

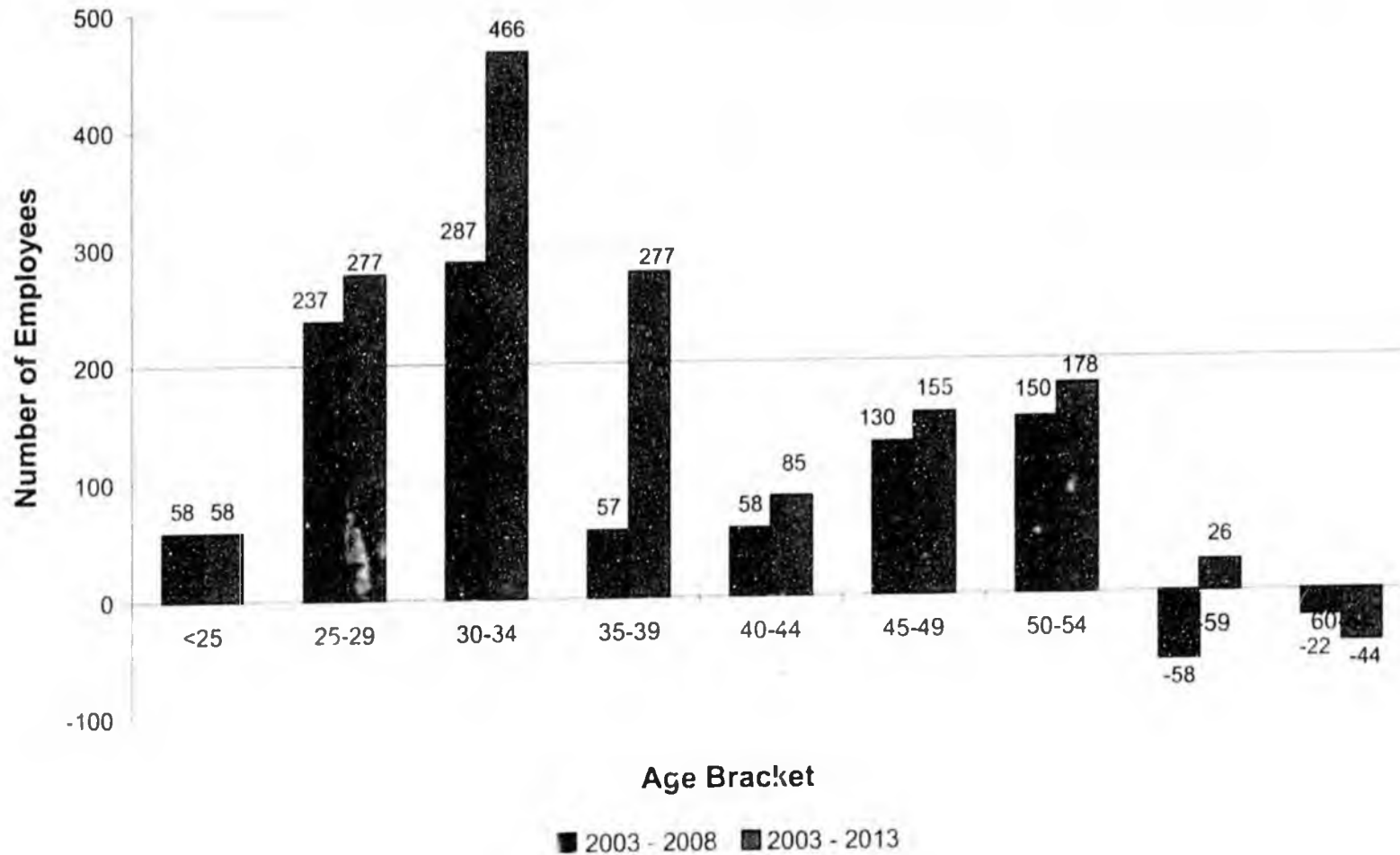




Demographics

Police & Fire

Recruiting Needs





Demographics

Police & Fire

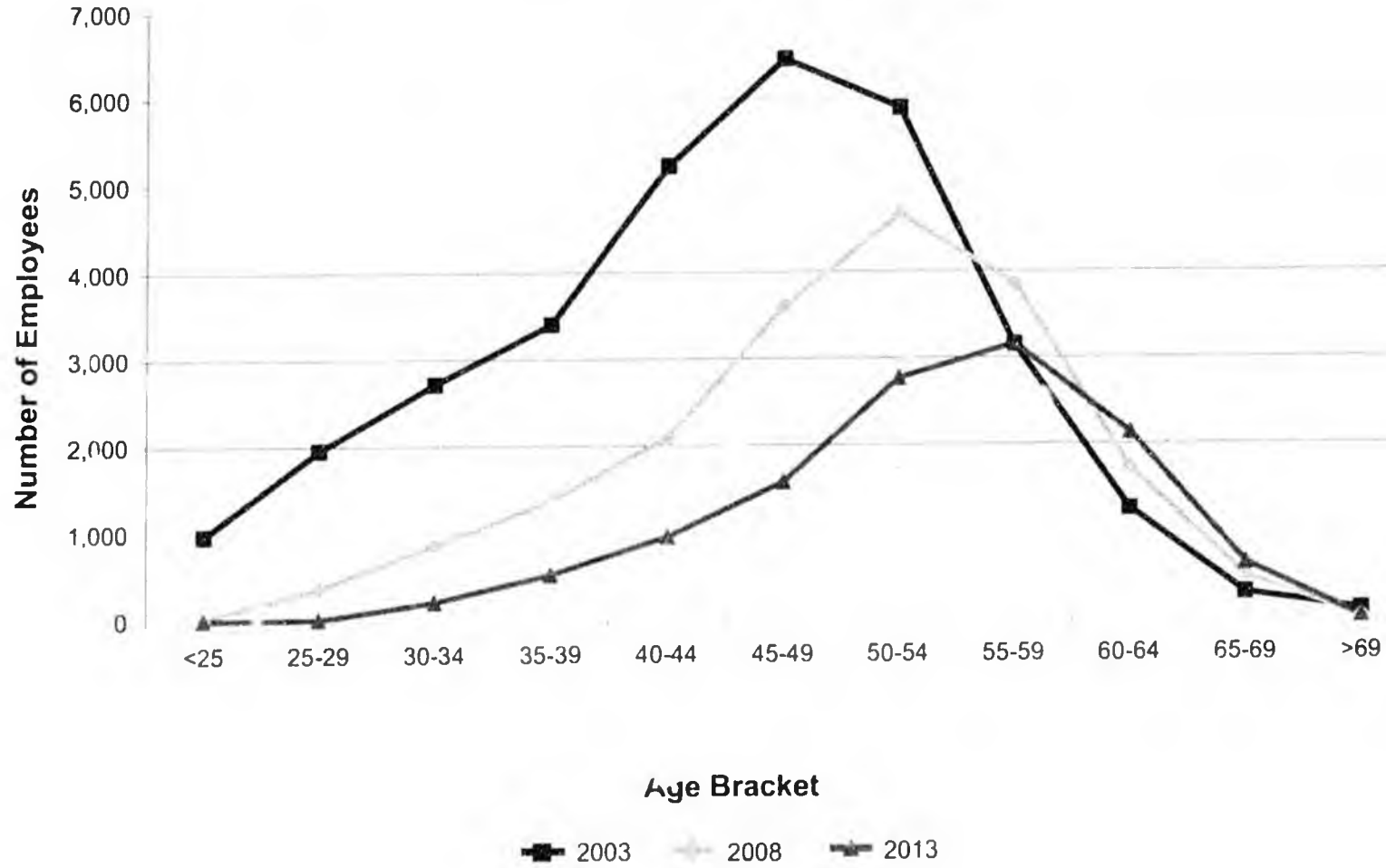
- Projection of current police & firefighter population shows the following:
 - Within 5 years, 33% of current members will retire or terminate
 - Within 10 years, 54% of current members will retire or terminate
- 69% of recruiting needs will be at ages 25 to 39 over the next 10 years
- There are significant hiring needs at ages 40 to 54: 28% over the next 10 years
- Will there be a need to manage workforce at age 60 and older?
- 29% of current active members will leave before retirement
- 71% will retire and receive majority of plan's value



Demographics

PERS All Others

Distribution of Work Force

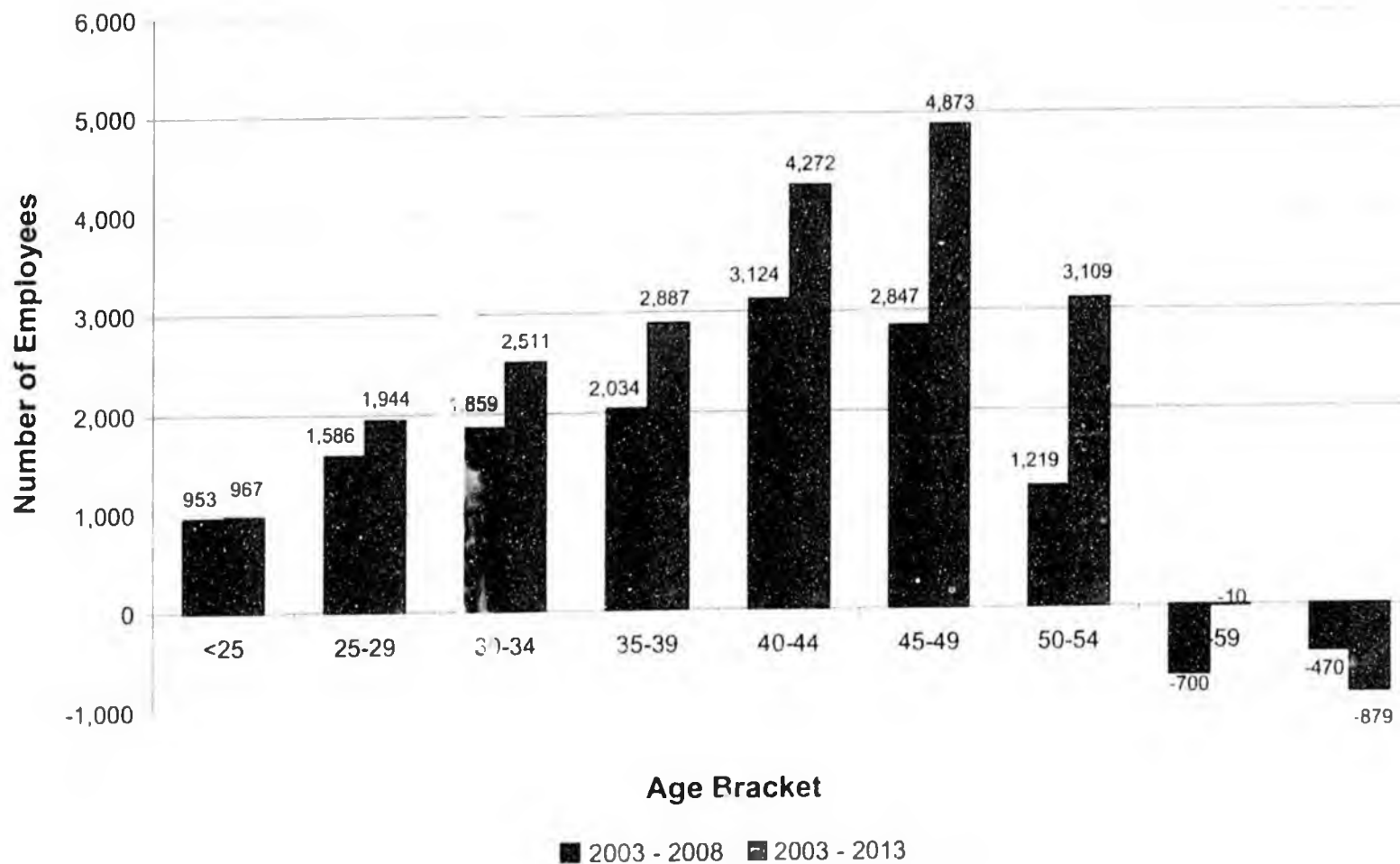




Demographics

PERS All Others

Recruiting Needs





Demographics

PERS All Others

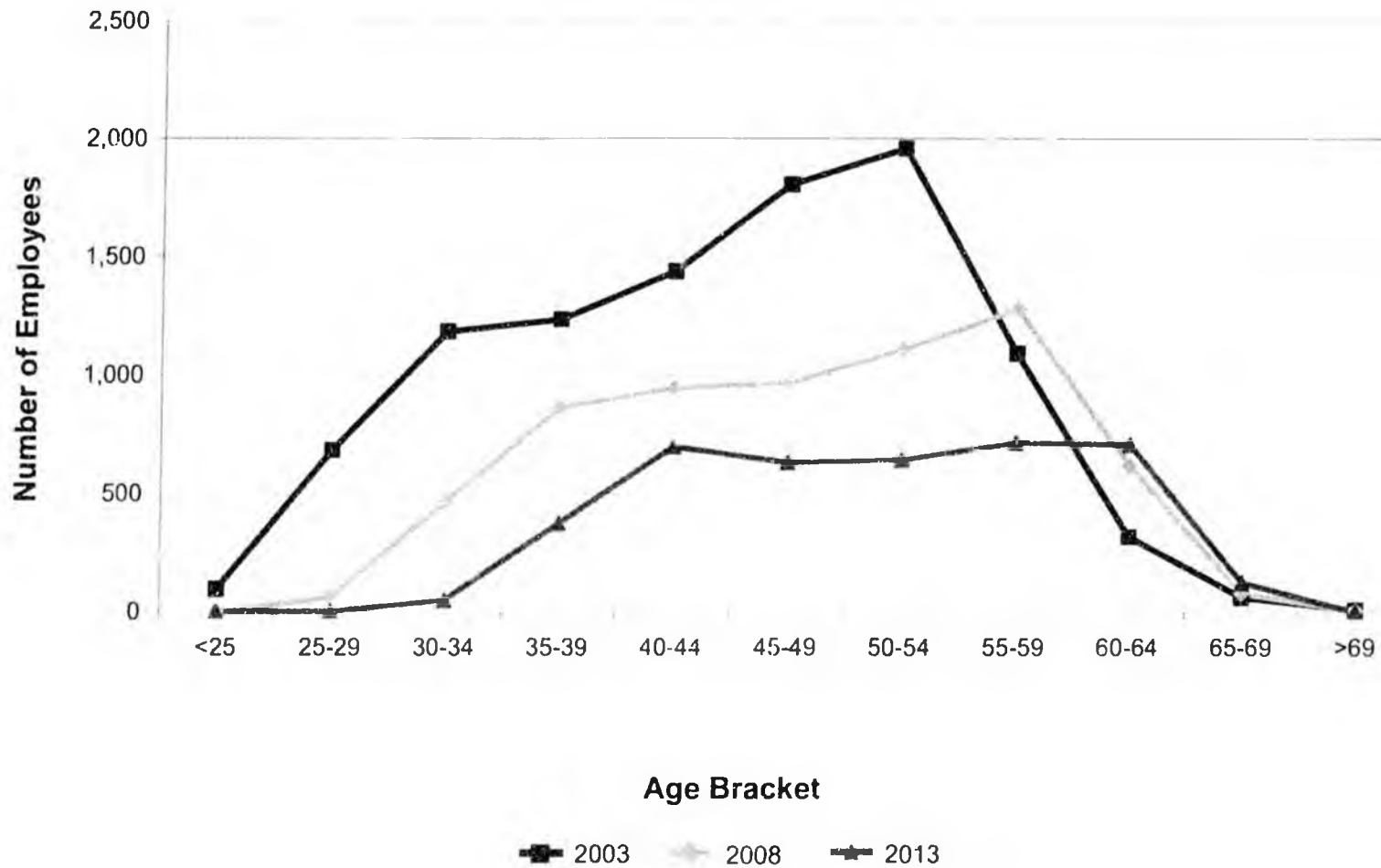
- Projection of current others population shows the following:
 - within 5 years, 39% of current members will retire or terminate
 - within 10 years, 62% of current members will retire or terminate
- There are significant hiring needs across wide spectrum of ages: 85% over the next 10 years
 - main needs will be at ages 40 – 54
- Will there be a need to manage workforce at age 55 and older?
- 44% of current active members will leave before retirement
- 56% will retire and receive majority of plan's value

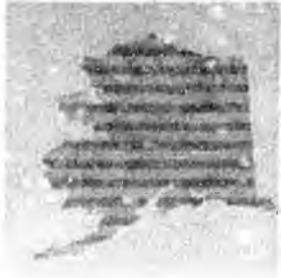


Demographics

Teachers

Distribution of Work Force





Demographics Teachers

- Projection of current teacher population shows the following:
 - Within 5 years, 35% of current members will retire or terminate
 - Within 10 years, 60% of current members will retire or terminate
- There are significant hiring needs across wide spectrum of ages: 77% over the next 10 years
 - High need for experienced teachers (ages 45 – 54)
 - Also significant need at ages 30 – 34
- Will there be a need to manage workforce at age 60 and older?
- 32% of current active members will leave before retirement
- 68% will retire and receive majority of plan's value



5. Financial Analysis



State of Alaska – PERS

Projections at Calculated Rate – Observations

- Calculated rates increase under all population scenarios
- Calculated rates begin to decline towards end of the projection period under the 1% and 2% scenarios.
- Over the past 9 years, the average annual population increase for the PERS has been 1.1%
- Calculated rates increase to above 30% under the 1% population increase scenario
- Factors contributing to the projected rate increases are:
 - Contributions are less than the actuarially calculated rate for the first 5 years of the projection
 - New entrants enter the System at lower pay levels than the exiting members they are replacing, generating losses and diluting the pay-off of unfunded liabilities
- Funding ratios are at least 96% by the end of the 25-year period, under all 3 population scenarios



State of Alaska – TRS

Projections at Calculated Rate – Observations

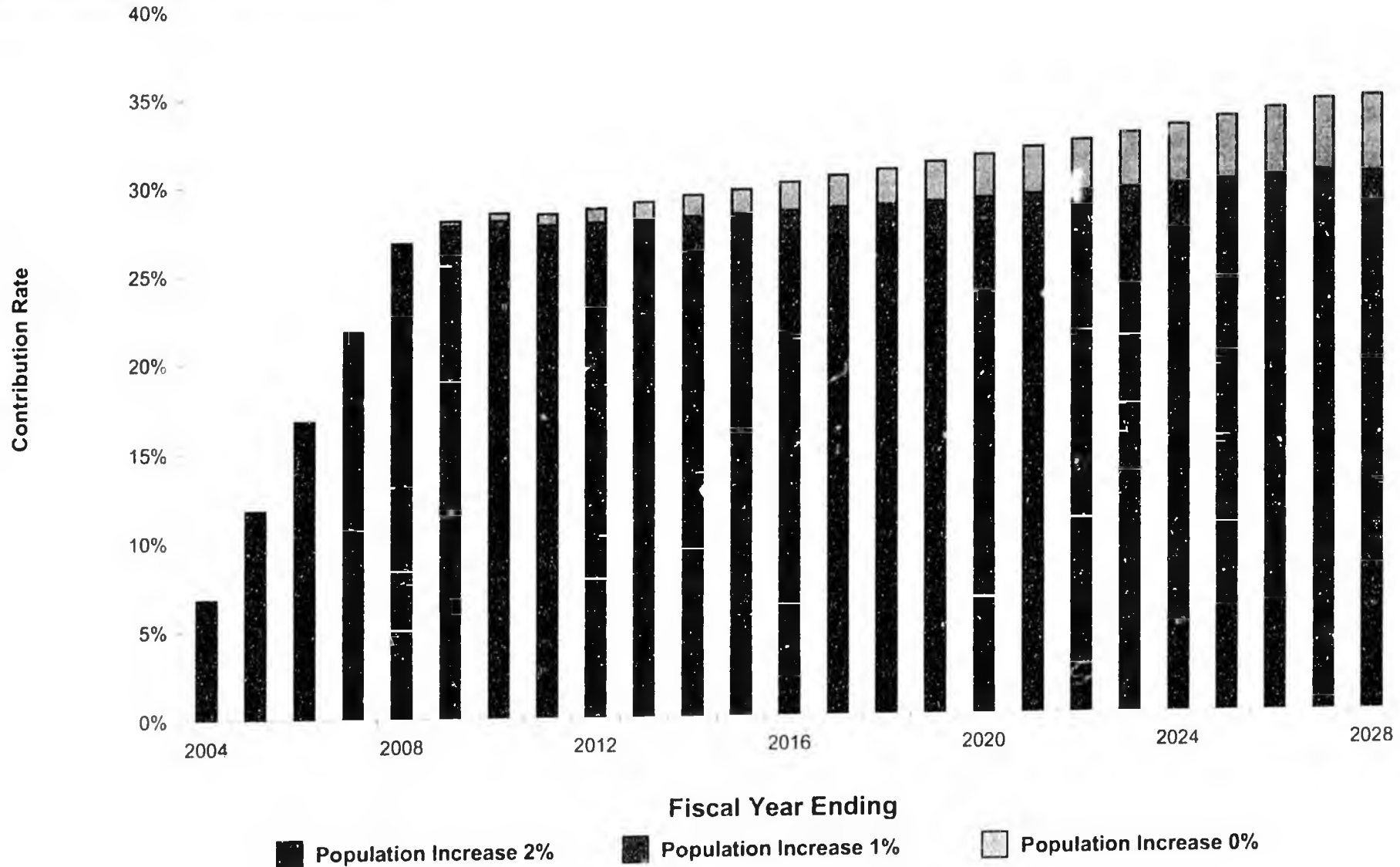
- Calculated rates increase under all population scenarios
- Calculated rates begin to decline towards end of the projection period under the 1% and 2% scenarios
- Calculated rates increase to 42% even under the 2% population increase scenario
- Factors contribution to the projected rate increases are:
 - Contributions are less than the actuarially calculated rate for the first 2 years of the projection
 - After the first 2 years, there is still a 2-year lag before calculated rates actually enter the System
 - New entrants enter the System at lower pay levels than the exiting members they are replacing, generating losses and diluting the pay-off of unfunded liabilities
- Funding ratios are at least 96% by the end of the 25-year period. under all 3 population scenarios

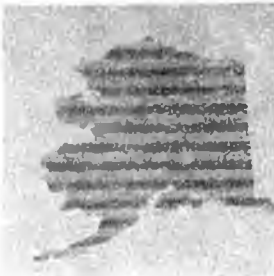


State of Alaska - PERS

Projections at Calculated Rate

Contribution Rates

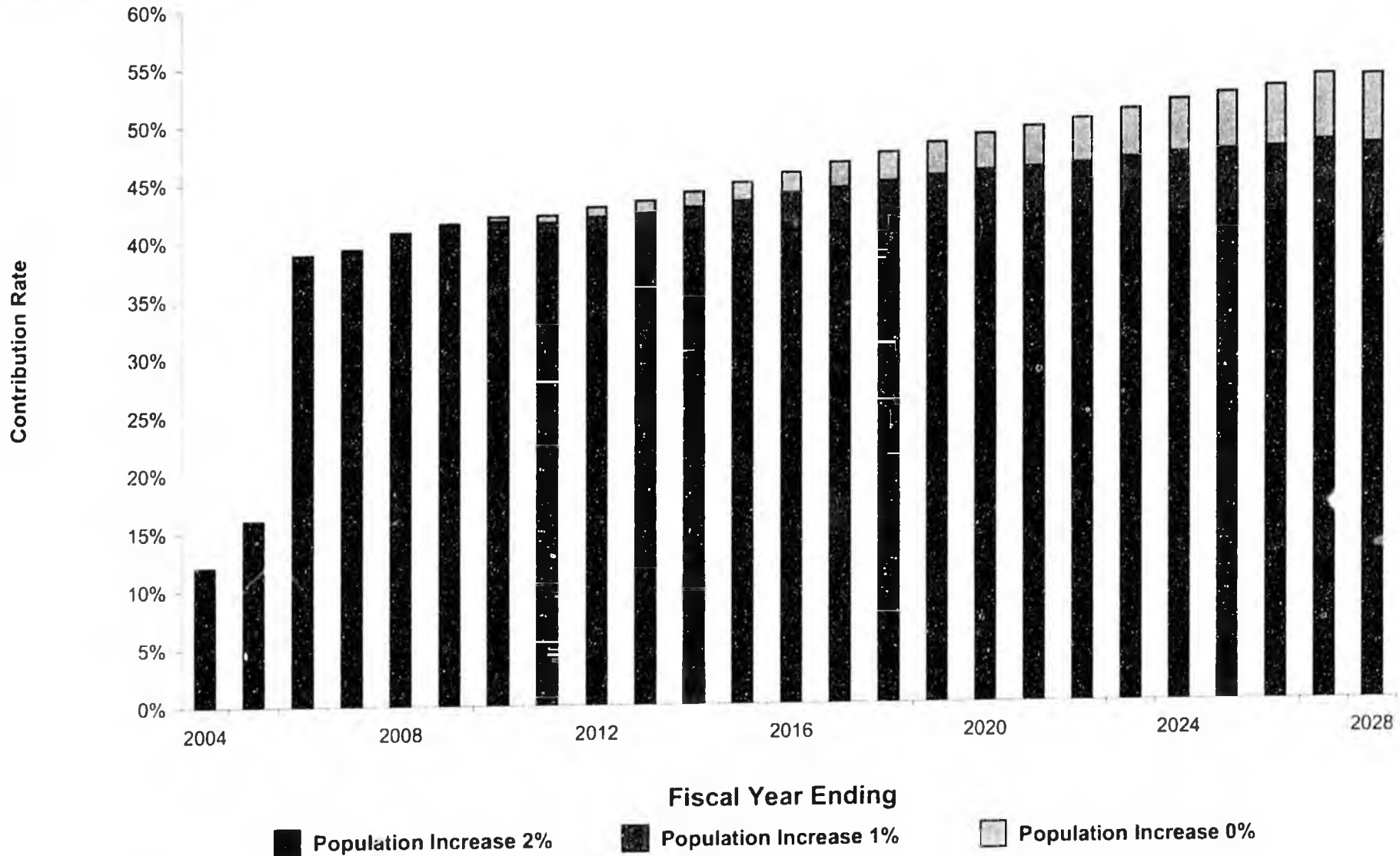




State of Alaska - TRS

Projections at Calculated Rate

Contribution Rates

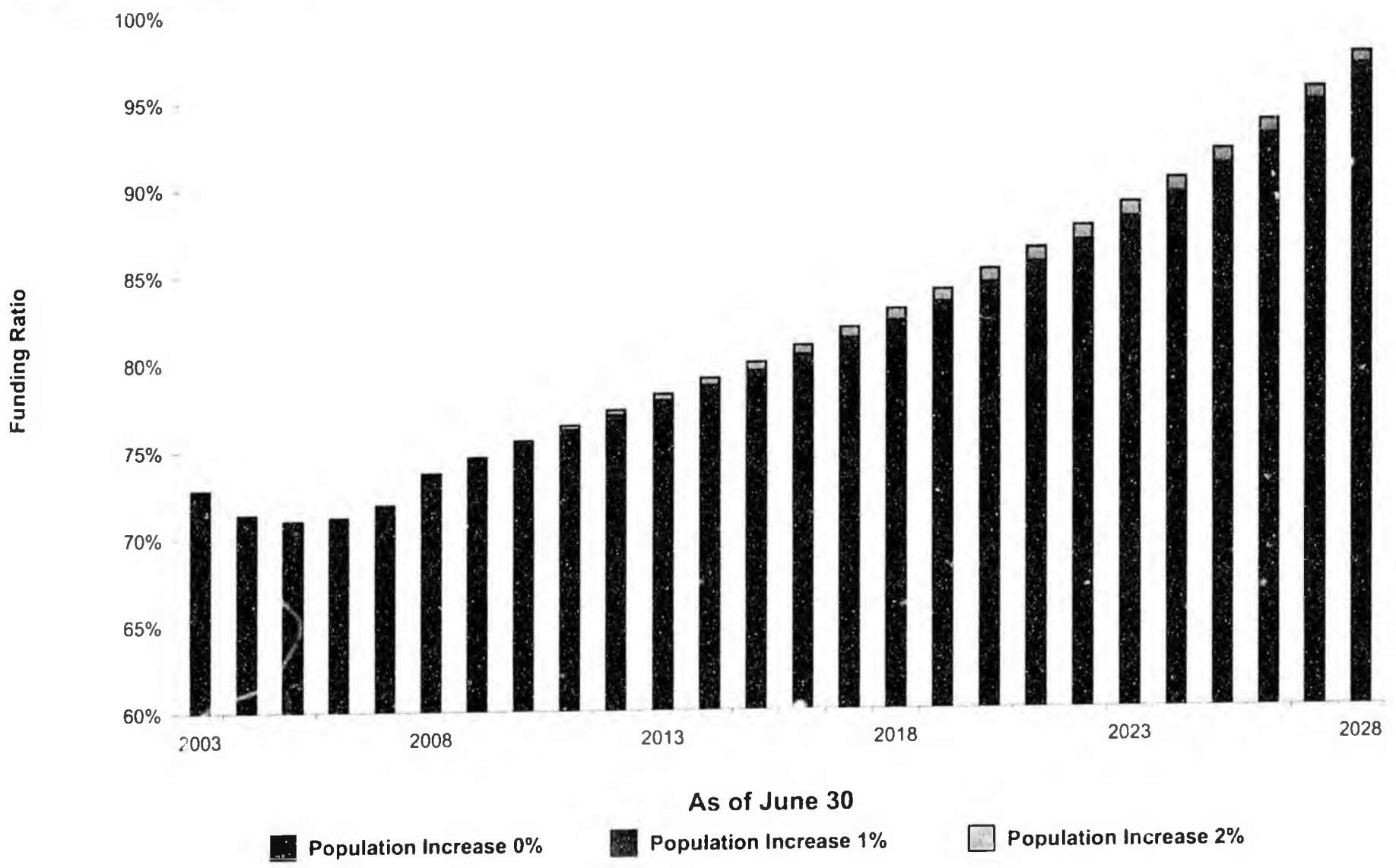




State of Alaska - PERS

Projections at Calculated Rate

Funding Ratios

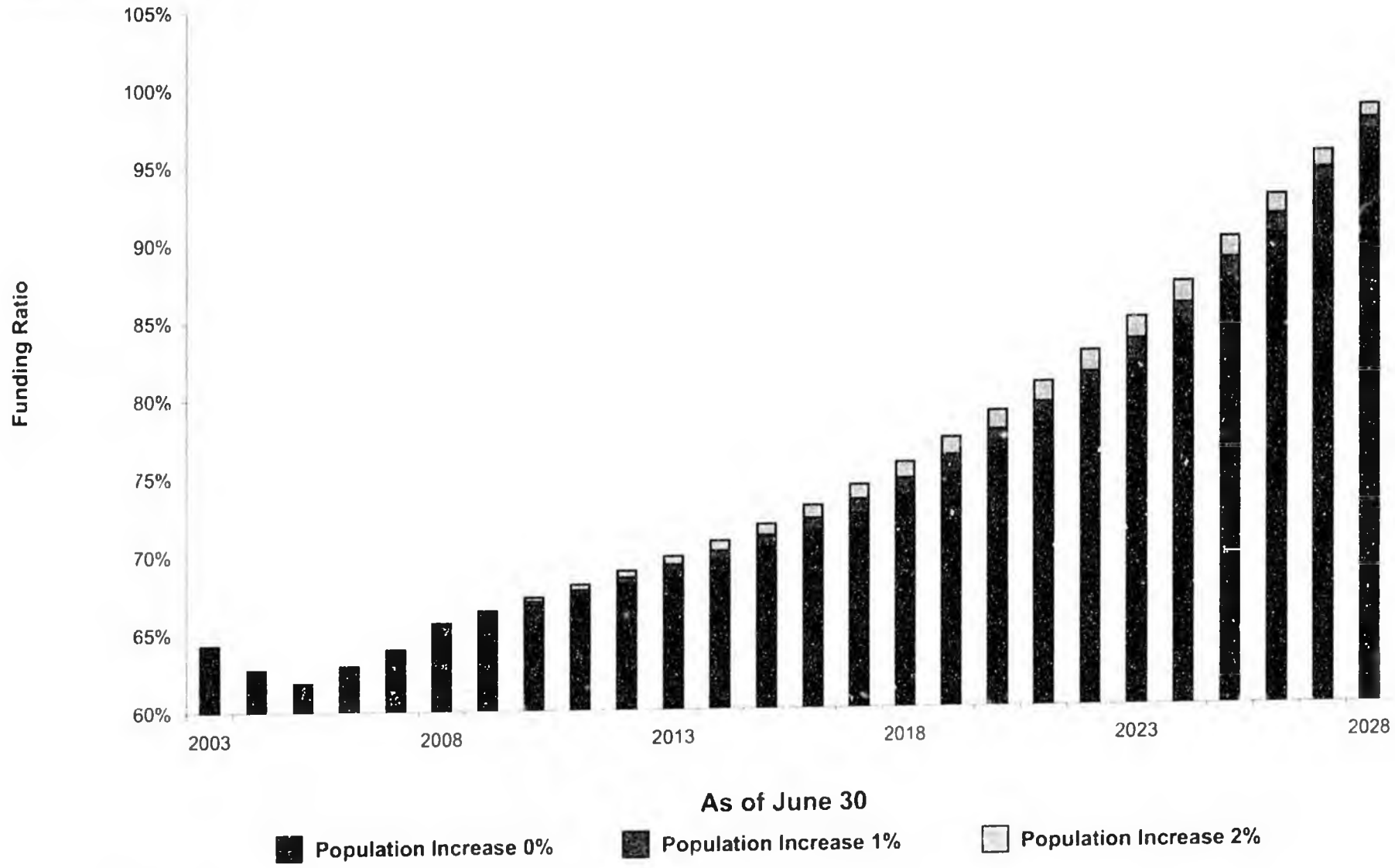




State of Alaska - TRS

Projections at Calculated Rate

Funding Ratios





State of Alaska

Projections at FY06 Rate – Key Assumptions

- Three active population scenarios:
 - 0% growth
 - 1% growth
 - 2% growth
- New entrants brought in to replace members assumed to die, terminate, retire, or become disabled
- New entrant profiles based on average new entrant profiles from the prior 3 years
- Future liabilities and asset returns are calculated at 8.25%, except:
 - 17% investment return for FY04
- Adopted contribution rate is maintained at the FY06 level for all future years.



State of Alaska

Projections at FY06 Rate – Observations

PERS Observations

- System funding declines under all three population scenarios
 - Funding ratio is 25% higher at end of projection period than if rate were maintained at FY05 level
- Actuarially calculated rates escalate under all population scenarios
- Assuming 1% population growth, actuarially calculated rates increase to 60%, while the funding ratio decreases to 45% by the end of the projection period.



State of Alaska

Projections at FY06 Rate – Observations

TRS Observations

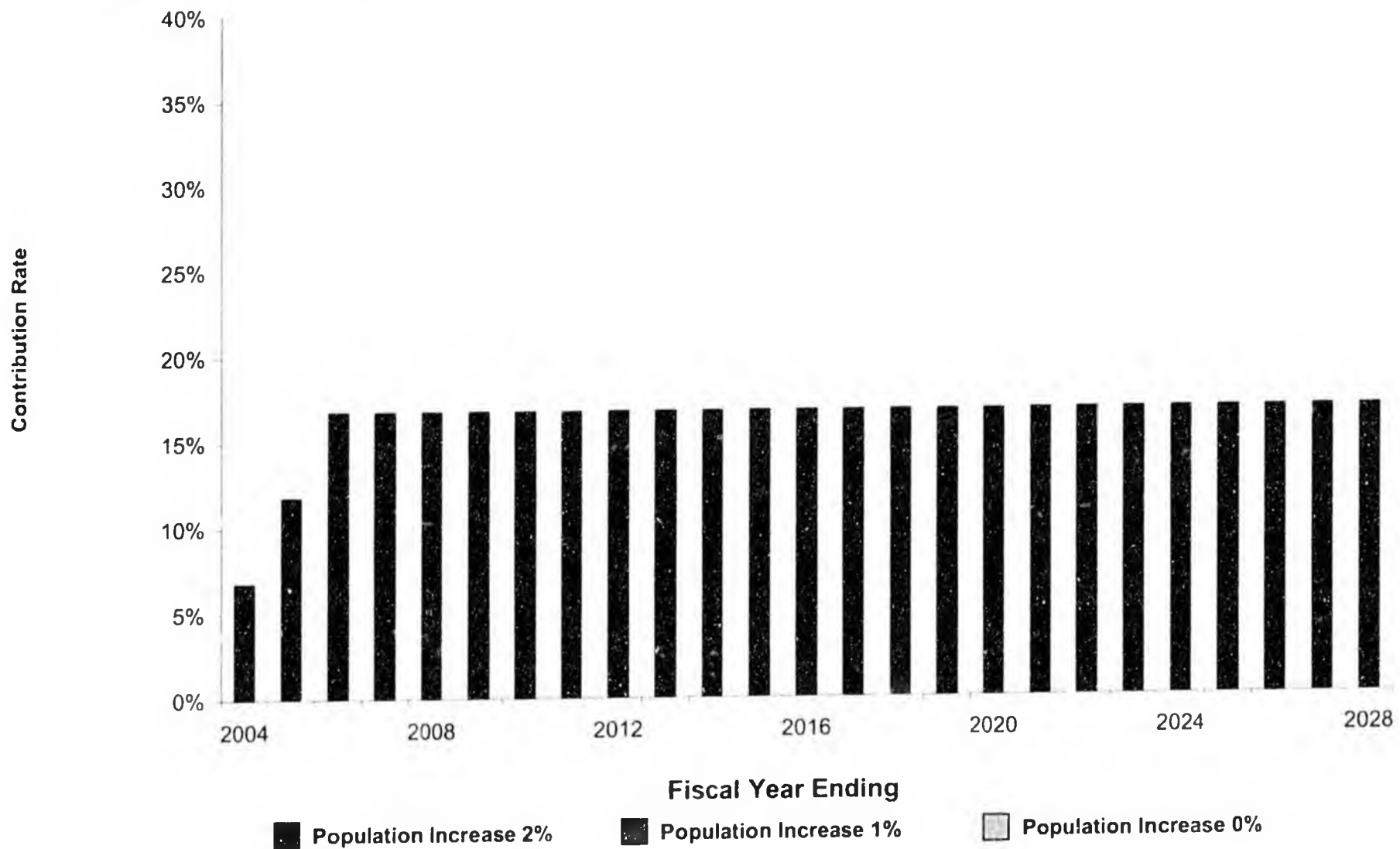
- System funding deteriorates under all three population scenarios
 - Funding ratios are improved to projections at FY05 rate
- Actuarially calculated rates escalate to 90% or more, depending on the population scenario
- Assuming 1% population growth, actuarially calculated rates increase to more than 100%, while the funding ratio decreases to less than 10% by the end of the projection period.



State of Alaska - PERS

Projections at FY06 Rate

Contribution Rates

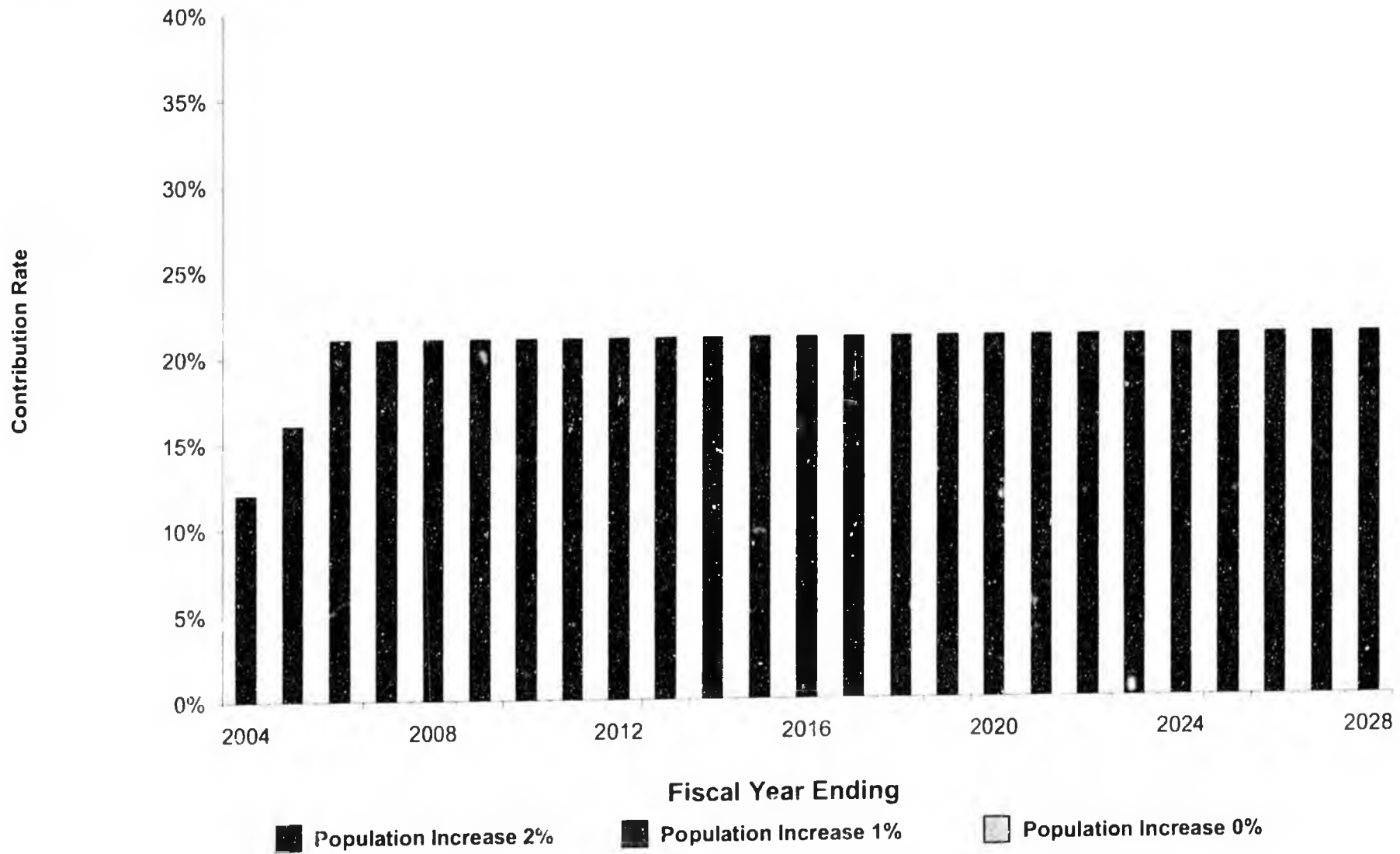




State of Alaska - TRS

Projections at FY06 Rate

Contribution Rates

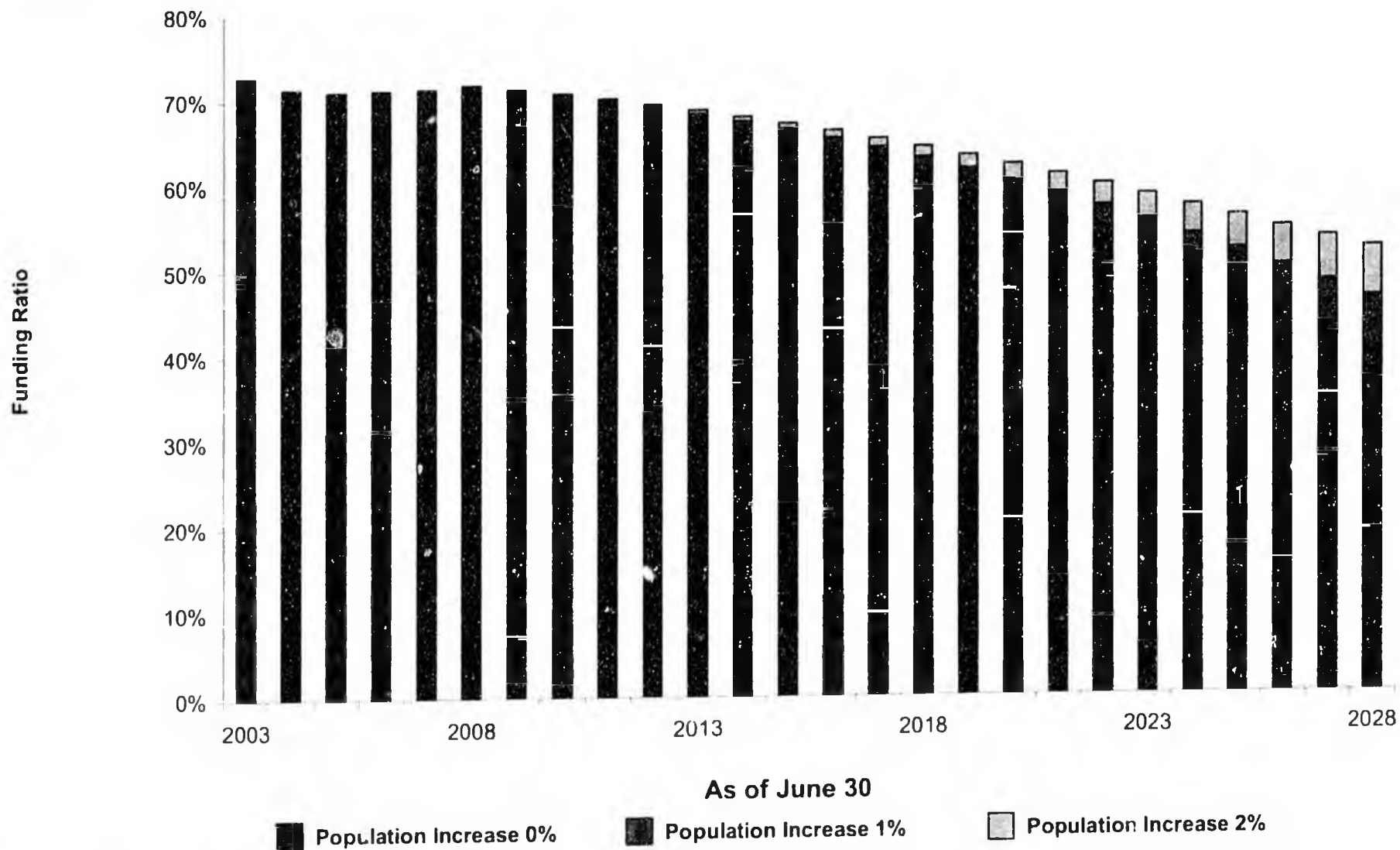




State of Alaska - PERS

Projections at FY06 Rate

Funding Ratios

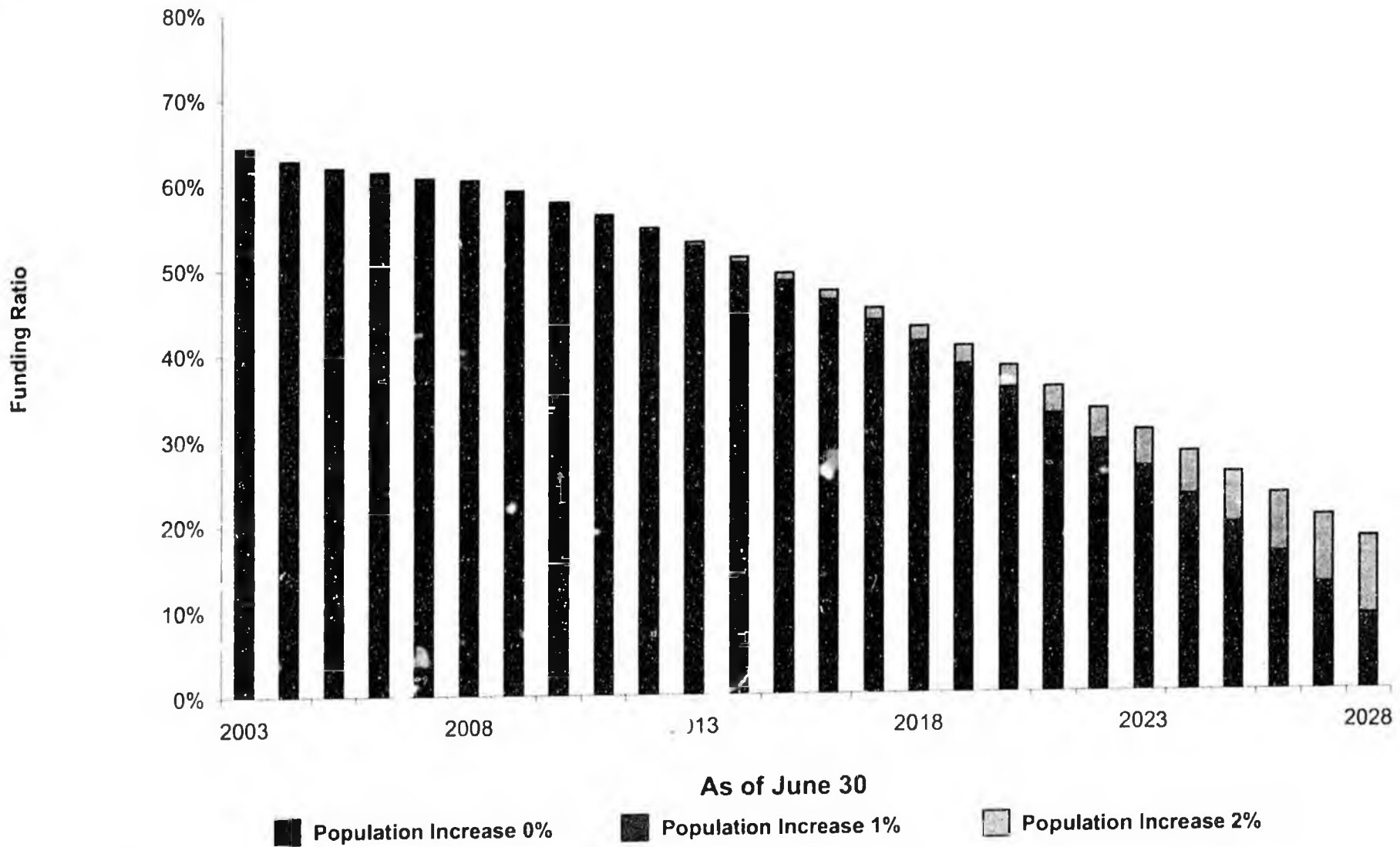




State of Alaska - TRS

Projections at FY06 Rate

Funding Ratios

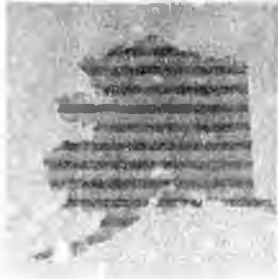




Financial Analysis

Liabilities and Costs

- Present value of future benefits (PVFB) – value in today's dollars of total benefits expected to be earned by the current System members
- Accrued liabilities (AL) – value in today's dollars of benefits expected to be paid based on service to-date (projecting pay)
- Normal cost (NC) – value of benefits that are expected to be earned in the coming fiscal year



Financial Analysis

Normal Cost Rate

- The employer normal cost rate is equal to the total normal cost rate, minus the member contribution rate.

	<u>TRS</u>	<u>PERS-PF</u>	<u>PERS-AE</u>
Normal cost rate			
Non-medical benefits	13.90%	13.34%	11.13%
Medical benefits	9.07%	6.05%	9.00%
Total	<u>22.97%</u>	<u>19.39%</u>	<u>20.13%</u>
Average member contribution rate	8.69%	7.50%	6.75%
Employer normal cost rate	14.28%	11.89%	13.38%

- If assumptions were always exactly met, the Systems would always be 100% funded by contributing the normal cost rate.



Financial Analysis

TRS

Liabilities and Actuarial Costs (in thousands)

Teachers	Current Population Current Program	Current Population Tier 2 Benefits
Accrued liability		
Actives	1,730,164	1,437,923
Terminated vested	189,052	189,052
Retirees & beneficiaries	3,888,663	3,888,663
Other	27,730	27,730
Total	5,835,609	5,543,368
Normal cost	122,346	108,423
Employer normal cost rate	14.28%	11.67%

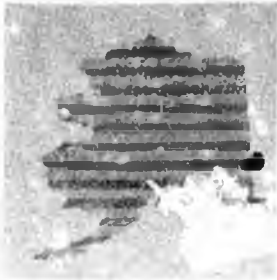


Financial Analysis

PERS

Liabilities and Actuarial Costs (in thousands)

Police & Fire	Current Population Current Program	Current Population Tier 3 Benefits
Accrued liability		
Actives	481,432	418,904
Terminated vested	45,879	45,879
Retirees & beneficiaries	1,049,940	1,049,940
Other	-	-
Total	1,577,251	1,514,723
Normal cost	31,161	28,806
Employer normal cost rate	11.89%	10.42%



Financial Analysis

PERS

Liabilities and Actuarial Costs (in thousands)

PERS Others	Current Population Current Program	Current Population Tier 3 Benefits
Accrued liability		
Actives	3,219,387	2,689,513
Terminated vested	1,258,426	1,258,426
Retirees & beneficiaries	4,467,517	4,467,517
Other	39,072	39,072
Total	8,984,402	8,454,528
Normal cost	261,665	227,535
Employer normal cost rate	13.38%	10.75%



Financial Analysis

Estimated Effect of Medicare Reform

- The estimated effect of Medicare reform is a reduction of about $\frac{3}{4}$ of 1% in the calculated contribution rate



Financial Analysis

- There may be some overall cost savings already in place
 - New tiers and medicare reform
- Looking at contribution rate alone is not sufficient
 - Each assumption is our best estimate based on information available at the time
 - Actual experience often deviates from our assumptions
 - Sound funding methods adjust for differences between assumed and actual experiences
 - Differences are spread, but they can accumulate, and significant cost volatility can result



Financial Analysis

Primary sources of cost volatility

- Investment returns
- Health care cost increases
- Longevity
- Other demographic factors
- Other economic factors



Financial Analysis

Range of Net Portfolio Returns

- Based on capital market assumptions provided by Mercer Investment Consulting, Inc.
- Not including additional return attributable to active management

Financial Analysis

Range of Net Portfolio Returns *(continued)*

Projection Horizon (years)

	20	30
	5%	3.15%
10%	4.09%	4.70%
15%	4.72%	5.22%
20%	5.23%	5.63%
25%	5.66%	5.98%
30%	6.05%	6.30%
35%	6.41%	6.60%
40%	6.76%	6.88%
45%	7.09%	7.15%
50%	7.41%	7.41%
55%	7.74%	7.68%
60%	8.07%	7.95%
65%	8.41%	8.23%
70%	8.77%	8.52%
75%	9.16%	8.84%
80%	9.59%	9.19%
85%	10.10%	9.61%
90%	10.73%	10.13%
95%	11.68%	10.89%

Percentiles



Financial Analysis

Range of Net Portfolio Returns (*continued*)

- Current investment return (8.25%) is at about 63rd percentile (not including additional return attributable to active management)
- 25% chance that 20-year return will be less than 5.7%
- 25% chance that 20-year return will be more than 9.2%



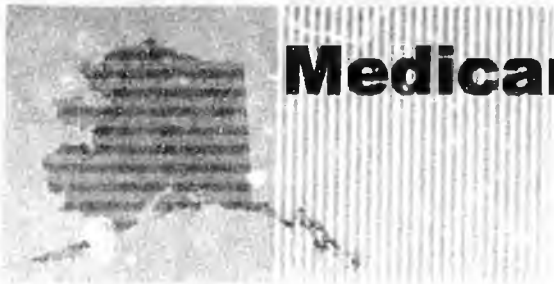
Financial Analysis

Ways of Reducing Risks

- Changes to investment policy
 - Reducing risk often means increasing overall cost
- Transfer all or a portion to members
 - Defined contribution approach
 - Alternative design



6. Medicare Reform and Implications



Medicare Reform and Implications

- Opportunity: Medicare Reform – Prescription Drugs
 - Reflections
- Opportunity: Health Savings Accounts
- Conclusion
 - Q&A



Medicare Reform and Implication

What's Driving Re-evaluation

Medicare Reform Overview

- Rx benefit is the most significant change to Medicare since its inception
 - Legislation is hailed as “historic breakthrough” by some, criticized as flawed and limited by others
 - Rx benefit provides significant savings opportunities for sponsors/retirees
 - Prescription drugs often account for 50% to 70+% of post-65 spend, and 35% to 45% of total retiree medical liability
- Legislation also helps those not eligible for Medicare with HSAs, effective January 1, 2004 (discussed later)
- Changes to the structure of Medicare
 - Medicare Advantage
 - Updated Medicare+Choice (becomes Medicare Advantage in 2006)
 - Regional and national plans; improved payments from Medicare



Medicare Reform and Implications

What's Driving Re-evaluation

Medicare Reform Overview *(continued)*

- New law allows 10 to 50 "regional" plans, plus a national plan
- Medicare Advantage plans can receive somewhat higher payments from Medicare than previously for Medicare+Choice, at least initially
- Competition between Medicare and private plans in 2010
 - Benefit offered by private plans
 - Government payments to private Prescription Drug Plans (PDPs)
 - Beneficiaries pay premium
- Discount prescription drug card effective spring 2004 until 2006
- Part B deductible will be increased to \$110 in 2005, then indexed
- Medicare Part B premiums will be tied to income
- While new law provides framework for change, it will take time for necessary details to emerge
- Opportunity to re-examine the entire retirement program

Prescription Drugs



Medicare Reform and Implications

Prescription Drugs

Rx savings opportunities

- New voluntary Part D benefit for retirees
- Federal subsidy for sponsors of qualified retiree health plans
 - Sponsor gets 28% tax-free subsidy for covered drug costs from \$250 to \$5,000 (indexed) per eligible participant
- Updated Medicare+Choice (becomes Medicare Advantage in 2006)
 - Regional and national plans; improved payments from Medicare
 - Despite past history, could be an option worth considering
- Currently, there are many accounting, regulatory, and market uncertainties



Medicare Reform and Implications

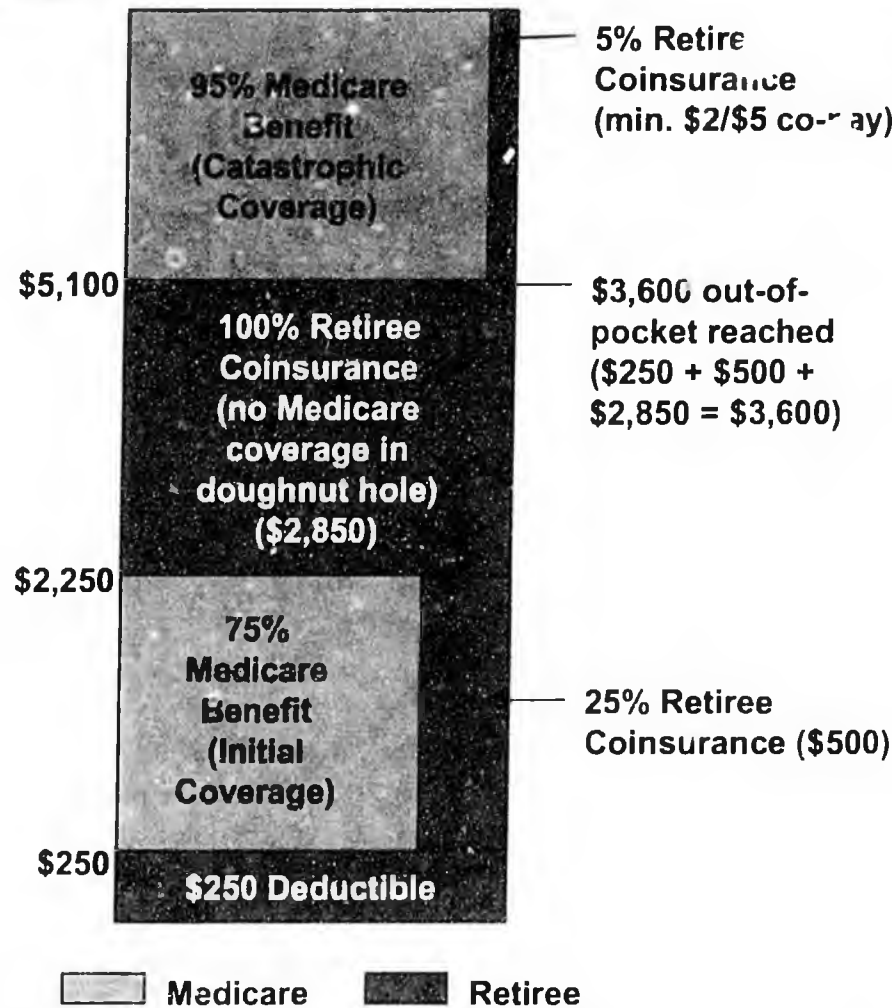
Prescription Drugs

Prescription Drug Benefit (Medicare Part D)

- Standard benefit design
 - Initial coverage: Deductible of \$250, enrollee coinsurance of 25% up to \$2,250
 - “Doughnut hole”: No coverage until enrollee reaches out-of-pocket limit of \$3,600
 - Amounts paid by third parties (e.g., plan sponsors, individual coverage, etc.) do not count towards out-of-pocket limit
 - Catastrophic coverage: Above the out-of-pocket limit, enrollee coinsurance is the greater of 5% or a fixed co-pay (\$2 generic or \$5 brand, indexed)
 - Amounts are indexed

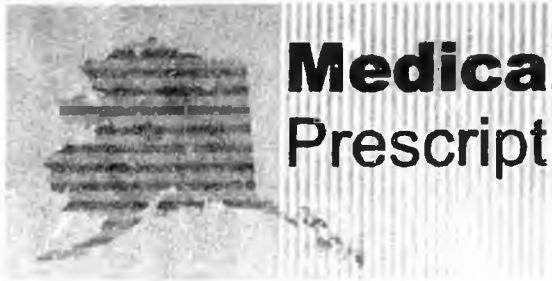
Medicare Reform and Implications

Prescription Drugs



- These 2006 covered expense thresholds will increase as drug expenses increase
- For a beneficiary with no other coverage, the breakeven point is \$810 in drug covered expenses
 - 50% to 60% of retirees are expected to have over \$810 in 2006
- The Medicare benefit can be provided under various actuarially equivalent designs
- Medicare Part D benefits are primary, employer plan secondary, if retiree enrolls in Part D

Amounts paid by third parties do not count towards out-of-pocket limits



Medicare Reform and Implications

Prescription Drugs

Prescription Drug Benefit (Medicare Part D) *(continued)*

- Cost sharing
 - Member pays roughly one-quarter of Medicare Part D premium (estimated \$35 PMPM in 2006)
 - Amounts indexed
 - Subsidies for low income seniors
 - Premiums may be increased for “late” enrollees
 - Premiums may be deducted from Social Security benefits
 - Medicare Part D benefits are primary
 - Sponsor’s plan secondary if retiree enrolls in Part D



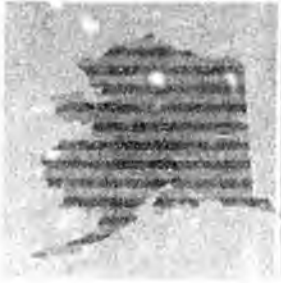
Medicare Reform and Implications

Prescription Drugs

Subsidy for Retiree Health Plans

- Sponsor gets 28% subsidy of eligible drug costs
 - Covered drug costs from \$250 to \$5,000 (indexed) per eligible participant
 - Subsidy only for participants that do not enroll in either Part D or Medicare Advantage drug coverage
 - Subsidy is not taxed to plan sponsor
 - Recordkeeping and documentation requirements, but no details yet
 - FASB requires immediate recognition of change in accounting for retiree medical benefits under FAS106

- Qualification and actuarial equivalence
 - Currently, no regulatory guidance
 - Expect guidance in late summer 2004



Medicare Reform and Implications

Prescription Drugs

New Employer Options for Prescription Drug Coverage

- Sponsor a qualified plan; receive government subsidy
- Integrate plan sponsor benefits with Medicare Part D
- Negotiate with a Medicare Advantage plan
- Maximize savings: significantly reduce or terminate employer-sponsored coverage



Medicare Reform and Implications

Prescription Drugs

Employer Options: 28% Government Subsidy

- Subsidy: 28% of individual covered expenses between \$250 and \$5,000
 - Company plan must be at least actuarially equivalent to Part D
 - Subsidy paid to the employer on a tax-free basis
- Options
 - Plan design options with subsidy
 - Using current design (if at least actuarially equivalent)
 - Using different design (lower or higher benefits) that is at least actuarially equivalent with Part D
- Advantages
 - Could be no change for beneficiaries
 - No immediate communication requirements
 - May be only option for some groups



Medicare Reform and Implications

Prescription Drugs

Employer Options: 28% Government Subsidy *(continued)*

- Disadvantages

- Requires annual certification
- Administrative and reporting requirements
- Significant unknowns

- Illustrative Impact/Considerations

	Paid Claim/Deduction	Tax Reduction ¹	Subsidy	After-Tax
Current	\$1.00	(\$0.40)	\$0.00	\$0.60
With Subsidy ²	\$1.00	(\$0.40)	(\$0.25)	\$0.35

¹Assumes 40% tax bracket; no "sharing".

²Assumes 28% subsidy is equal to 25% of paid claims; no retiree contributions



Medicare Reform and Implications

Prescription Drugs

Employer options: Offer a plan that integrates with or wraps around Medicare

■ Design options

- Reduce plan benefits by amounts payable under Part D (whether or not retirees are enrolled in Part D)
- Fill in gaps in Part D
- Subsidize all, some or none of Part D premium
- Shift catastrophic drug liability to Medicare

■ Considerations

- Must amend plan and communicate to receive funding relief
- Doughnut hole increases in size
- Potentially complex administration

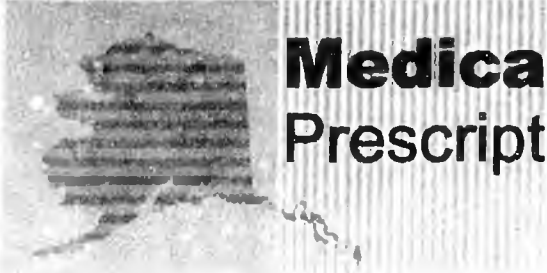


Medicare Reform and Implications

Prescription Drugs

Employer options: Offer a plan that integrates with or wraps around Medicare *(continued)*

- Advantages
 - No annual certification needed
 - Some will save more than with the subsidy option
- Disadvantages
 - Must amend plan and communicate to receive opportunity relief
 - Doughnut hole increases in size
 - Retirees may have to pay Medicare Part D premium unless plan sponsor chooses to subsidize premium
 - Mechanics of integration with Medicare problematic



Medicare Reform and Implications

Prescription Drugs

Medicare Advantage Plan

- If health plans offer national plan or regional plans at reasonable cost, Medicare Advantage could be a viable alternative for some plan sponsors
 - Plans maintain “managed care”
 - Benefits could potentially fill prescription drug “doughnut hole”
- Past history is problematic: Growth in enrollment, followed by tight controls on reimbursement by Medicare, then reductions in enrollment With or without sponsor subsidy of Medicare Advantage premium
- Despite past history, could be an option worth considering



Medicare Reform and Implications

Prescription Drugs

Employer options: Maximize savings – significantly reduce or terminate coverage

- 2006 is a logical effective date
- Part D (partially) fills in biggest Medicare coverage gap
- Plan Sponsor Options
 - Terminate Rx coverage completely
 - Reimburse all, a portion or none of Part D premium (and/or Part B premium)
 - Voucher for medical expenses (not necessarily a significant reduction)
 - Only cover 5% catastrophic level
- Considerations
 - Retirees may not be able to purchase supplemental Rx coverage
 - PR/employee morale issues
 - Potential ADEA issue resolution – EEOC Exemption

Medicare Reform and Implications

Prescription Drugs

Illustrative integration/subsidy comparison

	Average Employer PMPY	Part D Premium Reimbursement	Plan Cost Pre-Tax	Tax Deduction*	Plan Cost Post-Tax	Subsidy	Employer Cost Post-Tax	Percent of Current
Current Plan	\$2,000	NA	\$2,000	(\$800)	\$1,200	NA	\$1,200	100%
Current Plan with Subsidy	\$2,000	NA	\$2,000	(\$800)	\$1,200	(\$500)	\$700	58%
Integrate with Part D** (retiree pays Part D premium)	\$1,000	\$0	\$1,000	(\$400)	\$600	\$0	\$600	50%
Integrate with Part D** (employer pays Part D premium)	\$1,000	\$420	\$1,420	(\$568)	\$852	\$0	\$852	71%

* Assumes 40% tax bracket

**Assumes Part D covers 50% of employer cost and no retiree contributions required

Reflections...



Medicare Reform and Implications

Reflections...

**While quick action possibly needed
for accounting, more time likely
warranted for design details**

- While many plan sponsors will see a significant reduction in cash costs and funding requirements, some will not
- No one approach is the most advantageous for every group
- For details of 2006 plan design, don't rush to judgment
 - Look at emerging Prescription Drug Plan (PDP) designs for equivalent Part D plans
 - New ideas, information, and designs will emerge
 - Some opportunities may be better than what is known now
 - New Medicare Advantage plans may create additional options
 - May want to allow retirees to waive coverage and re-enter at a later date



Medicare Reform and Implications

Reflections...

- How much good news depends on
 - The plan you currently have, including
 - Demographics of plan population
 - Rx utilization of plan population
 - The option you select and any changes you make
 - How Medicare reform is reflected in plan sponsors' financials
 - How various details are resolved through regulation and the courts
 - Plan Sponsor tax situation

Medicare Reform and Implications

Reflections...

Savings for Those with No Coverage Other than Medicare

Out-of-Pocket (OOP) for Drugs After Medicare Reform				Cost and Savings	
Claim Amount*	Medicare Payment	Net Retiree-Claims Payment	Part D Premium	Total Cost After Reform	Savings from Reform**
\$0	\$0	\$0	\$420	\$420	(\$420)
Deductible → \$250	\$0	\$250	\$420	\$670	(\$420)
\$500	\$188	\$313	\$420	\$733	(\$233)
Break-even → \$810	\$420	\$390	\$420	\$810	\$0
\$1,000	\$563	\$438	\$420	\$858	\$143
Beginning of "doughnut hole" → \$2,250	\$1,500	\$750	\$420	\$1,170	\$1,080
\$4,000	\$1,500	\$2,500	\$420	\$2,920	\$1,080
End of "doughnut hole" → \$5,100	\$1,500	\$3,600	\$420	\$4,020	\$1,080
\$10,000	\$6,155	\$3,845	\$420	\$4,265	\$5,735
\$20,000	\$15,655	\$4,345	\$420	\$4,765	\$15,235

*Total cost prior to Medicare Reform with no other coverage

**Claims amount less Total Cost after Medicare Reform

Health Savings Accounts

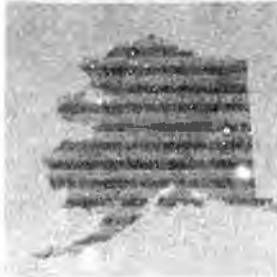


Medicare Reform and Implications

Health Savings Accounts

Overview

- Tax favored account to pay for retiree medical expense
- Carry forward provision (no “use it or lose it” provision)
 - Unused balances are carried into future years, portable, non-forfeitable
- Account Requirement
 - HSAs must be held in an employee-owned trust or custodial account for each beneficiary
 - The HSA is owned by the individual, not the plan sponsor
 - May be established with or without plan sponsor funding (individual market will likely emerge)
- Qualified Trustees and Custodians -- Ins Co, Banks, any approved by IRS, any who already admin 401(k)




Medicare Reform and Implications

Health Savings Accounts

Eligibility Requirements

- Individuals enrolled in a high-deductible health plan are eligible
- Not covered by another health plan that is not a HDHP (except for permitted coverage such as dental, vision, workers compensation and specific diseases)
- Not eligible to be claimed as a dependent on another's tax return
- Not eligible for Medicare
- Individuals covered under a health FSA or Health Reimbursement Arrangement (HRA) can qualify for an HSA under limited circumstances



Medicare Reform and Implications

Health Savings Accounts

High Deductible Health Plan

- Employee must have plan with deductible of \$1,000 or more in 2006 (\$2,000 for family)
 - Plan out-of-pocket maximum cannot be greater than \$5,000 (\$10,000 family)
 - Okay if plan imposes no deductible for preventive care or has higher OOP limit for out-of-network benefits
- Deductible OOP and contribution maximum are indexed annually
- Preventative care covered at 100%
- Rx can be carved out for 2004 and 2005, then subject to deductible



Medicare Reform and Implications

Health Savings Accounts

Contributions – Limited

- Sponsors and employees can contribute (within limits) to the HSA
 - Maximum aggregate contribution is the lesser of the deductible and \$2,600 (\$5,150 family)
 - Contributions cannot be made for individuals covered by Medicare
 - If sponsor contributes to HSAs, then comparable contributions must be made for all employees with comparable coverage
- Contributions are tax deductible – without itemizing
- Nonforeitable and portable
- Catch up contributions for 55+, \$500 in 2004 to \$1000 in 2009
- Transfers from Archer MSA or other HSA only, no FSA or HRAs



Medicare Reform and Implications

Health Savings Accounts

Distributions – Flexible

- Does not require HDHP to get money out, only to put in
- Tax free for qualified medical expenses
- Qualified expenses not defined by sponsor or trustee, Sec 213 IRC
- Premium payments usually not allowed – except COBRA, unemployed, after 65 (no Medigap), LTC
- All other distributions permitted but taxable + 10% penalty (unless 65)



Medicare Reform and Implications

Health Savings Accounts

Triple Tax Favored (contributions, earnings, distributions)

- Subject to limits
- Contributions (subject to limits)
- Distributions
 - Distributions for qualified medical expenses are tax-free
 - Other distributions are included in income and subject to 10% penalty tax (no penalty if eligible for Medicare)
 - Special rules for distributions upon death and divorce
- Earnings
- Only approach where contribution, investment earnings and withdrawals for health-related expenses are all free from taxation



Medicare Reform and Implications

Health Savings Accounts

Active Design Options

- Do nothing
- Offer an HSA-compliant high deductible health plan (HDHP)
 - Employees have option of setting up HSA on their own
 - No cost to employer for HSA
- Offer HDHP and sponsor an HSA for eligible employees
 - Employees can contribute through employer or set up HSA on their own
 - Administrative cost for employer unless employees pay cost



Medicare Reform and Implications

Health Savings Accounts

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Medicare Reform and Implications

Health Savings Accounts

Active Design Options *(continued)*

- Offer HDHP, sponsor HSA and make contributions to the HSA
 - Employer plus employee contributions cannot exceed limits on contribution
 - Employer pays HSA cost plus administrative cost (unless paid by employees)
 - Funding HSAs by employer is not a long-term liability but has a cash cost
- Convert existing CDHP from HRA to HSA



Medicare Reform and Implications

Health Savings Accounts

HSA Retiree Medical Design Opportunities

- Provides pre-funding opportunity (see appendix for details)
- Could lead to fundamental shift to defined dollar structure
- Reduces employer's future PRM expenditures
- Advantages
 - Provides employees with an efficient vehicle to save for retiree medical expense
 - Increases flexibility for employee/retiree
 - e.g., HSA funds may be used for LTC
 - Encourages enrollment in HDHP as active employee
 - Lower plan costs
 - Possible pathway to consumerism



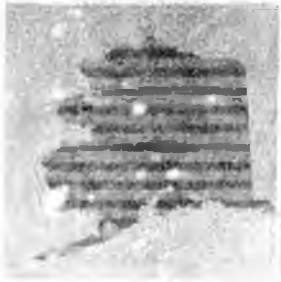
Medicare Reform and Implications

Health Savings Accounts

HSAs Retiree Medical Design Opportunities *(continued)*

■ Disadvantages

- Greater employee communication needs
- Potentially negative PR because of inability of employees to afford HDHP
- Currently, inadequate markets for actives and pre-65 insured medical products, but robust market for Medicare eligibles
- Defined dollar contribution will prove inadequate for those who don't pre-fund
- Even for those who pre-fund, possibility that poor choices by employees will leave them with insufficient retiree medical funds



Medicare Reform and Implications

Health Savings Accounts

Plan Sponsor Considerations

- Fit with sponsor culture and benefit strategy
 - Consistent w/ active strategy
 - Ability to change retiree medical promises and strategy
 - Consistency w/ total retirement compensation strategy (i.e. defined contribution vs. defined benefit – employee responsibility, cap costs...)
- High Deductible Health Plan impact on current design
- HSA contribution strategy
 - None, fixed by tier, vary by employment status
 - Matching not clear
 - Watch for discrimination



Medicare Reform and Implications

Health Savings Accounts

Plan Sponsor Considerations *(continued)*

- Impact on total medical plan cost
 - Additional admin costs
 - Medical management / negotiated provider costs
 - Potential adverse selection if HDHP not full replacement
- Perception by employees
- Communication
 - Very important to get employee buy in
 - Educate to reduce anti selection

HSA Illustrations