

# Reshaping Retiree Health Benefits that Benefit Retirees and Employees

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Sandia National Laboratories is a multi-program laboratory operated and managed by Sandia Corporation, a wholly owned subsidiary of Lockheed Martin Corporation, for the U.S. Department of Energy's National Nuclear Security Administration under contract DE-AC04-94AL85000. SAND2010-6484C



**Sandia National Laboratories**

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# Agenda

- Brief overview of Sandia National Labs
- What does our retiree population look like
- Reshaping retiree benefits
  - Introduction of CDHP with HRA and incentive programs for PreMedicare Retirees
  - Choice between group sponsored plans or stipends to purchase individual plans for Medicare retirees
  - Capping employer subsidy for future retirees
  - Eliminating retiree coverage for new hires
- Lessons Learned

# Sandia's Governance Structure

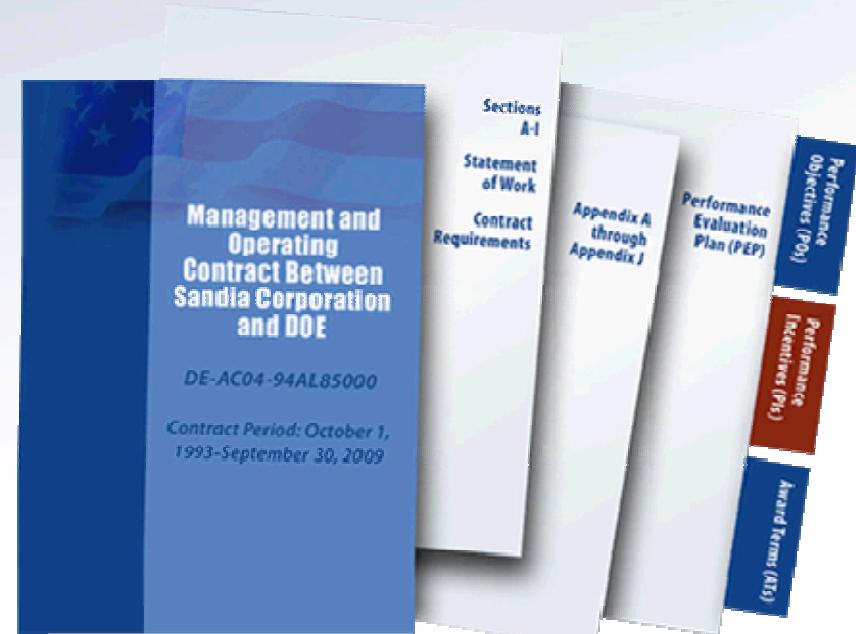


Government-Owned  
Contractor-Operated



## Sandia Corporation

- AT&T: 1949–1993
- Martin Marietta: 1993–1995
- Lockheed Martin: 1995–Present  
(Existing contract expires 9/30/12)



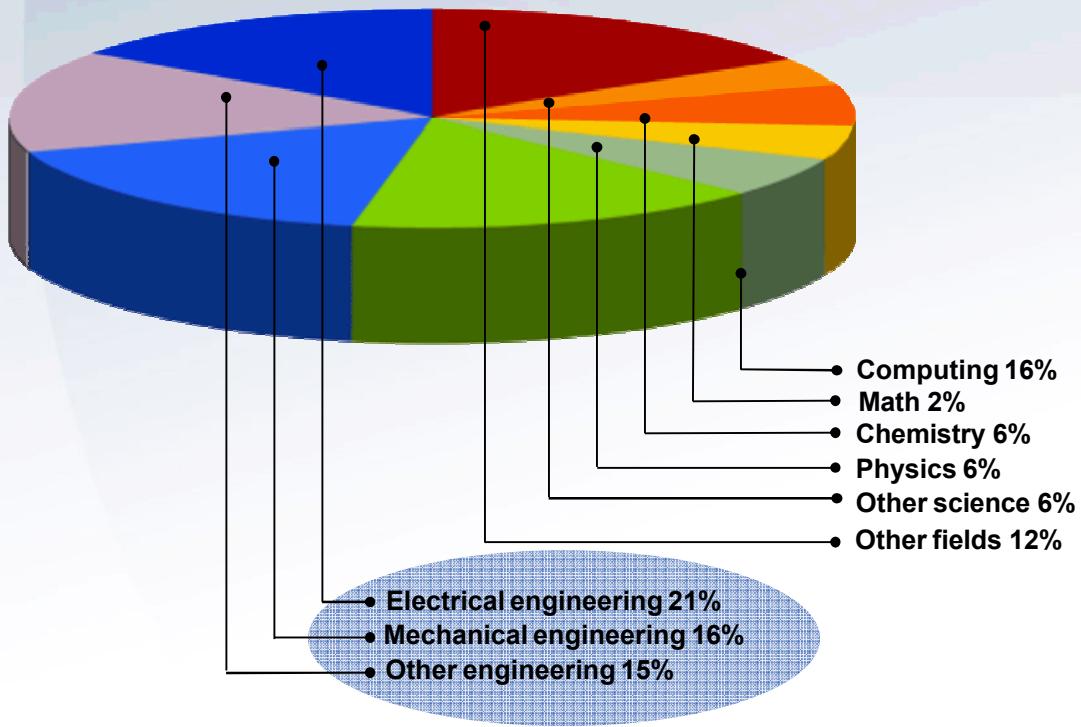
Federally Funded  
Research & Development  
Center

# People and Budget

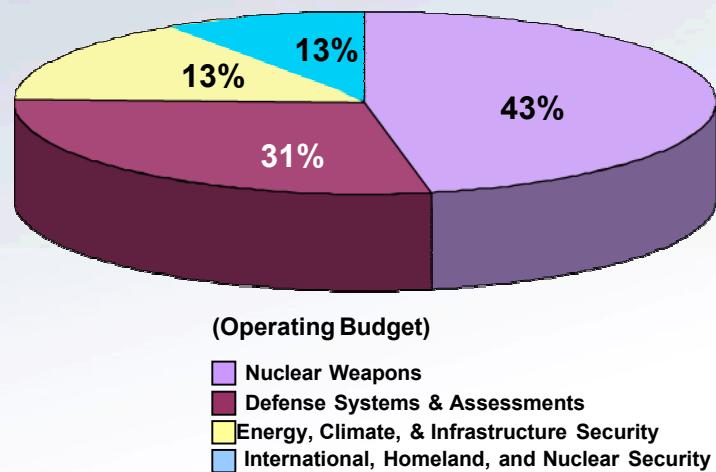
(FY11)

- On-Site Workforce: 11,677
- Regular Employees: 8,607
- Gross Payroll: ~\$898.7M
- Retiree Population: 5,419

Technical staff (4,277) by discipline:

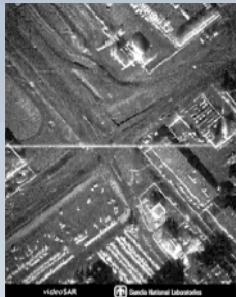


FY10 operating revenue  
\$2.4B



# Sandia's Broad National Security Role

## Defense Systems & Assessments



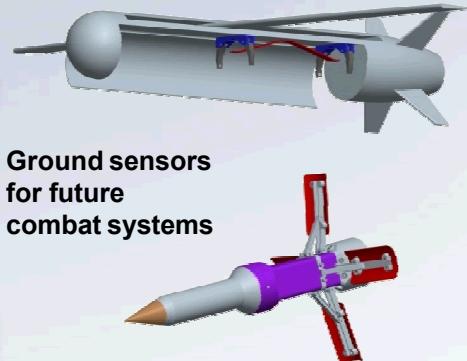
Surveillance &  
Reconnaissance



Missile defense



Small robotic  
vehicle



Ground sensors  
for future  
combat systems

## International, Homeland, and Nuclear Security

Critical asset  
protection



Global security



Homeland  
defense &  
force protection

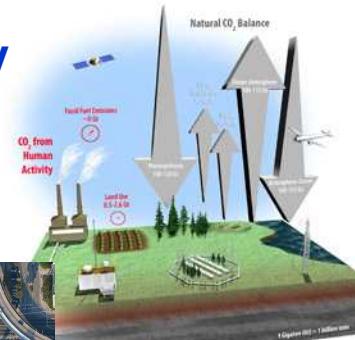


## Energy, Climate, and Infrastructure Security

Energy supply



Infrastructure



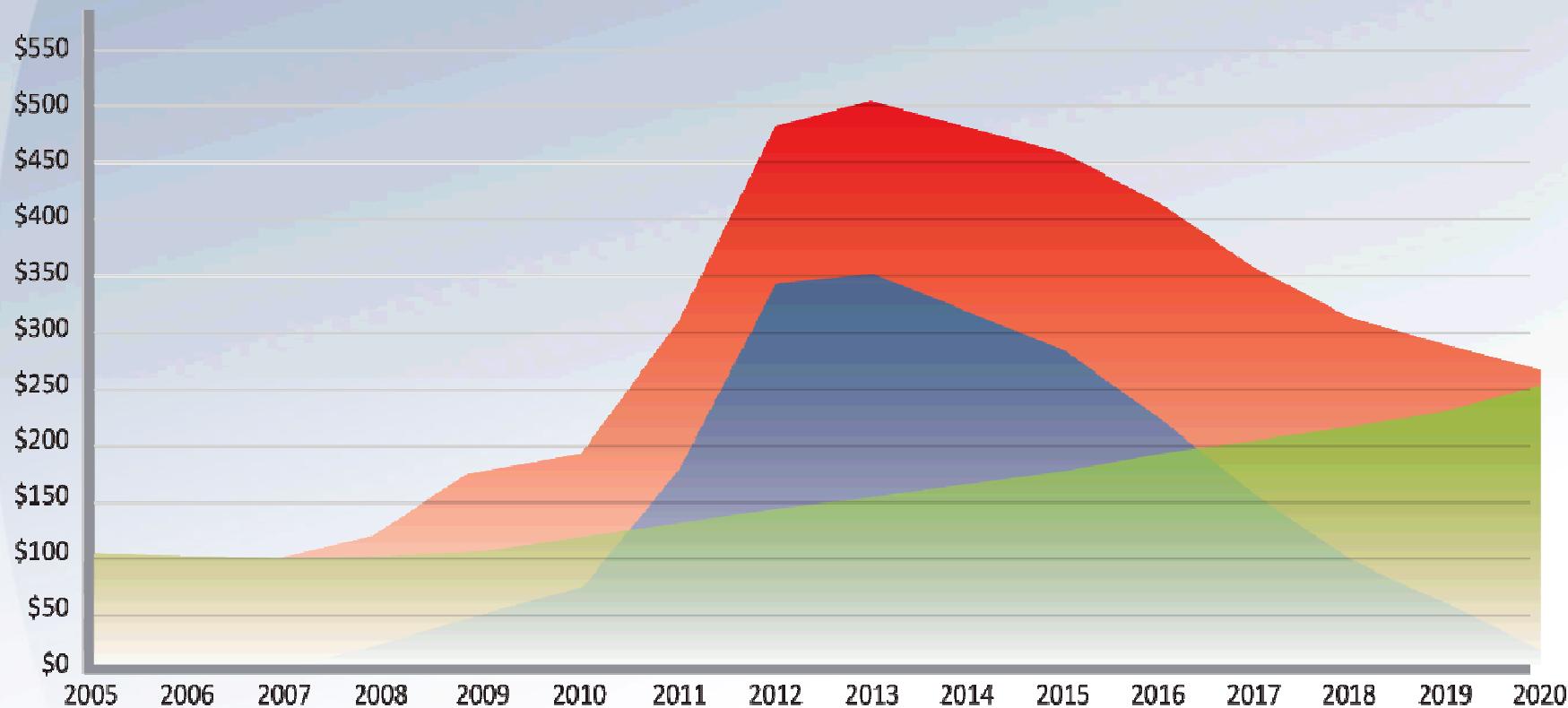
Climate sensing  
& monitoring



## General Benefits Information

- **FY10 Costs:**
  - \$13.6M for operations of on-site clinic and administration of benefit plans
  - \$104.5M for benefit plan claims, fees & consultants (non-operational)
- **Customers:**
  - Over 31,000 covered employees, retirees, and dependents
  - Approximately 8300 employees utilize onsite clinics per year
  - Average 6,000 patient visits per month
- **Sandia is a self-insured corporation**
  - Health plan claims and on-site clinic costs are both paid for with fringe funds
  - On-site clinic costs help off-set health plan claim costs

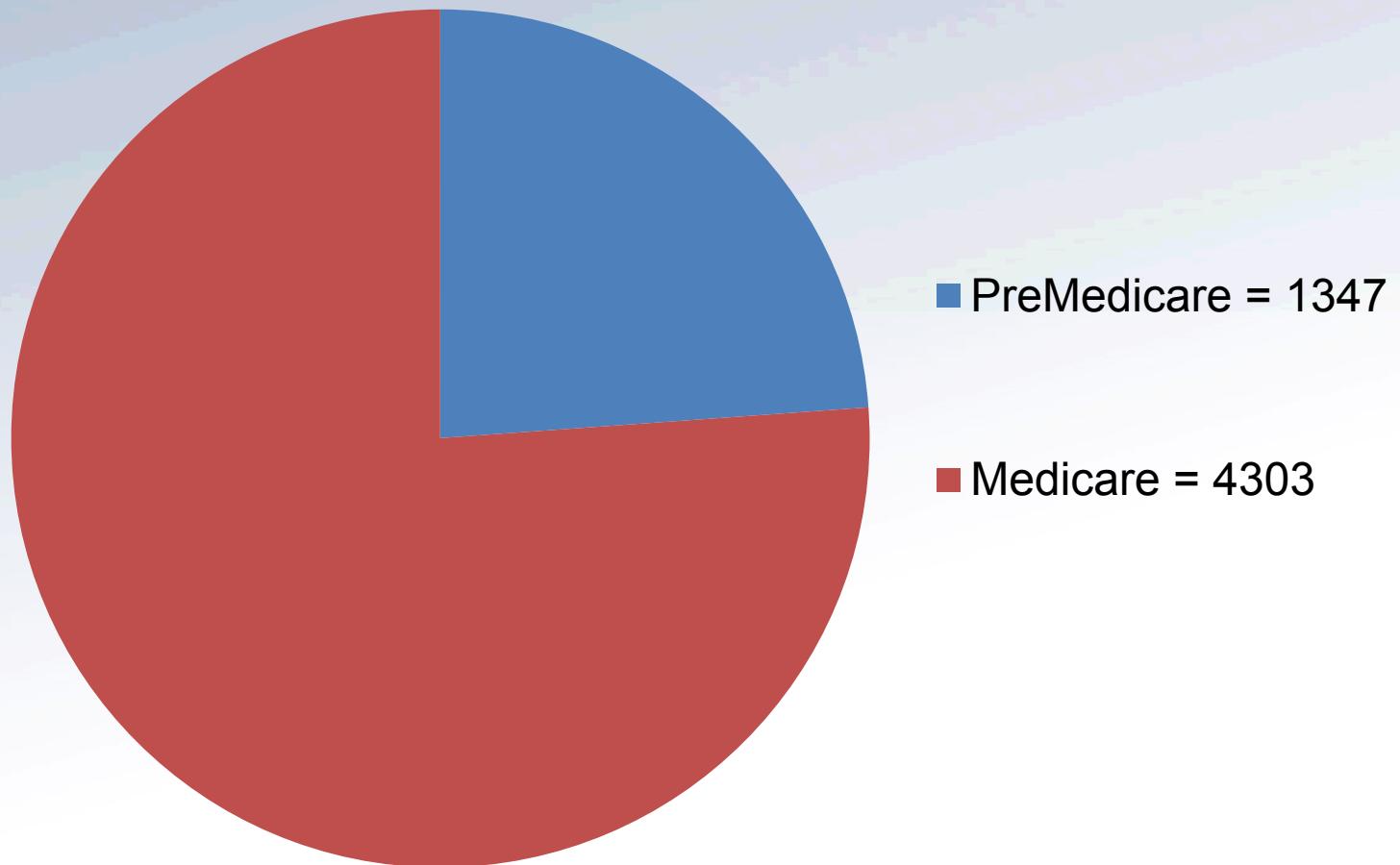
# Projected Pension and Healthcare Costs



- Estimated health care costs - status quo
- Estimated required pension contributions - status quo
- Estimated total health care & pension costs - status quo

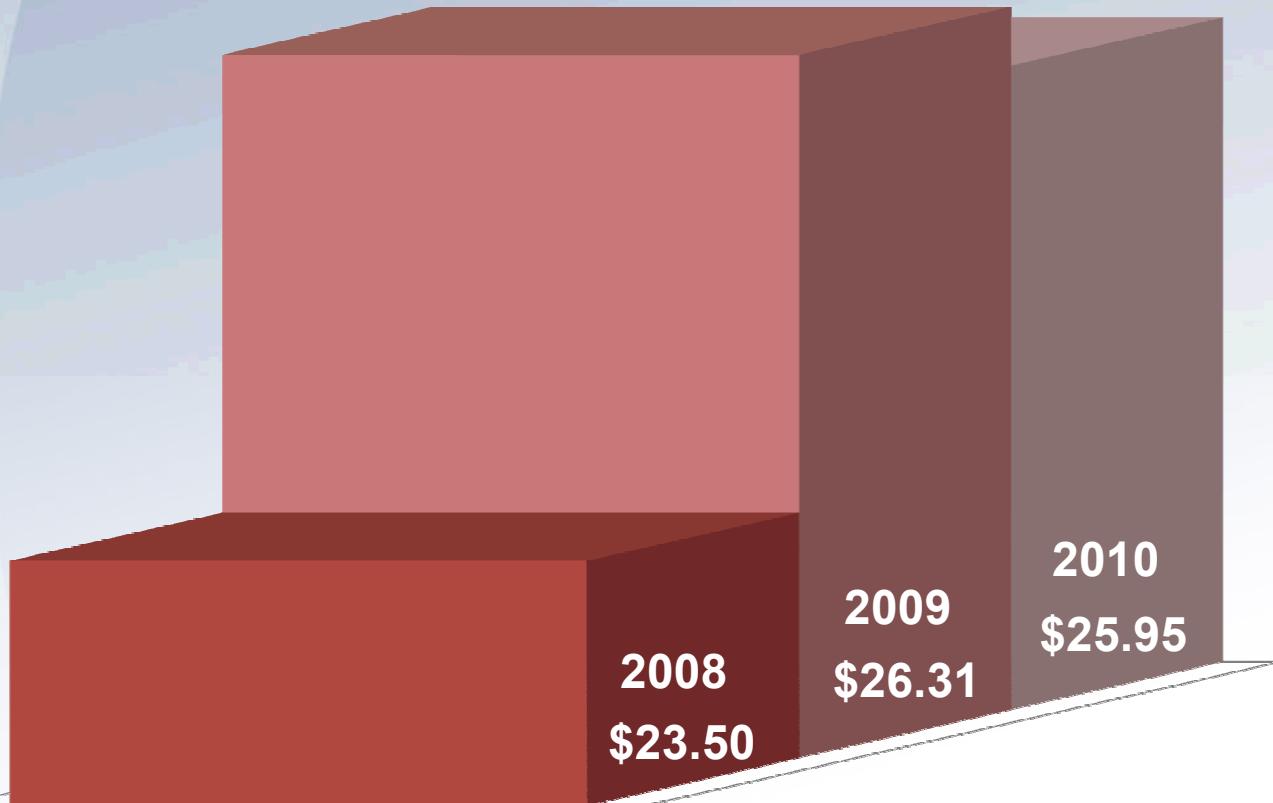
Note: Health care costs include contingency margins used in setting annual premiums (2% for actives, 3% for retirees)

## Number of PreMedicare and Medicare Retirees



Fiscal Year Costs (\$million)

# Sandia's Costs for Retiree Healthcare



Source: Sandia accounting reports

**NOTE: These costs are subject on a total dollar basis (not PEPY, as shown under benchmark data), and are subject to accounting entry timing, but are nonetheless generally indicative of overall Sandia trends. For retiree healthcare.**

# Characteristics of our retiree population

- 33.8% retired before 1995 and pay zero premiums for healthcare
- 27.6% retired between 1995 -2002 and pay 10% of the premium cost
- 38.2% retired after 2003 and pay a percentage based on years of service

30+ years: 10%

25-29 years: 15%

20-24 years: 25%

15-19 years: 35%

10-14 years: 45%

- Average age is 74
- Average length of retirement is 17
- Oldest retiree is 103

# Overview

## Goals of Changes

- Maintain competitive benefits when compared to similar research organizations and a select group of large industrial companies (the Hewitt peer group)
- Manage future costs and liabilities
- Encourage healthcare consumerism and improve health through behavior change (e.g., prevention, “shopping” for quality care and best price)
- Respect past commitments made to retirees
- Effectively respond to our contractual commitments to the DOE
- Reduce administrative burden

# Summary of recent benefit changes

## 2007

- Reduced retiree life insurance to  $1 \times$  pay, up to \$50K
- Reduced employer-paid life insurance from  $2 \times$  pay to  $1 \times$  pay
- Eliminated employer-provided Accidental Death & Dismemberment coverage
- Eliminated retiree life insurance for employees hired after 2006

## 2008

- Excluded newly hired employees from pension plan and provided them with enhanced 401K (effective 2009)
- Eliminated pension disability benefit for current employees (effective 2009)
- Eliminated employer subsidy for retiree health care and dental coverage for newly hired employees (effective 2009)
- Increased employee cost sharing for health care and dental coverage
- Reduced sickness absence benefits to 6 months of full pay

## 2009

- Implemented-consumer driven health care plan design (effective 2010)

## 2010

- Reduced pension benefit formula (effective 2012)
- Introduced retiree health care premium cap (effective 2012)

# Overview

## Summary of Healthcare Strategy

Population	Plans Offered	Sandia Funding
Actives	Consumer Driven Plan	@ 80%
PreMedicare Retiree		
Retirees prior to 1/1/2012	Same plan as actives (Consumer Driven Plan)	No changes from current (% that varies by year of retirement and years of service)
Retirees on or after 1/1/2012	Same plan as actives (Consumer Driven Plan)	Limited by annual caps equal to 110% of 2011 Consumer Driven Plan premiums and a percentage based on years of service
Medicare Retiree		
Retirees prior to 1/1/2012	Choice of group-sponsored Medicare Advantage plans through Sandia or stipend to purchase individual plans	No changes from current (% varies same as PreMedicare Retiree)
Retirees on or after 1/1/2012	Medicare Advantage plans through individual market	2011 stipends equal to 25% of 2011 PreMedicare Retiree caps, for reimbursement of individually purchased plan premiums; stipends grow by half of the annual trend in health care cost increases

# Medicare Retirees

# How many Medicare retirees moved out of the group-sponsored plans?

Measure	Result
Eligible Participants	7236
Enrollments	1918
Enrollment percentage	27%
Number of unique carriers	45
Number of unique plan types	301
Med Adv/Med Sup split	20%/80%
Average Med Adv/Med Sup premium	\$66.21/\$147.23
Average Part D Premium	\$28.26

# Top Carriers Individual Plans

- **Humana**
- **AARP MS**
- **United of Omaha**
- **Blue Cross California**
- **United World**
- **AARP PDP**

# Projected Health Care Savings

Caps implemented in 2012

Cumulative Savings by Group (in Millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Active</b>	\$ 6.4	\$ 13.3	\$ 20.7	\$ 28.6	\$ 37.0	\$ 46.0	\$ 55.6	\$ 65.8	\$ 76.7	\$ 88.4
<b>Pre-Medicare</b>	\$ 1.6	\$ 3.6	\$ 6.9	\$ 11.8	\$ 18.7	\$ 27.6	\$ 38.6	\$ 52.0	\$ 67.8	\$ 86.2
<b>Medicare Eligible</b>	\$ 1.4	\$ 3.8	\$ 6.8	\$ 10.6	\$ 15.4	\$ 21.5	\$ 29.1	\$ 38.5	\$ 50.0	\$ 64.2
<b>Cumulative Savings</b>	\$ 9.4	\$ 20.7	\$ 34.4	\$ 51.0	\$ 71.1	\$ 95.1	\$ 123.3	\$ 156.3	\$ 194.5	\$ 238.8

Caps implemented in 2012

Year to Year Savings by Group (in Millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Active</b>	\$ 6.4	\$ 6.9	\$ 7.4	\$ 7.9	\$ 8.4	\$ 9.0	\$ 9.6	\$ 10.2	\$ 10.9	\$ 11.7
<b>Pre-Medicare</b>	\$ 1.6	\$ 2.0	\$ 3.3	\$ 4.9	\$ 6.9	\$ 8.9	\$ 11.0	\$ 13.4	\$ 15.8	\$ 18.4
<b>Medicare Eligible</b>	\$ 1.4	\$ 2.4	\$ 3.0	\$ 3.8	\$ 4.8	\$ 6.1	\$ 7.6	\$ 9.4	\$ 11.5	\$ 14.2
<b>Cumulative Savings</b>	\$ 9.4	\$ 11.3	\$ 13.7	\$ 16.6	\$ 20.1	\$ 24.0	\$ 28.2	\$ 33.0	\$ 38.2	\$ 44.3

- Health care plan changes introduced a consumer driven health care plan design and implemented caps on employer-paid retiree health care premiums.
- Expected to save ~ \$240M in health care costs over next 10 years.
- CY 2011 Saving = \$9.4M, or FY 2011 Savings \$7.0M.

## Lessons Learned so far...

- Start early, communicate often
- Educate executive leadership on impacts to retirees
- Find great, strategic partners

# Sandia Retiree Medical Changes 2010-2012

	If you retire in 2010	If you retire in 2011	If you retire in 2012
<b>Non-Represented – PreMedicare Retiree</b>			
Available Healthcare Plans	Choice of UHC Premier, CIGNA In-Network, Kaiser HMO and Sandia Total Health in 2010. <i>In 2011, Sandia Total Health will be your ONLY healthcare plan choice.</i>	Sandia Total Health <b>Note: All PreMedicare retirees, no matter when retired, will only have this plan.</b>	
Premium Share: Medical Coverage	Medical: Premium share will be based on years of service (e.g., employee with 30 years of service will pay 10% of premium cost).		Sandia will “cap” the monthly subsidy for medical and dental based on years of service. The subsidy can be used for both Sandia-sponsored medical and dental.
Dental Coverage	Dental: Retirees pay 20% of the dental premium cost.		
<b>Non-Represented – Medicare Retiree</b>			
Available Healthcare Plans	UHC Senior Premier, Presbyterian MediCare PPO, Lovelace Senior Plan, Kaiser Senior Advantage Plan in 2010. <i>In 2011, your healthcare plan choices will be those listed in the 2011 column.</i>	Sandia-sponsored Medicare Advantage Plans or individual plans purchased with a Retiree Health Reimbursement Arrangement (RHRA) premium allowance.	No access to Sandia-sponsored group plans. Individual coverage through a Retiree Health Reimbursement Arrangement (RHRA) stipend.
Premium Share: Medical Coverage	Medical: Premium share for the Sandia-sponsored group Medicare Advantage plans and the RHRA premium allowance will be based on years of service (e.g., employee with 30 years of service will pay 10% of premium cost).		Sandia will provide an annual RHRA stipend, based on years of service. Stipend can be used for both individual medical and Sandia-sponsored dental coverage.
Dental Coverage	Dental: Retirees pay 20% of the dental premium cost.		

“Cap”: premium contribution amount Sandia will pay for PreMedicare retirees who *retire on or after January 1, 2012*.

“Premium allowance (RHRA)”: premium amount Sandia will pay to Medicare retirees who elect individual coverage and *retire before 2012*. Amount adjusted annually.

“Stipend (RHRA)”: premium amount Sandia will pay for Medicare retirees who *retire on or after January 1, 2012*. Amount will increase by 50% of the healthcare component of the CPI.

“RHRA – Retiree Health Reimbursement Arrangement”: can be used to reimburse certain premiums (e.g., Medicare Part B premiums, Tricare premiums, Sandia-sponsored dental premiums) as well as out-of-pocket expenses (e.g., copays).

*Sandia Corporation benefit plans are maintained at the discretion of Sandia. They do not create a contract of employment. The plans may be suspended, modified or discontinued at any time and without prior notice, subject to applicable collective bargaining agreements and except as otherwise provided by applicable law.*



## Some Vendors We Use...

- **Extend Health**
  - Administration of retiree healthcare
- **United Health Care, Blue Cross Blue Shield, & Kaiser**
  - Off-site health care claims processing
- **Ingenix Parallax i**
  - Healthcare Dashboard for health plan claim data
- **Mercer Consulting**

# Next Steps



## ERRP Funding

- Applied for the Early Retiree Reinsurance Program (ERRP) last year
- Received \$982,981 for claims paid in June to November 2010
- Funds will be used to develop a high performance medical network

## Learn More

- **Search Duffy's Desk @ [hbe.sandia.gov](http://hbe.sandia.gov)**
- **Healthcare Cost Containment – think prevention**
- [https://hbeupdate.custhelp.com/app/answers/detail/a\\_id/973](https://hbeupdate.custhelp.com/app/answers/detail/a_id/973)
- **Why employers provide on-site health clinics**
- [https://hbeupdate.custhelp.com/app/answers/detail/a\\_id/866](https://hbeupdate.custhelp.com/app/answers/detail/a_id/866)
- **One in Three – coming to work with undiagnosed hypertension**
- [https://hbeupdate.custhelp.com/app/answers/detail/a\\_id/1235](https://hbeupdate.custhelp.com/app/answers/detail/a_id/1235)