



The implications of GASB 45 on the delivery of affordable healthcare to early retirees in the public sector: Can global healthcare offer a viable solution?

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Faced with the unrelenting, rising costs of healthcare in the U.S., affordable medical coverage remains a critical issue for millions of early retirees (ages 55 to 64) who are not yet eligible for Medicare benefits. An estimated 3.8 million early retirees and dependents currently receive healthcare coverage from an employer or union.

These retirees, within the public sector specifically (local city and state employers) create their own set of healthcare affordability challenges due to the Government Accounting Standards Board 45 (GASB 45) accounting rule, which went into effect in 2007.

GASB 45 is an accounting rule, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits, or OPEB. The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB, and the outstanding obligations and commitments related to OPEB, in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The actuarial determination of future costs can be difficult at best given the wide disparity of fees charged by providers for these early retirees. According to a survey released by America's Health Insurance Plans (1,300 health insurance companies), physicians that refuse to take insurance can charge patients fees that are several hundred – and in some cases, a thousand percent higher than Medicare for the same service in the same geographic area. As a result, material changes to the GASB 45 liabilities result based on where the retiree receives medical services.

The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods, which could pose serious implications on the employer's credit rating, and thus interest rate on bonds.

According to a 2007 report issued by Credit Suisse, "You Dropped a Bomb on Me GASB," there are an estimated \$558 billion in unfunded OPEB liabilities being uncovered for the 50 states, and another \$951 billion for local governments (e.g., cities, counties, etc.); that's over \$1.5 trillion in unfunded liabilities!

Because GASB 45 makes OPEB, particularly retiree healthcare, an important concern, and because it highlights another large legacy obligation (like defined benefit pension plans, social security, and Medicare and Medicaid)—where a promise made to U.S. workers is going to be hard to keep—that presents difficult challenges for the U.S. economy. This, in turn, will likely cause more state and local governments to "pass the buck" on more of the OPEB costs, including medical benefits, to the retiree.

A viable solution – global healthcare

Rather than completely eliminating healthcare benefits for their retirees, some local city and state government employers are starting to take a closer look at global healthcare programs, whereby employees receive financial reimbursement through their employer for receiving medical care outside the U.S. for a fraction of the cost than within the domestic hospital system. These lower cost services can substantially reduce the GASB 45 accrued liability.

As an example, over a year ago in South Carolina, Myrtle Beach budget director Mike Shelton got a colonoscopy in Thailand because of a change in accounting standards for local governments. The trip was sponsored by Morgan Armstrong, CEO of Plan Benefit Services, an employee benefits firm based in Columbia, South Carolina, which sent Mr. Shelton and a large group of business clients to Thailand and Singapore to introduce them to the immense savings available to their companies via medical travel.

Instead of eliminating benefits for retirees - like some cities have done - Shelton and Human Resources Director Coleman Randall flew to Bumrungrad International Hospital in Bangkok, Thailand to explore this medical tourism solution. There, Shelton had what would have been a \$3,500 colonoscopy for \$700. The quality of care was superior and persuaded Shelton and Randall to add the benefit to the city's medical plan.

In relation to the GASB 45 liabilities, the ability to reduce retiree healthcare expenses by as much as 75% results in direct and meaningful benefits to the public sector employer as well. Among them include the ability to improve profitability and cash flow, strengthen retiree and employee morale, as well as reduce their disclosed liability and interest rate on borrowing.

For the early retiree population, in particular, global healthcare benefit programs are intriguing for a couple of primary reasons.

First, it is a known fact that as people age, they become more susceptible to health problems, including cost-prohibitive surgical procedures that are also available at the high-quality JCI-accredited hospitals around the world, at a fraction of the cost. Examples include heart surgery, orthopedic procedures, vascular surgery, and endocrinology procedures. The estimated cost savings are anywhere from 40 to 80 percent per procedure, on average. This includes all hospital and physician fees, hotel, airfare and transportation for the patient and a companion, as well as a personal accident policy.

Many of these types of procedures also qualify for reimbursement via an employer-funded Health Reimbursement Account (HRA), which the patient can then use to pay for future medical expenses for years to come. As a result, not only does the employer and payor receive a financial benefit through dramatically reduced healthcare expenses, but the employee does as well. This offers early retirees a real and meaningful financial incentive to opt for receiving medical care outside the U.S. Meanwhile, there is no cost whatsoever to the employer or plan sponsor to provide this benefit option to retirees as part of their existing employee health plan design.

One prime example of this is a global healthcare network and services company called Satori World Medical, whereby participating employees actually receive thousands of dollars via an employer-funded, tax-advantaged HRA for selecting the Satori Global Network™ for their care. Meanwhile, the program is designed to be seamlessly integrated with any existing employee health plan design at absolutely zero cost to the payor or employer.

Medical travel programs, such as Satori World Medical, are also a good fit for people in their early retirement because these baby boomers generally have more disposable income and are able to travel more frequently. Therefore, they are more likely to participate in medical travel. Early retirees are typically on a fixed income and so many would greatly benefit from the economic incentives available to them through a global health care program in order to supplement their existing incomes into retirement.

There are no easy solutions to overcoming the enormous financial challenges of GASB 45 in the public sector. However, offering global healthcare benefit programs to early retirees is certainly an innovative concept that we believe more local and state government entities will be taking a closer look at in the next several years.