

## October 2010

The following news summaries were developed by Gabriel, Roeder, Smith & Company to inform clients and other benefit professionals of news in the benefits industry. Our thanks to Mary Ann Vitale for her diligent work on this issue. To receive this publication electronically, send an email to [web.admin@gabrielroeder.com](mailto:web.admin@gabrielroeder.com) with "SUBSCRIBE NEWS SCAN" in the subject line. To stop receiving this publication electronically, send "UNSUBSCRIBE NEWS SCAN" in the same manner. Copies of this and other benefit-related publications are available on the GRS website at [www.gabrielroeder.com](http://www.gabrielroeder.com).

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### **CCR Releases 2010 Survey Report on Local Government Health and OPEB Funding Strategies**

On October 18, 2010, Cobalt Community Research (CCR) released its report: *Health and OPEB Funding Strategies: 2010 National Survey of Local Governments*. The report is the third in a series of annual surveys that examine how local governments (cities, counties, townships, and special districts) are responding to rising health care costs for active employees and retirees. Paul Zorn, Director of Government Research at Gabriel, Roeder, Smith and Company, conducted the survey analysis for CCR.

Of the 1,963 responding local governments, 77% provide health care for active employees and 29% also provide health care for retirees. Of those providing health care for active employees, 68% pay between 81-100% of the health care premiums (with 40% paying the full premium). Of local governments providing health care for retired employees, 33% pay between 81-100% of the premiums (with 21% paying the full premium). Typically, larger local governments are more likely to provide retiree health care benefits than smaller governments.

Additionally, the study found that local governments' revenue and employment expectations are being affected by the current economic environment. Over the next year:

- 50% of the respondents expect revenues to decline, with 16% expecting the decline to be more than 5%;
- 19% expect declines in employment levels;
- 26% expect workforce changes due to consolidation or shared services; and
- 23% expect employment declines due to attrition.

The study also examined the extent to which local governments are aware of the requirements under Governmental Accounting Standards Board (GASB) *Statement No. 45: Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB). The survey found that of the local governments providing retiree health care in 2010, 87% are aware of the GASB Statement No. 45 requirements, up from 81% in 2009. The majority of governments that were not aware of the GASB's requirements served populations of less than 5,000.

In addition, 74% of the local governments that provide retiree health care have done actuarial valuations to calculate (or are in the process of calculating) their OPEB liability, up from 62% in 2009. However, in 2010, only 30% are allocating funds to pay future health care costs, down from 40% in 2009. Moreover, 65% plan to use a pay-as-you-go funding approach for retiree health costs in 2010, up from 52% in 2009.

The respondents also identified the most frequently used methods for controlling health care costs in local governments, including:

- Increasing deductibles and co-pays;
- Increasing the employees' share of premium costs;
- Implementing wellness programs;
- Expanding generic drug usage;
- Implementing HSAs and HRAs;
- Negotiating lower costs with current carriers; and
- Educating employees and retirees to improve health care decisions.

The study was sponsored by Gabriel, Roeder, Smith and Company, the Government Finance Officers Association, the International Foundation of Employee Benefit Plans, the Municipal Employees' Retirement System of Michigan, the National Conference on Public Employee Retirement Systems, the Employee Benefits Research Institute, and the Tegrit Financial Group.

The report is available on the CCR website at: [www.cobaltcommunityresearch.org](http://www.cobaltcommunityresearch.org)

### **U.S. Census Reports Large Public Pension Systems' Assets Increased 6.8% in the Second Quarter of 2010**

In October 2010, the U.S. Census Bureau reported that the total holdings and investments for the 100 largest state and local government employee retirement systems increased 6.8% from \$2,199 billion in the second quarter of 2009 to \$2,350 billion in the second quarter of 2010. However, the second quarter 2010 results also marked the first quarter-to-quarter decline since the first quarter of 2009, with total holding and investments falling 5.6% from \$2,490 billion at the end of 2010:Q1 to \$2,350 billion at the end of 2010:Q2.

The results are based on the Census Bureau's *Quarterly Summary of the Finances of Selected State and Local Government Employee Retirement Systems* which surveys the revenues, expenditures, and composition of assets for the 100 largest public employee retirement systems. These systems comprise 89% of the total cash and security holdings reported for public plans in the 2007 Census of Governments.

The investment results and total holdings for the 100 public employee retirement systems include:

- Corporate stocks increased 9.3% from \$659 billion in 2009:Q2 to \$720 billion in 2010:Q2, and comprise 30.6% of total cash and security holdings.
- Corporate bonds increased 2.8% from \$405 billion in 2009:Q2 to \$416 billion in 2010:Q2, and comprise 17.7% of total holdings.
- International securities increased 15.2% from \$357 billion in 2009:Q2 to \$412 billion in 2010:Q2, and comprise 17.5% of total holdings.
- Federal government securities increased 15.3% from \$144 billion in 2009:Q2 to \$166 billion in 2010:Q2, and comprise 7.0% of total holdings.

The quarterly summary is available at: [http://www2.census.gov/govs/qpr/information\\_sheet.pdf](http://www2.census.gov/govs/qpr/information_sheet.pdf)

## **GAO Reports Governmental Pension Plans Have Gradually Increased Investment Risk**

On September 20, 2010, the U.S. Government Accountability Office (GAO) released its report: *State and Local Government Pension Plans: Governance Practices and Long-Term Investment Strategies Have Evolved Gradually as Plans Take on Increased Investment Risk*. According to the report, over the past few decades state and local pension plans have gradually shifted their asset allocations from lower-risk investments (e.g., bonds) to higher-risk investments (e.g., equities). This was done not only to earn higher returns, but also to diversify portfolios by applying well accepted techniques of portfolio management. The GAO reports that, in aggregate, large- and medium-sized plans currently invest about 68% of their total assets in equities and other higher risk investments, 30% in bonds, and the balance in cash and other securities.

Of the plans surveyed by GAO, the median funded ratio was 86% for medium-sized plans and 82% for large-sized plans. The report found that about 58% of public pension funding is derived from investment earnings rather than from employer and employee contributions. The report also found that state and local pension plan asset values diminished significantly during the recent market downturn. For the large- and medium-sized state and local plans surveyed, 79% reported having the market value of their plan assets decline by least 20% from June to December 2008. Importantly, however, plans generally report having sufficient assets to cover benefit payments over many years despite the economic downturn.

Additionally, the survey found that about 60% of large- and medium-sized plans anticipate making changes in their future investment strategies and asset allocations due to the current economic condition. While the report does not provide details about the investment changes to be made, it does indicate that the plans have been increasingly investing in alternative investments, such as hedge funds and private equity. According to the report, private equity investments average about 8% of assets for large- and medium-sized plans; while hedge funds average about 2%.

The GAO also reported that state and local pension plans are implementing various strategies to confront challenges in governance, investing and funding, including:

- Implementing new governance policies requiring increased disclosure by placement agents;
- Pooling assets to reduce management costs and acquire skilled investment managers; and
- Issuing pension obligation bonds to raise revenue.

The GAO report is available at: <http://www.gao.gov/new.items/d10754.pdf>

## **Ice Miller Posts Updated Summary of Health Care Reform Legislation and Guidance**

On October 14, 2010, the law firm of Ice Miller reissued a summary of the Patient Protection and Affordable Care Act (PPACA) to include recent guidance issued by the U.S. Departments of Health and Human Services, Labor, and the Treasury as applicable to group health plans. Ice Miller issued its original summary of the PPACA on March 30, 2010. The summary identifies the main provisions of the Act and any applicable implementation guidance that has been issued. Some of the recently issued guidance includes:

- Rules for maintaining grandfathered plan status;
- Early Retiree Reinsurance Program;
- Prohibition of pre-existing condition exclusions;
- Prohibition of lifetime and annual dollar limits and procedures for a temporary waiver; and
- Extension of dependent coverage mandate and related tax relief.

The updated summary is available on Ice Miller's website at: [http://www.icemiller.com/benefits/Ice\\_Miller\\_PPACA\\_Chart\\_October\\_2010\\_Reissue.pdf](http://www.icemiller.com/benefits/Ice_Miller_PPACA_Chart_October_2010_Reissue.pdf)

Additionally, Ice Miller posted a checklist for employers that sponsor group health plans to use in preparing timely compliance with the PPACA's requirements in the upcoming plan year. The checklist is available at: [http://www.icemiller.com/benefits/PPACA\\_Checklist.pdf](http://www.icemiller.com/benefits/PPACA_Checklist.pdf)

Further information on specific regulations, such as the grandfather rule, is available on Ice Miller's Health Care Reform website at: <http://www.icemiller.com/searches/service.aspx?id=517>

### **HHS Accepts Nearly 3,600 Organizations into Early Retiree Reinsurance Program**

As of October 28, 2010, the Department of Health and Human Services (HHS) has accepted about 3,600 employers and union sponsors into the Early Retiree Reinsurance Program (ERRP). Established under the Patient Protection and Affordable Care Act (PPACA), the program provides a total of \$5 billion in financial assistance for employers to help maintain coverage for early retirees ages 55 and older who are not yet eligible for Medicare. Employers may receive reimbursement for 80% of eligible medical claims for health benefit costs between \$15,000 and \$90,000 for individuals. Health benefit claims that qualify for reinsurance payments are restricted to services that would be covered by Medicare, such as medical (including mental health), hospital, surgical, and prescription drug benefits.

The approved applications represent a broad range of organizations with nearly 26% from state and local governments, 32% from businesses, 22% from union sponsors, 14% from educational institutions, and 5% from non-profit associations. In October, the organizations that were accepted into the program began receiving reimbursement for eligible medical claims of early retirees, spouses, surviving spouses, and dependents. The reimbursement may be used to reduce employer or union health care costs, or provide relief for premiums or out-of-pocket expenses for early retirees and their family members. HHS began accepting applications for the program on June 29, 2010 and the program will end on January 1, 2014 or when funds are depleted, if earlier.

Additional information about the Early Retiree Reinsurance Program can be found at: [www.ERRP.gov](http://www.ERRP.gov) or by contacting the HHS's Program Center at 877-574-3777.

A factsheet on the program with a list of participants and interactive map displaying participants by state is available at: [http://www.healthcare.gov/news/factsheets/early\\_retiree\\_reinsurance\\_program.html](http://www.healthcare.gov/news/factsheets/early_retiree_reinsurance_program.html)