As a Staff Council Member-at-Large, I was able to attend two University Benefits Advisory Council (UBAC) meetings in July on Post-Retirement Medical Benefits. The first meeting, on July 16th, included a brief presentation from Richard Cate, Vice President for Finance and Administration, and a more extensive presentation by representatives from the actuarial firm Hewitt Associates LLC.

VP Cate reviewed the information presented to the Board of Trustees (BOT) in May on the cost of post-retirement medical benefits for current retirees and employees. At age 65, retirees are eligible for Medicare. At this time, the University plan ends and a Medicare Gap plan is put in place to cover expenses not covered by Medicare. The University continues to contribute a percentage of the premium, with the retiree paying their share (currently at 14%). The Medicare Gap plan is much less expensive than the regular insurance plans. However, a high expense to the university is for those employees who retire before age 65 and Medicare eligible.

Hewitt reviewed national trends in post-retirement medical benefits for private sector employers as well as higher education. Hewitt’s study looked at such information as the prevalence of employer-sponsored retiree, health programs, types of retiree medical coverage offered (subsidized, uncapped/capped, access-only, none), employer sponsored retiree health programs for both private sector and Higher Education. NOTE: Since an argument was made to only compare UVM with other Higher Education institutions, information from the private sector will be minimalized in this review.

In a review of 32 different industries, Universities ranked 2nd with all benefits valued at 107% (or 7% above average). Approximately 62% of universities had employer subsidized pre-65 and post 65 coverage (vs. approx., 5% that had no coverage at all). Also 93% of universities offer pre-65 retirees the same active medical plan as current employees, while only 36% offer the same plan post-65. The UVM retiree medical plans provides no dollar cap, with an average premium subsidy of 86% (UVM retirees contribute 14% of medical plan premiums). UVM, for the most part, is very generous. UVM is in the 87th percentile for pre-65 retirees and 86th percentile for post-retirees in comparison to other like universities.

The representatives from Hewitt reviewed various considerations that must be looked at when proposing to change medical insurance benefits for retirees. The representatives discussed how they would like to keep current retirees at the status quo, but revise the retirement benefit for future retirees that would address their needs and be sustainable over time. They also talked about some of the different options...
currently in place across the nation, such as access only plans (where retirees are allowed to join the group coverage at their own expense), capped employee contributions (rather than % of premium cost), and the no-cap system that is currently in place at UVM. The representatives explained that, while 57% of the Fortune 500 companies that were surveyed offer access only plans, Higher Education institutions usually (61%) have a no-cap system. Some companies offer higher subsidies to employees with more years of service. The representatives from Hewitt also explained that when we purchase an insurance policy from a company that coordinates the insurance, the university spends more money than if UVM were to coordinate medical insurance itself.

The representatives from Hewitt discussed the various strategies of change (changes in Plan Design = low to moderate impact to expenses, changes in eligibility = moderate to high impact, and changes to the amount that the employer contributes to the premium costs = greatest impact). They talked about possible categories to consider when rolling out any changes, such as those not yet hired, newly hired, mid-career employees, retirement-eligible, and those already retired. Some of the other divisions to consider include a pre-65 plan and a post-65 plan.

The meeting on 7/22/10 was a meeting of the sub-committee, Health Insurance Working Group (HIWG). HIWG identified a number of areas of which they will ask the representatives from Hewitt to elaborate on in more detail. These included getting a list of peer and aspirant institutions for benefit comparison as well as finding out the monetary impact to UVM based on changes proposed (i.e. what kind of change would give UVM the most for its money while creating the smallest impact on employees and retirees?) Barbara Johnson, Associate Vice President for Human Resource Services, agreed to develop and distribute a list of peer institutions to HIWG members so that the group can consider total compensation offered by these institutions, including retirement plans, insurance, salary, etc. The term “subsidy” was discussed and it was agreed that the term contribution or share would better reflect the % of premium paid by the employer. The point was that employees accepted other aspects of employment due to the retirement package being offered when they were hired (i.e., lower salaries). The group wondered what kind of affect the changes due to the country’s Health Care Reform would have and whether there were other changes that might also affect insurance costs.

A Health Savings Plan was also discussed. This might not be good for the lower paid employees who would have to contribute a percentage of their pay to the account. Many might choose not to contribute because they might feel that they cannot afford to take home less pay. Also, if individuals do not have much knowledge about investing, or the market takes a downturn during a time when the employee needs to withdraw money for health care, this may not be in the employee’s best interest. We must also keep in mind that a small percentage of the lower paid employees’ paychecks won’t amount to very much, and healthcare
is very expensive.

It was suggested that one change might be a requirement that an employee retire after the age of 65, to avoid the expensive pre-65 plan. Some concern was expressed pertaining to the recruitment and retention of top quality faculty if that change were to be made, but similar consideration to recruitment and retention of staff was not discussed at length. The work group discussed only 4 categories of employees, lumping the newly hired with the mid-career employees.

In my opinion, there should be at least 7 categories of employees and that perhaps the age of the employee should also come into play when rolling out the changes that are sure to come. Younger employees will have more time to accrue savings than their older colleagues. The 7 categories that I envision are 1) not yet hired, 2) newly hired – less than 3 years, 3) mid-career – 3 to 8 years, 4) UVM career employees – 8 to 12 years, 5) lifetime employees – more than 12 years, 6) eligible for retirement, and 7) already retired. I also believe that employees over the age of 50, should receive some special consideration, since their employment choices might have been different if they had known that their retirement benefits would be substantially changed. Many UVM employees have accepted lower salaries due to the anticipated retirement benefits. I also believe that an age requirement for retirement of 65 is perfectly reasonable and would have very little effect on faculty and staff recruitment and retention. The life-span of US citizens has been greatly expanded by the advances in medicine, technology and nutrition and changes in employment should change accordingly.

Thank you to Debbie Stern and Kelly Circe for their continued service and diligence on the UBAC. I will not be able to attend the August meetings, but hope to receive updates from Staff Council members in attendance and will plan to attend any future meetings.