Glossary

The following health benefit-related terms are defined based on their use in this report.

accrued liability

The actuarial present value of the post-retirement benefits earned to date by active employees and retired employees at a point in time. This includes the benefits to be received by dependents of the retirees as well. Benefits are the contributions employers pay for the employer portion of the medical, prescription drug, dental, vision, and life insurance benefits and the Medicare Part B premium subsidy for those retirees also covered by Medicare.

actuary

A professional trained in business, mathematics, and statistics, who studies and evaluates risks to determine the cost and potential liabilities to fund those risks, such as for benefit programs and their current and future costs.

adverse selection

In the context of employee benefit programs, adverse selection occurs when one group of employees is able to take advantage of their situation, thus reducing their own costs at the expense of inadvertently increasing the employers' costs and/or the costs of other employees.

aggregate method

An actuarial method to calculate the employers' total annual cost to prefund a post-retirement benefit liability as the sum of the annual amounts needed for each individual to fully fund that employee's retiree benefits by the time that employee retires.

amortization

A process of gradually reducing the unfunded portion of a liability by systematically accumulating funds to fully cover the employees' health benefit liability upon retirement.

annual experience report

The report that shows the amount of premiums, claims costs, administrative costs, and resulting surplus or deficit under the health benefit program. This is computed separately for each type of benefit coverage.

community rated

In health insurance or health maintenance organization (HMO) coverage, premium rates are community rated when they are calculated based on the expected average costs of the entire community, not on subsets of that community (e.g., an employer group). A community could be a city, a county, or some other specifically defined geographic division.

disbursements from health fund

The amounts paid by the health fund either to carriers or to union plans to pay health insurance premiums.

discount rate

The interest rate used to calculate the present value of an amount or a liability to determine its value today.

economic assumption

Any assumptions used in the calculation of an amount, such as the amount of post-retirement health benefits liability in this case, where any change in those assumptions will change the amount calculated.

employer contribution

The employer's share of the total monthly cost or premium paid to the health fund for the benefits being provided to the employees, retirees, and their dependents.

entry age normal

An actuarial method to calculate the total annual cost to prefund a post-retirement health benefit liability on the basis of a level or equal annual contribution from the first day of employment (entry age) to the assumed date of retirement.

excess contributions

The excess of the amount of contributions paid by the employers and employees over the actual total annual cost of an employee benefit program.

experience rated

In the case of employee benefit coverage, premium rates are experience rated when they are based on the specific historical cost experience of an employer group rather than the expected average costs of the entire community in which the employer is located.

health benefit program

This refers to the entire program of medical, dental, prescription drug, vision, and life insurance benefits and Medicare Part B reimbursement that is available to public employees in Hawaii, including both health fund and union plans.

Medicare Part B

The non-hospital portion of Medicare. The hospital portion is called Medicare Part A.

Medicare risk plan

Coverage provided through an HMO where the HMO takes on the full risk of providing Medicare-like coverage plus, usually, additional coverage not provided by Medicare. The total premium received by the HMO for Medicare risk coverage is an amount paid by the Health Care Financing Administration, the federal agency that administers Medicare, plus (in most cases) an additional amount paid by the individual covered and/or the employer.

Medicare Supplement

Insurance coverage for healthcare expenses that will not be reimbursed by Medicare.

mortality rate

The probability of death for a given population in one year.

normal cost

The portion of the post-retirement benefit that is earned in each year of employment service. For example, an employee 30 years from retirement who is expected to earn a benefit that has a current value of $30 might earn (i.e. have a normal cost of) $1 per year of service.

pay-as-you-go

A method to pay for retiree health benefit costs as they are incurred each year rather than setting aside or prefunding the cost of those benefits over the working lifetime of the employees before they retire.

porting

The term used to describe the function performed by the health fund to pass the employer contributions for union members over to the union plans.

prefunding method

A method of setting aside extra funds that can earn interest similar to a savings account to accumulate enough assets for each employee to cover the value of his or her health benefit costs at the time of retirement.

premium

The amount charged by a carrier to provide the employee benefit coverage.

present value

The calculated value today of an amount needed in the future taking into account the time value of money (i.e. interest discount) and the probability that the amount in the future will actually be needed.

projected benefits

In the context of this report, the projected benefits are the expected future employer contributions that will be required to pay for the health benefit costs for active employees and retirees.

projected liabilities

In the context of this report, the projected liabilities are the present value of the employer contributions that will be needed to pay for the post-retirement health benefits for retirees under an assumption that the rights to these benefits are earned over the working lifetime of those retirees.

projected unit credit method

An actuarial method to calculate the total annual cost to prefund a post-retirement benefit liability as the sum of the portion of the benefit earned in one year (i.e. the normal cost) plus the annual amount needed to amortize any unfunded liability existing at the time that the funding method was first adopted.

reserves

Reserves, or more precisely, rate stabilization reserves are amounts set aside for those unusual circumstances when the total amounts available from employer, employee, and retiree contributions are insufficient to cover all of the premium costs of the health benefit program.

tiered rating

Carriers can express their premium rates in different ways for various benefit coverages. For example, a two-tier rating structure would be one where the rates are expressed in terms of single (i.e. employee only) or family (i.e. employee plus all dependents). A three-tier rate would be single, two-person (i.e. employee plus one dependent) and family (i.e. employee plus two or more dependents), and so on.

trend assumptions

Projections which are made based on what might occur in the future. A range of trend rate assumptions, such as low, intermediate, and high, is used to show a likely range for future health program costs and a likely range for the post-retirement health benefit liability.

trend rates

The expected increase in health care costs from one year to the next. This increase is due to cost increases in the units of service, such as per office visit to physicians, per day of hospital stay, etc., as well as a greater utilization of services, such as more office visits, more hospital days, etc.

unfunded liability

The portion of the total liability that is not set aside or prefunded. At the present time the entire post-retirement benefit liability for the health fund is unfunded.

unfunded post-retirement benefit liability

See "unfunded liability."

valuation

An actuarial estimate of the post-retirement health benefit liability.

valuation date

The date at which the "present values" were calculated to determine the post-retirement health benefit liability.

valuation report

The report that discusses the actuarial estimate of a liability.

withdrawal rate

Assumed rate of termination of employment.