Retiree Medical Strategy
University Advisory Benefits Council Meeting #2
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UBAC Guiding Principles for This Process

- Protect current retirees from undue financial burden
- Sustain access to a retiree medical benefit for current employees
- Preserve a similar premium-sharing structure as for current employees
- Educate employees and help them plan for their retirement including medical care
- Support active employee engagement in health, emphasizing prevention and management of chronic health conditions
- Consider and continuously review contracts, plan design, and/or vendor changes to ensure that UVM has an efficient, effective, and high-quality program including pharmaceuticals
- Continue to offer benefits competitive with peer institutions
## Retiree Medical Program—Summary of Demographics by Group Segmentation

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Pre-65</th>
<th>Post-65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Retirees &amp; Beneficiaries</td>
<td>Participant Count: 329</td>
<td>Participant Count: 1082</td>
</tr>
<tr>
<td></td>
<td>Beneficiary Count: 207</td>
<td>Beneficiary Count: 559</td>
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<tr>
<td></td>
<td>Average Age: 60.3</td>
<td>Average Age: 74.6</td>
</tr>
<tr>
<td></td>
<td>Average Service: 24.5</td>
<td>Average Service: 24.5</td>
</tr>
<tr>
<td></td>
<td>Projection of University’s Share: $104.3M</td>
<td>Projection of University’s Share: $187.7M</td>
</tr>
<tr>
<td>Actives Eligible to Retire</td>
<td>Participant Count: 560</td>
<td>Participant Count: 1086</td>
</tr>
<tr>
<td></td>
<td>Average Age: 60.6</td>
<td>Average Age: 47.1</td>
</tr>
<tr>
<td></td>
<td>Average Service: 24.5</td>
<td>Average Service: 9.0</td>
</tr>
<tr>
<td></td>
<td>Projection of University’s Share: $187.7M</td>
<td>Projection of University’s Share: $199.4M</td>
</tr>
<tr>
<td>Actives Not Yet Eligible to Retire</td>
<td>Participant Count: 401</td>
<td>Participant Count: 1086</td>
</tr>
<tr>
<td></td>
<td>Average Age: 49.6</td>
<td>Average Age: 47.1</td>
</tr>
<tr>
<td></td>
<td>Average Service: 21.4</td>
<td>Average Service: 9.0</td>
</tr>
<tr>
<td></td>
<td>Projection of University’s Share: $199.4M</td>
<td>Projection of University’s Share: $422.0M</td>
</tr>
<tr>
<td>Future Hires</td>
<td>Participant Count: 1184</td>
<td>Participant Count: 1184</td>
</tr>
<tr>
<td></td>
<td>Average Age: 39.6</td>
<td>Average Age: 39.6</td>
</tr>
<tr>
<td></td>
<td>Average Service: 2.5</td>
<td>Average Service: 2.5</td>
</tr>
<tr>
<td></td>
<td>Projection of University’s Share: $383.0M</td>
<td>Projection of University’s Share: $383.0M</td>
</tr>
</tbody>
</table>
Projected Cost of Postemployment Benefits

Projected University's Share of Postemployment Benefits

- University's Share Per Year
- Current Retirees over 65
Projected Cost of Postemployment Benefits

Projected University's Share of Postemployment Benefits

Year:
- 2009
- 2012
- 2015
- 2018
- 2021
- 2024
- 2027
- 2030
- 2033
- 2036
- 2039
- 2042
- 2045
- 2048
- 2051
- 2054
- 2057
- 2060
- 2063
- 2066
- 2069

Millions
- $0
- $10
- $20
- $30
- $40

University's Share Per Year
- Current Retirees under 65
- Current Retirees over 65
Projected Cost of Postemployment Benefits

Projected University's Share of Postemployment Benefits

- Actives Eligible to Retire
- Current Retirees under 65
- Current Retirees over 65
Projected Cost of Postemployment Benefits

Projected University's Share of Postemployment Benefits

![Bar chart showing projected university's share of postemployment benefits over time.](chart.png)

- Actives not yet eligible to retire with 15+ years of service
- Actives Eligible to Retire
- Current Retirees under 65
- Current Retirees over 65

**University's Share Per Year**

- **Millions**
Projected Cost of Postemployment Benefits

Projected University's Share of Postemployment Benefits

- Actives not yet eligible to retire with 5-15 years of service
- Actives not yet eligible to retire with 15+ years of service
- Actives Eligible to Retire
- Current Retirees under 65
- Current Retirees over 65
Projected Cost of Postemployment Benefits

Projected University's Share of Postemployment Benefits

- Actives not yet eligible to retire with less than 5 years of service
- Actives not yet eligible to retire with 5-15 years of service
- Actives not yet eligible to retire with 15+ years of service
- Actives Eligible to Retire
- Current Retirees under 65
- Current Retirees over 65

Year

University's Share Per Year

Millions
Defined Benefit vs. Defined Cost Approach

**Defined Benefit Approach**
- Benefit is defined in terms of coverage provided rather than value
  - Retiree typically shares in the premium cost

**Defined Cost Approach**
- Benefit is defined by a dollar level of commitment
  - Often combined with a Defined Benefit design but with limits on the benefit commitment
- Two common Defined Cost approaches are:
  - Define the cost going in
    > Pre-funded defined contribution arrangements
  - Define the cost going out
    > Lifetime maximums, premium caps, fixed retirement accounts
Defined Benefit vs. Defined Cost Approach

**Defined Benefit**
- Current UVM approach
- Pay-As-You-Go with associated liability
- Risk of future cost increase is mostly the University's responsibility
  - The University's premium share ranges from 70% to 97% depending on the retiree's base salary at retirement
- Less participant incentive to choose more cost-effective options and/or make more efficient health care choices
- Employers need to periodically review design strategy, vendors, and cost-sharing to keep the benefit affordable

**Defined Cost**
- UVM defines commitment; not “open-ended”
  - Examples included hard/soft caps; dollars per YOS; Access Only (extreme case)
- Shifts risk of future cost increase toward participants
- Can be done with prefunding or without
- Prefunding requires UVM to set aside cash
- Without prefunding UVM establishes commitment and creates notional account
  - Health Reimbursement Arrangements (HRAs)
  - Accounting entries that exist to benefit participants, but do not require cash to be set aside
  - Participants draw on account on a tax-free basis to cover health plan premiums, out-of-pocket costs, and other qualified expenses
Strategies for Managing Retiree Health Liabilities Costs

Five Key Levers

- **Funding Policy**: can reduce cost slightly without impacting benefits

- **Medicare Part D**: can have moderate impact on cost with minimal impact on benefits

- **Plan Design**: low to high impact on cost and benefits, depending on changes

- **Eligibility**: moderate to high cost impact

- **Premium Cost Share**: greatest potential impact on cost
Premium Cost Share Design Spectrum

- **High**
  - Free, age + service cliff
  - Fixed, pay-based percentage, age + service cliff (Current UVM Approach)
  - Service-based percentage contribution
  - Service-based dollar contribution
  - Defined cost approach, employer funded
  - Savings account, employee funded
  - Access Only / COBRA and Medicare

- **Low**
  - Low Employer Commitment (and cost)
  - High Employee Responsibility

- **High**
  - Low Employer Commitment (and cost)
  - High Employee Responsibility

- **Low**
  - High Employer Commitment (and cost)
  - Low Employee Responsibility
Sample Program Changes Using Group Segmentation—Approach 1

<table>
<thead>
<tr>
<th>Current Retirees &amp; Beneficiaries</th>
<th>Actives Eligible to Retire</th>
<th>Actives Not Yet Eligible to Retire</th>
<th>Future Hires</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Over 15 Years-of-Service</td>
<td>Between 5 and 15</td>
</tr>
<tr>
<td>Premium Sharing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-65</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Retain the pay-based sharing schedule but with an additional reduction in the University's share based on how far the member currently is from retirement eligibility. This avoids any significant "cliffs" with this segment of the University's population since the closer a member is to retirement eligibility, the smaller this reduction will be.

Offer vehicle for access to group program with group pricing

<table>
<thead>
<tr>
<th>Examples</th>
<th>Age &amp; Service</th>
<th>Years to Retirement Eligibility</th>
<th>Transition Contribution (using 2%)</th>
<th>75% of Final Pay</th>
<th>Pay-Based Contribution</th>
<th>Retiree Total Contribution</th>
<th>University's Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60 &amp; 14</td>
<td>1</td>
<td>2%</td>
<td>$30,000</td>
<td>8%</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>52 &amp; 20</td>
<td>8</td>
<td>16%</td>
<td>160,000</td>
<td>30%</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>35 &amp; 10</td>
<td>25</td>
<td>50%</td>
<td>75,000</td>
<td>18%</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>62 &amp; 25</td>
<td>0</td>
<td>0%</td>
<td>35,000</td>
<td>10%</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>25 &amp; 5</td>
<td>35</td>
<td>70%</td>
<td>95,000</td>
<td>22%</td>
<td>92%</td>
<td>8%</td>
</tr>
</tbody>
</table>
Sample Program Changes Using Group Segmentation—Approach 2

<table>
<thead>
<tr>
<th>Premium Sharing</th>
<th>Current Retirees &amp; Beneficiaries</th>
<th>Actives Eligible to Retire</th>
<th>Actives Not Yet Eligible to Retire</th>
<th>Future Hires</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over 15 Years-of-Service</td>
<td>Between 5 and 15</td>
<td>Under 5 Years-of-Service</td>
<td>Future Hires</td>
</tr>
<tr>
<td>Pre-65</td>
<td>No change but with one time opportunity to elect account based benefit outlined to the right.</td>
<td>Retain the pay-based sharing schedule but each retiree with be provided a book account to spend on medical benefits at retirement. The account will be based on a set amount (for example, $5,000) times years of service with the University.</td>
<td>Offer vehicle for access to group program with group pricing</td>
<td></td>
</tr>
<tr>
<td>Post-65</td>
<td>No Change</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Offering the option of the account alternative will alleviate issues with anyone who view this as preferable.

2. The account is “University money with a promise to pay;” there are no rights of ownership for the retiree and, therefore, no change in taxation and no portability. Unspent University money does not pass to the retiree’s beneficiary or estate. The account is a book entry and does not earn interest.

| Example 1–15 Years-of-Service at Retirement and a 10% Pay-Based Contribution |
|-------------------------------|------------------|-------------------|-----------------|-----------------|
| Year                          | Current Gross Premium | Cost | Retiree Contribution % | University Cost | Account at Year-End |
| 2010                          | $75,000           | $5,000 | 10%                    | $4,500          | $70,500           |
| 2011                          | 70,500            | 5,400  | 10%                    | 4,860           | 65,640            |
| 2021                          | 5,700             | 9,400  | 10%                    | 5,700           | 0                 |

| Example 2–25 Years-of-Service at Retirement and a 30% Pay-Based Contribution |
|-------------------------------|------------------|-------------------|-----------------|-----------------|
| Year                          | Current Gross Premium | Cost | Retiree Contribution % | University Cost | Account at Year-End |
| 2010                          | $125,000          | $5,000 | 30%                    | $3,500          | $121,500          |
| 2011                          | 121,500           | 5,400  | 30%                    | 3,780           | 117,720           |
| 2029                          | 8,030             | 13,900 | 30%                    | 8,030           | 0                 |