

# Michigan Public School Employees' Retirement System

## Strategic Initiative Update

Health Insurance Committee

5/18/2023

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# MPSERS Strategic Initiative Update

1. Historical Context
2. Strategic Initiative Update
3. Strategic Initiative – Revision Options and Considerations

# Executive Summary

## Historical Context and Current Strategic Initiative Process

- Created in 1992 when healthcare costs were increasing at a double digit pace
- Michigan Public School Employees' Retirement System Master Health Care Plan has changed significantly
  - In 1992 there was no Medicare Advantage plan or CMS subsidy
- Michigan economy and state finances were in middle of recession and economic hardship

## Review and Revise Strategic Initiative Process

- Office of Retirement Services and WTW consultants met frequently to review historical process and update to align to current state in 2023
- Identified issues with current process, primary of which is there is no consideration of the Michigan Public School Employees' Retirement System current financial position
- Various considerations in changes to strategic initiative process were considered and weighed carefully

## Strategic Initiative Process - 2023

- Remove specific cost goal calculation that typically results in a savings target for strategic initiatives
  - Cost goal is not consistent with the current plan financials
- Addition of “Health Plan Metrics” review for each strategic initiative package
- Michigan Public School Employees' Retirement System board and Department approval will continue to be required, including the process for public comment

# Strategic Initiative Process: 1992

Historical Context

# Historical Context

- The current strategic initiative process was started in 1992
  - The cost per retiree increased an average of 15.8% annually between 1980 and 1991
  - Double digit increases in health care services
  - State of Michigan budget concerns along with state and national recession in 1993
  - Concerns were expressed related to partial de-funding of the health care benefits
- Healthcare Cost Management was a priority
  - Cost Sharing
    - Increasing member cost at point of care (deductible, copay, coinsurance and out-of-pocket limits)
  - Cost Reduction
    - Reduce the number of healthcare service units purchased and/or the prices of the units
  - Cost Avoidance
    - Reduction in the frequency and/or severity of illness (wellness programs), reduction or elimination of coverage for specific conditions or shifting costs to other parties
- Cost goal
  - Use compound rate of inflation and real economic growth as benchmarks to determine cost goal
  - Typically results in savings needs

# Strategic Initiative Process: 1992

Review and Update Current Process

# Review Strategic Initiative Process

Current Strategic Process Update Required Due To Following Factors

## Favorable Plan Funding

- As of most recent valuation plan is 99.23% funded
- Due to pre-funding, favorable claims, and managing plan design



## Favorable Healthcare Trend Compared to 1992

- Healthcare trend is no longer significantly higher than economic growth



## Medicare Advantage Plan

- Medicare Advantage plan allows for substantial cost savings through CMS subsidy



## Prescriptive Cost Goal Calculation

- Current cost savings goal can require savings which is contradictory to plan financial position



# Strategic Initiative Process: 2023

New Process Beginning 2023



# Strategic Initiative Process - 2023

- Addition of financial metrics in the strategic initiative package that illustrates both plan specific financial metrics and general healthcare metrics
  - Plan Specific Financial Metrics
    - Funded Ratio: Percentage of Actuarial Accrued Liability funded by plan assets is based on most recent valuation available
    - Historical Net Trend: 3 -Year annual trend of MPERS Plan Net Cost (annually and cumulative 3-year trend)
  - General Healthcare Metrics
    - Healthcare Cost Trend: Historical and Projected
    - CMS Medicare Advantage Revenue
    - State or Federal Legislative Changes
    - Population Health
    - Any other general plan impact
- Cost Goal Changes
  - Remove the historical cost goal calculation going forward
  - If necessary, a cost savings goal will be determined if the financial conditions of the plan specific financial metrics or general healthcare metrics indicate savings will be required
- Board and Department approval is required for the strategic initiative package (no change from current process)
- Public comment options will remain the same as what is currently in place
- The strategic initiative process will be considered on at least an annual basis

# Next Steps

# Strategic Initiative Process

## Next Steps

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Board vote on Updated Strategic Initiative Process on May 18, 2023

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