



Retirement Security Act

SB 141

Discussion Topic

Health Reimbursement Arrangement

April 2nd, 2005



Alaska State Legislature
Senate Finance Committee



What is a Health Reimbursement Arrangement?

- Reimburses employees for qualified medical expenses during retirement years
- Intended as a supplement for medical expenses or a bridge between “early” retirement and Medicare
- Employer paid group (or pooled) fund
- Funds accumulate over working lifetime of employee
- Tax-free to employer and employee
- Employer-determined flexible plan design
(*contributions, covered expenses, termination provisions*)





Alaska plan-specific design

- Employer contributes 1% of the average employer group compensation -- maximum \$500
- Annual payment on behalf of each active employee into group fund
- Contributions recorded to individual account balances (also tracked by employer)
- Fund managed by Alaska Retirement Management Board (ARMB)
- Interest credited annually to individual accounts, rate determined by ARMB





Alaska plan-specific design continued

- Total Reimbursements limited to member's individual account balance until exhausted
- Terminated employees forfeit rights to individual account
 - Individual account reinstated if person returns to work within 5 years
 - Account balance restored as of date of termination (accrues no additional interest)
- Employer may use surplus funds held in the trust for future credit to individual employee accounts





Who is eligible for reimbursements?

- Members of the DC plan who meet the age and/or service requirements for medical benefits under AS 14.25.480 or AS 39.35.880
 - › 25 years of service for peace officers/firefighters; 30 years of service all others; OR
 - › age 65 and have at least 10 years of service
- Surviving spouse of an eligible member
- Dependent children of an eligible member if both the member and surviving spouse have died





Benefits payable

- Monthly premiums for a major medical plan (participation in State's retiree medical plan is not required)
- Qualified medical expenses under 26 U.S.C 213(d) of
 - an eligible member, member's spouse and dependent children
 - a surviving spouse of a qualified member and the member's dependent children if dependent on the surviving spouse





Projected individual account balances

- HRA is a retention tool as it clearly favors longevity

		Interest: 8.25%	Projected HRA Account Balances				
Fiscal Year	Years of Service	SB 141	1% no cap	1.5% no cap	2.0% no cap	2.5% no cap	3.5% no cap
		1%, \$500 cap					
2016	10	\$6,549	\$6,611	\$9,917	\$13,223	\$16,528	\$23,140
2021	15	\$12,804	\$13,535	\$20,303	\$27,071	\$33,838	\$47,374
2026	20	\$22,102	\$24,631	\$36,946	\$49,261	\$61,577	\$86,207
2031	25	\$39,407	\$42,100	\$63,150	\$84,200	\$105,250	\$147,350
2036	30	\$56,465	\$69,256	\$103,884	\$138,513	\$173,141	\$242,397

		Interest: 6.00%	Projected HRA Account Balances				
Fiscal Year	Years of Service	SB 141	1% no cap	1.5% no cap	2.0% no cap	2.5% no cap	3.5% no cap
		1%, \$500 cap					
2016	10	\$5,867	\$5,928	\$8,893	\$11,857	\$14,821	\$20,749
2021	15	\$10,755	\$11,446	\$17,169	\$22,893	\$28,616	\$40,062
2026	20	\$17,296	\$19,592	\$29,387	\$39,183	\$48,979	\$68,571
2031	25	\$26,048	\$31,418	\$47,127	\$62,835	\$78,544	\$109,962
2036	30	\$37,762	\$48,370	\$72,555	\$96,741	\$120,926	\$169,296

Other assumptions: FY 2006, beginning salary \$35,000
 Salary inflation 5.5% first 5 years; 4% thereafter
 Projected Anchorage CPI (1.8017% to 4.8859%)





Spend down scenarios

HRA Contributions:
SB 141 = 1%, \$500 cap

- Example 1: age 65, 30 yrs service, 10% contribution

Beginning balance from table on Slide 7

Age	Years Retired	Beginning Annual Balance	Annual Health Premium	Annual Deductibles	Annual Interest Credited	Year End Balance
65	0	\$ 56,465	\$ 2,014	\$ 500	\$ 2,158	\$ 56,109
66	1	\$ 56,109	\$ 2,115	\$ 500	\$ 2,140	\$ 55,633
67	2	\$ 55,633	\$ 2,221	\$ 500	\$ 2,116	\$ 55,029
68	3	\$ 55,029	\$ 2,332	\$ 500	\$ 2,088	\$ 54,285
69	4	\$ 54,285	\$ 2,449	\$ 500	\$ 2,053	\$ 53,389
70	5	\$ 53,389	\$ 2,571	\$ 500	\$ 2,013	\$ 52,331
71	6	\$ 52,331	\$ 2,700	\$ 500	\$ 1,965	\$ 51,097
72	7	\$ 51,097	\$ 2,835	\$ 500	\$ 1,910	\$ 49,673
73	8	\$ 49,673	\$ 2,976	\$ 500	\$ 1,848	\$ 48,044
74	9	\$ 48,044	\$ 3,125	\$ 500	\$ 1,777	\$ 46,196
75	10	\$ 46,196	\$ 3,281	\$ 500	\$ 1,697	\$ 44,111
76	11	\$ 44,111	\$ 3,445	\$ 500	\$ 1,607	\$ 41,772
77	12	\$ 41,772	\$ 3,618	\$ 500	\$ 1,506	\$ 39,161
78	13	\$ 39,161	\$ 3,799	\$ 500	\$ 1,394	\$ 36,257
79	14	\$ 36,257	\$ 3,989	\$ 500	\$ 1,271	\$ 33,039
80	15	\$ 33,039	\$ 4,188	\$ 500	\$ 1,134	\$ 29,485
81	16	\$ 29,485	\$ 4,397	\$ 500	\$ 984	\$ 25,571
82	17	\$ 25,571	\$ 4,617	\$ 500	\$ 818	\$ 21,272
83	18	\$ 21,272	\$ 4,848	\$ 500	\$ 637	\$ 16,561
84	19	\$ 16,561	\$ 5,090	\$ 500	\$ 439	\$ 11,409
85	20	\$ 11,409	\$ 5,345	\$ 500	\$ 223	\$ 5,787
86	21	\$ 5,787	\$ 5,612	\$ 500	\$ (13)	\$ (338)

* Life expectancy:
Males=16.3 yrs
Females = 17.9 yrs

*Source: National Vital Statistics Reports, Vol.51, No. 3, December 19,2002, p. 29. The tables used are for all races based on year 2000 data.





Spend down scenarios

HRA Contributions:
2.0%, no cap

- Example 2: age 65, 20 yrs service, 20% contribution

Beginning balance from table on Slide 7

Age	Years Retired	Beginning Annual Balance	Annual Health Premium	Annual Deductibles	Annual Interest Credited	Year End Balance
65	0	\$ 49,261	\$ 4,029	\$ 500	\$ 1,789	\$ 46,522
66	1	\$ 46,522	\$ 4,230	\$ 500	\$ 1,672	\$ 43,463
67	2	\$ 43,463	\$ 4,442	\$ 500	\$ 1,541	\$ 40,062
68	3	\$ 40,062	\$ 4,664	\$ 500	\$ 1,396	\$ 36,294
69	4	\$ 36,294	\$ 4,897	\$ 500	\$ 1,236	\$ 32,132
70	5	\$ 32,132	\$ 5,142	\$ 500	\$ 1,060	\$ 27,550
71	6	\$ 27,550	\$ 5,399	\$ 500	\$ 866	\$ 22,517
72	7	\$ 22,517	\$ 5,669	\$ 500	\$ 654	\$ 17,001
73	8	\$ 17,001	\$ 5,953	\$ 500	\$ 422	\$ 10,971
74	9	\$ 10,971	\$ 6,250	\$ 500	\$ 169	\$ 4,389
75	10	\$ 4,389	\$ 6,563	\$ 500	\$ (107)	\$ (2,780)

* Life expectancy:
Males=16.3 yrs
Females = 17.9 yrs

*Source: National Vital Statistics Reports, Vol.51, No. 3, December 19,2002, p. 29. The tables used are for all races based on year 2000 data.





HRA Contributions:
1.5%, no cap

Spend down scenarios

- Example 3: age 65, 30 yrs service, 10% contribution

Beginning balance from table on Slide 7

Age	Years Retired	Beginning Annual Balance	Annual Health Premium	Annual Deductibles/ Expenses	Annual Interest Credited	Year End Balance
65	0	\$103,884	\$ 2,014	\$ 3,000	\$ 3,955	\$ 102,825
66	1	\$ 102,825	\$ 2,115	\$ 3,000	\$ 3,908	\$ 101,618
67	2	\$ 101,618	\$ 2,221	\$ 3,000	\$ 3,856	\$ 100,253
68	3	\$ 100,253	\$ 2,332	\$ 3,000	\$ 3,797	\$ 98,718
69	4	\$ 98,718	\$ 2,449	\$ 3,000	\$ 3,731	\$ 97,000
70	5	\$ 97,000	\$ 2,571	\$ 3,000	\$ 3,657	\$ 95,086
71	6	\$ 95,086	\$ 2,700	\$ 3,000	\$ 3,575	\$ 92,962
72	7	\$ 92,962	\$ 2,835	\$ 3,000	\$ 3,485	\$ 90,612
73	8	\$ 90,612	\$ 2,976	\$ 3,000	\$ 3,385	\$ 88,021
74	9	\$ 88,021	\$ 3,125	\$ 3,000	\$ 3,276	\$ 85,172
75	10	\$ 85,172	\$ 3,281	\$ 3,000	\$ 3,156	\$ 82,046
76	11	\$ 82,046	\$ 3,445	\$ 3,000	\$ 3,024	\$ 78,625
77	12	\$ 78,625	\$ 3,618	\$ 3,000	\$ 2,880	\$ 74,888
78	13	\$ 74,888	\$ 3,799	\$ 3,000	\$ 2,724	\$ 70,813
79	14	\$ 70,813	\$ 3,989	\$ 3,000	\$ 2,553	\$ 66,377
80	15	\$ 66,377	\$ 4,188	\$ 3,000	\$ 2,368	\$ 61,557
81	16	\$ 61,557	\$ 4,397	\$ 3,000	\$ 2,166	\$ 56,326
82	17	\$ 56,326	\$ 4,617	\$ 3,000	\$ 1,948	\$ 50,657
83	18	\$ 50,657	\$ 4,848	\$ 3,000	\$ 1,712	\$ 44,521
84	19	\$ 44,521	\$ 5,090	\$ 3,000	\$ 1,457	\$ 37,888
85	20	\$ 37,888	\$ 5,345	\$ 3,000	\$ 1,182	\$ 30,724
86	21	\$ 30,724	\$ 5,612	\$ 3,000	\$ 884	\$ 22,997
87	22	\$ 22,997	\$ 5,893	\$ 3,000	\$ 564	\$ 14,668
88	23	\$ 14,668	\$ 6,188	\$ 3,000	\$ 219	\$ 5,700
89	24	\$ 5,700	\$ 6,497	\$ 3,000	\$ (152)	\$ (3,949)

* Life expectancy:
Males=16.3 yrs
Females = 17.9 yrs

*Source: National Vital Statistics Reports, Vol.51, No. 3, December 19,2002, p. 29. The tables used are for all races based on year 2000 data.





HRA Contributions:
3.5%, no cap

Spend down scenarios

- Example 4: age 55, 30 yrs service, pays full premiums

Beginning balance from table on Slide 7

Age	Years Retired	Beginning Annual Balance	Annual Health Premium	Annual Deductibles	Annual Interest Credited	Year End Balance
55	0	\$242,397	\$20,145	\$ 500	\$ 8,870	\$ 230,622
56	1	\$ 230,622	\$ 21,152	\$ 500	\$ 8,359	\$ 217,329
57	2	\$ 217,329	\$ 22,210	\$ 500	\$ 7,785	\$ 202,404
58	3	\$ 202,404	\$ 23,320	\$ 500	\$ 7,143	\$ 185,727
59	4	\$ 185,727	\$ 24,486	\$ 500	\$ 6,430	\$ 167,171
60	5	\$ 167,171	\$ 25,710	\$ 500	\$ 5,638	\$ 146,599
61	6	\$ 146,599	\$ 26,996	\$ 500	\$ 4,764	\$ 123,867
62	7	\$ 123,867	\$ 28,346	\$ 500	\$ 3,801	\$ 98,822
63	8	\$ 98,822	\$ 29,763	\$ 500	\$ 2,742	\$ 71,302
64	9	\$ 71,302	\$ 31,251	\$ 500	\$ 1,582	\$ 41,133
65	10	\$ 41,133	\$ 3,281	\$ 500	\$ 1,494	\$ 38,845
66	11	\$ 38,845	\$ 3,445	\$ 500	\$ 1,396	\$ 36,296
67	12	\$ 36,296	\$ 3,618	\$ 500	\$ 1,287	\$ 33,465
68	13	\$ 33,465	\$ 3,799	\$ 500	\$ 1,167	\$ 30,333
69	14	\$ 30,333	\$ 3,989	\$ 500	\$ 1,034	\$ 26,879
70	15	\$ 26,879	\$ 4,188	\$ 500	\$ 888	\$ 23,078
71	16	\$ 23,078	\$ 4,397	\$ 500	\$ 727	\$ 18,908
72	17	\$ 18,908	\$ 4,617	\$ 500	\$ 552	\$ 14,343
73	18	\$ 14,343	\$ 4,848	\$ 500	\$ 360	\$ 9,354
74	19	\$ 9,354	\$ 5,090	\$ 500	\$ 151	\$ 3,914
75	20	\$ 3,914	\$ 5,345	\$ 500	\$ (77)	\$ (2,008)

Corrected April 8, 2005

* Life expectancy:
Males= 23.8 yrs
Females = 27.4 yrs

*Source: National Vital Statistics Reports, Vol.51, No. 3, December 19,2002, p. 29. The tables used are for all races based on year 2000 data.

