The purpose of this discussion is to begin to review with the Committee the financial impact of post-retirement medical benefits. At previous meetings we have discussed these benefits and their impact on the University’s statement of net assets. Under the requirements of the Governmental Accounting Standards Board, the future cost of this liability must be amortized and reflected each year as a reduction in net assets. Since FY 2008, the University’s net assets have declined $50 million due to this liability. Obviously, there is also an ongoing and growing general fund budget impact from the yearly direct cost for retirees as a consequence of these benefits. As illustrated in the attached chart, the actuarially calculated cumulative cost of these benefits just for current retirees and current employees is over $1.3 billion.

Our existing benefit allows individuals who have met retiree eligibility criteria to continue, after retirement, in the UVM health insurance plan paying the same percentage of the premium as they did as an employee. The employee share of the premium ranges from 4% to 30% depending on the employee’s salary. Employees hired before July 1, 1997 must have at least 10 years of service and be at least age 55 in order to retire. Those hired after that date must have 15 years of service and be at least age 60. Once a retiree reaches age 65 and becomes Medicare eligible, the standard UVM insurance policy is replaced with a Medigap policy and the employee continues to pay the same percentage of the premium as with the other policy.

The University currently has in place what is known as a defined benefit post-retirement medical plan, with coverage regardless of cost. These types of plans have been replaced in most private sector organizations with defined contribution plans or eliminated altogether. A defined contribution plan calls for a specified payment on the part of the employer for a portion of the cost of insurance coverage. In the case of most public higher education institutions where defined benefit plans still exist, the liability for the cost rests with the state rather than with the institution. This is not the case at UVM. Defined benefit plans are now generally viewed as unsustainable for two reasons. The first and primary reason is that life expectancy has increased such that the pool of retirees is continually growing. The second contributing factor is the size of the baby boom generation, which is retiring now and over the next two decades. It is clear that UVM’s current post-retirement medical benefits plan is not sustainable and that we need to address the situation in the near future.
The University has engaged a nationally respected actuarial firm to conduct the analysis of our employee base and to calculate the costs illustrated in the chart. The chart reflects the annual cost of the existing benefit for three categories of people: current retirees, active employees with fifteen years of service (current time in service requirement for retirement), and active employees with less than fifteen years of service. Please note that the chart does not reflect the cost of employees that have not yet been hired to replace future retirees. If those costs were included, the upward slope of the curve would continue forever, never flattening or declining as it does on the chart. Now that the data have been compiled regarding this significant financial issue, the President will charge a task force made up of senior administrators, faculty and staff to study this matter in detail and bring forth by August 1, 2010 recommendations for plan changes that will result in a plan that is fiscally prudent and sustainable. The President will then bring his plan for dealing with this matter to the October Board of Trustees meeting.
Cost of Post-retirement Medical Benefits for Current Retirees & Employees

Current Retirees ($240 M cumulative cost)
Current Employees with 15+ Years of Service ($354 M cumulative cost)
Current Employees with less than 15 Years of Service ($717 M cumulative cost)