

WISCONSIN COUNTIES ASSOCIATION

HUMAN CAPITAL FORUM

Health Insurance Trends and New Issues
with Accounting for Benefits

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 **Sikich**[®]

Local governments are finally hiring again

A survey of 336 governments published in June of 2015 conducted by the International Public Management Association for Human Resources showed that:

- 73% of respondents hired employees in the last year
- 54% reported hiring more than they did in 2012

But...

- 47% reported higher levels of retirement in 2013 than 2012
- 13% of employees accelerated their retirement
- 29% reported altering retirement benefits over the last year
- 53% reported changes in their health benefits for both active and retired employees

Also....

Survey noted that the top concerns of today's government human resources are:

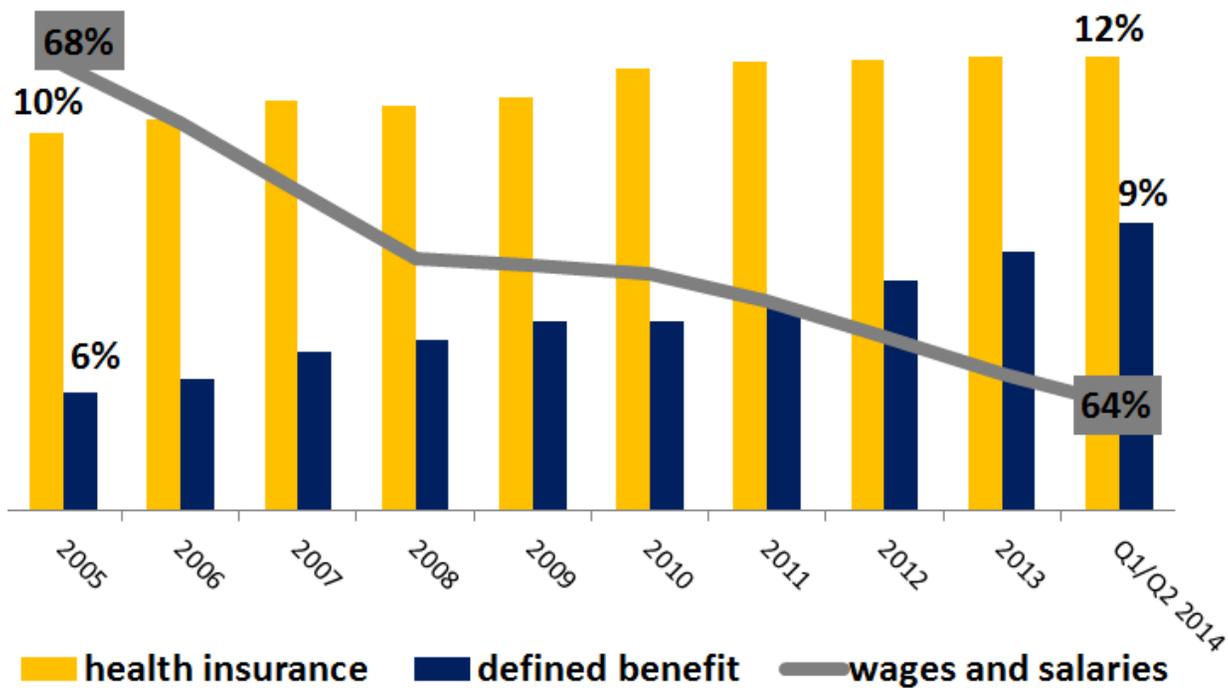
- Recruiting and retaining qualified personnel
- Succession planning
- Staff development
- Competitive compensation packages
- Retaining staff needed for core services
- Employee morale
- Employee engagement

Health Care Trends

- Over the past 5 years, 61% of local governments have seen increases in health care costs of 6-15% and 11% have seen increases greater than 15%.
- Health care costs are becoming an increasingly larger portion of employee costs
- Today, in local government, health insurance accounts for about 12% of total employee costs, compared to 10% in 2004.
- This is driving down available spending for compensation and benefits

Health Care Costs as a Portion of Wages (2014)

Breakdown of Employer Costs for State and Local Government Workers



SOURCE: SLGE analysis of BLS Employer Costs for Employee Compensation

What is driving the increase?

According to a survey of 252 local governments in the US conducted by the University of Tennessee:

- Increased claim costs
- Prescription drugs
- Aging workforce
- Insurance company price increases
- Federal health care policy
- Hospital costs
- Workforce health status (obesity, smoking)
- Emergency room costs

How are local governments responding?

- Increasing co-pays
- Increasing employee/retiree share of premiums
- Increasing deductibles
- Increasing cap on out of pocket expenses paid by individual
- Changing the number of available plans offered to employees
- Requiring more pre-certification (for hospital and/or outpatient)
- Changing how prescription drugs are administered
- Establishing wellness programs
- Implementing smoker cessation program with non-smoker premium discount
- Conducting health care audits (dependent eligibility, etc)

How are local governments responding?

- Shift employees to high deductible plans with a health savings account (HSA)
- Establish a health reimbursement account (HRA)
- Switching from fully insured to self-funded (or vice versa)
- Increased requirements (e.g., years to vest, age to retire) to qualify for retiree health benefits
- Eliminate retiree benefits
- Eliminate spouse coverage
- Use the ACA exchanges

Affordable Care Act (ACA)

- **Who must comply**
 - Employers with 50 or more full time employees or full time equivalents who work an average of 30 hours per week or 130 hours per month
- **Grandfathered plans**
 - Plans that existed when ACA was signed into law (3/10/10) may be eligible for grandfathered status, provided no significant changes to benefits, premiums, co-pays, or deductibles have been made.
- **Self-insured plans**
 - ACA does not change how governments provide and fund benefits, as long as the government can demonstrate the ability to fund their claims.
- **Minimum essential coverage**
 - Insurance plans offered must meet minimum coverage requirements.
- **Cadillac Tax**
 - If the value of a local government's health care benefits exceeds \$10,200 for single and \$27,000 for family coverage, local gov't may be subject to 40% tax on amounts exceeding these thresholds.

ACA Opportunities to Enroll Jail Populations

- ACA gives states the option to expand Medicaid to all individuals under age 65 with incomes up to 133% of the federal poverty level.
 - Inmates are often uninsured and disproportionately suffer from mental health and substance abuse issues. ACA can address those needs and reduce recidivism rates
 - Gets inmates the care they need to change the direction of their lives upon release
- Wisconsin has chosen not to pursue the expansion of Medicaid
 - Instead, Wisconsin offers coverage to nondisabled childless adults whose incomes do not exceed 100% of the federal poverty level.
 - Inmates can apply for coverage over the phone at the end of the month prior to their release
 - Coverage goes into effect the first day of the month in which inmates are released

Trends to watch

- State and local governments are hiring more temporary or contract employees
- More changes to health benefits, both employee and retiree
- More local governments shifting retirees to Medicare at age 65.
- Volatility in pension plan numbers
 - First year of required reporting in financial statements
 - Funding improvements will be difficult to achieve in volatile stock markets
 - This is particularly curious in Wisconsin – projecting a liability for 2015.

What has the Governmental Accounting Standards Board (GASB) been up to?

NEW PRONOUNCEMENTS

- GASB has been very active over the last twelve months
 - › 11 Statements
 - › Two Implementation Guides

GASB Statements 74 and 75

- *S-74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions*
 - › Issued in June 2015
 - › Effective for fiscal years ending June 30, 2017 and thereafter
 - › Applies to separately issued OPEB plan reports
 - › Applies to non-trusted plans
 - Asset reporting by the employer

GASB Statements 74 and 75

- S-75, Accounting and *Financial Reporting for Postemployment Benefits Other Than Pensions*
 - › Issued in June 2015
 - › Effective for fiscal years ending June 30, 2018 and thereafter
 - › Applies to employers that provide other post-employment benefits (OPEB)
 - › What is OPEB?

GASB Statements 74 and 75

- Other post-employment benefits (OPEB)
 - › Healthcare benefits provided after employment ends (whether or not retired)
 - › Medical, dental, vision, prescription
 - › Other benefits if provided outside of a pension plan
 - › Death benefits, life insurance, disability/long-term care
 - › Part of overall benefit package
 - › Inducement to attract employees
 - › Exchange of benefits for services performed
- Does not include special termination benefits (early retirement incentives)
 - › Offer made by employer for a period of time
 - › Inducement to leave employment
 - › Includes both voluntary and involuntary programs
- Does not include sick leave conversion

GASB Statements 74 and 75

- Other post-employment benefits (OPEB)
 - › Includes explicit benefits and implicit benefits
 - › Explicit benefits the employer pays all or a portion of the benefit
 - › Specific dollar amount
 - › Percentage of age adjusted premiums
 - › Self-insured claims
 - › Implicit benefits generally result from retirees continuing in the employers health plan but not paying an age adjusted premium
- Community rated exemption for implicit subsidy removed

GASB Statement 74

- Retains two basic financial statements for trusted plans
 - › Statement of net position
 - › Statement of changes in net position
- Expands notes to financial statements
 - › Similar to GASB S-67
 - › Investment disclosures
 - › Actuarial disclosures
 - › Components of the net OPEB liability
 - › Changes in the net OPEB liability
- Expands required supplementary information
 - › Ten years of information is required on a prospective basis

GASB Statement 75

- Recording the net OPEB liability
 - › Similar to GASB S-68
 - Single employer plans requires an actuarial valuation
 - › Record OPEB liability in accrual basis financial statements
 - › Allocate among fund/component units similar to cost sharing plans
 - › Impact may be more significant than pensions as many governments do not advance fund OPEB
 - › Advance funding requires an irrevocable trust
 - › Greatly expanded note disclosures
 - › Greatly expanded required supplementary information

