increases the number of members receiving the subsidy and increases the associated costs. In addition, the population added under this bill is expected to be less healthy (and more costly) than the average member currently covered under PEBB.

Who will Pay for these Costs

There are two cost-sharing arrangements for retirees in PEBB:

- **Pre-Medicare** - This category covers retirees who are not eligible for Medicare (generally those under age 65). Retirees in this group are pooled with active members and pay the same premiums as active members (regardless of age). This means that active members in PEBB and their employers cover the difference between the actual cost of the retiree and the premiums they pay. On average, these retirees cost more than they pay and this is referred to as the "implicit subsidy."
- **Medicare** – This category covers retirees who are eligible for Medicare (generally those age 65 and older or receiving Social Security disability benefits). PEBB provides, through the State budget, a direct payment toward retirees' Medicare premiums. In 2008 this amount was $164 per retiree per month. This is referred to as the "explicit subsidy."

Members with catastrophic disabilities are expected to be less healthy (and more costly) than the average member currently covered under PEBB. Members who qualify for Social Security disability benefits move from the Pre-Medicare pool to the Medicare pool after 29 months. Please see HCA's fiscal note regarding how the cost above the member premium and subsidies will be funded.

For a further explanation of these cost-sharing arrangements please see pages 7 and 8 of the January 1, 2008 Other Post-Employment Benefits Actuarial Valuation Report (OPEB AVR).

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed all members would join the Uniform Medical Plan (UMP). We based this assumption on the fact that the majority of members in PEBB select UMP.

Members who are affected by this bill qualify for Social Security disability benefits, which allow access to Medicare Part A after 29 months. We assumed all of the members would enroll in Medicare Part B, which would allow access to PEBB's Medicare risk pool. Therefore, we assumed all members would transfer to the Medicare risk pool after two years, whereas their spouses would transfer to the Medicare risk pool at age 65.

Otherwise, we developed these costs using the same assumptions as disclosed in the OPEB AVR.

How We Applied These Assumptions

We relied on HCA's fiscal note to estimate the cost for full family coverage when both member and spouse are in the non-Medicare risk pool. We assumed the total cost per month was $3,248 and the total premium paid by the family was $1,158. We used the 2008 explicit subsidy amount of $164 per month to value both the member and spouse while they were in the Medicare risk pool. We used implicit subsidy costs consistent with the OPEB AVR to value the cost of the spouse in the non-Medicare risk pool after the first two years.

We placed the members into the UMP. Consistent with our most recent pension valuation we used the expected rate of total disablement to determine how many active members would be expected to enroll in PEBB each year (approximately 18 percent of all duty-related disabilities). We flagged the four currently eligible members in the data as they are expected to join PEBB immediately if this bill passes.

Otherwise, we developed these costs using the same methods as disclosed in the OPEB AVR.

Data Used

We relied on data provided by the Department of Retirement Systems to identify the four members that are currently eligible for this bill. We did not audit this data.

We developed these costs using the same assets and participant database as those used in the OPEB AVR.

ACTUARIAL RESULTS

Liability Changes

This bill would impact PEBB by increasing the present value of future benefits payable. The table below shows the impact to the present value of future benefits and the General Accounting Standards Board (GASB) 45 liability.

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
(The Total Value of the Subsidies to all Current Members)			
State	$6,473	$64	$6,537
K-12	5,883	0	5,883
Political Subdivisions	654	0	654
Total	**$13,010**	**$64**	**$13,074**
Unfunded Liability (GASB 45 Liability)			
(The Total Value of the Subsidies to all Current Members Attributable to Past Service)			
State	$4,014	$28	$4,042
K-12	3,542	0	3,542
Political Subdivisions	349	0	349
Total	**$7,905**	**$28**	**$7,933**

Note: Totals may not agree due to rounding.

The analysis of this bill does not consider any other proposed changes. The combined effect of several changes could exceed the sum of each proposed change considered individually.

As with the costs developed in the OPEB AVR, the emerging costs will vary from those presented in the OPEB AVR or this attachment to the extent that actual experience differs from the actuarial assumptions.

CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this pricing is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this attachment for the Legislature during the 2009 Legislative Session.
6. We prepared this attachment, and provided opinions, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of the attached fiscal note.

While this attachment is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Matthew M. Smith, FCA, EA, MAAA
State Actuary

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Individual State Agency Fiscal Note

Revised

Bill Number: 1679 HB	Title: Catastrophic disability med	Agency: 107-Wash State Health Care Authority

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND	FY 2010	FY 2011	2009-11	2011-13	2013-15
Public Employees' and Retirees InsuranceAccount-Non-Appropriated 721-6	625,528	959,769	1,585,297	3,226,020	4,698,303
Total $	625,528	959,769	1,585,297	3,226,020	4,698,303

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
Fund					
General Fund-State 001-1	402,461	617,509	1,019,970	1,850,960	2,268,110
Public Employees' and Retirees InsuranceAccount-Non-Appropriated 721-6	223,067	342,260	565,327	1,375,061	2,430,193
Total $	625,528	959,769	1,585,297	3,226,021	4,698,303

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

OFM Contact:	Monica Jenkins	Phone: 360-902-0561	Date: 01/27/2009
Agency Preparation:	Kim Grindrod	Phone: 360 252-3377	Date: 04/16/2009
Agency Approval:	Dennis Martin	Phone: (360) 923-2831	Date: 04/16/2009
OFM Review:	Carole Holland	Phone: 360-902-0580	Date: 04/17/2009

Request # 09-12-02-2

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

See attached narrative

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

See attached revenue

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached revenue

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services	625,528	959,769	1,585,297	3,226,020	4,698,303
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$625,528	$959,769	$1,585,297	$3,226,020	$4,698,303

Part IV: Capital Budget Impact

None

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

See attached revenue

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

This revised fiscal note changes the following assumptions about catastrophically disabled law enforcement officers and firefighters (LEOFF):

1. Eligibility to enroll in Medicare. Stakeholders asked the Health Care Authority staff to revisit the assumption that catastrophically disabled law enforcement and firefighters were not eligible to enroll in Medicare due to non-participation in the Federal Income Contribution Act (FICA) which includes Social Security and Medicare. Stakeholders believe one-third of the LEOFF members do participate in the FICA programs and the remaining two-thirds participate in the Medicare only program through agreement with the Social Security Administration. The stakeholders requested HCA identify whether these members can participate in the Medicare programs under the Special Rules Application to Medicare Qualified Government Employees (MQGE). Based on information received from the Social Security Administration, Medicare Disability benefits for MQGE are the same as for those who participate in the FICA programs. Therefore, HCA staff has revised this assumption to include LEOFF participation in Medicare after twenty-nine months of a catastrophic disability.

2. Enrollment: In the first version of this fiscal note, HCA staff assumed 16 catastrophically disabled members would be added in January 2010 and would remain constant through the six years measured in the fiscal note. HCA staff revisited this assumption and determined the State Actuary's Office staff intended to show growth of 16 additional members each year. Therefore, HCA staff has revised the enrollment assumption in this fiscal note to show the enrollment.

3. Mortality: Stakeholders asked HCA staff to revisit its mortality assumptions. In the first version of the fiscal note, HCA assumed all enrollees would remain enrolled in PEBB for the entire six years measured in the fiscal note. The State Actuary's Office does not have relevant mortality tables for catastrophically disabled LEOFF members so we looked at the valuations available in at the Social Security Administration. We determined we could make a reasonable assumption for Probability of Death for male disabled workers using Table 7A of the SSA actuarial study No. 118[1].

4. Effective date: In the original bill, we assumed the catastrophically disabled LEOFF members would join PEBB at the beginning of the next plan year which begins in January 2010. We have reconsidered this assumption and now assume the bill would provide the ability for the members to join PEBB 90 days after the bill is signed. Therefore, we have revised our assumption to include an effective date of July 2009.

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[1] Social Security Disability Insurance Program Worker Experience, Actuarial Study No. 118, Tim Zayatz. Page 23, Table 7A – Male Disabled Workers, Probability of Death.

This bill amends RCW 41.05.080 and 41.05.195 by expanding the Pubic Employees Benefits Board's (PEBB) eligibility to include:

1. Surviving spouses and dependent children of law enforcement officers and firefighters [LEOFF] who are totally disabled in the line of duty and receiving a retirement allowance as provided under RCW 41.26.470(8).

2. Law enforcement officers and firefighters [LEOFF] who are totally disabled in the line of duty and receiving a retirement allowance as provided under RCW 41.26.470 (8) and their dependents.

The bill provides the same eligibility and premium payment requirements as currently in place for the surviving spouses and dependent children of emergency service personnel killed in the line of duty.

Discussion:

This bill would allow totally disabled (in the line of duty) law enforcement officers and firefighters and their families the option of moving out of their current insurance plans and into the PEBB insurance plans.

The disabled LEOFF retirees would enroll in one of two of the PEBB community rated risk pools, Non-Medicare or Medicare:

Non-Medicare – In this risk pool, PEBB is the primary payer for the costs related to providing services to the group of retirees not enrolled in Medicare. Retirees are rated with the younger active employees who generally use fewer services than older retirees. The retirees discussed in this bill are totally disabled and therefore we assume the cost of healthcare for these members will significantly exceed the rates charged. The difference between the rate charged and the cost to provide the health care is known as an implicit subsidy. The "true cost" of this population is based on assumptions around greatly increased utilization. In lieu of more specific information regarding the types of disabilities and claims costs affecting these employees, we will use the PEBB Uniform Medical Plan (UMP) rate for a full family to estimate the premium that will be paid monthly by the disabled retiree and we will use the PEBB conversion plan full family rate[2] as a proxy for the increased costs. The difference between the two rates is the value of the implicit subsidy.

Medicare - In this risk pool, PEBB is the secondary payer, after Medicare, for the costs related to providing services to the retirees enrolled in Medicare. PEBB requires a retiree to be enrolled in Parts A and B of Medicare before the retiree can move into the Medicare risk pool. A specific subsidy is set out in the operating budget for Medicare Retirees. This is know as the explicit retiree subsidy and is used to lower the amount of the premium the retiree is required to pay. Medicare assumes the majority of the true cost of this population. We value the cost of the explicit retiree subsidy as the difference between the amount paid to the plan and the amount paid by the retiree.

[2] PEBB conversion plan rates reflect a population no longer employed for the state and who have exhausted their COBRA benefits which includes right to remain in the community rated risk pool. The rates reflect an increased cost for high utilization of health care.

The phrases “surviving spouse” and “child/children” are defined in RCW 41.26.030 (6) and (7) regarding the law enforcement officers’ and firefighters’ retirement system. However, the bill amends PEBB eligibility provisions. PEBB benefits provided in RCW 41.05.080 are subject to the terms, definitions and conditions set by the PEB Board. Therefore, under the bill, PEBB would cover any *PEBB-eligible* spouse or child dependent of a totally disabled officer or fire fighter.

The distinction between the 41.26.030 (6)/(7) definitions and PEBB’s 41.05.080 definitions of spouse and dependent children is subtle, but there is a difference. There would most likely be no difference in the definition of spouse (PEBB rules do not allow for ex-spouses, but we have historically allowed LEOFF 2 surviving ex-spouses if they qualified under 41.26.162), but PEBB’s definition of dependent children is a little more broad than the definition in 41.26.030. Specifically, 41.26.030 (7)(b) defines a student as a child up until they turn 21, while PEBB defines a student dependent as eligible up until they turn 24.

Assumptions

The HCA has made several assumptions about this bill. Changes in the assumptions will have impacts on the expenditure estimates. HCA has made assumptions as to how the proposed legislation would be implemented as written. This fiscal analysis was made based upon those assumptions and the costs associated with any different interpretation of the bill are not estimated within this analysis.

- Enrollment: The Office of the State Actuary estimated 16 new “totally disabled” retirees would join PEBB, annually, due to this legislation. We assume the new subscriber would request full family coverage. Stakeholders believe one-third of the LEOFF members do participate in the FICA programs and the remaining two-thirds participate in the Medicare only program through agreement with the Social Security Administration. We assume 16 new “totally disabled” LEOFF members would be eligible to enroll in Medicare 29 months after they become totally disabled.

- Risk Pool: We assume each disabled retiree will be in the non-Medicare community rated risk pool for twenty-nine months and then will move to the Medicare risk pool.

- Mortality: We assume mortality rates consistent with SSA’s Actuarial Study No. 118 for a 40 year old male. Rounding to the nearest whole number we assume one person per sixteen will pass away in the first year of enrollment and one person per the remaining fifteen will pass way in the second year of enrollment. Thereafter, enrollment remains constant.

The following table shows the enrollment count with the mortality factors and a shift from the Non-Medicare risk pool to the Medicare risk pool.

	Calendar Year Enrollment					
	2010	2011	2012	2013	2014	2015
Non Medicare	15	29	29	29	29	29
Medicare	0	0	14	28	42	56
Total	15	29	43	57	71	85

- Plan Selection and Rate:

    - Non-Medicare: We assume the disabled retiree will select the Uniform Medical Plan. This is currently the lowest cost PEBB offering. In Calendar Year (CY) 2009 the Uniform Medical Plan Full Family paid to plan rate is $1,158 per month. The PEBB Conversion Plan 1 full family rate is $3,248 per month. Based on the current trend provided by our actuaries, we assume the rates will increase 7% per year.

    - Medicare: We assume the disabled retiree will select the Uniform Medical Plan and the catastrophically disabled person is the only family member eligible for the retiree subsidy. In CY 2009, the Uniform Medical Plan Full Family (with one eligible for Medicare is $907.05. The Medicare retiree subsidy is $157.85 per month. We assume the rates will increase 7% per year.

- We assume it is not the intent of this legislation to pass the cost of the subsidies for this group on to the current PEBB employers and employees. Therefore, we assume a transfer from the General Fund-State into the PEBB fund will be made to pay for the subsidies incurred by this new group.

- The proposed method of collecting funding for the subsidy will require tracking and reporting but can be accomplished within available resources.

- The bill broadens eligibility to include a small number of people and will require revisions to communications materials and amending WAC 182-12-250. This can be accomplished within existing resources.

II. B – Cash Receipts Impact

The following chart shows the expected increased revenue receipts from Fiscal Year (FY) 2010 through FY 2015, in the Public Employees' and Retirees' Insurance Account (Fund 721).

Cash Receipts	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
721 Benefits	$ 625,528	$ 959,769	$1,448,882	$1,777,138	$ 2,144,251	$ 2,554,052
Total	$ 625,528	$ 959,769	$1,448,882	$1,777,138	$ 2,144,251	$ 2,554,052

II. C - Expenditures

The following table shows the expected expenditures from FY 2010 through FY 2015. The amount shown in the State Share: General Fund - State row reflects the cost of the implicit and explicit subsidies. The amounts shown in the LEOFF Disabled Retiree rows reflect the premiums to be paid by subscriber.

Expenditures	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
State Share: General Fund State	$ 402,461	$ 617,509	$ 877,940	$ 973,020	$ 1,077,108	$ 1,191,002
LEOFF Disabled Non-Medicare Retirees	$ 223,067	$ 342,260	$ 477,603	$ 511,035	$ 546,808	$ 585,084
LEOFF Disabled Medicare Retirees	$ -	$ -	$ 93,339	$ 293,084	$ 520,335	$ 777,966
Total	$ 625,528	$ 959,769	$1,448,882	$1,777,138	$ 2,144,251	$ 2,554,052

Part IV: Capital Budget Impact

None

Part V: New Rule Making Required

WAC 182-12-250 will need to be amended

Individual State Agency Fiscal Note

Bill Number: 1679 HB	Title: Catastrophic disability med	Agency: 124-Department of Retirement Systems

Part I: Estimates

[X] **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

OFM Contact:	Monica Jenkins	Phone: 360-902-0561	Date: 01/27/2009
Agency Preparation:	Michelle Hardesty	Phone: 360-664-7193	Date: 01/30/2009
Agency Approval:	Cathy Cale	Phone: 360-664-7305	Date: 01/30/2009
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 01/30/2009

Request # 09-015-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill expands access to health care benefits, available through the Health Care Authority, to Plan 2 members of the Law Enforcement Officers' and Fire Fighters' Retirement System who are totally incapacitated in the line of duty and receiving a retirement benefit as provided in RCW 41.26.470(8). The benefits are also expanded to their surviving spouses and eligible children.

This does not have a fiscal impact on the Department of Retirement Systems.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

No impact.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No impact.

Individual State Agency Fiscal Note

Bill Number: 1679 HB	**Title:** Catastrophic disability med	**Agency:** 341-LEOFF 2 Retirement Board

Part I: Estimates

[X] **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

OFM Contact:	Monica Jenkins	Phone: 360-902-0561	Date: 01/27/2009
Agency Preparation:	Dianna Wilks	Phone: (360) 664-7666	Date: 01/28/2009
Agency Approval:	Steve Nelsen	Phone: 360-586-2323	Date: 01/28/2009
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/28/2009

Request # -2

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part IV: Capital Budget Impact

Adding LEOFF Plan 2 Catastrophically Disabled Members to PEBB Benefits

ERB Finance

November 22, 2019

Background

The Health Care Authority (HCA) has completed this analysis at the request of the Law Enforcement Officers and Firefighters (LEOFF) Plan 2 Retirement Board. The LEOFF Plan 2 Retirement Board requested HCA determine costs for LEOFF Plan 2 catastrophically disabled retirees and their dependents to join the Public Employees Benefits Board (PEBB) program.

This analysis has been prepared to show two options:

Option 1 – The catastrophically disabled LEOFF subscriber and their dependents rated in a newly created PEBB risk pool specifically for the LEOFF group and would remain in this new risk pool (or risk pools) even after reaching Medicare eligibility.

Option 2 – The catastrophically disabled LEOFF subscriber and their dependents rated in a newly created PEBB risk pool specifically for the LEOFF group. The LEOFF subscriber and dependents would remain in this risk pool until the member becomes Medicare eligible. At that point, the subscriber and dependents would no longer be eligible for PEBB benefits.

Expenditures

Catastrophically Disabled Retiree

Catastrophically disabled individuals will likely have significantly higher costs than the current PEBB risk pool average which is comprised of state active employees, self-pay members and retirees that are not Medicare eligible. To ensure the cost of benefits are not increased for the current PEBB employers and members, HCA assumes that the LEOFF group would be rated independently from the other participants in the non-Medicare and Medicare risk pools and placed in a newly created risk pool. This is similar to the newly created program for active school employees.

Because no diagnostic or prior claim cost information has been provided about the current LEOFF 2 members, there is a high degree of variability inherent in the cost estimates used in this report. This analysis should only be used to understand the magnitude of potential costs. It should not be considered a precise cost estimate specific to LEOFF 2 catastrophic individuals.

Ultimately, the HCA will need claims history from these members and their dependents to develop a prospective premium rate for this population and HCA assumes utilizing existing contracts for the Uniform Medical Plan (UMP) to administer a plan for these members

Dependents

For purposes of this analysis, the HCA assumes the retiree would also have a spouse and child(ren). The costs assumed in the calculations below reflects the current UMP Classic adult and child(ren) rate charged to state employees.

These costs are a projection and changes in the assumptions will have impacts on the expenditure estimates.

General Assumptions:

- Enrollment: The Office of the State Actuary estimated 49 catastrophically disabled retirees as of June 30, 2018. These retirees would join PEBB benefits and this population will increase by 4.5 retirees per year. The HCA assumes catastrophically disabled LEOFF members would be eligible to enroll in Medicare 29 months after they become disabled.
    - It is assumed that all 49 retirees who were disabled as of June 30, 2018 will be Medicare eligible.
        - As of July 1, 2018 (and each year thereafter) the 4.5 new retirees per year will be Medicare eligible after 29 months.
    - No mortality is assumed for these retirees.
- Cost estimates assume an effective date of January 1, 2021.
- Assumes that the dependent eligibility will be the same as that adopted by the PEB Board and dependents would remain eligible upon death of the LEOFF retiree.
- Subscribers will be 92 percent male and 8 percent female based on the LEOFF 2 census data.
- The costs are developed using current contracted provider reimbursement rates and are based on historical reimbursement levels. Costs could increase in the future with new contracting.
    - The HCA assumes a growth rate of 3.4 percent per year for pre-Medicare retirees based on historical claims data and rate development.
    - The HCA assumes a growth rate of 5.7 percent per year for Medicare eligible retirees based on historical claims data and rate development.
    - The HCA assumes a growth rate of 0.8 percent a year for dental based on historical data.
- This analysis does not consider any potential savings through the coordination of benefits with other coverage (except than the assumption of Medicare enrollment).
- Assumes additional funding for the development of comprehensive, targeted, and ongoing communication specific to LEOFF.

<u>Plan Selection and Rate</u>

- Plan options will be the Uniform Medical Plan (UMP) Classic for medical (including vision) and Uniform Dental Plan (UDP) for dental. This plan is currently the PEBB offering with the highest enrollment and most coverage state-wide (as well as access to providers nationwide).
    - The catastrophically disabled retiree's dependents will be enrolled in UMP Classic.
    - The rate assumption for dependents is based on the Calendar Year (CY). For CY2020 the UMP Classic Subscriber and Child(ren) tier rate would be $1,1180.65 per month.
    - The HCA assumes the LEOFF retiree will select the UDP Full Family tier.
    - The CY 2020 UDP Full Family premium is $141.03.
- Medical – Catastrophically disabled retiree (pre-Medicare)
    - The claims assumptions determined by the HCA assume an annual cost of $88,300 per retiree (or $7,358.33 monthly). This estimate uses cost distribution representative of catastrophically disabled individuals within the following diagnosis groups:
        - Quadriplegia
        - Coma, Brain Compression/Anoxic Damage
        - Severe Head Injury
        - Traumatic Amputations and Complications
        - Multiple Sclerosis

- Amyotrophic Lateral Sclerosis (ALS)
  - Condition costs at the 90th percentile was used to capture the high-end risk inherent in this population along with a high degree of uncertainty in the current estimates.
  - The claims estimate does not account for member cost sharing which can lower costs.
  - The pre-Medicare retiree premiums would also include an administrative fee, not included in this analysis. Actual administrative expenses are unknown at this time, as this would be a separate pool with separate publications and communication materials.
  - It is assumed that there will also be additional Third Party Administrator (TPA) fees.
- Medical – Catastrophically disabled retiree (Medicare)
  - The claims assumptions determined by the HCA are based on the same methodology as above, but reduced to account for the additional Medicare coverage. The current PEBB Medicare rate development is based on approximately 60 percent pharmacy costs and 40 percent medical. The above rate assumes that 60 percent of the cost will remain as UMP will continue to pay primary for pharmacy. However, the medical portion will be reduced to only 20 percent due to Medicare paying primary on medical with UMP paying secondary.
    - Annual Medical Costs for Pre-Medicare x 60% = Pharmacy Costs ($88,300 x 60% = $52,980)
    - Remaining Medical Costs x 20% = Reduced Medical costs ($88,300 – 52,980) x 20% = $7,044
    - Annual Medical Costs for Medicare = $52,980 + 7,064 = $60,044 (or $5,003.67 monthly)
- The estimated costs below represent anticipated claims costs and do not include cost sharing, maximum out of pocket limits, or the assumed increased of other administrative costs.

Option 1 – LEOFF retiree and dependents maintain eligibility in the PEBB Program upon Medicare eligibility.

Expenditures						
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Pre-Medicare	$ 576,000	$ 1,206,000	$ 1,228,000	$ 1,288,000	$ 1,312,000	$ 1,376,000
Medicare	$ 1,904,000	$ 4,156,000	$ 4,755,000	$ 5,377,000	$ 6,081,000	$ 6,812,000
Total	**$ 2,480,000**	**$ 5,362,000**	**$ 5,983,000**	**$ 6,665,000**	**$ 7,393,000**	**$ 8,188,000**

LEOFF Catastrophically Disabled Member Breakdown (Dependents not Included)						
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Pre-Medicare	11	12	11	12	11	12
Medicare	51	55	60	64	69	73
Total	**62**	**67**	**71**	**76**	**80**	**85**

Option 2 - LEOFF Retiree and their dependents lose eligibility from PEBB benefits upon Medicare eligibility.

Expenditures						
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Pre-Medicare	$ 576,000	$ 1,206,000	$ 1,228,000	$ 1,288,000	$ 1,312,000	$ 1,376,000
Total	**$ 576,000**	**$ 1,206,000**	**$ 1,228,000**	**$ 1,288,000**	**$ 1,312,000**	**$ 1,376,000**

LEOFF Catastrophically Disabled Member Breakdown (Dependents not Included)						
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Pre-Medicare	11	12	11	12	11	12
Total	**11**	**12**	**11**	**12**	**11**	**12**

Next Steps

In order to produce a more precise estimate with less margin of uncertainty, the HCA would need at least the following additional information:

- Clarify responsibility of initial acute care costs for these conditions (e.g. prior coverage, worker's compensation, etc.) and the degree to which this coverage would change the cost estimate.
- Obtain historical claims and diagnosis information for this population.
- Obtain information on the ongoing conditions present within the population, and the severity of the conditions.
- Clarify the scope of coverage to be provided by PEBB when individuals become Medicare eligible.
- Estimate TPA and administrative costs.

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November 19, 2019

Megan Atkinson
Chief Financial Officer
Washington State Health Care Authority
626 8th Ave SE
Olympia, WA 98504-5500

Re: Estimated Cost of LEOFF 2 Catastrophically Disabled Employees

Megan,

As requested, Milliman has completed an estimate of the cost profile for the catastrophically disabled population within the Law Enforcement Officers and Fire Fighters Retirement System 2 (LEOFF 2).

It is our understanding that HCA is evaluating the potential impact of allowing the LEOFF 2 members into PEBB, and that the catastrophically disabled population is a separate group that will be considered for PEBB participation independently of the non-catastrophically disabled population. Catastrophically disabled individuals will likely have significantly higher costs than the current risk pool average, and it's our understanding that if admitted to PEBB, the group would be rated independently of the other participants in the non-Medicare risk pool.

This analysis estimates costs for six catastrophically disabled diagnoses, selected based on common disability definitions that we expect would be representative of this group. In the absence of actual diagnosis, claims, or cost data, this sample of conditions should provide a general range of expected costs. Because no diagnostic, prior claim, or cost information has been provided for the current LEOFF 2 members, this analysis should only be used to understand the magnitude of potential costs. It should not be considered a precise cost estimate.

This analysis does not consider the expected costs for non-catastrophically disabled individuals, which we provided in a separate deliverable on November 12.

It is our understanding that LEOFF 2 catastrophically disabled individuals will be eligible for Medicare after 29 months in this eligibility category. This analysis does not consider this change in status, and whether the individuals would obtain Medicare coverage through PEBB or outside of PEBB at that time. This analysis also does not consider any potential savings through the coordination of benefits with other coverages.

Summary of Results

Percentiles by Diagnosis Group

Table 1 shows the distribution of estimated annual costs for members with each diagnosis in 2021.

Table 1 – Estimated Annual Cost Percentiles by Diagnosis Group (2021)

	Average Yearly Cost by Percentiles				
Diagnosis Group	**50th**	**75th**	**90th**	**95th**	**99th**
Quadriplegia	$ 23,400	$ 50,600	$ 96,400	$140,600	$ 282,200
Coma, Brain Compression/Anoxic Damage	<$10,000	25,200	62,400	101,000	235,600
Severe Head Injury	<$10,000	19,500	40,000	58,100	111,700
Traumatic Amputations and Complications	15,500	40,000	80,800	120,200	247,500
Multiple Sclerosis	41,000	85,000	153,900	217,200	409,600
Amyotrophic Lateral Sclerosis and Other Motor Neuron Disease	19,100	47,200	96,500	145,500	308,900
Average	**$ 24,800**	**$ 44,600**	**$ 88,300**	**$ 130,400**	**$ 265,900**

The costs above represent total allowed costs, and do not account for member cost sharing, or administrative load. We would expect the plan paid amounts for these claims to be $2,000 less than the allowed amounts based on the member out of pocket maximum for UMP Classic.

Each distribution is represented by percentiles, with the 50th percentile representing the median and the 99th percentile representing costs for the top 1% of that population. For example, these results indicate that:

- A member with quadriplegia has a 25% likelihood of incurring more than $50,600 in 2021, and a 1% likelihood of incurring more than $282,000

- A member with a severe head injury has a 1% likelihood of incurring more than $111,700.

The reported average in Table 1 is only representative of the diagnosis groups selected. It is not a representation of all possible catastrophically disabled diagnosis groups. We expect that HCA will use the average of all six of these reported conditions, however HCA may choose a more narrow definition from the list of conditions above or consider a different relative weighting of the conditions. For example, the 50th percentiles for the Coma and Severe Head Injury groups are relatively low, and may represent significantly different severity levels than the higher percentiles for the same conditions. In the two cases where the 50th percentile is less than $10,000, we exclude these two conditions from the average. HCA should consider whether including those data points is appropriate.

We recommend using the condition costs at the 90th percentile, which has an average estimated cost of $88,000 per year and condition-specific costs that range from $40,000 to $154,000. The 90th percentile captures the high-end risk inherent in this population without limiting the analysis to the most extreme cases.

Because we do not have any information on historical claims costs for the current catastrophically disabled LEOFF 2 group, the relevant conditions affecting the group, the severity of these conditions, or the degree to which other coverage would be responsible for initial acute care costs, we have recommended a percentile that reflects a higher degree of uncertainty and risk in the projection. In the case that the LEOFF 2 Board were able to provide Milliman and HCA more data and information specific to the LEOFF 2 catastrophically disabled group, we would be able to produce a more precise estimate with less consideration for variability in the estimate.

Methodology

Diagnosis groups

We used the Milliman Stop Loss Laser Tool to estimate the cost distributions of catastrophically disabled individuals within the following diagnosis groups:

- Quadriplegia
- Coma, Brain Compression/Anoxic Damage
- Severe Head Injury
- Traumatic Amputations and Complications
- Multiple Sclerosis
- Amyotrophic lateral sclerosis (ALS)

These diagnosis groups are consistent with common disability definitions, and should be sufficient to create general estimates for this analysis.

The Milliman Stop Loss Laser tool uses nationwide averages to estimate cost percentiles for each condition, with a variety of adjustments to account for demographic information, provider reimbursement, etc. We assumed the following for the analysis:

- The population will be 92% male and 8% female based on the LEOFF 2 census data.
- Network discount adjustment of 49%, which reflects our expected reimbursement levels for the PEBB program, based on historical reimbursement for large claims.
- Accumulated costs prior to entering PEBB under $100,000 for each condition. It is unclear at this time the degree to which PEBB would be responsible for the initial costs of a catastrophic event (e.g. acute care for quadriplegia).
- An average age of 40 for the analysis, although costs for these types of conditions do not vary significantly at different ages.

Next Steps

In order to produce a more precise estimate with less margin for uncertainty, we recommend the following next steps for future estimates:

- Clarify responsibility of initial acute care costs for these conditions (e.g. prior coverage, worker's compensation, etc.) and the degree to which this coverage would change the cost estimate.
- Obtain historical claims and diagnosis information for this population.
- Obtain information on the ongoing conditions present within the population, and the severity of the conditions.
- Clarify the scope of coverage to be provided by PEBB when individuals become Medicare eligible.

Caveats and Limitations

The information contained in this letter has been prepared for the Washington State Health Care Authority and its consultants and advisors. It is our understanding that the information contained in this report may be utilized in a public document. To the extent that the information contained in this report is provided to third parties, it should be distributed in its entirety. Any user of this information should possess a certain level of expertise in health care modeling and projections so as not to misinterpret the data presented. This analysis is subject to the terms and conditions of the Contract between Milliman and Washington State Health Care Authority dated December 15, 2017.

Milliman makes no representations or warranties regarding the contents of this report to third parties. Likewise, third parties are instructed that they are to place no reliance upon this report prepared for the Washington State Health Care Authority by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this report must rely upon their own experts in drawing conclusions about the Washington State Health Care Authority's management of the PEBB program.

The analysis provided with this report represents the most current information available. Future results will vary from these results for many reasons, including but not limited to enrollment shifts and random claims fluctuations. It is important to monitor enrollment and claims and make revisions to the assumptions as needed.

The authors of this report are members of the American Academy of Actuaries and meet the qualification standards to perform financial projections of this type.

In performing this analysis, Milliman has relied upon data ultimately provided by the Health Care Authority, as well as HCA's third party administrators. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment. To the extent that there are errors contained within this data, the results of our analysis could produce erroneous results.

We look forward to discussing the results of this analysis with you.

Sincerely,

Ben Diederich, FSA, MAAA
Consulting Actuary

Aaron Gates, FSA, MAAA
Actuary

cc: Tanya Deuel (HCA)
Huong Ramirez (HCA)

From:	Valencia, Tim (LEOFF)
To:	White, Jacob (LEOFF)
Subject:	FW: PEBB Coverage for Retirees with Catastrophic Disabilities
Date:	Tuesday, December 10, 2019 4:19:59 PM

From: DeCamp, Mitch [mailto:Mitch.DeCamp@leg.wa.gov]
Sent: Tuesday, December 10, 2019 1:36 PM
To: Nelsen, Steve (LEOFF) <steve.nelsen@leoff.wa.gov>
Cc: Won, Lisa <Lisa.Won@leg.wa.gov>; Masselink, Luke <Luke.Masselink@leg.wa.gov>; Valencia, Tim (LEOFF) <tim.valencia@leoff.wa.gov>; Dyer, Graham <Graham.Dyer@leg.wa.gov>
Subject: PEBB Coverage for Retirees with Catastrophic Disabilities

Steve,

As requested, we have prepared analysis on the estimated cost to provide LEOFF 2 retirees with duty-related catastrophic disabilities access to PEBB healthcare coverage and premium reimbursement assumed to be effective January 1, 2021. This analysis does not include any costs that may arise from including LEOFF 2 retirees with catastrophic disabilities in the PEBB risk pool as we understand that will be included in analysis prepared by the Health Care Authority (HCA). If the additional costs identified in the HCA analysis are to be paid from the pension trust, that would significantly increase the rate impacts shared below.

Given the small size and limited dependent coverage data for current members with catastrophic disabilities, our estimate is a what-if analysis. This is meant to provide a sense of the order of magnitude of the potential impact. Actual costs from this proposal could vary from the following analysis. If we were to produce a fiscal note during session we may perform additional research in an effort to set a best estimate assumption and would include additional analysis around how the results could vary under a different set of assumptions. For instance, some key assumptions are the percentage of members assumed to cover dependents and how many dependents, e.g. spouse and children or spouse only. The results of that fiscal note, and the assumptions used, could also vary from what is shown in the analysis below.

The what-if analysis provided below is based on the following key assumptions:

- All eligible retirees would choose the Uniform Medical Plan (UMP), which is the most popular plan choice for retirees with post-retirement medical through PEBB
- One third of all retirees would have single coverage, the remaining two-thirds would be married and cover their spouse and child(ren)

What-If Analysis Impact on Contribution Rates	
LEOFF 2	
Current Members	
Employee	0.03%
Employer	0.02%
State	0.01%

Contribution rate increase is assumed to occur September, 2020 through a supplemental contribution rate.

What-If Analysis Estimated Budget Impacts			
(Dollars in Millions)	2020-21	2021-23	2023-25
Total Employee	**$0.6**	**$1.3**	**$1.3**
General Fund-State	0.2	$0.5	$0.5
Local Government	0.4	$0.8	$0.8
Total Employer	**$0.6**	**$1.3**	**$1.3**

The table below contains the pre-Medicare and Medicare blended premiums relied on for this what-if analysis. Reasons for the increase in the average premium include, but not limited to, the dependent coverage assumption and differences in benefit coverage between PEBB programs and current enrollment by retirees. Please see below for more details on how the blended premium assumptions were developed.

What-If Analysis 2018 Premium Assumptions		
(Dollars in Millions)	**Pre-Medicare**	**Medicare**
Current Law Premiums	$13,700	$6,000
PEBB Premiums	$17,000	$13,100

It is our understanding LEOFF 2 retirees with catastrophic disabilities become eligible for Medicare after 29 months of retirement.

Unless noted below, the cost estimates were developed using assumptions, assets, data, and methods consistent with the June 30, 2018 Actuarial Valuation Report (AVR). Please see our website for additional information about the AVR.

We made the following assumptions when performing this pricing exercise:

- Current law premiums are from our preliminary Demographic Experience Study. They were developed based on averages of the premium reimbursement history from 2012-2017 for retirees with catastrophic disabilities, increased with inflation to the valuation date of 2018. If more information is required regarding how the current law premium assumption was derived, please let us know.
- Retirees would choose UMP Classic for pre-Medicare and UMP Classic Medicare when Medicare eligible for healthcare coverage. About 60 percent of current PEBB retirees choose a UMP plan.
- To be consistent with the AVR, we relied on rounded calendar year 2018 PEBB premiums to estimate the impact from this proposal.
  - Pre-Medicare (Family): $21,600 per year
  - Pre-Medicare (Single): $7,900 per year
  - Medicare (Subscriber Medicare eligible, Family Pre-Medicare): $17,700 per year
  - Medicare (Single): $4,000 per year
- We assumed two thirds of retirees would select Full Family coverage and one third would select single subscriber coverage. We relied on WA state marriage data to inform the two thirds marriage assumption. For purposes of this analysis, we assumed all married retirees would also cover a child(ren).
  - On average, projected catastrophic disabilities are estimated to occur in a member's early 50's using current data and assumptions. Since spouses become Medicare eligible at age 65, and given their assumed relative age to members, we assumed spouses would remain on non-Medicare coverage.
- Medicare retirees receiving premium reimbursement would also be eligible for the explicit subsidy provided to Medicare retirees in PEBB. If these retirees are not eligible for the explicit subsidy, then the above estimated costs would increase.
- Qualification for premium reimbursement remains the same as current administration.

The assumptions listed above could change if bill language becomes available. Changing these assumptions may produce different results than those presented here.

We prepared this analysis to assist the Board in evaluating this proposal. Please do not rely on this analysis after the 2019 Interim. We are happy to provide an update in the future if needed. Luke Masselink, ASA, EA, MAAA served as the reviewing and certifying actuary for this pricing exercise.

Should you have any questions or would like to discuss this further, please let us know.

Mitch DeCamp
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Olympia, WA 98504-0914
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“Supporting financial security for generations.”

This e-mail, related attachments, and any response may be subject to public disclosure under state law (Chapter 42.56 RCW).

LEOFF
Plan 2 Retirement Board

PEBB Coverage for Catastrophic Retirees

Final Report
December 18, 2019

Issue

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

Line of Duty Death Benefit

- Survivors are covered by PEBB and their premiums are paid by LEOFF 2
  - Survivors do not have a choice to get different health care coverage and have those premiums paid for or reimbursed by LEOFF 2

Catastrophic Retiree Benefit

- Catastrophic disability retirees health care premiums are reimbursed by LEOFF 2
  - No access to PEBB unless their employer offered PEBB

Members not eligible for Medicare (or enrolled in Part A only)	Subscriber	Subscriber and spouse	Subscriber and child(ren)	Subscriber, spouse, and child(ren)
Kaiser Permanente NW2 Classic	$715.66	$1,426.25	$1,248.60	$1,959.20
Kaiser Permanente NW2 CDHP	$608.85	$1,206.99	$1,072.04	$1,611.85
Kaiser Permanente WA Classic	$752.15	$1,499.24	$1,312.47	$2,059.55
Kaiser Permanente WA CDHP	$610.16	$1,210.10	$1,074.70	$1,616.32
Kaiser Permanente WA SoundChoice	$618.49	$1,231.92	$1,078.57	$1,692.00
Kaiser Permanente WA Value	$675.71	$1,346.36	$1,178.70	$1,849.35
UMP Classic	$679.72	$1,354.37	$1,185.71	$1,860.37
UMP CDHP	$608.35	$1,206.48	$1,071.53	$1,611.34
UMP Plus–Puget Sound High Value Network	$644.97	$1,284.88	$1,124.91	$1,764.82
UMP Plus–UW Medicine Accountable Care Network	$644.97	$1,284.88	$1,124.91	$1,764.82

Legislative History

- 2009 LEOFF 2 Board bill proposed including catastrophically disabled LEOFF Plan 2 retirees in PEBB
- Health Care Authority Fiscal Note - $4.7 million for the 2013-15 biennium

Catastrophic Retirement Rates: Original vs. Revised vs. Actual	
2009 HCA Assumed Rate	14/year
Current Experience Study Rate	4.5/year
2003 – 2018 Actual Experience	3.9/year

HCA Updated Costs – Implicit Costs

Expenditures						
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Pre-Medicare	$ 576,000	$ 1,206,000	$ 1,228,000	$ 1,288,000	$ 1,312,000	$ 1,376,000
Medicare	$ 1,904,000	$ 4,156,000	$ 4,755,000	$ 5,377,000	$ 6,081,000	$ 6,812,000
Total	**$ 2,480,000**	**$ 5,362,000**	**$ 5,983,000**	**$ 6,665,000**	**$ 7,393,000**	**$ 8,188,000**

LEOFF Catastrophically Disabled Member Breakdown (Dependents not Included)						
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Pre-Medicare	11	12	11	12	11	12
Medicare	51	55	60	64	69	73
Total	**62**	**67**	**71**	**76**	**80**	**85**

OSA Updated Costs – Impact to Explicit Costs

What-If Analysis Impact on Contribution Rates	
LEOFF 2	
Current Members	
Employee	**0.03%**
Employer	**0.02%**
State	**0.01%**

Contribution rate increase is assumed to occur September, 2020 through a supplemental contribution rate.

What-If Analysis Estimated Budget Impacts		
(Dollars in Millions)	**2020-21**	**2021-23**
Total Employee	**$0.6**	**$1.3**
General Fund-State	0.2	$0.5
Local Government	0.4	$0.8
Total Employer	**$0.6**	**$1.3**

Policy Options

Option 1: PEBB coverage for catastrophic disability retirees

- Catastrophic Disability retirees and their families would be covered under PEBB, like Line-of-Duty Death survivors.

Option 2: No action at this time

- Board can direct staff to continue to work with OSA and HCA to further analyze the estimated cost for further study next interim

Thank You

Jacob White

Senior Research & Policy Manager

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