Case Study
Jackson District Library

Jackson District Library
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Municipality Profile

- 160 employees total
- 10 retirees / 27 eligible active employees
- $8 Million in OPEB liability

MERS Programs Used

- Health Care Savings Program
- Retiree Health Funding Vehicle

"We received a draft of our Retiree Health Valuation, and after adopting the MERS Health Care Savings Program, our OPEB liability dropped from more than $8 million to $1.5 million. WOW!"
– *Sara Tackett, Director, Jackson District Library*

Results

The result was a win-win situation for both parties. The Library was able to cut costs dramatically by changing the way retirees select and enroll in health insurance, while upholding its commitment to provide retirees with resources and benefits that meet their needs post-employment. Medicare-eligible retirees are now provided with a stipend deposited tax-free into their HSCP account, which they can use to purchase one of many low-cost health insurance options through the exchange or any provider of their choice.

Situation

The Jackson District Library is a small municipality that had a big problem with liability for other post-employment benefits (OPEB). Even after closing their retiree health care benefit to new hires in 2007, unfunded accrued liability for eligible active employees and existing retirees was growing. The Library decided to take steps to address their OPEB liability, and in 2008 began prefunding their OPEB expenses through the MERS Retiree Health Funding Vehicle. Despite accumulating $360,000 in the trust over the next few years, escalating health insurance costs meant that covering the annual premium for their group retiree health insurance plan left no funds available to continue prefunding their OPEB liabilities.

In 2014, an actuarial valuation of their retiree health insurance benefit calculated their projected OPEB liability at $8 million, leaving them with a significant funding gap.

Process

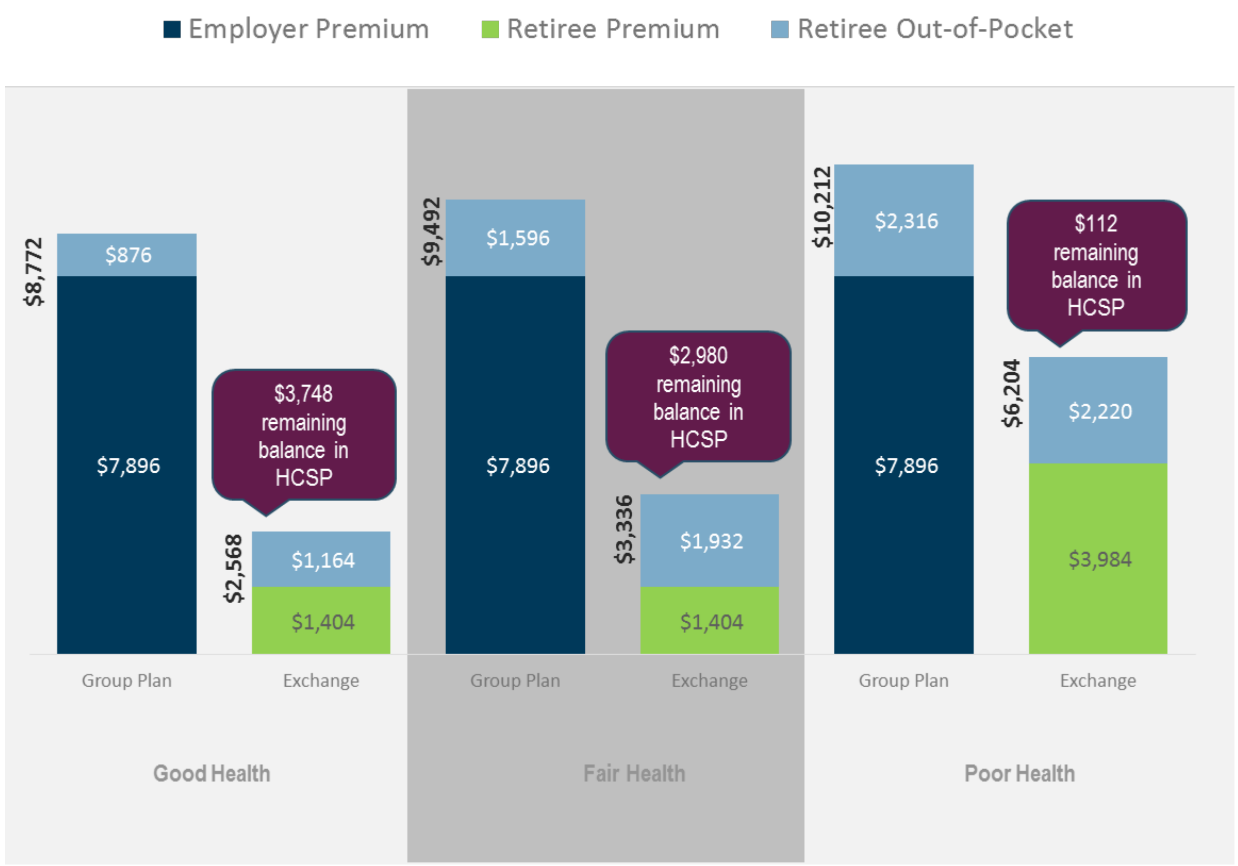
The Library relied on MERS and a health care consultant to lead them through the process of determining how to best address their OPEB liability. Their primary goal was to reduce the cost of providing health coverage to Medicare-eligible retirees over the age of 65, as that group accounted for the largest expenditure. As they explored available options, the Library and union representatives worked together to ensure existing retirees and eligible active employees had a voice in selecting a solution that was both equitable and sustainable.

Strategy

MERS worked with the consultant to demonstrate how the Library could pair the MERS Health Care Savings Program (HSCP) with access to a private health insurance exchange to provide current and future retirees with an effective health insurance benefit that would not result in any future unfunded liability. The consultant then helped the Library determine the coverage options available, the associated cost, and the employer stipend necessary to fund the benefit.

The analysis showed that individual pricing offered through a health insurance exchange, which is able to shop multiple providers and benefit levels to arrive at a cost-effective policy for retirees, can be significantly more efficient. There were *55 coverage options* available in the Jackson area for someone eligible for Medicare.

Using their average retiree age as model, the Library compared the cost for a 74-year-old to purchase insurance that provided the same level of benefit as available under the existing group plan. As shown below, the total cost of health care for a retiree in fair health would drop from $9,492 to $3,336—a decrease of $6,156 or 65%.



The analysis revealed that a stipend of $6,316 would be adequate to cover the health insurance premium and out-of-pocket expenses for Library retirees regardless of health status. An annual stipend in that amount would be deposited into a MERS Health Care Savings Program account for each retiree to purchase their own health insurance, with any unused portion remaining in their account for their use.