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Health: Year End Assumption Review

Retiree medical costs are about to balloon. (We have a nice, sharp pin.)

If you sponsor medical benefits for your retirees, you could face a new liability "hit" in 2015. We can help you manage – and possibly lower – that expense, without cutting benefits or shifting costs to retirees. Here's what's happening.

Updated Mortality Tables

Earlier this year, the Society of Actuaries published a proposed mortality table and a proposed mortality improvement projection scale which are recommended to replace the current assumption. Final tables are anticipated this fall, and accounting firms will expect plan sponsors to adopt the updated mortality tables for year-end reporting.

The new tables will increase measured retiree medical plan liabilities at year-end 2014 by more than 10% in many cases. Fiscal 2015 expense could increase significantly more than that due to cost leveraging inherent in benefits accounting.

Updated mortality tables will likely be required for year-end 2014 financial reporting. If you sponsor retiree medical plans you should conduct an assumption review now to help mitigate the impact.

New Disclosures of Assumption Selection

Starting March 31, 2015, Actuarial Standard of Practice No. 6 (ASOP 6) will require new disclosures describing the information and analysis used for selecting each significant assumption. You should be ready to provide additional documentation detailing how and why assumptions were selected when asked by plan auditors.

Understanding Retiree Medical Assumptions

At its heart, a retiree medical valuation anticipates how much retiree medical benefits will cost in the future, and who will be in the plan to enjoy those benefits. The actual cost of the benefits depends on what really happens, whether or not the assumptions used to measure their liabilities correctly predict what will occur. You want those assumptions to give a reasonable estimate of the costs. But you don't want to predict higher costs than necessary — effectively deferring real profits that can be reflected now instead of future periods.

The new mortality tables increase measured plan costs, because the "who" in this equation – your retirees – are expected to live much longer. But a number of other assumptions impact the questions of who and how much.

We have helped numerous clients carefully evaluate those assumptions. Most often, our review results in a more thoughtful set of assumptions, leading to anticipated reductions in measured liabilities for the plan sponsor.

One of our recent OPEB assumption studies resulted in a 11% overall reduction in OPEB liabilities for our client.

A review and refinement of the following assumptions could lead to savings by reducing the number of participants expected to enjoy benefits from the plan.

Election rates – Plans with significant premium sharing requirements including employer subsidy caps may experience a decline in election rates, with retirees under age 65 potentially qualifying for federally subsidized coverage on the public exchanges, and improved Medicare drug coverage eliminating the donut hole.

Spousal coverage rates – Many employers have increased premium sharing levels required to cover a spouse. This often leads to lower take-up rates for spouses.

Retirement rates – Many employees are working longer, which delays retiree medical coverage and reduces the period for which retiree benefits are provided.

A review and refinement of the following assumptions could lead to savings by reducing the expected cost of benefits from the plan.

Retiree HRA utilization – often below 100% of stipend provided. Lower HRA utilization translates into lower plan costs.

Health trend rates – recent experience has shown lower Medicare trend rates. Medicare coverage often makes up roughly ¾ of retiree medical liability.

Age morbidity factors – a major recent study indicates decreasing drug costs at older ages. This can translate into reduced retiree medical liabilities.

Why review assumptions now?

To mitigate the impact of more conservative mortality tables. Auditors will be asking for additional assumption selection support, due to revised Actuarial Standard of Practice.

We will:

- Review, assess, and recommend thoughtful retiree medical assumptions
- Estimate potential savings for any recommended changes
- Provide documentation supporting recommendations

"Believe it or not they (auditors) stopped in today asking for time to talk about assumptions, so this is very timely."

– Client correspondence

Contact us.

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