State of the Medical Fund
Connecticut State Teachers Retirement Board

By

Joseph A. Fields PhD
Principal Corporate Benefit Consultants LLC
16 Main Street Suite 206
Durham, CT 06422

September 10, 2008

Executive Summary

Annually the Connecticut State Teachers' Retirement Board reviews the performance of the Medical Fund to determine the long term solvency of the fund and to have a tool that can be used for policy making purposes. This year the model is extended to FY 2017. The results continue to indicate that that the plan is solvent and that the trust fund is expected to reach almost $275 million over the next ten years. This is a dramatic turnaround from earlier this decade when the plan trust fund was expected to be negative by 2006 and have a $400 million deficit by 2011.

Introduction

The Connecticut State Teachers' Retirement Board has been running a program to assist retired teachers of the State of Connecticut obtain and afford health insurance. The enabling legislation for this program is found in Connecticut General Statute Chapter 167(a) Section 10-183 (t). There are two basic programs which provide services: the first is the subsidy. Under the subsidy program teachers who are entitled to retire under the Act are entitled to enroll in the health insurance plan at their own expense. Such cost shall not exceed the actual cost of such insurance. The state provides the retiree or eligible spouse a subsidy of up to $110 per month for eligible retiree and/or spouse coverage.

This subsidy program is economically important to retired teachers in two ways. The program allows access to a health plan at a cost based on a group rate. The program allows some relief to the retiree that is not available if they seek insurance in a direct buy program.

The amount of this subsidy for most retirees has been fixed for over a decade and constitutes a minority of the cost of providing the coverage. The fixed nature of the cost plus the relatively modest growth in the pre Medicare population has made this a predictable cost item that has added to the positive fund increase over the last several years. Unfortunately, the same fixed costs that have made this portion of the program affordable (the fixed stipend) has also limited its usefulness in providing the necessary function of the program in assisting teachers to retire.

In the most recent legislative session, the legislature increased the stipend for lower income retirees doubling the stipend to $220 and $440 for singles and couples, respectively. This much needed assistance is expected to be a relatively minor impact to the fund as the number participating is expected to be less than a thousand and primarily be a population that is a closed cohort that will diminish over time.

The second portion of the program is the Medicare supplement programs. These are plans that service teachers that participate in Medicare Parts A and B. The Medical programs available for this group are the Medicare supplement program, a retail prescription drug program, a dental program, and a vision and hearing program.

The funding for the programs varies. The medical program of the Board is supported by three sources: the general fund of the state of Connecticut pays one-third of the cost, the retiree pays

one-third of the cost (as well as some deductibles and copayments) and the Active teachers pay one-third of the cost.

We have adjusted the number of expected participants up by a thousand to take into account the expected impact of declines in school boards propensity to offer their own programs (Hartford and Bridgeport). We feel that this must be closely monitored as it could have a significant negative impact on the fund.

The prescription drug program is offered in combination with the Medicare supplement Program (one must take both programs). The Prescription drug program is supported by four sources of income: the state of Connecticut pays one-third of the cost, the retiree pays one-third of the cost and the Active teachers' pay one-third of the cost. In addition, the Board receives a subsidy from the federal government for sponsoring a retiree Medicare prescription program.

The dental program and the vision and hearing program are both fully retiree paid. The only cost to the TRB of providing these programs is the time and services of the TRB staff and consultants used to set up and operate the program. The cost of claims and administration are entirely borne by the member. The advantage of the dental program is that members receive significant discounts for services when using a participating dentist on both the program and individual payments. The vision and hearing plan is an indemnity based program.

Plan Characteristics

The plans at the TRB have changed to take into account costs, incentives, network discounts and administrative needs over the years. Despite the economic challenges that have existed there have been some substantive modifications that have improved costs and services. For example, the prescription drug plan has been modified to lower the cost share on generic drugs from 10% to 5%. Additionally the drug deductible has not increased over the last six years. On the medical front the maximums under the policy were raised from $100,000 of coverage to $1 million maximum. Combined with the coverage under the Medicare plan the coverage is

essentially unlimited and no individual has reached the maximum over the life of the program. Substantive increases were provided in the allowances of the vision and hearing plan. The dental plan had a doubling of the maximum coverage per year. Additionally, the tiering of the dental program has been eliminated, no longer requiring individuals to wait multiple years to receive coverage for major services. The dental program has had substantive increases in membership over the last five years. We attribute this growth to the implementation of a national network that contains both PPO and DMO providers that offer substantive discounts from providers. This is critically important to seniors being able to afford major services. For example, the list charges for a crown or crowns are often in the area of $1,100 per crown. The network allows for the purchase of a crown for $725 (varies by location and tooth). The plan pays 50% of the cost and the member pays 50%. Not only is the plan premium more affordable but the out of pocket expense is significantly lower.

Plan membership

One of the most challenging issues associated with the financing of this plan is that the plan is growing both in size and in cost. During the late 1990's and early 2000's the plans per member per month cost and number of members both grew at a rapid pace threatening the solvency of the plan. As a result significant changes were instituted to rescue the plan. The prescription drug copays were raised, incentives for generics were increased and vendors were changed to take into account cost and discounts that vendors could negotiate.

We have experienced dramatic growth in the two plans that are fully supported by membership fees. These plans have no effect on the cost to either the state or the TRB fund. The programs have been improved by the Board and have grown more expensive but apparently are viewed more positively by the membership as the demand has been dramatic.

The subsidy plan has had relatively slower growth and is expected to grow little if at all over the coming years. The reason for that is that the group contains members who are not Medicare eligible and as they become Medicare eligible they move into supplement plans. Given

expected increases in average retirement age, the frozen subsidy and the movement into the supplement by those hired to teach the baby boomers, this group may actually see a declining population in the near future.

One would expect that the Medicare supplement plan will continue to grow at a relatively constant pace over the next decade. This expectation depends upon several factors: the continuing superior health status of retired teachers, the high quality of the program offered (there are no comparable private sector products available) and the tendency for school districts that have Medicare products to move out of that benefit.

Predictive Modeling

Starting in 2002 CBC began developing predictive models of the trust fund behavior. This was necessitated by the Board's desire to understand the financial consequences of the plan modifications. The Connecticut Office of Policy and Management had just completed a study of the TRB health plan operations and predicted that by 2011 the trust fund would be exhausted and the total deficit would be in excess of $400 million. As a result the Board took aggressive actions to ensure the solvency of the fund while maintaining a high quality plan.

This year the model was redone and the period of the model was extended. The model is quite complex as it contains over 5,000 cells representing data point on the various inputs to the model. Essentially, measures of teacher population (at various stages of their careers), along with the costs and revenues of the plan, expected growth in costs and revenues and other plan operating expectations are combined in a model that shows expected changes over the next decade of plan operation.

The results produce an expected trust fund balance at the end of FY 2017 of just under $275 million dollars. This is a dramatic turnaround from a projected $400 million deficit. A $675 million dollar improvement reflects both significant effort and leadership on behalf of the Board and staff. The illustration in the model provides that the amount of surplus continues to rise in the models final year. This would tend to indicate that the trust fund balance has not reached

its peak by 2017. While it might serve some purpose to extend the model beyond ten years the outcomes have a higher variance as the plan years move further into the future.

The model over the years has shown significant usefulness and accuracy. Each year the model is modified to take into account changes in performance. Generally the model has been conservative and has understated the actual fund balances by a small degree.

Expected Fund Balances

Given the model assumptions the fund balances are expected to rise precipitously over the next several years.

Table 1

Projected Fund Balances

FY year ending	Projected fund balance (in millions $)
2009	$81.9
2010	$103.5
2011	$126.6
2012	$149.9
2013	$174.5
2014	$199.2
2015	$223.3
2016	$248.0
2017	$274.1

If one examines the rate of growth in the fund, the balances increase by progressively larger dollar amounts through the period. This is driven primarily by the active teacher contributions as they continue to grow while the size of the stipend group (a large expense) remains relatively constant. The cost factor that is continuing to grow is the Medicare supplement plan which grows both in participation and cost. A favorable factor is that trend rates for Medical services have declined significantly. Market trend rates on medical and prescription drugs are down almost 50% over the last five years.

Like all other long term projections the model is subject to considerable variability in outcome if the assumptions are not realized. Some things that can affect the model are: increased utilization rates, increased trends, changes in reimbursement, changes in teacher populations and compensation etc.