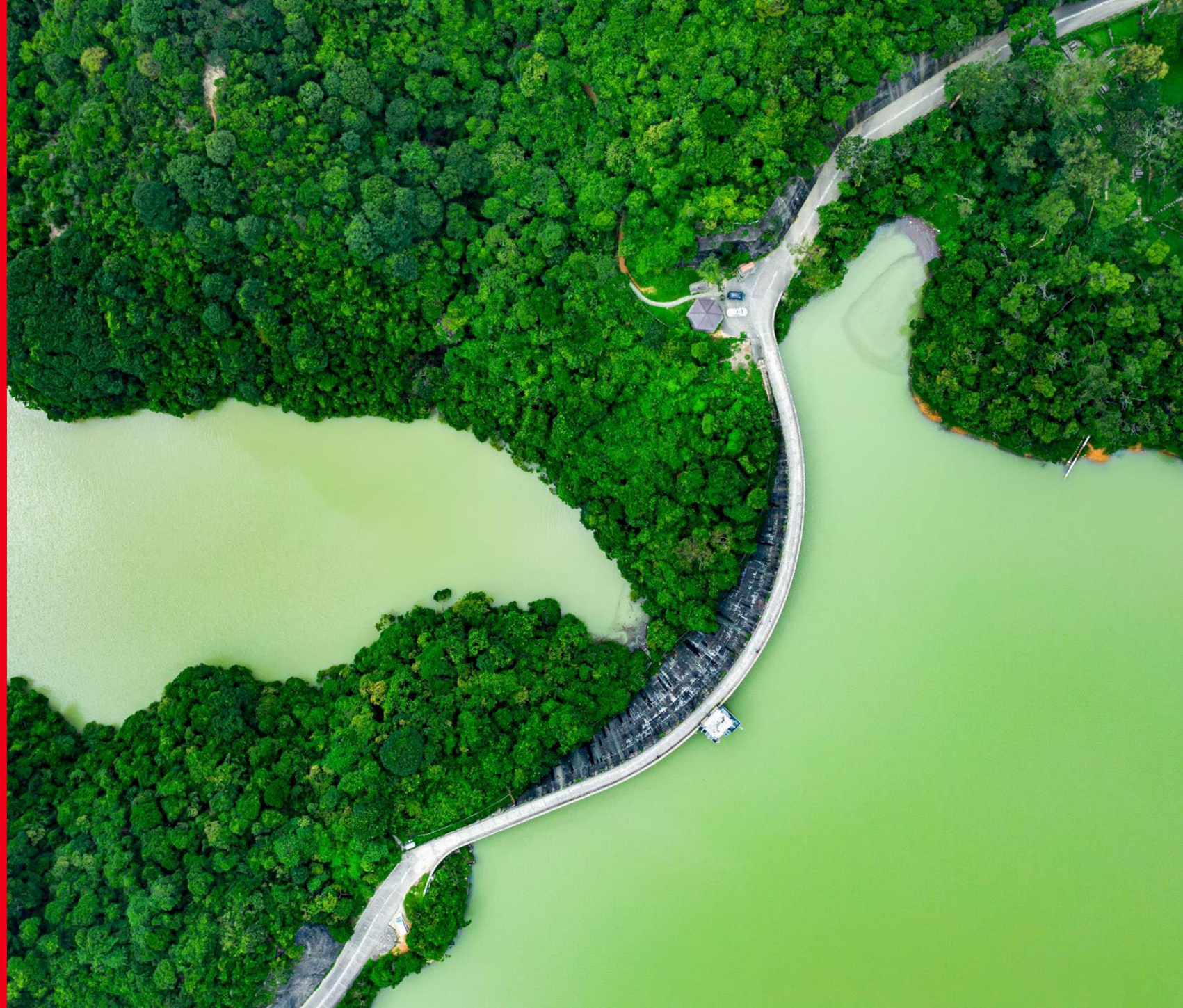
AON

State of New Jersey

Demographic Assumption Review

State Health Benefits Program

November 2026



Assumption Study Background

Purpose of Assumption Review

- In today's environment, there is higher scrutiny on actuarial assumptions, and an assumption study is recommended every 3-5 years. The previous study was implemented for the GASB 75 for fiscal year end 6/30/2020.
- This study assesses how recent experience over the past few years compares with the current valuation assumptions, specifically regarding assumptions pertaining to the medical plan as many of the assumptions regarding mortality, retirement, salary increases, and withdrawal are aligned with the Pension assumptions.
- The cost of providing the benefits will depend on the future experience of the plans
  - Updating the valuation assumptions will not affect the ultimate cost of providing the benefits, only the pace at which the liabilities are recognized
  - Using assumptions that reflect anticipated experience produces better input for decisions on plan design and risk management
- Very often, there are good reasons for actual experience to differ from expected; but from a fiduciary perspective, we believe that it is important to review this experience carefully and determine whether certain assumptions should be updated going forward

Assumptions Considered

- PPO/HMO Election Assumption
- Retiree Waiver Assumption
- Spousal Coverage
- Spouse Age Difference

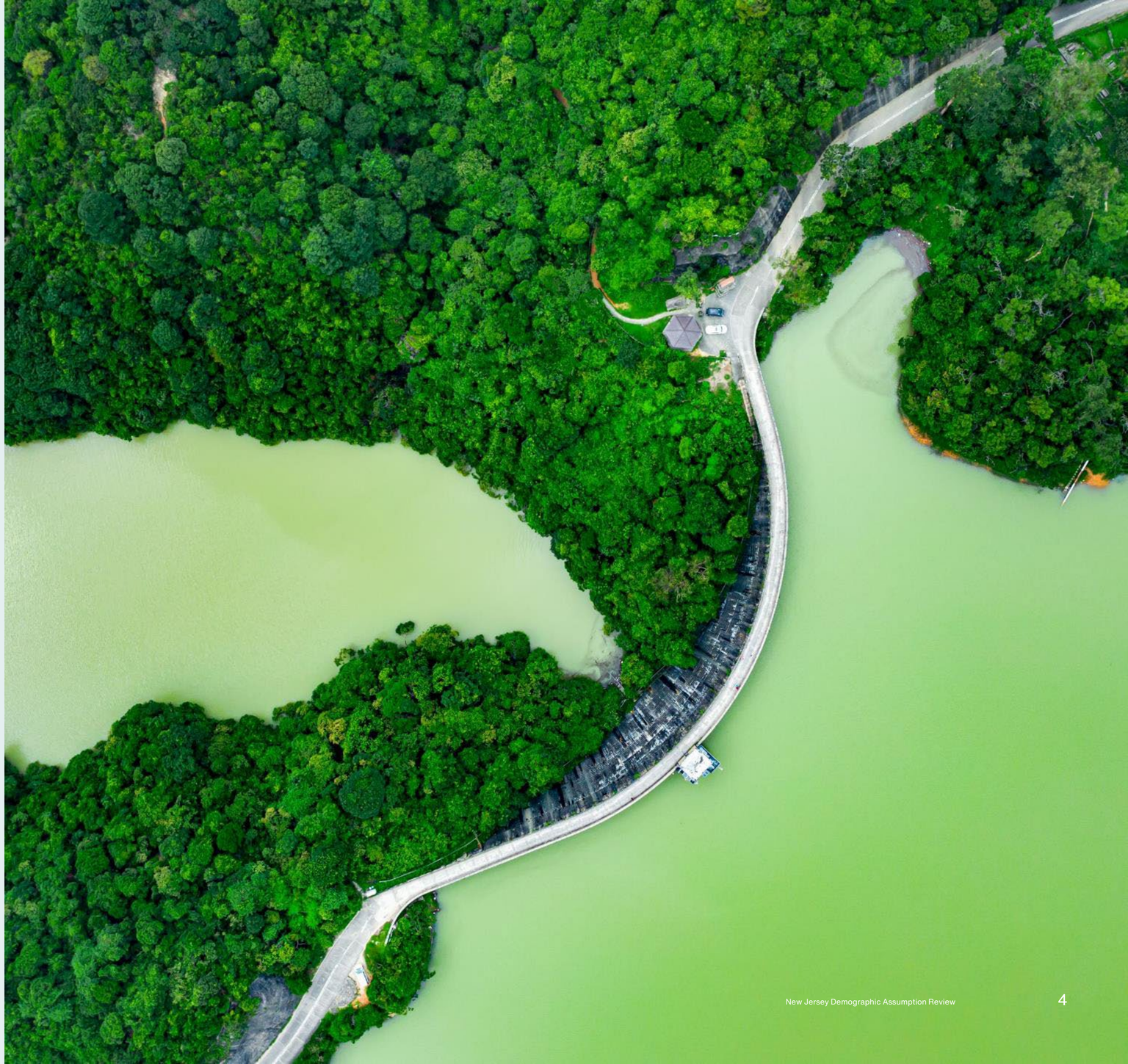
Assumption Review Process and Current Assumptions

- Study was based on census data over the experience period of July 1, 2021 – June 30, 2024
- Analysis performed on a plan basis (State/Local Education/Local Government).
- Additional breakdown for retiree waiver assumption for Local Government based on the following subgroups:
  - Locations/Participants that had Ch 48 Coverage at 100% during the study periods
  - Locations/Participants that had Ch 330 Coverage at 100% during the study periods
  - All other Locations/Participants

Current OPEB Actuarial Assumptions				
Assumption	**State**	**Local Education**	**Local Government**	**Comments**
PPO/HMO Election	80%/20%	95%/5%	90%/10%	• Claim costs for future retirees are based on a blend of the claim costs for current retirees and the assumed percentage of future retirees who elect the PPO or HMO plan options • Pre 65 Local Education is fixed in the PPO Plan and election is only applied for Post 65 coverage.
Retiree Waiver Assumption	0%	0%	0%	• As more and more participants are no longer “grandfathered”, we see these rates increasing.
Spousal Coverage	45%	45%	55%	• Percentage of retirees electing to cover their spouse (i.e. – Retiree & Spouse and Family Coverages)
Spouse Age Difference	3 Years	3 Years	3 Years	• Years male is older than spouse • Note that the pension uses 2 or 3 years based upon pension group. Those that elect medical coverage may have different experience.

1

Detailed Results



Setting Demographic Assumptions

Review the Past

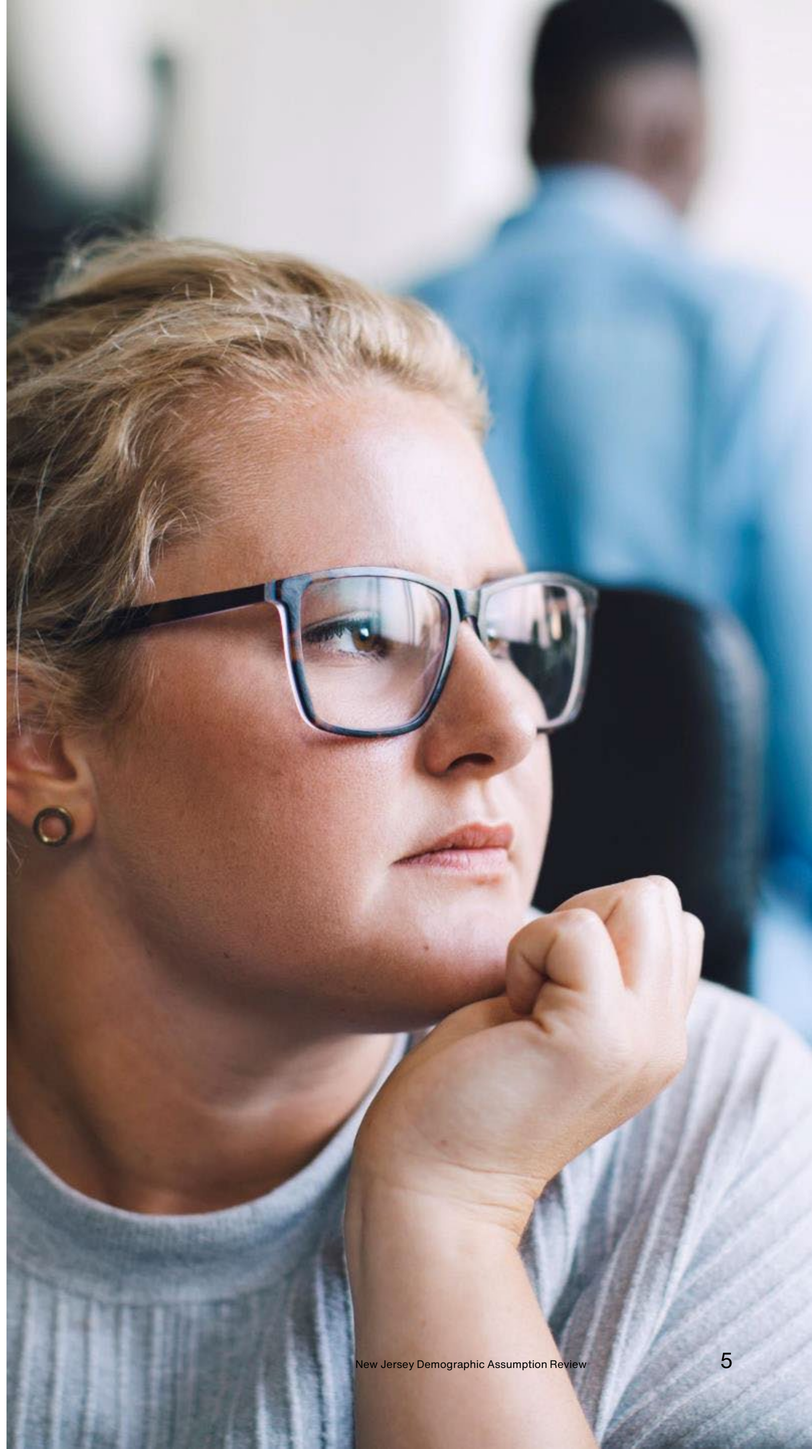
- Reviewed State of NJ's experience from July 1, 2021 through June 30, 2024
- Compared actual plan experience to current assumed experience

Predict the Future

- How much will future behavior be like the past?
- What state or local-specific circumstances may impact future participant behaviors?

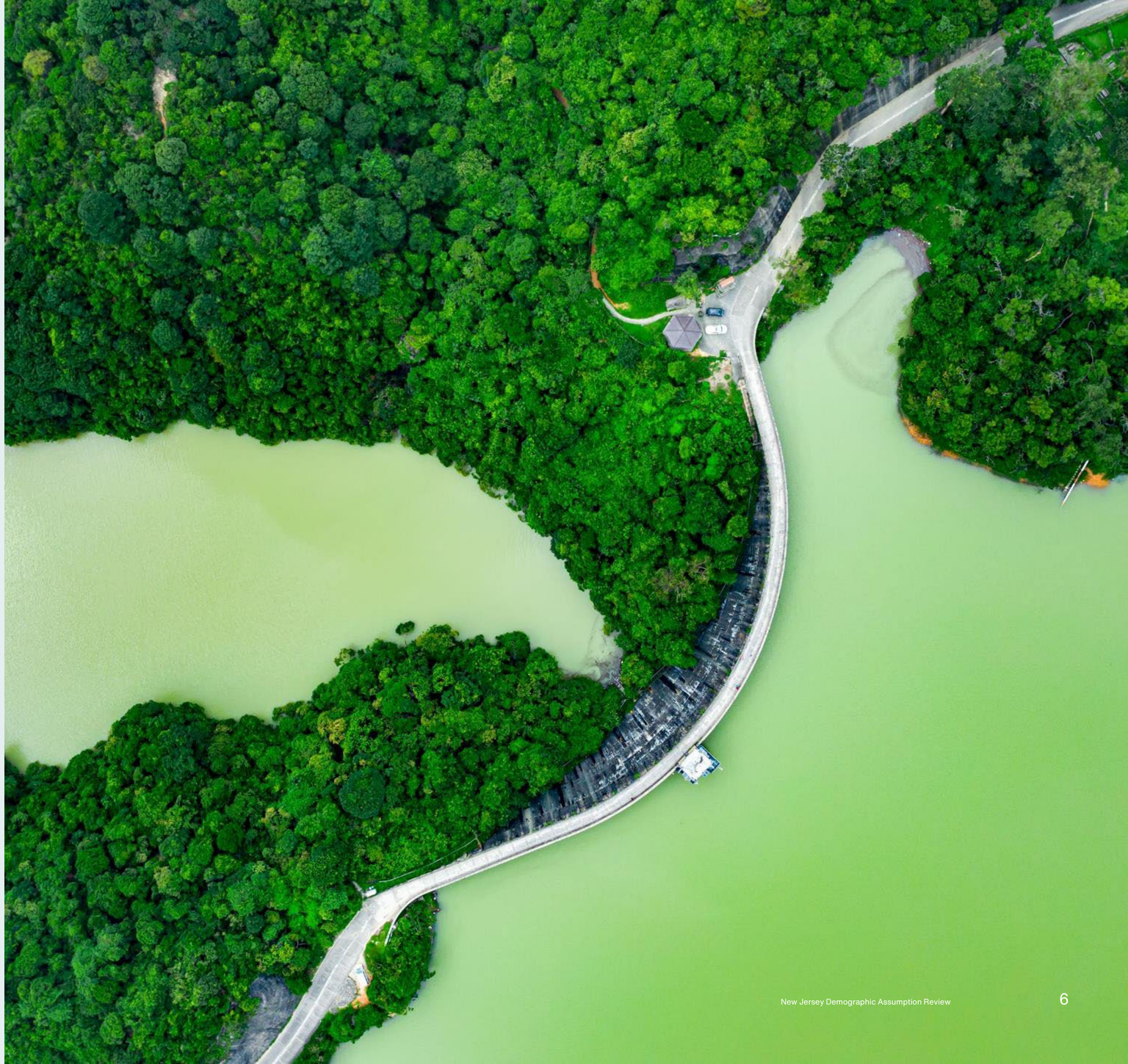
Impact on the Present

- Balance sheet obligation (GASB 75)
- Annual accounting expense
- No impact on ultimate cost of providing benefits, as that will depend on plan experience



2

Spouse Age Difference



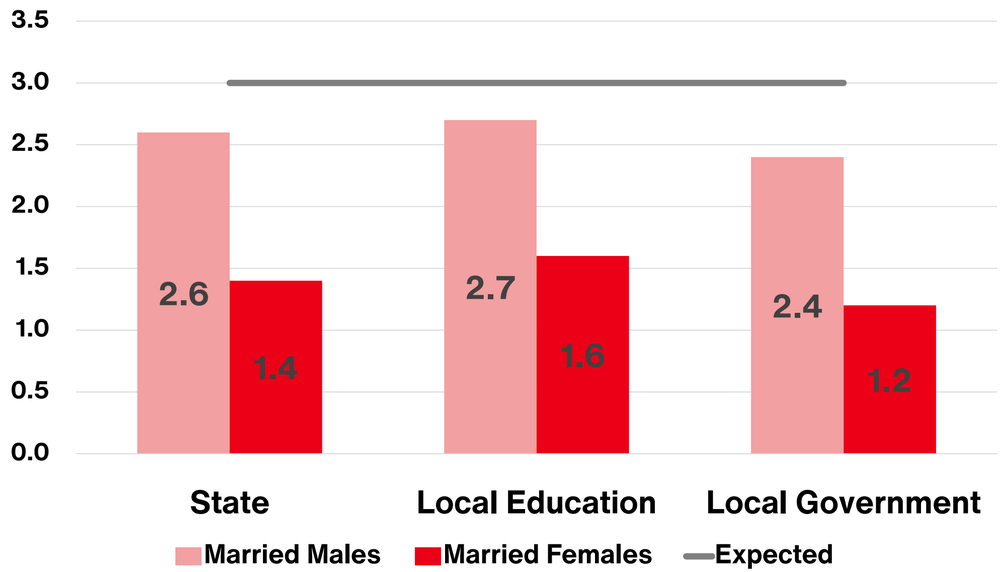
Spouse Age Difference

Assumption Review Methodology

- Spouse age difference reflects the number of years males are older than their spouses. The pension assumptions use 2 or 3 years based upon pension group. Those that elect medical coverage may have different experience.

Spouse Age Difference Assumption

- **Current Assumption:** Males are assumed to be three years older than their spouses
- **Plan Experience:**



Recommendation

- Create separate male/female assumptions

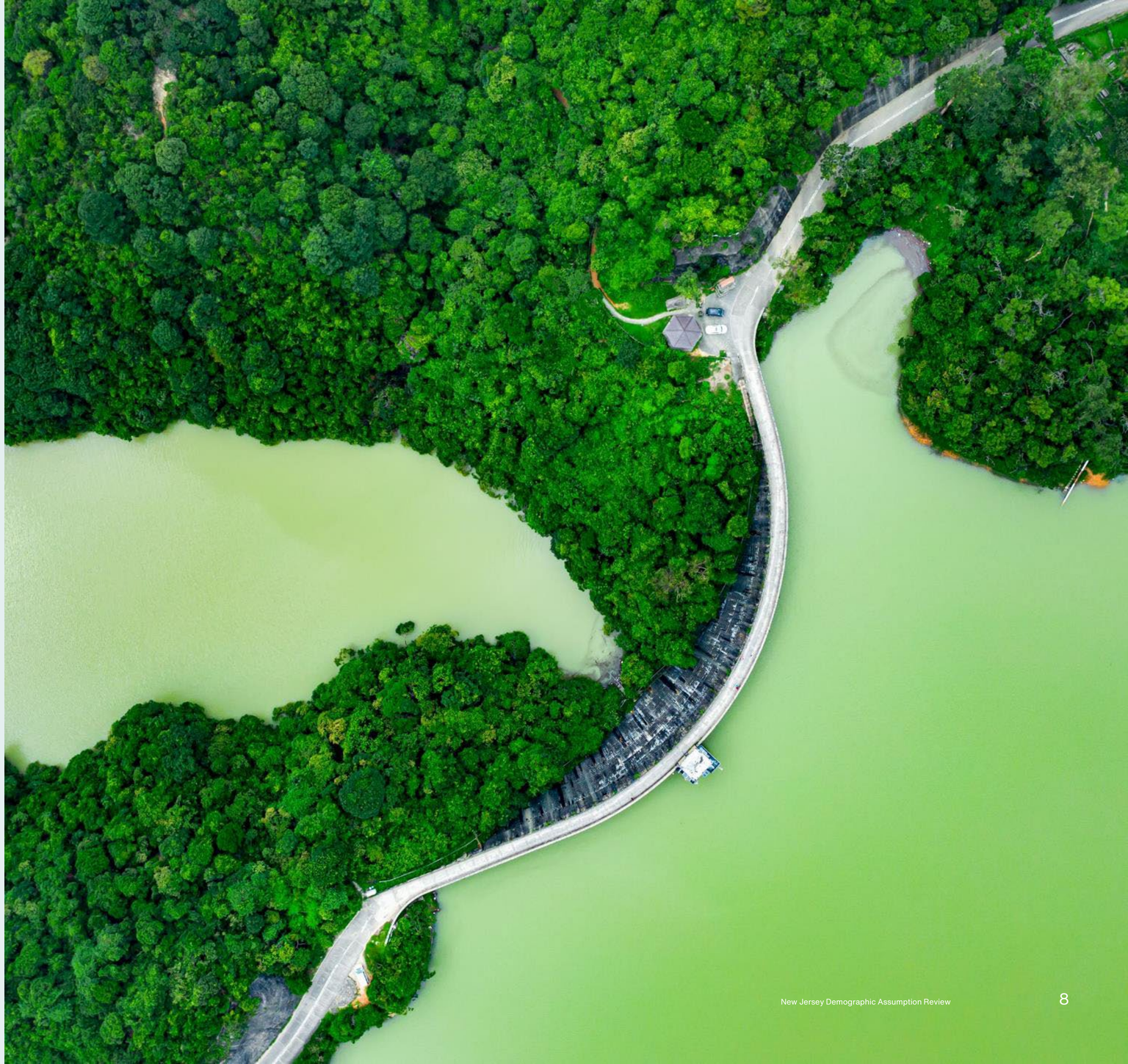
	Male	Female
State	+3	+1
Local Ed.	+3	+2
Local Gov.	+2	+1

What Happened?

- While the assumption of three years is mostly still true for the males, for the females, recent experience shows that their spouses average less than three years older.

3

Spousal Coverage



OPEB Spousal Coverage Assumptions

Assumption Review Methodology

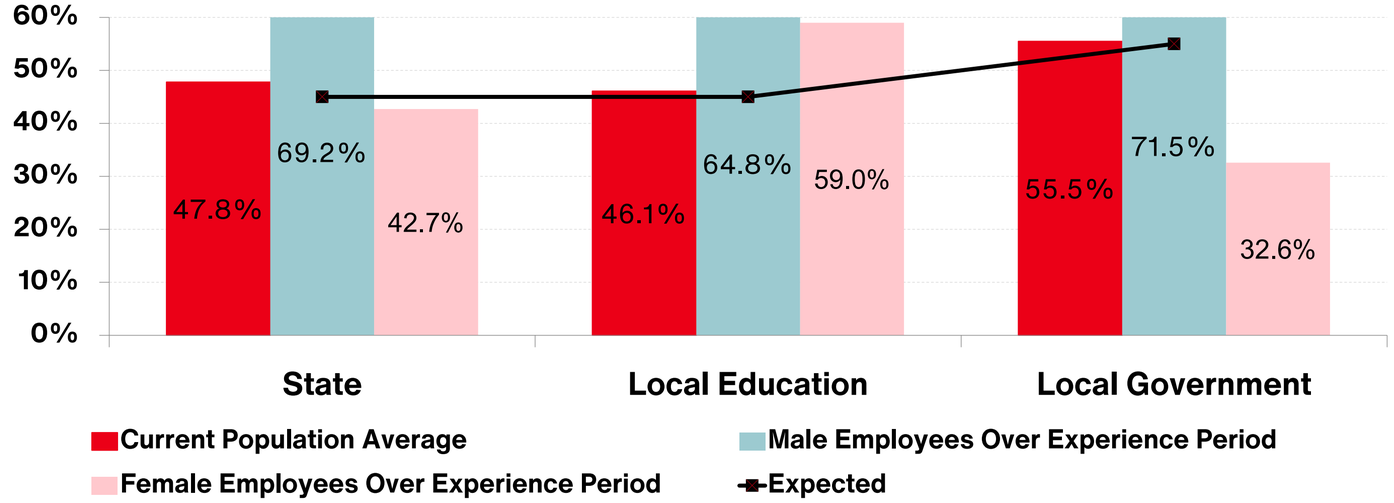
- Spousal coverage reflects the percentage of participants electing to cover their spouse at retirement
- Percent covering their spouses was calculated for each period in the study, and average electing coverage over the study period is shown below

Spousal Coverage Assumption

- **Current Assumption:**

	State	Local Education	Local Government
Spousal Coverage	45%	45%	55%

- **Plan Experience**



Recommendation

- Create separate male/female assumptions

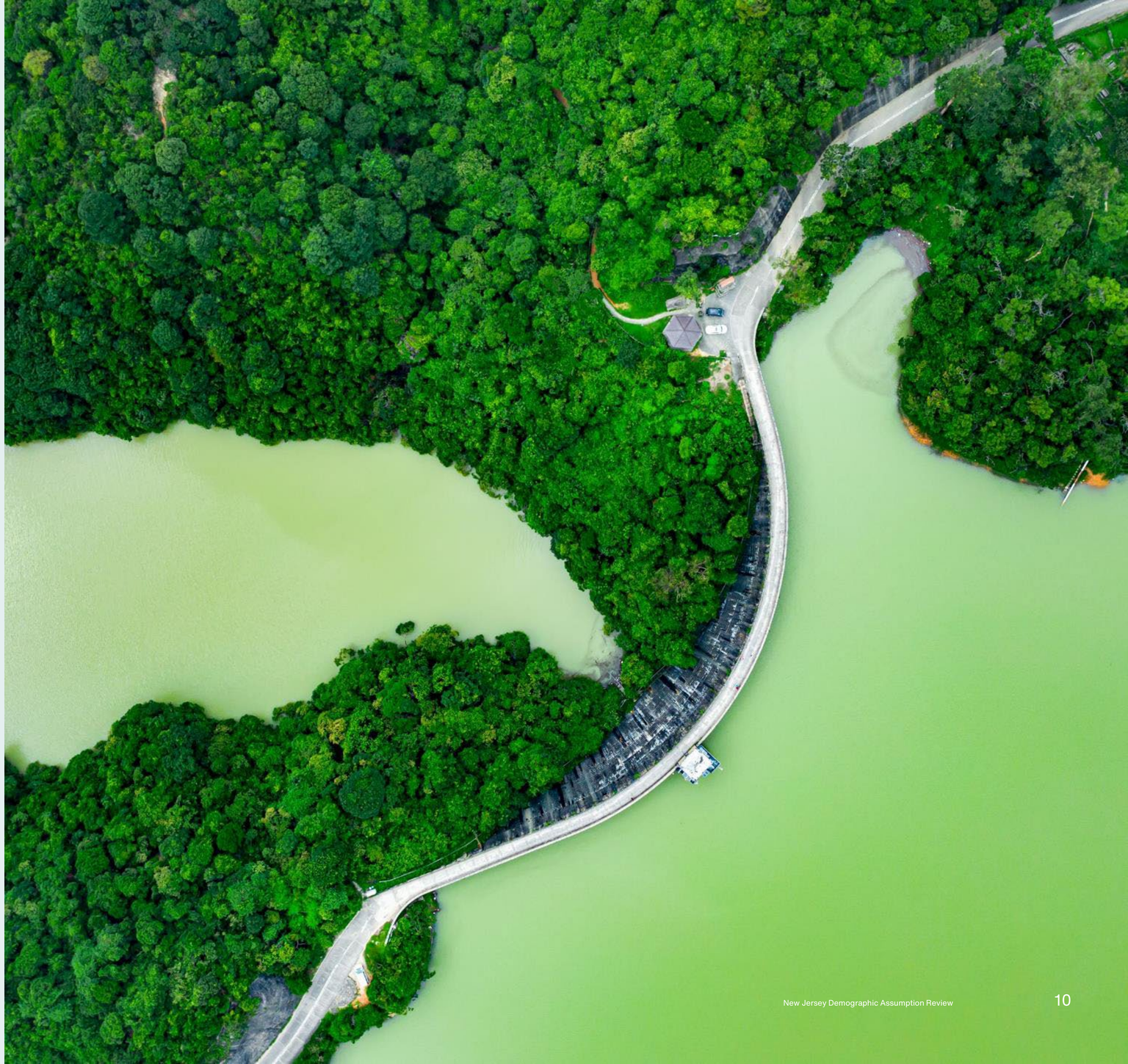
	Male	Female
State	70%	40%
Local Ed.	65%	60%
Local Gov.	70%	30%

What Happened?

- While the spouse coverage based on the population of all retirees remains close to the assumed levels, recent experience has shown changes, especially when we look at males and females separately.

4

HMO/PPO Election



HMO/PPO Election Coverage Assumptions

Assumption Review Methodology

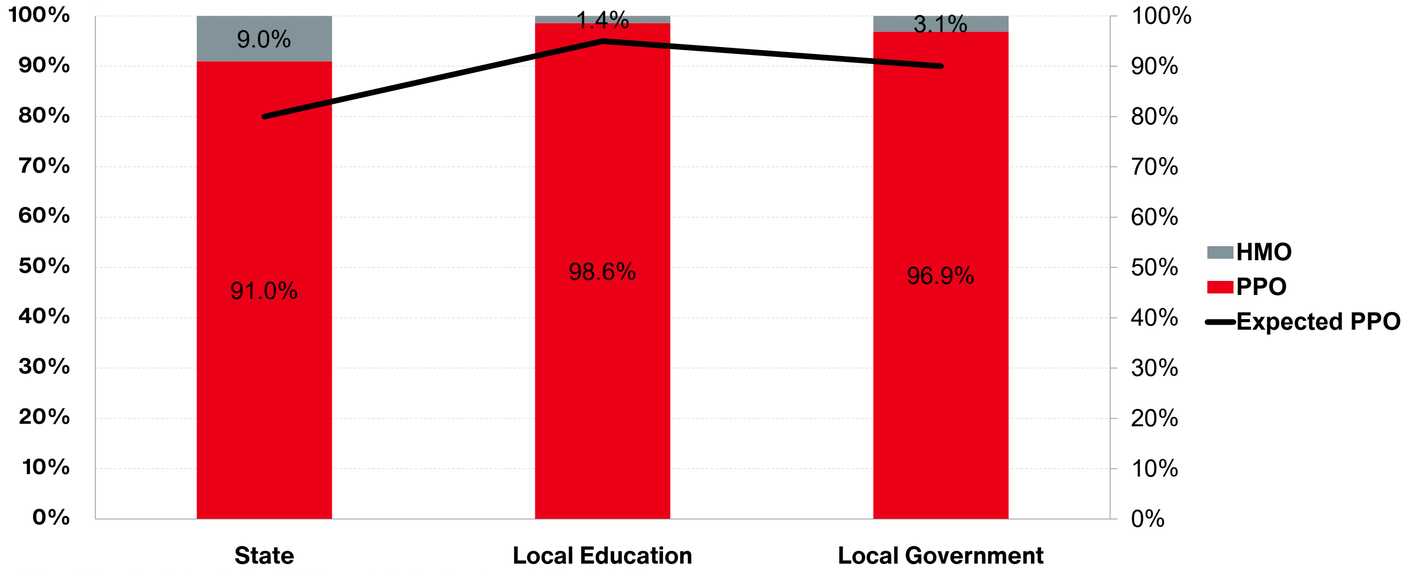
- HMO/PPO election coverage reflects the percentage of participants electing HMO or PPO coverage at retirement
- The percentages were calculated for each period in the study, and average electing coverage over the study period is shown below

HMO/PPO Election Coverage

- **Current Assumption**

	State	Local Education[1]	Local Government
PPO/HMO Election	80%/20%	95%/5%	90%/10%

- **Plan Experience**



Recommendations:

- Update State to 90%/10%
- Update Local Education to 98%/2%
- Update Local Government to 97%/3%

What Happened?

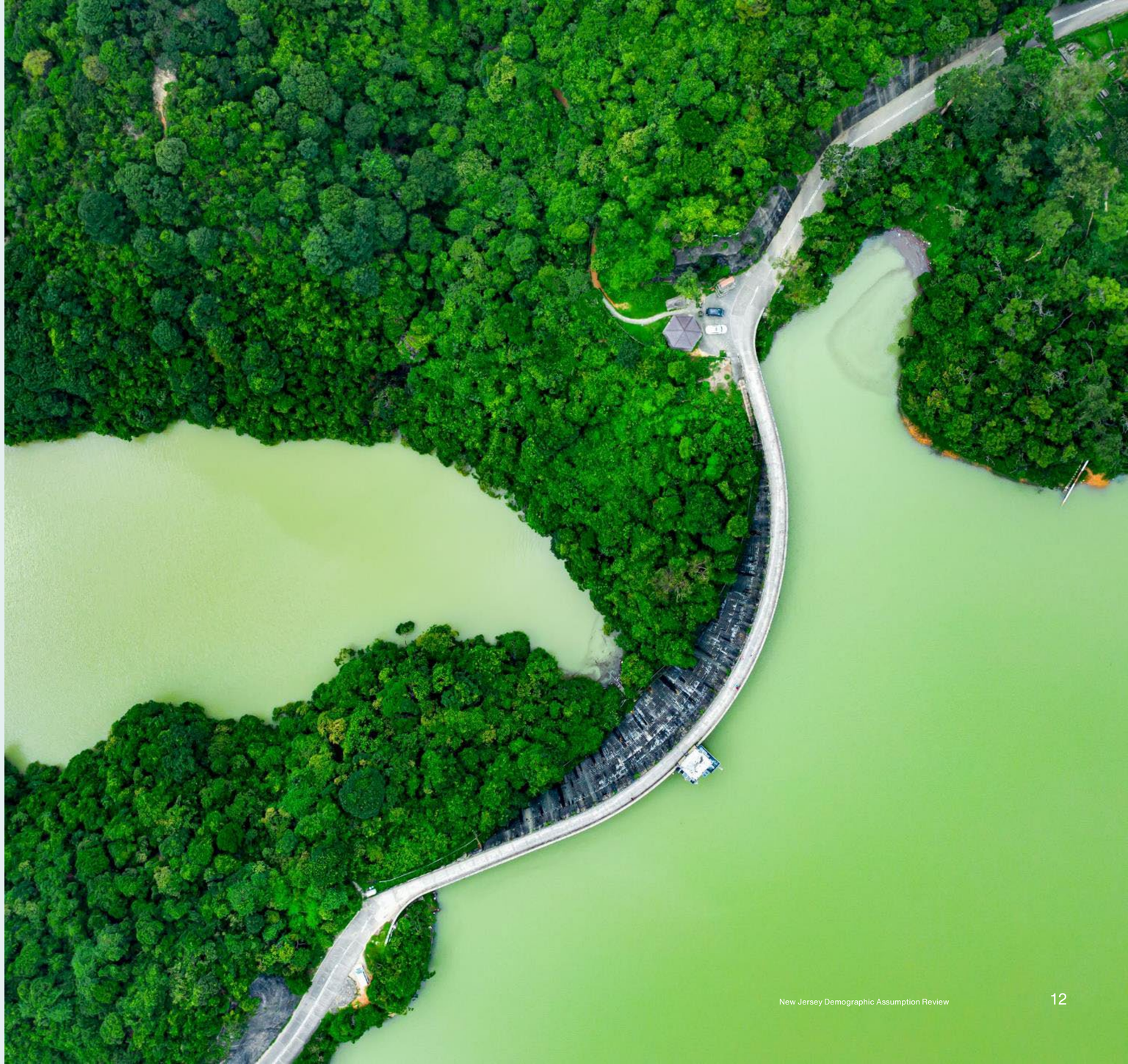
- More retirees are now electing the PPO at retirement versus the HMO than in the past.

[1] Pre 65 Local Education is fixed in the PPO Plan and election is only applied for Post 65 coverage.

[2] For Local Education, elections only apply to Post 65 coverage

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Waiver Rates



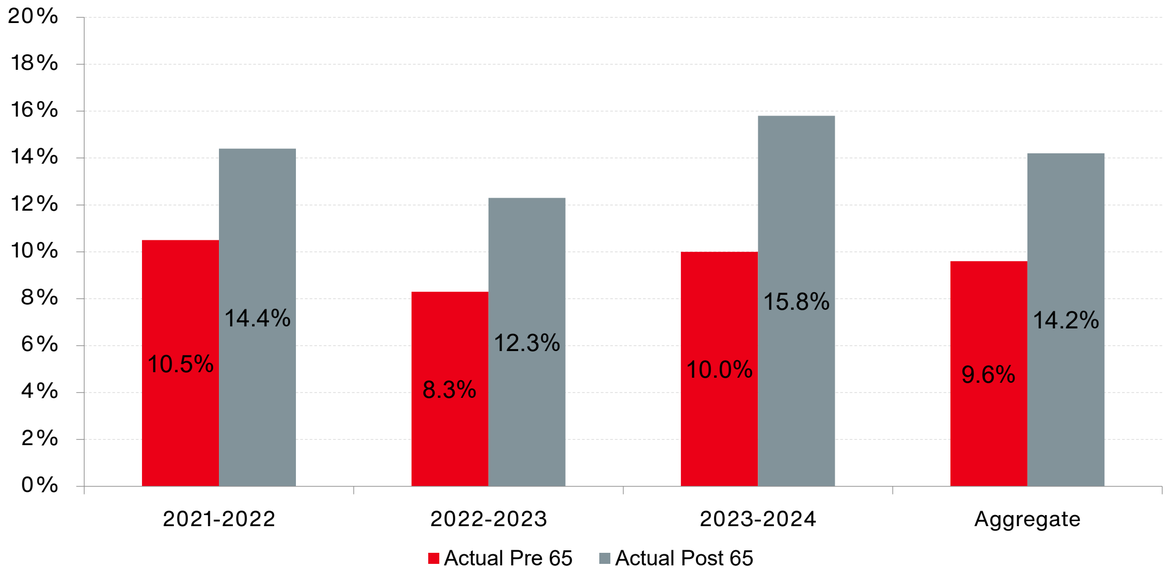
OPEB Waiver Rate Assumptions - State

Assumption Review Methodology

- Waiver rates reflects the percentage of participants who are eligible, but do not elect to participant in the Plan at retirement
- New retirees over the last three data collection periods were included
- Reviewed rates based on Pre/Post 65 coverage

OPEB Waiver Assumption- State

- **Current Assumption:** 0% of eligible retirees waive coverage Pre and Post 65
- **Plan Experience:**



Note: Rates shown are based on actual experience within the period shown with adjustment for known new retirements that occurred through the June 2025 retiree census information due to minor lag issues in the reported data. Most lag issues resolve within two years. However, this means that the 2023-2024 waiver experience may be slightly overstated due to the known lag issues.

Recommendations:

- Update Waiver Election to 9% Pre/14% Post 65 and continually track gains and losses due to waivers to see if the actual waiver elections track close to this revised assumption.

What Happened?

- Prior study was very conservative in the approach due to data quality. Since then, Aon and NJ has worked together to improve the data process and obtain better information
- More retirees must contribute for their coverage.
  - The active percent grandfathered with no contribution toward medical coverage decreased from 9% to 4% (56% decrease) since the prior study
  - The percentage of retirees with no contribution also decreased from the prior study from 88% to 65% (27% decrease)

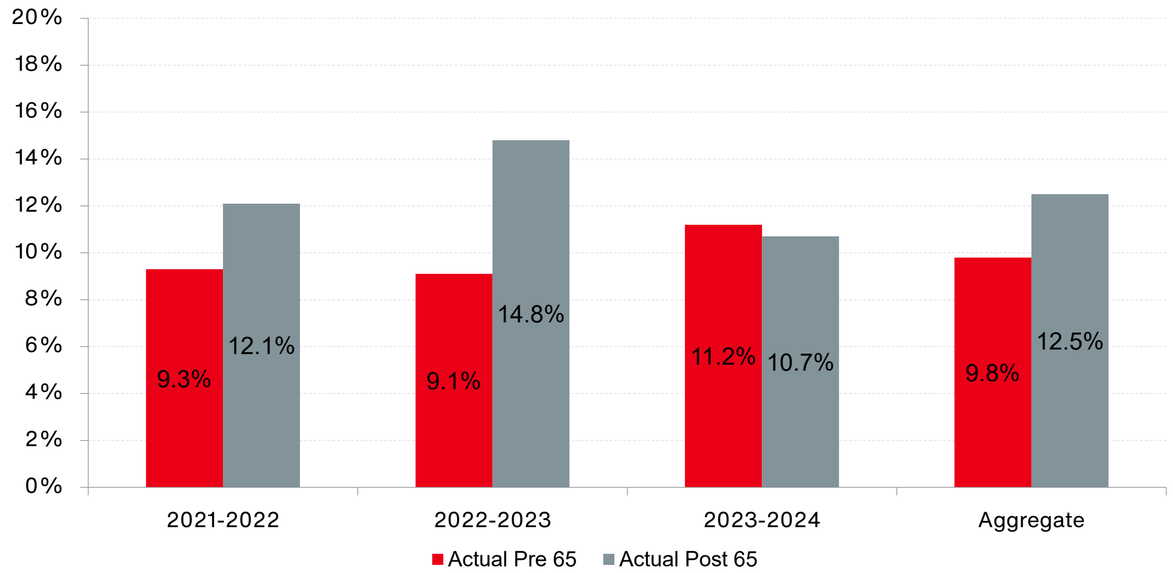
OPEB Waiver Rate Assumptions – Local Education

Assumption Review Methodology

- Waiver rates reflects the percentage of participants who are eligible, but do not elect to participant in the Plan at retirement
- New retirees over the last three data collection periods were included
- Reviewed rates based on Pre/Post 65 coverage

OPEB Waiver Assumption- Local Education

- **Current Assumption:** 0% of eligible retirees waive coverage Pre and Post 65
- **Plan Experience:**



Note: Rates shown are based on actual experience within the period shown with adjustment for known new retirements that occurred through the June 2025 retiree census information due to minor lag issues in the reported data. Most lag issues resolve within two years. However, this means that the 2023-2024 waiver experience may be slightly overstated due to the known lag issues.

Recommendations:

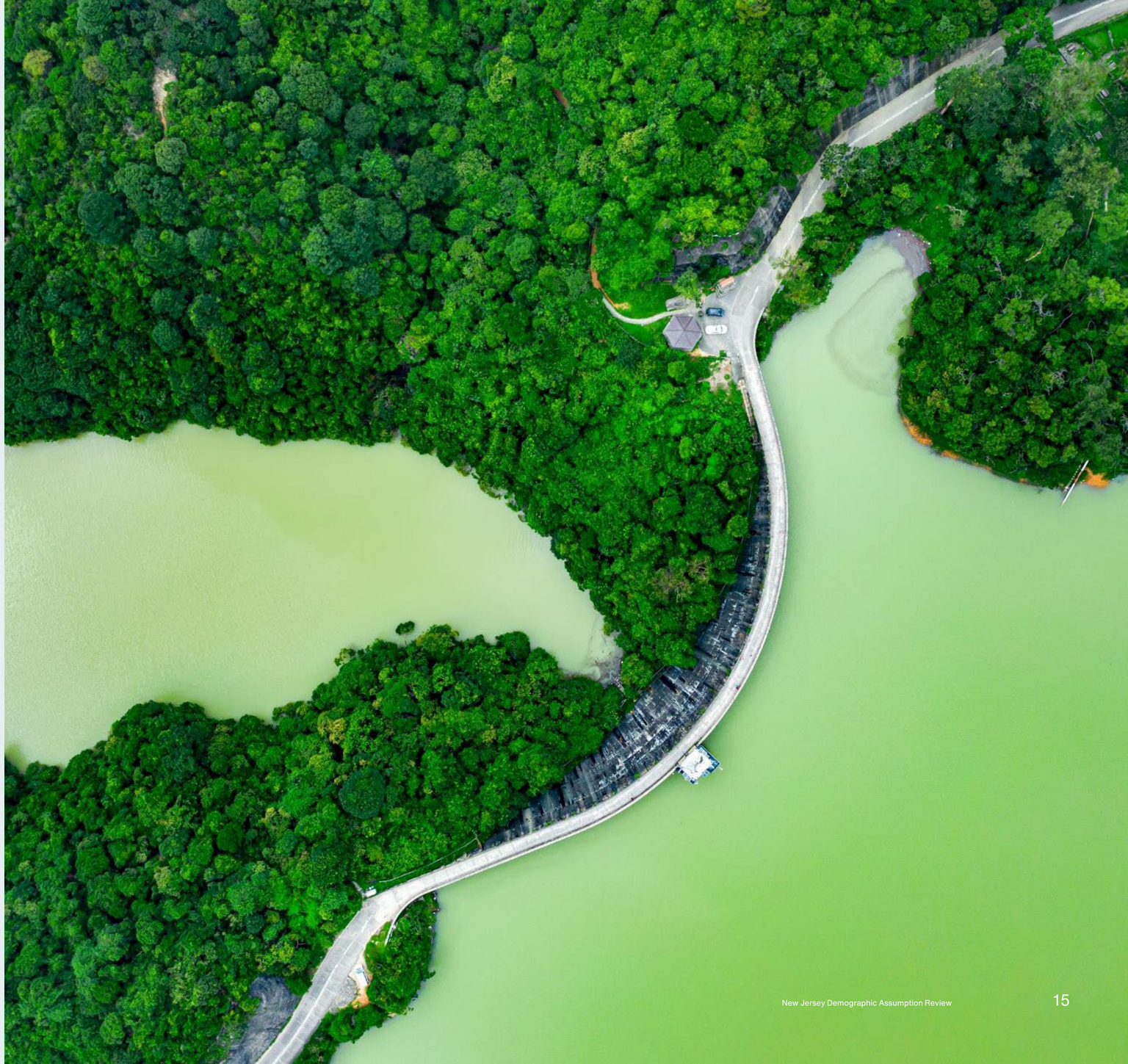
- Update Waiver Election to 9% Pre/12% Post and continually track gains and losses due to waivers to see if the actual waiver elections track close to this revised assumption.

What Happened?

- Prior study was very conservative in the approach due to data quality. Since then, Aon and NJ has worked together to improve the data process and obtain better information
- More retirees must contribute for their coverage.
  - The active percent grandfathered with no contribution toward medical coverage decreased from 5% to 2% (69% decrease) since the prior study
  - The percentage of retirees with no contribution also decreased from the prior study from 97% to 88% (10% decrease)

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Conclusions/Impact



Projected Impact - State
(Using June 30, 2024 Measurement Date Liability)

The study findings and approximate impact is summarized below. For year one expense, only the amortization of the assumption change is recognized. For year two, the change in cost would also include the change in the service cost and interest cost as well as the amortization of the assumption change.

				Estimated Impact ($M)[1]		
Assumption	**Description of Change**			**June 30, 2025 Liability [1]**	**Year One Expense**	**Year Two Expense**
Spouse Age Difference	Change State to +3/+1 (M/F Male Age Over Female)			$84.4	$10.5	$18.1
Spousal Coverage	Change State to 70%/40% (M/F Coverage)			$807.8	$100.7	$186.4
PPO/HMO Election	Change State to 90%/10% (PPO/HMO Coverage)			($222.8)	($27.8)	($49.0)
Retiree Waiver Assumption	Update rates to reflect differences between Pre and Post 65 elections			($1,313.4)	($163.8)	($289.6)
		Pre 65	Post 65			
	State	9%	14%			
Total ($ and % of Liability, if Applicable)				**($644.0) (2.7%)**	**($80.4)**	**($134.1)**

[1] The estimated June 30, 2024 measurement date impact was calculated using the July 1, 2023 data and the impacts were not measured separately against the baseline.

Projected Impact – Local Education
(Using June 30, 2024 Measurement Date Liability)

The study findings and approximate impact is summarized below. For year one expense, only the amortization of the assumption change is recognized. For year two, the change in cost would also include the change in the service cost and interest cost as well as the amortization of the assumption change.

				Estimated Impact ($M)[1]		
Assumption	**Description of Change**			**June 30, 2025 Liability [1]**	**Year One Expense**	**Year Two Expense**
Spouse Age Difference	Change Local Education to +3/+2 (M/F Male Age Over Female)			$139.9	$15.0	$29.5
Spousal Coverage	Change Local Education to 65%/60%			$3,593.8	$386.0	$762.5
PPO/HMO Election[2]	Change Local Education to 98%/2%			($63.1)	($6.8)	($13.4)
Retiree Waiver Assumption	Update rates to reflect differences between Pre and Post 65 elections			($3,886.4)	($417.4)	($818.2)
		Pre 65	Post 65			
	Local Education	9%	12%			
Total ($ and % of Liability, if Applicable)				**($215.8) (0.4%)**	**($23.2)**	**($39.6)**

[1] The estimated June 30, 2024 measurement date impact was calculated using the July 1, 2023 data and the impacts were not measured separately against the baseline.

[2] Pre 65 Local Education is fixed in the PPO Plan and election is only applied for Post 65 coverage.

Projected Impact – Local Government
(Using June 30, 2024 Measurement Date Liability)

The study findings and approximate impact is summarized below. For year one expense, only the amortization of the assumption change is recognized. For year two, the change in cost would also include the change in the service cost and interest cost as well as the amortization of the assumption change.

		Estimated Impact ($M)[1]		
Assumption	**Description of Change**	**June 30, 2025 Liability [1]**	**Year One Expense**	**Year Two Expense**
Spouse Age Difference	Change Local Government to +2/+1 (M/F Male Age Over Female)	$9.1	$1.1	$2.3
Spousal Coverage	Change Local Government to 70%/30%	$315.9	$38.2	$78.0
PPO/HMO Election	Change Local Government to 97%/3%	$22.9	$2.8	$5.9
Total ($ and % of Liability, if Applicable)		**347.9 2.0%**	**$42.1**	**$86.2**

[1] The estimated June 30, 2024 measurement date impact was calculated using the July 1, 2023 data and the impacts were not measured separately against the baseline.