Retiree Health Benefit
Policy Changes
Implementation 1/1/2013

February 2011
BENEFIT PRINCIPLES & STRATEGIES

- Quality programs at affordable cost
- Market-competitive programs to recruit and retain faculty and staff
- Responsible fiscal agent and resource steward
- Plan choice
- Enable informed decision-making
- Leverage internal and external expertise in development of innovative benefit design and programs to promote a culture of health
Why Change?

- The number of covered retirees to increase by 50% from approximately 7,200 in 2010 to 10,870 by 2020
- University retiree health contribution costs were projected to double in ten years from $40M in 2010 to $88.4M in 2020

<table>
<thead>
<tr>
<th></th>
<th>CY 2010</th>
<th>CY 2015</th>
<th>CY 2020</th>
<th>CY 2030</th>
<th>CY 2040</th>
</tr>
</thead>
<tbody>
<tr>
<td>University Retiree Health Care Costs</td>
<td>$40.0M</td>
<td>$59.9M</td>
<td>$88.4M</td>
<td>$184.4M</td>
<td>$359.5M</td>
</tr>
<tr>
<td># of Retirees Covered by Retiree Health Benefits</td>
<td>7,166</td>
<td>8,716</td>
<td>10,870</td>
<td>16,250</td>
<td>20,955</td>
</tr>
</tbody>
</table>
Declining Prevalence of Retiree Health Care Programs

Percentage of Large Employers (1,000+ EEs) Offering At Least Access-Based Retiree Medical to New Retirees

Source: Hewitt Associates SpecBook®
Of U-M comparator peer institutions:

- 11% offer no retiree health care benefits
- 33% do not make employer contributions toward retiree health care premiums
- 41% do not contribute toward the coverage of retirees’ dependents
To make recommendations on:

• Eligibility requirements for retiree health benefits
• Retiree contributions levels for current and future retirees
• Short-term and long-term savings
Recommend changes that are market competitive
Consider the financial impact of a range of options
Consider changes with gradations of impact
• with the greatest effect on future hires,
• followed by faculty and staff not yet eligible to retire,
• then faculty and staff who could retire now,
• and the least impact on current retirees
Address ability of current faculty and staff and retirees to plan for and to manage changes
What we heard:

– Provide time for planning
– Continue to cover dependents after retirement
– Avoid changes that create too great a financial burden on those already retired
– Consider a tiered approach to receive a larger University contribution based on years of service
CORHB Committee Membership

Berens, Anne
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Associate Provost for Academic Affairs, and Professor of Physics, Department of Natural Sciences, UM-Dearborn

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Watson, Brian (Staff)
Financial Analyst, Benefits Administration Office

Weir, David
Research Professor, Survey Research Center, Institute for Social Research

2/24/2011
### Retiree Health Contribution Formula for Medical and Prescription Drug

#### Retiring On/After 1/1/1987

<table>
<thead>
<tr>
<th>Retired Prior to 1/1/1987</th>
<th>Service Date Prior to 7/1/1988</th>
<th>Service Date On/After 7/1/1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>University contributes 100% of premium costs.</td>
<td><strong>Single Coverage</strong>: University contributes 93% of average premium costs for two lowest cost comprehensive plans.</td>
<td>Before Age-62: Retiree pays full cost (100% based on active premium rate). After Age-62: As shown at left, University contributes 93% single and 66% pre-65 and 70% post-65 dependent coverage.</td>
</tr>
</tbody>
</table>

#### Eligibility - Age and Years of Service

### Age & Service Requirements for Postretirement Benefits

<table>
<thead>
<tr>
<th>Age at Retirement If Benefit Eligibility Date is:</th>
<th>On or After October 1, 1983</th>
<th>Age and Years of Service (Points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 or less</td>
<td>30</td>
<td>80</td>
</tr>
<tr>
<td>51 but less than 52</td>
<td>28</td>
<td>79</td>
</tr>
<tr>
<td>52 but less than 53</td>
<td>26</td>
<td>78</td>
</tr>
<tr>
<td>53 but less than 54</td>
<td>24</td>
<td>77</td>
</tr>
<tr>
<td>54 but less than 55</td>
<td>22</td>
<td>76</td>
</tr>
<tr>
<td>55 but less than 56</td>
<td>20</td>
<td>75</td>
</tr>
<tr>
<td>56 but less than 57</td>
<td>18</td>
<td>74</td>
</tr>
<tr>
<td>57 but less than 58</td>
<td>16</td>
<td>73</td>
</tr>
<tr>
<td>58 but less than 59</td>
<td>14</td>
<td>72</td>
</tr>
<tr>
<td>59 but less than 60</td>
<td>12</td>
<td>71</td>
</tr>
<tr>
<td>60 and over</td>
<td>10</td>
<td>70</td>
</tr>
</tbody>
</table>

*Min Years Continuous “Benefit Eligible” Service*
## Retiree Health Policy Changes Adopted: Contributions and Eligibility

<table>
<thead>
<tr>
<th>Retired On/After</th>
<th>University Contribution % For Health Care</th>
<th>Retirement Eligibility (Age + Years of Service)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single Contribution</td>
<td>Dependent Portion</td>
</tr>
<tr>
<td>January 1, 1987 (Current Benefit Level – No Change)</td>
<td>93.0%</td>
<td>75.0% Children, 66.0% Adult, 70.0% Medicare</td>
</tr>
<tr>
<td>January 1, 2000</td>
<td>90.0%</td>
<td>70.0%</td>
</tr>
<tr>
<td>January 1, 2013</td>
<td>87.5%</td>
<td>65.0%</td>
</tr>
<tr>
<td>January 1, 2015</td>
<td>85.0%</td>
<td>60.0%</td>
</tr>
<tr>
<td>January 1, 2017</td>
<td>82.5%</td>
<td>55.0%</td>
</tr>
<tr>
<td>January 1, 2019</td>
<td>80.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>January 1, 2021</td>
<td>Maximum 80.0%</td>
<td>Maximum 50.0%</td>
</tr>
</tbody>
</table>
Retiree Health Policy Changes Adopted: Contributions and Eligibility

Part-Time Employees:
- Starting January 1, 2013, benefits eligible part-time faculty and staff working between 20 and 31.9 hours per week (50% to 79.9% appointment) will earn 0.8 years of service for every full year worked as a part-time employee.

New Hires:
- For new hires effective 1/1/2013, the maximum retiree University Contribution will be 68% for the single contribution and 26% for the dependent portion.

For Faculty and Staff retiring on/after January 1, 2021:
Retirees with less than 20 years of service will have a reduced University Contribution towards retiree health benefits.
- Retirees with 10 years of service will receive 50% of the maximum University Contribution and can earn an additional 10% of the Maximum Contribution with every 2 years of additional service.
- With 20 years of service, a retiree will have earned 100% of the maximum contribution.
Retiring on/after January 1, 2021, a retiree will need 20+ years of service and 80 points to receive the maximum University contribution towards retiree health care.

<table>
<thead>
<tr>
<th>% of Maximum University Contribution*</th>
<th>Years of Service at Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>50% UC</td>
<td>10</td>
</tr>
<tr>
<td>60%</td>
<td>12</td>
</tr>
<tr>
<td>70%</td>
<td>14</td>
</tr>
<tr>
<td>80%</td>
<td>16</td>
</tr>
<tr>
<td>90%</td>
<td>18</td>
</tr>
<tr>
<td>100%</td>
<td>20+</td>
</tr>
</tbody>
</table>

* Maximum university contribution (UC) is 80% for retiree and 50% for dependents.

* For new hires beginning 1/1/2013, the maximum UC is 68% for retiree and 26% for dependents.
What do the changes mean to you?

Already Retired?
Retired Before 1/1/2000:

Continue to receive the same contribution as active employees in salary band one (currently 93% retiree, 75% children, 66% adult and 70% Medicare)
What do the changes mean to you?

Already Retired?
Retired on/after January 1, 2000?
Or planning to retire between now and prior to January 1, 2013

There will be no change until January 1, 2013 when you will receive a university contribution of 90% of the premium and 70% for any covered dependent.
What do the changes mean to you?

Planning to retire on/after January 1, 2013?

Age and years of service eligibility criteria will be a combined 76 points with 10 year minimum service.

University contribution will decrease by 2.5% for the coverage of the U-M retiree and 5% for dependent (87.5% retiree and 65% dependent) and remain at that level.
What do the changes mean to you?

Planning to retire on/after January 1, 2015?

Age and years of service eligibility criteria will be a combined 77 points with 10 year minimum service.

University contribution will decrease by 2.5% for the coverage of the U-M retiree and 5% for dependent (85.0% retiree and 60% dependent) and remain at that level.
Planning to retire on/after January 1, 2017?

Age and years of service eligibility criteria will be a combined 78 points with 10 year minimum service. University contribution will decrease by 2.5% for the coverage of the U-M retiree and 5% for dependent (82.5% retiree and 55% dependent) and remain at that level.
Planning to retire on/after January 1, 2019?

Age and years of service eligibility will be a combined 79 points

Faculty and staff who retire after Jan 1, 2019 will receive the University contribution of 80% for the retiree and 50% towards dependent coverage.
What do the changes mean to you?

Planning to retire on/after January 1, 2021?

Age and years of service eligibility will be a combined 80 points with a minimum of 10 years service.

University contribution of 80% for the retiree and 50% towards dependent coverage for employees with 20 years or more service.

Retirees with less than 20 years of service will have a reduced university contribution.
Benefit-eligible part-time employees (50% - 79.9%) appointments will accrue .8 years of credit toward retirement eligibility per full year worked.
Effective 1/1/2013, new hires will receive a maximum retiree university contribution of 68% for the retiree contribution and a maximum of 26% for the dependent contribution.
Based on Calendar Year Rates 2011:

- Effective 1/1/2013
  - $104.00/month for current retirees retired prior to 1/1/2000
  - $118.00/month for current retirees with retirement dates prior to 1/1/2013
  - $129.00/month for current retirees with retirement dates on/after 1/1/2013
  - $140.00/month, $151.00/month, and $162.00/month, for retirees with retirements dates 1/1/2015, 1/1/2017, and 1/1/2019 respectively
  - $216.00 for New Hires Retirees effective with 1/1/2013

<table>
<thead>
<tr>
<th>Retiree Only Contract</th>
<th>Employee Contribution</th>
<th>Retiree Monthly Contribution Changes (% Single/% Dependent)</th>
<th>Current Employees/Retirees Retired After</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current Retiree Contribution</td>
<td>1/1/2000 90%/70%</td>
<td>1/1/2013 87.5%/65%</td>
</tr>
<tr>
<td>1 Adult Contract</td>
<td>$104.00</td>
<td>$118.00</td>
<td>$129.00</td>
</tr>
<tr>
<td>2 Adult Contract</td>
<td>$329.00</td>
<td>$325.00</td>
<td>$358.00</td>
</tr>
</tbody>
</table>
Based on Calendar Year Rates 2011:

- Effective 1/1/2013
  - $21.00/month for current retirees retired prior to 1/1/2000
  - $30.00/month for current retirees with retirement dates prior to 1/1/2013
  - $37.00/month for current retirees with retirement dates on/after 1/1/2013
  - $44.00/month, $52.00/month, and $59.00/month, for retirees with retirement dates 1/1/2015, 1/1/2017, and 1/1/2019 respectively
  - $95.00 for New Hires Retirees effective with 1/1/2013

<table>
<thead>
<tr>
<th>Retiree Contribution Differences</th>
<th>For BCBS PPO Plan Based on Calendar Year 2011 Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Medicare Rates Only</td>
</tr>
<tr>
<td></td>
<td>Retiree Monthly Contribution Changes (% Single/% Dependent)</td>
</tr>
<tr>
<td></td>
<td>Current Employees/Retirees Retired After 1/1/2000</td>
</tr>
<tr>
<td>2011 Retiree Contribution</td>
<td>1/1/2013 1/1/2015 1/1/2017 1/1/2019 After 1/1/2013</td>
</tr>
<tr>
<td>Employee Contribution $21.00</td>
<td>$30.00 $37.00 $44.00 $52.00 $59.00 $95.00</td>
</tr>
<tr>
<td>2 Adult Contract Employee</td>
<td>$110.00 $119.00 $141.00 $162.00 $185.00 $207.00</td>
</tr>
<tr>
<td>Contribution $110.00</td>
<td>$119.00 $141.00 $162.00 $185.00 $207.00 $314.00</td>
</tr>
</tbody>
</table>

2/24/2011
What is not changing?

- Maintain current retiree health contributions for retirees who retired before January 1, 1987
- Retain “1988 rule” for under age 62 retirees with service dates prior to 7/1/1988
- Maintain current approach to retiree health contributions for pre-2000 retirees
- Retain survivor (Spouse and OQA and eligible dependents) benefits policy
- Maintain the university contribution as a percentage of the total cost
Outcomes

• Aligns retiree health benefits with market while retaining U-M’s overall benefit package competitiveness
• Provides greatest impact on future hires and least on current retirees
• Provides planning notice and a phased-in approach to implementation
• Achieves annual recurring savings of $9.4M by 2020 and $165M by 2040
Policy Changes
(Comparator Group Average = 100.0)
U-M devised a solution that:

- Continues retiree health care benefits for current and future U-M retirees
- Preserves employer contributions for current retirees and future retirees (at a reduced rate)
- Continues coverage for current and future retirees’ dependents
Future Considerations

• Monitor national health care policy changes in the market
• Monitor changes in the marketplace and conduct review in 2016
• Investigate potential tax-advantaged savings plans for new hires
For More Information

- **Stewardship of Benefits website:**
  - Background information and the committee report
  - Questions & answers
  
  www.benefitsstewardship.umich.edu

- **Send Questions:**

  benefitsstewardship@umich.edu

- **Retirement estimator:**

  www.benefits.umich.edu/events/retire/estimator
Current University Benchmarks: 27 Comparators

- Brown University
- Case Western Reserve University
- Columbia University
- Cornell University
- Duke University
- Emory University
- Harvard University
- Henry Ford Health System
- The Johns Hopkins University
- Michigan State University
- New York University
- Northwestern University
- Princeton University
- Stanford University
- University of California
- University of Chicago
- The University of Iowa
- University of Maryland
- University of Minnesota
- University of North Carolina at Chapel Hill
- University of Pennsylvania
- The University of Southern California
- University of Texas
- University of Virginia
- University of Wisconsin
- Washington University
- Yale University
Market Benefit Index – Employer Paid Value with Retiree Health Policy Changes

(Comparator Group Average = 100.0)

All Benefits: Retirement Income, Health Care, Paid Time Off, Death, Long-term Disability, Dependent Tuition
Paid Time Off: Holidays, Vacation, Short-term Disability.
State Institutions: Retiree Health Benefits
2010 Retiree Health Benefits

Central Michigan University
Eastern Michigan University
Ferris State University
Grand Valley State University
Lake Superior State University
Michigan State University
Michigan Technological University
Northern Michigan University
Oakland University
Saginaw Valley State University
Western Michigan University
Wayne State University
No Access to Retiree Health Benefits
- 2 of the institutions provide no access to retiree health benefits

Access Only/No University Contribution
- 4 of the institutions provide access to health care benefits but no university contribution

Access with Contribution
- 6 provide access to retiree health benefits with contributions
  - 3 provide grandfathered contribution for retiree health benefits
  - 1 provides access with contributions for retiree, dependents
  - 1 provides access with contributions to pre 65 faculty only
  - 1 provides a capped contribution towards medical supplement for post 65 retirees and dependents
State Universities:
2010 Retiree Health Benefits

Change in New Hire Access policy
- 3 institutions have changed their new hire policy since 2007 to eliminate university contributions for new hires
  - 1 access only for new hires as of 2007
  - 1 access only as of 9/1/2010
  - 1 new hires as of 1/1/2010 have access only to COBRA when they retire
UM Retiree Benefits
• Insurance coverage for eligible faculty and staff retirees includes the following:
  – Medical Insurance
  – Prescription Drugs
  – Dental Insurance
  – Vision
  – Life Insurance
Other Retiree Benefits Available

• Faculty and Staff Assistance Program (FASAP)
  FASAP provides confidential information to individuals with persistent and potentially personal problems

• Athletic Tickets
  Retirees can purchase athletic tickets to events by contacting the UM Athletic Ticket Office

• Recreation Sports Facilities
  Retirees may continue to use University recreational facilities by purchasing a membership

• Library Privileges
  Retirees can have borrow privileges at the UM libraries
Other Retiree Benefits Available

• Computing Services
  – Have continued use of their UM email box, unique name, password & directory entries at no charge. *(A commercial Internet service is required.)*
  – May purchase a subscription to UM Online
  – Use of the full-service Campus Computing Sites (UM Online subscription must be purchased)

• Retired emeritus or emeriti faculty
  – Have basic computing package services at no charge through UM Information Technology Central Services (ITCS)
  – May purchase computer hardware & software at discounted rates through ITCS
  – May use the full service Campus Computing Sites
Other Retiree Benefits Available

• Retiree ID Card
  Your UM Retiree ID card will enable you to take advantage of many of the UM retiree privileges you had as a staff member, such as athletic ticket discounts and library privileges.

• Parking
  Retirees can obtain a free “After Hours” permit. This can be used in Blue, Yellow and Orange areas after 3:00 pm weekdays and throughout the weekend. It is not valid for Athletic events.
CORHB Report accepted and approved with three amendments impacting implementation timeframe and future hires:

1. Accelerate the implementation timeframe for increasing the 80 point age and service eligibility requirements for retiree health benefits by 7 years

2. Accelerate the implementation timeframe for linking the university contributions for retiree health benefits to years of service by 4 years

3. Further reduce retiree health contributions for new hires and their dependents