UBAC Post-Retirement Medical Benefits Information Sessions

- Introduction of Council Members
- Ground rules
- Background and Summary of UBAC work
- Comments, Questions, and Concerns
- Closing Remarks

Please email your comments, questions, and concerns to UBAC@uvm.edu by Tuesday, September 28 at noon for inclusion (without names) in our Advisory Report.
University of Vermont Post-Retirement Medical Benefit Advisory Report
Background and Summary

University Benefits Advisory Council
September 27, 2010
UVM has long provided medical benefits to retired employees, their spouses and dependents.

On average, UVM pays for 86% of the premium cost for retiree medical insurance.

UVM cost = total premiums less employee contributions.

UVM accounts for the benefit on a pay-as-you-go (cash) basis.
Currently, 1,411 retired employees receive benefits
  • 329 pre-65
  • 1082 post-65

Currently, 560 active employees are eligible to retire with medical benefits
  • Average Age 60.6
  • Average Service 24.5 years
Current UVM Retiree Medical Benefits

Eligible Retirees under age 65

- Eligible for the same medical plans that are provided to active employees
- Premiums consistent with those paid by active employees based on adjusted retirement base salary
Eligible Retirees 65 and Older

- Enroll in Medicare Parts A & B, paying full Medicare B premium (currently $100/mo.)
- Medicare is “primary” (pays first costs)
- UVM plan supplements Medicare & provides prescription drug coverage
- Premiums based on date of hire, age and years of service
Retiree health care is a personal, financial, and public policy issue, for both private and public employers.

The issue for us is the ability of public employers, including UVM, to continue to provide retiree medical benefits in light of population demographic trends and growing health care costs.
Why are Retiree Medical Benefits an Issue?

- UVM’s cumulative cost on a pay-as-you-go basis is projected to reach more than $1.3 billion.

- If no changes are made, retiree medical benefits will consume an unsustainable share of the UVM budget.
What is the Impact of GASB 45?

- GASB is the Government Accounting Standards Board. Public sector organizations must follow GASB rules in preparing their financial statements.

- GASB 45 is an accounting rule that requires public employers to put the dollar value of retiree medical benefits for current and future retirees on our financial statements.
What is the Impact of GASB 45?

- GASB 45 does not create any new costs; it documents the long-range costs of existing benefits.

- An unaffordable benefit structure can threaten both the retiree medical benefit and the financial viability of the university.
University Benefits Advisory Council (UBAC)

- Started in 2007
- Goal – Continue to offer health insurance for retirees while also protecting the financial integrity of UVM
- Guiding Principles
Guiding Principles for Modifying UVM’s Retiree Medical Benefit:

- 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
Guiding Principles for Modifying UVM’s Retiree Medical Benefit:

- 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
In late May, 2010, President Fogel asked UBAC to convene a special study project culminating in a report by September 29, 2010

1. Review and discuss the projected long-term impact on the budget of our existing post-retirement medical benefits program
2. Identify and examine options for adjustments to the program that reasonably balance its financial impact on the University and the needs of future retirees;
3. Generate an advisory report that includes possible program adjustment scenarios, with associated pros and cons of each
The scenarios should:

- Include the likely impact on retirees, current employees, and prospective employees respectively;

- Be informed by what other similarly situated higher education institutions are doing
“As a reminder, because certain UVM employees are represented by certified bargaining units—with contract provisions cognizant of the UBAC—neither the UBAC process of deliberation and recommendation nor its outcomes are intended to, or will, operate in a manner in conflict or inconsistent with the collective bargaining rights of UVM or any certified bargaining representative of UVM employees, nor shall the discussions and exchanges of which the processes are comprised constitute collective bargaining with any group, organization, or individuals on benefits matters.”

May 29, 2010 Letter from President Fogel to UBAC
What are other Employers doing?

- Private corporations: 55% offer retiree medical benefit to pre-65 retirees; 44% offer retiree medical benefit to post-65 retirees; 67% offer no coverage

- Higher education comparison group: 87% offer retiree medical to pre- and post-65 retirees; 5% offer pre-65 coverage, only; 8% offer no coverage

- UVM peer & aspirant comparison group: 85% offer retiree medical to pre- and post-65 retirees; 5% offer pre-65 coverage, only; 9% offer no coverage; 3% are covered by State benefit plans
Other Relevant Data

- Total compensation in relation to peer & aspirant institutions
- UVM’s projected revenue
- Premium cost-sharing trends
- Plan design trends
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<td>Premium Sharing</td>
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Options Considered

**Eligibility:**
- No change for current retirees
- No change for active employees eligible to retire
- One-time opportunity for eligible active employees to retire with current plan or elect new benefit option
- Provide access to group plan for future hires and employees with 5 year or less of service
- Extend benefits to newer and future hires
Options Considered

**Premium Cost-sharing:**

- Fixed amount at retirement, based on age, salary and service, used to pay UVM share of health insurance premium

- Keep current, pay-based cost sharing

- Set a single cost-sharing percentage for all

- Cap UVM cost sharing at a dollar amount based on the premium for a selected year (which may be indexed for inflation)
Employee Savings Options

- Employee education to support increasing personal savings
- Increase employee contribution to 403(b)
- Create a dedicated investment plan for medical care [“medical 403(b)”]
- Create an employee trust fund for savings
Other Considerations

- **Medicare integration**: Parts A & B cover 80% of costs (Part B premium = $100/mo. in 2010)

- **Need for additional employee education**:
  - Planning for retirement, including medical needs
  - Changing marketplace provides new future options
  - Promoting healthy lifestyle

- **Health Care Reform**: UVM plan design/cost will change due to federally mandated coverage rules
Summary of Approaches
Summary of Approaches
Approach 1A

- 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.
Summary of Approaches

Approach 1B

- Retain the pay based sharing schedule but with an increased retiree contribution percentage.

- In a hypothetical example, a nonunion participant with a Post Adjusted Base Salary of $100,000 previously contributed 24% of the annual premium. Under the new schedule, this participant would contribute 69%.
Retain the pay-based sharing schedule but each retiree will be provided a book account to spend on medical benefits at retirement.

The account will be based on a set amount times years of service.

Those with under 5 years of service and future hires would have “access only” to the group program with group pricing.
Each retiree will be provided a “book” account to spend on medical benefits at retirement.

The account will be based on a set amount times years of service with the University.

Under this design, retirees will retain the pay based sharing schedule.

Employees with under 5 years of service and future hires are also included.
Summary of Approaches
Approach 3A

- Each retiree will be provided a book account to spend on medical benefits at retirement.

- The initial account balance will be the product of years of service with the University and an account multiplier based on pay.

- In a hypothetical example, participants with final pay less than $24,000 will receive a multiplier of $6,000 while participants with final pay in excess of $150,000 will receive a multiplier of $4,000.

- Under this design, the pay based sharing schedule will be replaced with a flat 20% participant share.
Summary of Approaches

Approach 3B

- Each retiree will be provided a book account to spend on medical benefits at retirement.

- The account will be based on an amount times years of service with the University. The initial account balance will be the product of years of service with the University and an account multiplier based on pay.

- In a hypothetical example, participants with final pay less than $32,000 will receive a multiplier of $6,000 while participants with final pay in excess of $200,000 will receive a multiplier of $4,000.

- Under this design, retirees will retain the pay based sharing schedule.
Provide lifetime benefits under a defined cost approach. The defined cost is “capped” at a specific dollar amount, for example, the premium cost for 2009.

Pay based cost sharing is applied to this amount to determine the University-provided benefit.

The retiree is responsible for the premium cost in excess of the fixed amount, along with their pay based share.
Provide lifetime benefits under a defined cost approach. The amount of the defined cost is based on age and service at retirement (points). The higher the points, the higher the University–provided benefit. The maximum benefit is for anyone with 90 or more points at retirement.

In a hypothetical example, the maximum is 125% of the 2009 premium cost. For each point under 90, the defined cost is reduced by 2%. Therefore, if the maximum amount is $5,750 for someone with 90 points, it would be $4,600 for someone with 80 points. Pay based cost sharing is applied to this amount to determine the University provided benefit.

The retiree is responsible for the premium cost in excess of the fixed amount along with their pay based share.
Provide lifetime benefits under a defined cost approach. The amount of the defined cost is based on age and service at retirement (points). The higher the points, the higher the University provided benefit. The maximum benefit is for anyone with 90 or more points at retirement.

For example, the maximum is 125% of the 2009 premium cost. For each point under 90, the defined cost is reduced by 2%. Therefore, if the maximum amount is $5,750 for someone with 90 points, it would be $4,600 for someone with 80 points. Pay based cost sharing is applied to this amount to determine the University provided benefit.

Furthermore, the University's cost increases annually with inflation (for example, 3% per year).

The retiree is responsible for the premium cost in excess of this increasing amount along with their pay based share.
Conclusions (Highlights)

- Essential to preserve a retiree medical benefit while protecting financial stability of UVM
- Special attention was given to changes in benefit design to help preserve affordability of benefits for lower paid employees and to specific groups, such as employees with longer service
- Extending benefits to newly hired employees and future employees is essential for recruitment and retention
- All models presented generally fit with the UBAC’s Guiding Principles, although different models and options have associated pros and cons
- Public comment (to date) reinforces the importance of UBAC guiding principles
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Thank you for attending!
University Benefits Advisory Council