

Analysis of Retiree Healthcare Costs

Estimated employee contribution rates to fund a pre-Medicare bridge benefit, ages 55-65



Presented to: Work Group on Duty Disability and the Public Safety Officer's Benefit Account

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Background Information

Study Objectives

- We estimated the contribution rate intended to fund a healthcare savings account that could accumulate enough funds to pay the expected cost of retiree medical coverage during the early retirement “bridge” period between age 55 and Medicare coverage at age 65.
- The results are extremely sensitive to assumptions about future healthcare costs and the method for delivering the benefit (e.g., individual account vs. pooled health plan).



Working Career

Members make mandatory contributions to retiree healthcare fund/account



“Bridge” Period

Accumulated account balance (contributions + investment earnings) help pay for retiree healthcare costs/premiums



Post-65

Remaining funds at Medicare eligibility can be used for eligible healthcare costs

Scope and Sources of Uncertainty

What we are estimating

Contribution rate, deposited to an individual account, that is expected to grow to an amount sufficient to pay for medical premiums during pre-Medicare bridge period

What we are not estimating

- Benefit costs for disability retirees
- Pooled health plan costs/contribution rates, which may be lower on average than an individual account arrangement
- Liability cost to the State and/or local employers if fully-paid healthcare is provided to retirees

Uncertainty of Long-Term Retiree Healthcare Costs

- Retiree healthcare cost projections are substantially more uncertain than other benefits like pensions
- Future health plan benefit design and premium increase rates are unknown and may change significantly compared to current health plans
- Benefit promises made now may have a considerably different cost when payment is due in the future

Estimated Retiree Healthcare Costs

Estimated Retiree Healthcare Costs

- Our analysis is based on four sample employees using PERA Police and Fire pension demographic data as of July 1, 2025.
- The samples represent a new hire plus early-, mid-, and late-career employees and how their contribution rates could vary if they each started saving for retiree medical benefits in 2026.
- Sample employee information is summarized in the table below. Additional information on data, assumptions, and methods is found in the Appendices.

	New hire	Early career	Mid career	Late career
Age in 2026	25	32	42	52
Service in 2026	1	8	18	28
Salary in 2026	\$80,000	\$111,000	\$127,000	\$147,000

Estimated Retiree Healthcare Costs

- There are MANY assumptions involved in retiree healthcare cost projections.
- Key assumptions are summarized in the table below and in the appendices. Additional assumptions could also have a significant effect on long-term benefit costs.
- Alternative assumptions are evaluated in the ‘Estimated Cost Variability’ section.

Assumption type	Assumption Description	Baseline assumption
Economic assumptions	Investment return assumption	Annual return = 6.0%
Demographic assumptions	- Turnover and disability rates - Retirement rates and patterns	- All employees continue to work until age 55 (i.e., no pre-retirement turnover or disability) - All employees retire at age 55
Healthcare-specific assumptions	- Medical plan design and premiums - Future premium increase rate - Spouse/dependent coverage - Target length of medical coverage period - Portion of premium expected to be covered	- Single premium of \$1,286/month in 2026 for PEIP high-deductible plan - Gradual decrease from 12.0% in 2026 and 8.5% in 2027 to ultimate rate of 3.9% over 50-year period - Single coverage only 10 years of coverage from age 55 to 64 - Target benefit of 100% of single premium during coverage period

Estimated Retiree Healthcare Costs

- The table below summarizes the estimated contribution rates for the sample employees under the baseline set of assumptions.
- New hires and early-career employees have an extended period to accumulate sufficient funds in their healthcare savings account.
- The required contribution rate increases significantly for older employees that are assumed to start saving later in their career and have very few years to accumulate funds.

	New hire	Early career	Mid career	Late career
Age/service in 2026	25/1	32/8	42/18	52/28
Contribution rate	6.0%	6.6%	10.7%	38.4%
Estimated value of future premium costs at retirement age 55	\$677,000 in year 2056	\$499,000 in year 2049	\$320,000 in year 2039	\$196,000 in year 2029

Estimated Cost Variability

Estimated Cost Variability

- As discussed earlier, retiree healthcare costs are substantially less predictable than pension costs and it's extremely difficult to project them accurately into the future.
- The next few slides illustrate how the projected contribution rates could be affected by changes in specific assumptions.

Variability – Investment Return

- The table below summarizes the estimated sample employee contribution rates when adjusted for alternative investment return assumptions.
- If using an individual account approach, it's likely that there will be a wide variety of investment returns among individuals since each member will have their own investment objectives, skills, and time horizons. Members may also choose to “de-risk” their investments as they approach the benefit period.

Contribution Rate Scenario	New hire	Early career	Mid career	Late career
Return = 6.0% <i>[Baseline]</i>	6.0%	6.6%	10.7%	38.4%
Return = 5.0%	7.4%	7.9%	12.0%	41.1%
Return = 7.0%	4.9%	5.6%	9.5%	36.0%

Variability – Coverage Period

- The table below summarizes the estimated sample contribution rates when adjusted for alternative retirement ages. The length of the coverage period will have a significant effect on potential program costs.
- The alternative scenarios represent a single later retirement age and a series of retirement rates during the coverage period. Both alternatives illustrate the effect of a longer savings period and a shorter period for receiving benefits.

Contribution Rate Scenario	New hire	Early career	Mid career	Late career
100% retire at age 55 <i>[Baseline]</i>	6.0%	6.6%	10.7%	38.4%
100% retire at age 60	2.6%	2.8%	4.0%	7.8%
“Average” retirement using pension plan assumed retirement rates	4.3%	4.7%	6.9%	15.2%

Variability – Premium Rates

- The table below summarizes the estimated sample contribution rates when adjusted for alternative medical premium rates.
- The baseline premium is based on the 2026 PEIP High Deductible plan single premium rate for a sample metro police department. The alternative premium rates are intended to illustrate how premium variability could affect the employee contribution rates.
- Future premiums will vary substantially based on factors such as plan design, the covered population, and future healthcare cost inflation. The sample premiums used in this study may be very different than the rates for an actual PEIP plan for public safety members, especially if it covers a substantial number of pre-Medicare retirees.

Contribution Rate Scenario	New hire	Early career	Mid career	Late career
\$1,286/month premium <i>[Baseline]</i>	6.0%	6.6%	10.7%	38.4%
\$1,800/month premium	8.4%	9.3%	14.9%	53.8%
\$900/month premium	4.2%	4.7%	7.5%	26.9%

Variability – Premium Increase Rates

- The table below summarizes the estimated sample contribution rates when adjusted for alternative assumptions about the rate of future medical premium increases.
- Assumed future healthcare cost increases (called ‘Medical Trend’ rates) act similarly to a pension COLA except that they are generally much larger and more unpredictable.

Contribution Rate Scenario	New hire	Early career	Mid career	Late career
12% medical trend in 2026, 8.5% in 2027, grading down to 3.9% over 50 years <i>[Baseline]</i>	6.0%	6.6%	10.7%	38.4%
Baseline + 1% per year	8.3%	8.6%	12.6%	41.2%
Baseline – 1% per year	4.3%	5.1%	9.1%	35.9%

Variability – Coverage Level

- The table below summarizes the estimated sample contribution rates when adjusted for alternative assumptions about the coverage level.
- The baseline scenario assumes that the retiree healthcare account is intended to pay for the retiree’s healthcare costs only. The alternative scenario illustrates the additional contributions needed if the accumulated funds are assumed to pay for Single + 1 coverage.
- The expected cost increases substantially because PEIP currently uses a composite dependent rate structure (i.e., same blended premium for Single+1 and Family coverage)

Contribution Rate Scenario	New hire	Early career	Mid career	Late career
100% elect Single coverage <i>[Baseline]</i>	6.0%	6.6%	10.7%	38.4%
100% elect Single + 1 coverage	17.2%	19.0%	30.4%	109.8%

Other Considerations

Other Considerations

There are many uncertainties associated with modeling, providing, and financing retiree healthcare costs. The tables below summarize some of these risk considerations but are not an exhaustive list.

Risk Type	Considerations
Cost and financial risk	- Actual premiums may differ substantially from the sample PEIP rates used in this analysis because the eventual covered population (e.g., public safety members and pre-Medicare retirees), benefit design, underwriting approach, and retiree participation levels are currently unknown. - Future healthcare costs are inherently difficult to predict and may differ significantly from the assumptions used in this study. Contribution rates, target benefit levels, and funding policies may require periodic review and adjustment since retiree healthcare costs are generally more volatile and less predictable than pension costs. If actual healthcare inflation exceeds the assumption, then accumulated assets may cover a smaller portion or shorter period of retiree healthcare costs than intended. The medical trend assumption used in this study is one among many options, each of which could be substantially different than actual experience. - The 6.0% investment return assumption used in this study is a rough estimate based on the current 10-year return expectation for a simplified 60/40 equity/fixed income portfolio. Under an individual account approach, actual investment results will vary by member based on their investment elections, market experience, and time horizons. A pooled approach may use a different expected portfolio mix and expected long-term return.

Other Considerations

Risk Type	Considerations
Behavioral and policy risks	▪ The availability and design of a retiree healthcare benefit may affect hiring, retention, retirement timing, and participation patterns. These behavioral changes could materially affect both retiree healthcare program costs and long-term pension plan costs. ▪ Contribution rates developed from current assumptions may become inadequate if healthcare, demographic, or investment experience differs materially from expectations. ▪ Future changes in Medicare, healthcare regulation, tax policy, or public-sector healthcare programs could significantly affect retiree healthcare costs and plan design options.
Benefit design implications	▪ The workgroup should clearly define whether the primary objective is to provide a predictable contribution, a predictable benefit, and/or a predictable period of coverage. Different objectives may require different plan designs and risk-sharing arrangements. ▪ If the program is intended to subsidize 100% of medical premium costs during the target coverage period, the workgroup should consider how/if the plan design will address situations where accumulated funds are insufficient to provide the target benefits. ▪ If contribution rates are based on potential dependent coverage, the workgroup should consider how this would affect members who do not want or need dependent coverage. ▪ The length of the proposed coverage period will have a substantial effect on the program costs, especially if it is a bridge program intended to end upon Medicare eligibility at age 65.

Other Considerations

Risk Type	Considerations
Additional administrative and design issues	- Administrative costs may include recordkeeping, investment management, claims substantiation, and reimbursement processing. These costs should be considered when comparing alternative program structures. - Individual accounts may provide greater transparency regarding the value received for member contributions, while a pooled arrangement with variable benefits may provide greater benefit stability/values but may be more difficult for participants to understand. - The estimates in this report are intended to illustrate potential costs under a specific set of assumptions and plan design parameters. Actual costs may be significantly different once final eligibility provisions, benefit levels, funding arrangements, participation patterns, and administrative structures are determined.

Appendices

Summary of Assumptions and Methods

The tables below summarize the primary data, “Baseline” assumptions, methods, and assumed plan design specifications used to develop the estimated costs shown in this document, as well as the rationale for selecting the assumptions. We would be glad to discuss alternative assumptions, risk analysis scenarios, and plan designs at the request of the LCPR and the Workgroup.

Input	Discussion
Sample employee specifications	Sample employees are based on some of the largest cohorts of active members in the PERA Police and Fire pension plan July 1, 2025 actuarial valuation. We believe these are reasonably representative of sample employees who may be affected by the proposed retiree medical program. For simplification purposes, we assumed all sample members are male since this should have minimal effect on the cost estimates for an individual account plan with a short coverage period.
Pre-retirement termination, duty disability, and mortality rates	We did not assume any pre-retirement decrements because the scope of the study was to estimate the member contribution rates for an individual account plan. For this study, we believe it is appropriate to base these contribution rates on the assumption that a sample member will be continuously employed until retirement since we want to be reasonably certain that there will be sufficient funds to pay for their expected benefits.
Retirement age	All sample members assumed to retire at age 55. This baseline assumption was chosen because our understanding is that the goal of the benefit program was to provide medical coverage over a 10-year bridge period between age 55 and Medicare eligibility (age 65). Choosing an earlier retirement age (e.g., 50) would not be consistent with this objective, and choosing a later retirement age may understate the potential costs if a significant number of members decide to retire early in the coverage period.
PEIP medical premiums	The \$1,286 (Single) and \$3,434 (Single +1) monthly premium rates are based on 2026 Advantage HSA rates for the City of Brooklyn Park Police members provided to us by Minnesota Management and Budget (MMB). The rates were included in a summary of city and county PEIP premium rates that MMB determined were partially credible for underwriting purposes. We selected these sample rates because they were specifically associated with a police department, and that department had all their members enroll in the HSA plan.

Summary of Assumptions and Methods

Input	Discussion
Medical premium increase rates (trend rates)	Developed using the Society of Actuaries "Getzen" model, with short-term rates set annually based on a review of recent healthcare trend surveys. The starting 2026 trend rate was based on expected 2027 rate increases provided to us by MMB. A complete trend table can be provided upon request.
Coverage level	The baseline scenario assumes single medical coverage for future retirees because we believe this represents the minimum coverage level objective for an individual retiree medical account program. Targeting spouse coverage for all sample members would produce additional costs for members who may not want or need spouse coverage.
Investment return assumption	The 6.0% investment return assumption is a simplified estimate of the 10-year expected return of a portfolio invested 60% in large-cap US stocks and 40% in core US corporate bonds. Under an individual account approach, it's likely that there will be a wide variety of actual investment returns among individuals since each member will have their own investment objectives, skills, and time horizons. The investment return assumption has a significant effect on the required contribution rates and should be evaluated carefully before proceeding with any additional plan design deliberations or actions.
Future salary increases	These are based on the salary increase assumption tables used in the July 1, 2025 actuarial valuation of the PERA Police and Fire pension plan.

Certification and Important Disclosures

This exhibit and results have been prepared solely for the Legislative Commission on Pensions and Retirement (LCPR) and the Work Group on Duty Disability and the Public Safety Officer's Benefit Account (Workgroup) to summarize potential retiree healthcare plan design costs and considerations under a very specific set of estimated plan specifications, objectives, and assumptions as described in Part 2 of our scope of work dated August 25, 2026. It is important to recognize that calculations performed for other purposes may yield significantly different results. This exhibit may not be used for any other purpose, and VIA Actuarial Solutions is not responsible for the consequences of any unauthorized use. Its content may not be modified, incorporated into or used in other material, or otherwise provided, in whole or in part, to any other person or entity, without our permission.

Unless otherwise indicated, all estimated cost estimates are based on census data specifications, assumptions, actuarial methods, and plan objectives (and our understanding thereof) described in this document and other communications provided to us. We believe this information is reasonable for the intended purpose of producing a rough estimate of the individual savings rate associated with providing a partial health premium subsidy reimbursement over a limited retiree coverage period prior to Medicare eligibility. A different set of reasonable assumptions, sample employee characteristics, and plan design objectives would produce different results. This exhibit includes a limited analysis of the effect of certain alternative assumptions, but it is not an exhaustive review of the alternative outcomes. We also have not included an estimate of the potential effect that implementing a retiree healthcare program could have on the PERA Police and Fire pension plan because that is beyond the limited scope of our engagement. We would be glad to provide additional risk analysis and cost measurement under a separate scope of services, if requested by the LCPR and the Workgroup.

To the best of our knowledge, this communication is complete and accurate, and all results were determined in accordance with generally accepted actuarial principles and practices. Upon receipt of this document, the LCPR and the Workgroup should notify us if you disagree with any information contained in the report or if you are aware of any information that would affect the results that has not been communicated to us. The report will be deemed final and acceptable to the LCPR and the Workgroup unless you promptly notify us otherwise.

Actuarial measurements are only a snapshot of a plan's estimated financial condition at a single point in time. Future measurements may differ significantly from the estimated amounts presented in this document due to many factors such as actuarial experience differing from that anticipated by the assumptions; changes in assumptions and funding policies; contributions above/below the actuarial recommendations; changes to our local and national healthcare delivery systems; and changes in plan design/provisions or applicable law. Actuarial models necessarily rely on the use of approximations and estimates and are sensitive to changes in these elements. Small variations in these factors may lead to significant changes in actuarial cost estimates. Additional contributions may be required if actual plan economic and demographic experience do not match actuarial assumptions, or if other plan design factors or healthcare experience do not align with expectations.

The preparing actuaries, Emily Knutson, FSA, EA, MAAA and Mark Schulte FSA, EA, MAAA, are Members of the American Academy of Actuaries and meet the Qualification Standards of the Academy to render the actuarial opinion contained herein. We are available to answer questions on the material contained in this document or to provide explanations or further detail, as may be appropriate. We are not aware of any material direct or indirect financial interest or relationship that could create a conflict of interest or impair the objectivity of our work.

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