

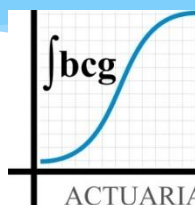
SEAC

SOUTHEASTERN ACTUARIES CONFERENCE

BEING PART OF SOMETHING THAT COUNTS

Retiree Medical Trusts

June, 2024



**BOOMERSHINE
CONSULTING GROUP, L.L.C.**

ACTUARIAL & RETIREMENT PLAN SOLUTIONS

Today's Discussion

1. What is a “Retiree Medical Trust”?
2. Why do they exist?
3. How does it work?
4. Actuarial Modeling of the Trust



What is a Retiree Medical Trust

a.k.a., Retiree Medical Reimbursement Plan



Retiree Medical Trust (RMT)

What is it?

- * A trust established usually by an employee group
 - * e.g., firefighters union, hospital association
- * Purpose of trust is for reimbursements to retirees for allowable medical expenses
- * Financed by employer and/or employee contributions specified in an agreement with the employee group
 - * Can also include value of unused sick leave
- * Generally invested similar to a pension trust, but usually more conservatively
- * Legal counsel is needed



Retiree Medical Trust

Why?

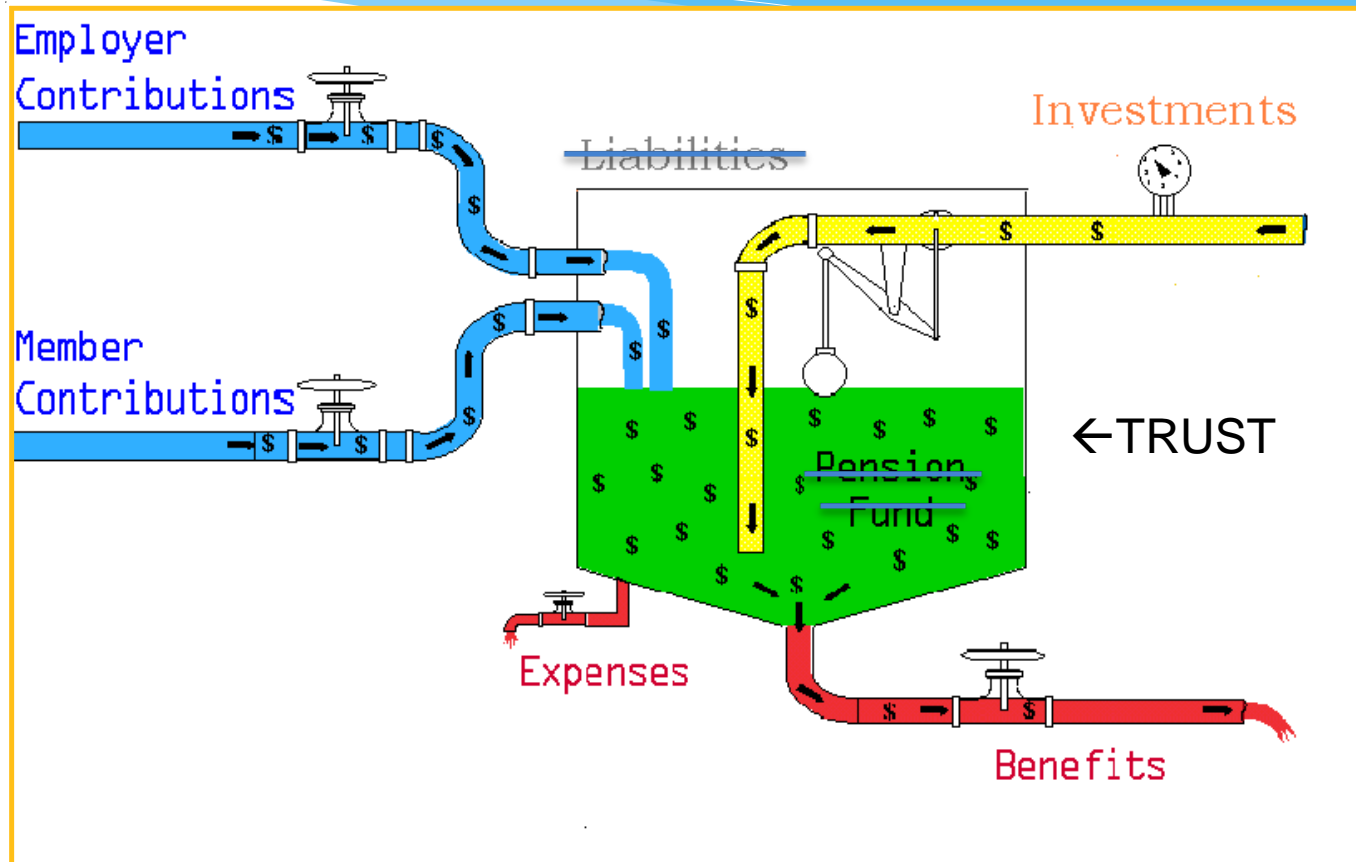
1. Tax advantages
 - a. Contributions are pre-tax
 - b. Investment earnings are not taxed
 - c. Reimbursements received are also not taxable
2. Assists with medical care in retirement
3. Less risky than an employer sponsored retiree healthcare plan



How Does it Work?



Operation of RMT



$$C + I = B + E$$

7



RMT Funding/Benefits

- * Instead of varying contributions such as a pension or traditional retiree healthcare plan, the fund is kept in balance with varying benefits
 - * Reimbursement level is set, then adjusted periodically (annually, every 3 years, etc.)
 - = Unit Benefit x service
 - * Unit Benefit: Maximum reimbursement per month, per year of service
 - * How is the level set?....



RMT Modeling



Modeling Basics

- * A cash-flow model is a best practice
- * No “rules” exist for establishing the model
- * However, no one wants the fund to run out of money!
- * Parameters are generally selected collaboratively by actuary and trustees



Typical RMT Parameters

- Discount rate/investment return
- Measurement Date
- Contribution rate/amount
- Indexing of benefits (%/yr)
- Indexing of contributions (%/yr)
- Death benefit provisions
- Demographic assumptions (e.g., retirement rates)
- Utilization rates
- Benefit maximum



Modeling Options

- * Present value (closed group)
 - * $PV(\text{Contributions}) = PV(\text{Disbursements})$
 - * NOT a preferred method
- * Depletion model (e.g., 100 years)
 - * Project a \$0 balance in year x
- * **Projection Model...**



Projection Model

- * Stable Solvency Ratio: A ratio of plan assets to expected benefits (determined annually) of at least 8.0 that is projected to remain within a +/- 20% corridor for the last 20 years of the projection, without declining
- * A 50- to 60-year model is ideal, because it covers most of the expected lifetimes for plan members



Projection Model

- * Expected contributions, disbursements, and investment earnings are projected over the established time frame
 - * Affected by mortality, other demographic factors
- * Unit benefit is adjusted through iteration to produce the stable solvency ratio



RMT Projection Example

Inputs

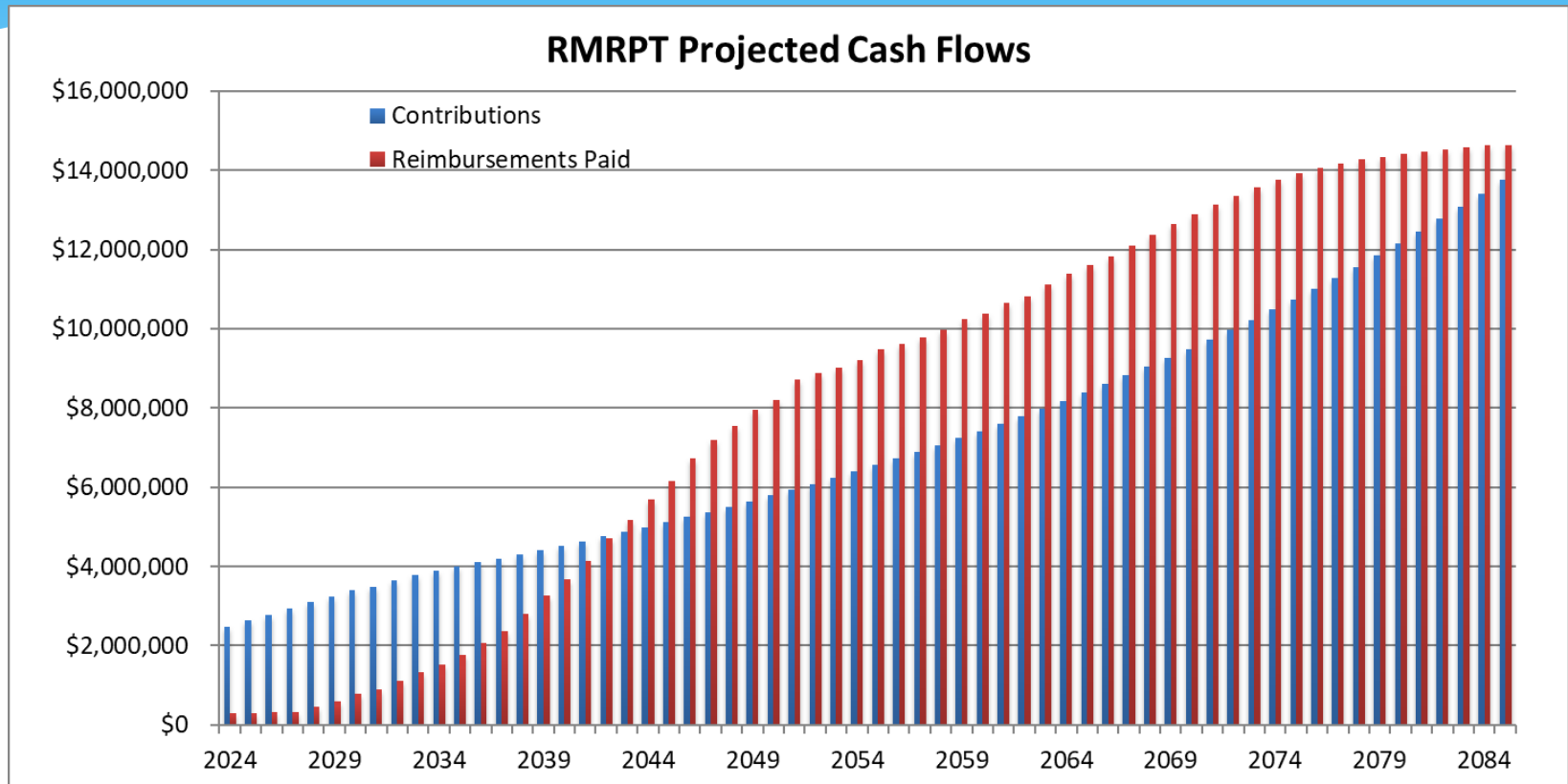
Investment Return	5.00%
Death Ben Min	\$ 400
Expenses	10%
Contribution	\$173.92
Benefits Index	1.00%
Contrib Index	2.50%

Duty Disability Benefit	FALSE
Death Ben	TRUE
Max Accrual Years	20
Survivor Percent	52%
65+ Ben Percent	50%
Utilization	100%

Solve for Unit Benefit

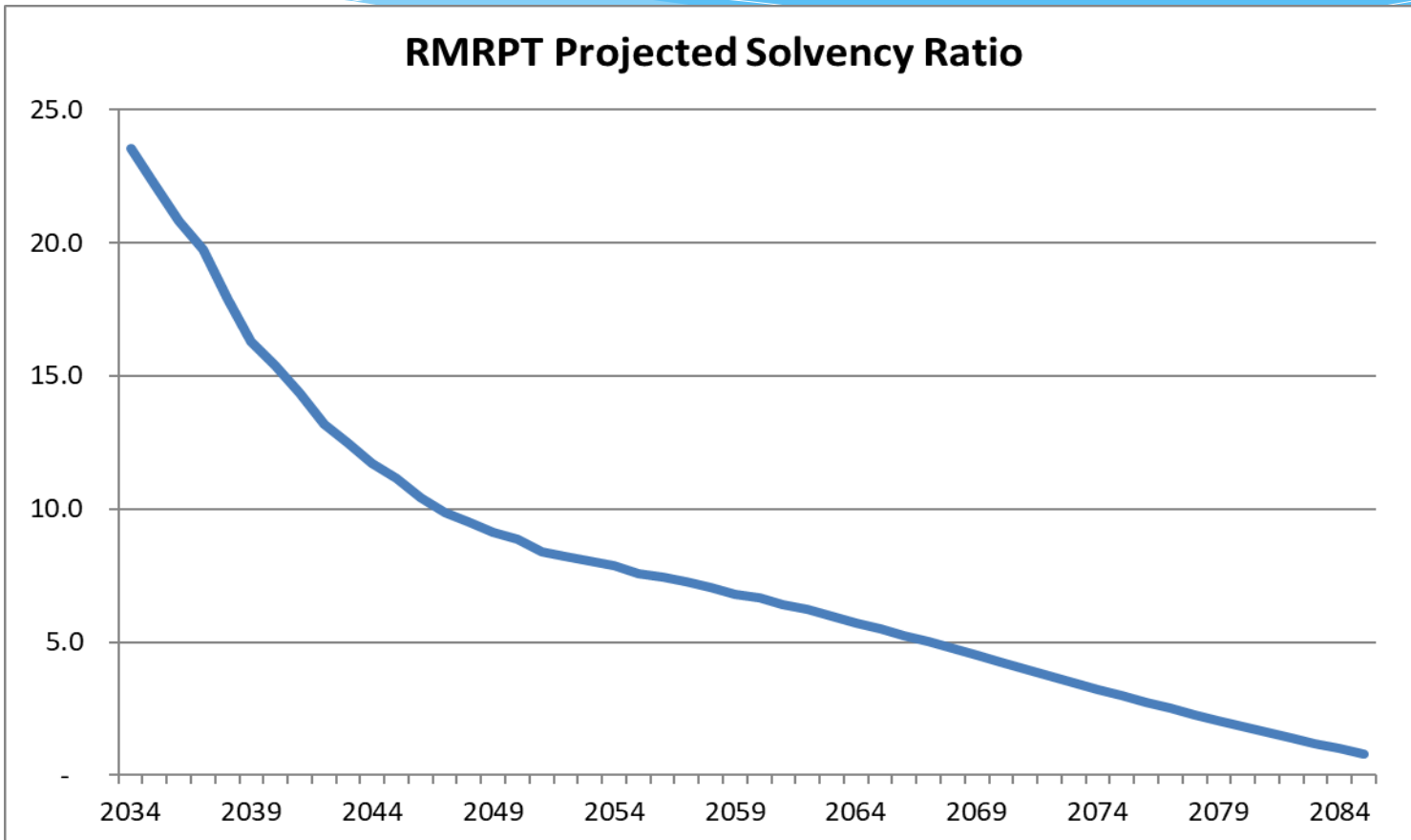


RMT Projection Example



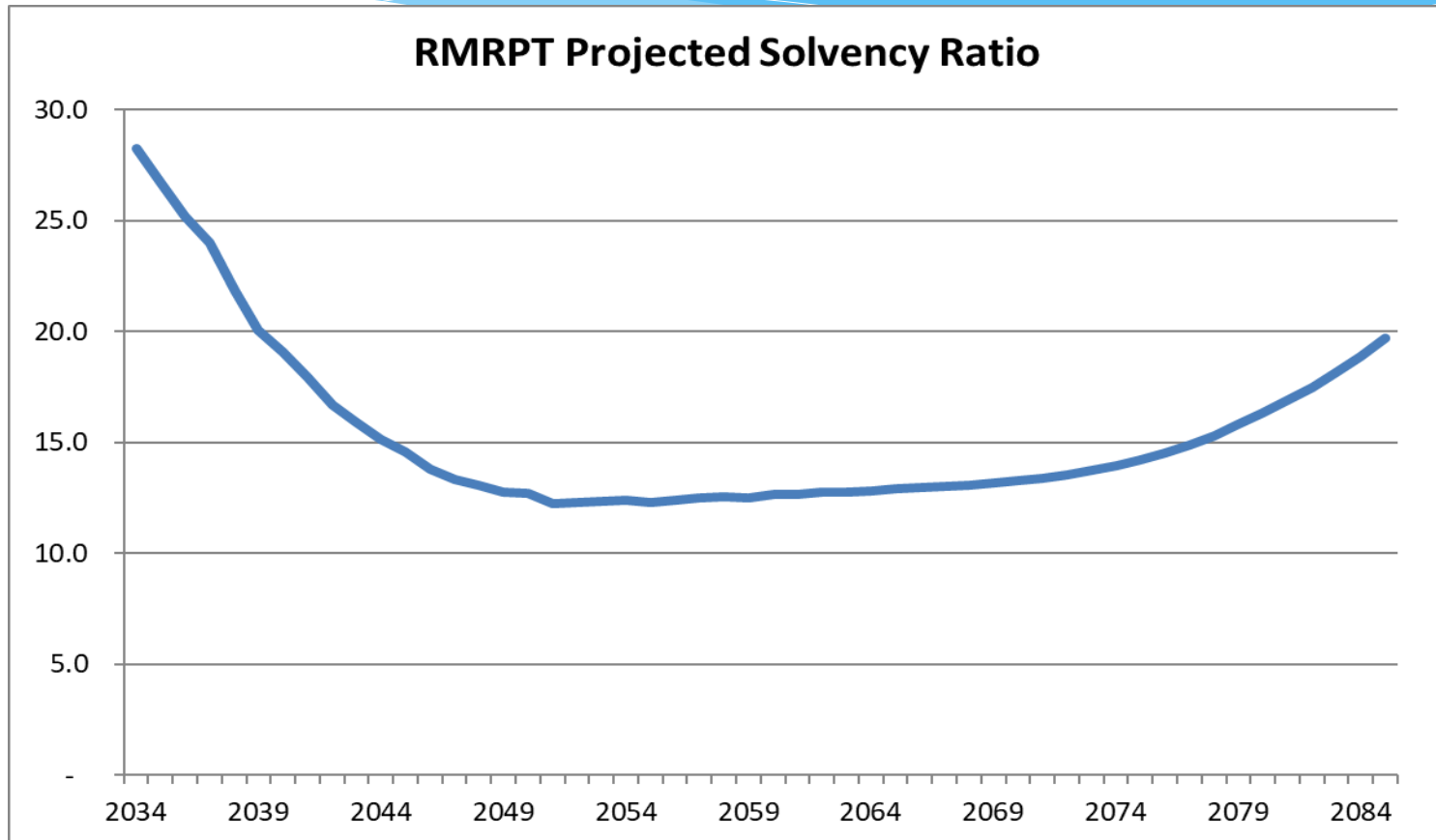
RMT Projection Example

Unit Benefit Too High



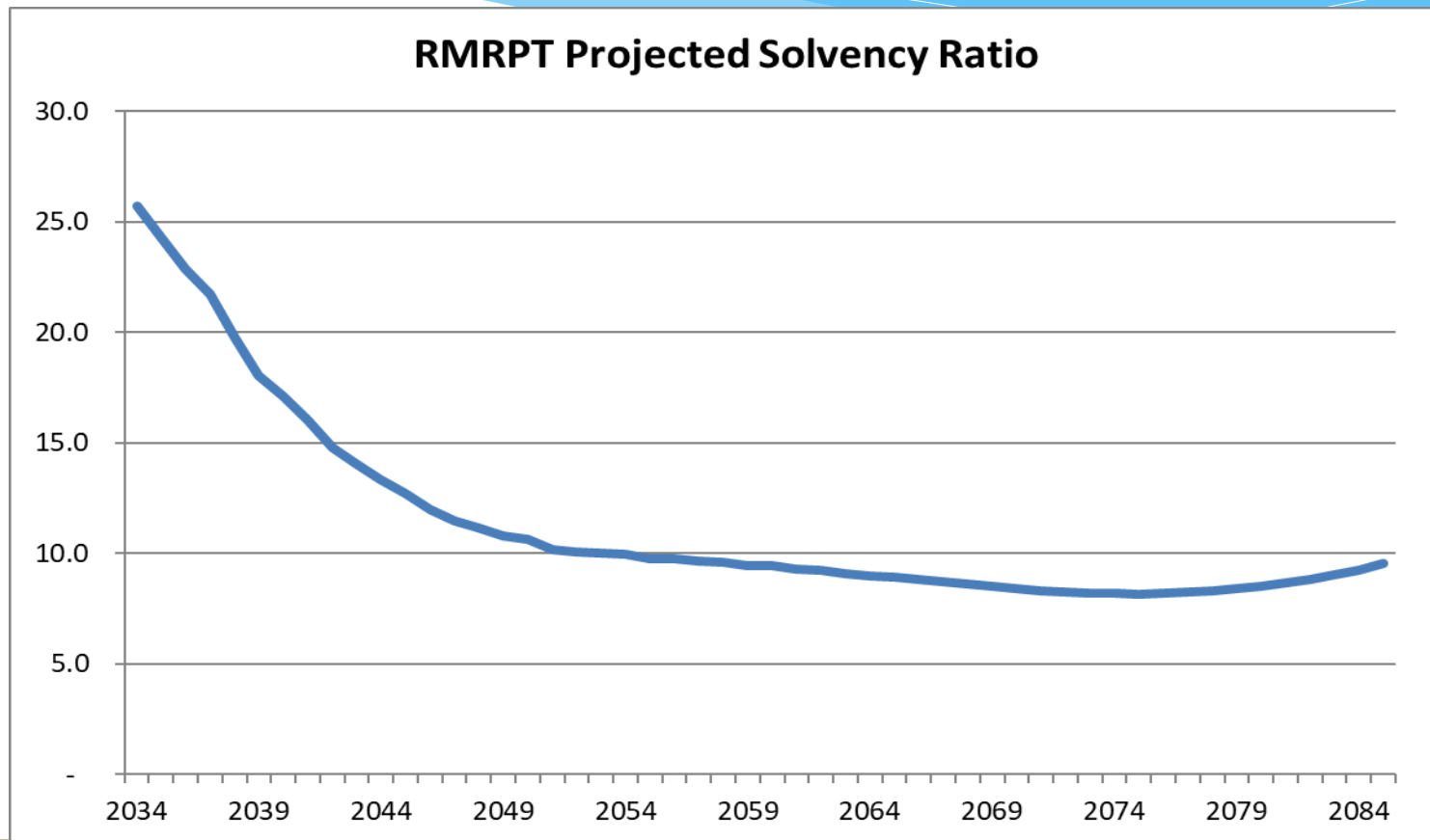
RMT Projection Example

Unit Benefit Lower Than Needed



RMT Projection Example

Stabilized



OTHER CONSIDERATIONS

- * Closed groups
- * Frequency of updates
- * Changes in covered population
- * New entrants





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