

Retiree Health Benefit Policy Changes

Implementation 1/1/2013

February 2011

BENEFIT PRINCIPLES & STRATEGIES

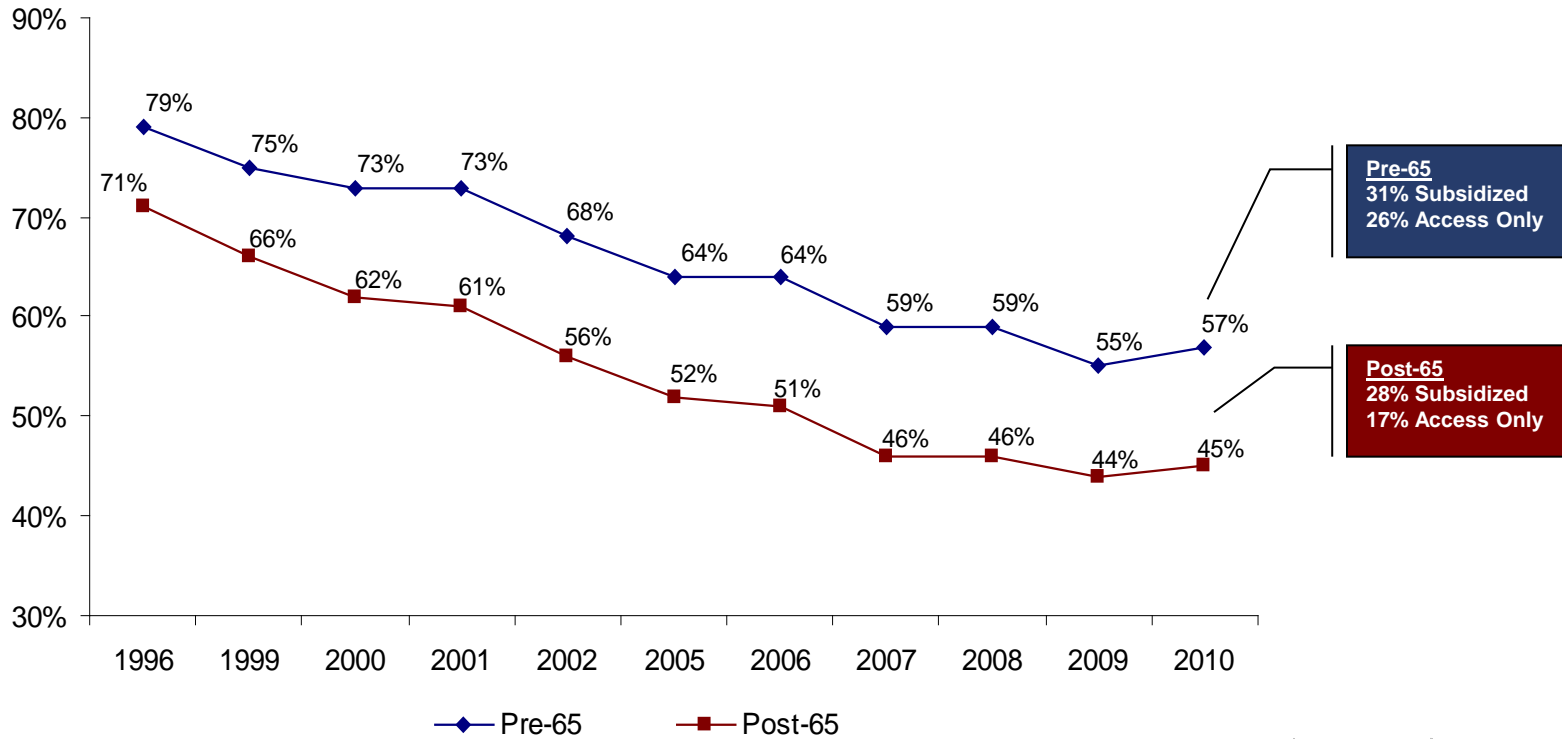
- Quality programs at affordable cost
- Market-competitive programs to recruit and retain faculty and staff
- Responsible fiscal agent and resource steward
- Plan choice
- Enable informed decision-making
- Leverage internal and external expertise in development of innovative benefit design and programs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

- 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

	CY 2010	CY 2015	CY 2020	CY 2030	CY 2040
University Retiree Health Care Costs	\$40.0M	\$59.9M	\$88.4M	\$184.4M	\$359.5M
# of Retirees Covered by Retiree Health Benefits	7,166	8,716	10,870	16,250	20,955

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

Berens, Anne

Assistant Vice Provost for Academic Affairs

Bord, Don

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

Buchmueller, Tom

*Waldo O. Hildebrand Professor of Risk Management and
Insurance, and Professor of Business Economics and Public
Policy, Ross School of Business*

Butler, Pat

Vice President, University of Michigan Retirees Association

Cardwell, Mary

Clinical Nurse II, Voices of the Staff

Eichstadt, Marty

Benefits Director

Hirth, Rich (Chair)

*Professor of Health Management and Policy, and Chair of the
Health Services Organization and Policy Doctoral Program*

Holcomb, Rich (Staff)

Director of Total Compensation, U-M Health System

Langa, Ken

*Professor of Internal Medicine, Medical School, and Professor of
Health Management and Policy, School of Public Health*

Lichtenstein, Rich

*Associate Professor of Health Management and Policy, School of
Public Health*

MacDonagh-Dumler, Etta (Staff)

Associate Director, University HR Strategic Initiatives

Rothman, Ed

*Professor of Statistics, and Adjunct Professor of Economics,
LS&A, and Director, Center for Statistical Consultation and
Research*

Velthouse, Betty

*Associate Professor of Management and Communications, School
of Management, U-M-Flint*

Watson, Brian (Staff)

Financial Analyst, Benefits Administration Office

Weir, David

*Research Professor, Survey Research Center, Institute for Social
Research*

Current Retiree Health Contribution Formula and Eligibility

Retiree Health Contribution Formula for Medical and Prescription Drug

Retiring On/After 1/1/1987

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

Eligibility - Age and Years of Service

Age & Service Requirements for Postretirement Benefits

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

*Min Years Continuous "Benefit Eligible" Service

Retiree Health Policy Changes Adopted: Contributions and Eligibility

Retired On/After	University Contribution % For Health Care			Retirement Eligibility (Age + Years of Service)
	Single Contribution	Dependent Portion	Contributions Tied to Years of Service	
January 1, 1987 (Current Benefit Level – No Change)	93.0%	75.0% Children, 66.0% Adult, 70.0% Medicare	No	Current Eligibility
January 1, 2000	90.0%	70.0%	No	Current Eligibility
January 1, 2013	87.5%	65.0%	No	76 Points
January 1, 2015	85.0%	60.0%	No	77 Points
January 1, 2017	82.5%	55.0%	No	78 Points
January 1, 2019	80.0%	50.0%	No	79 Points
January 1, 2021	Maximum 80.0%	Maximum 50.0%	Yes	80 Points

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

% of Maximum University Contribution*	Years of Service at Retirement	
	Minimum	Less Than
50% UC	10	12
60%	12	14
70%	14	16
80%	16	18
90%	18	20
100%	20+	NA

* 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

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)

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.

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

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

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.

An illustration: Dollar Cost to Retiree (Pre-65 Regular Rates)

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

Retiree Contribution Differences							
For BCBS PPO Plan Based on Calendar Year 2011 Rates							
Pre-65 Regular Non-Medicare Rates Only							
	Current Retiree Contribution	Retiree Monthly Contribution Changes (% Single/% Dependent)					New Hires After 1/1/2013
		Current Employees/Retirees Retired After					
		1/1/2000 90%/70%	1/1/2013 87.5%/65%	1/1/2015 85%/60%	1/1/2017 82.5%/55%	1/1/2019 80%/50%	68%/26%
Retiree Only Contract							
Employee Contribution	\$ 104.00	\$ 118.00	\$ 129.00	\$ 140.00	\$ 151.00	\$ 162.00	\$ 216.00
2 Adult Contract							
Employee Contribution	\$ 329.00	\$ 325.00	\$ 358.00	\$ 392.00	\$ 425.00	\$ 458.00	\$ 620.00

An illustration: Dollar Cost to Retiree (Medicare Eligible)

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 retirements dates 1/1/2015, 1/1/2017, and 1/1/2019 respectively
 - \$95.00 for New Hires Retirees effective with 1/1/2013

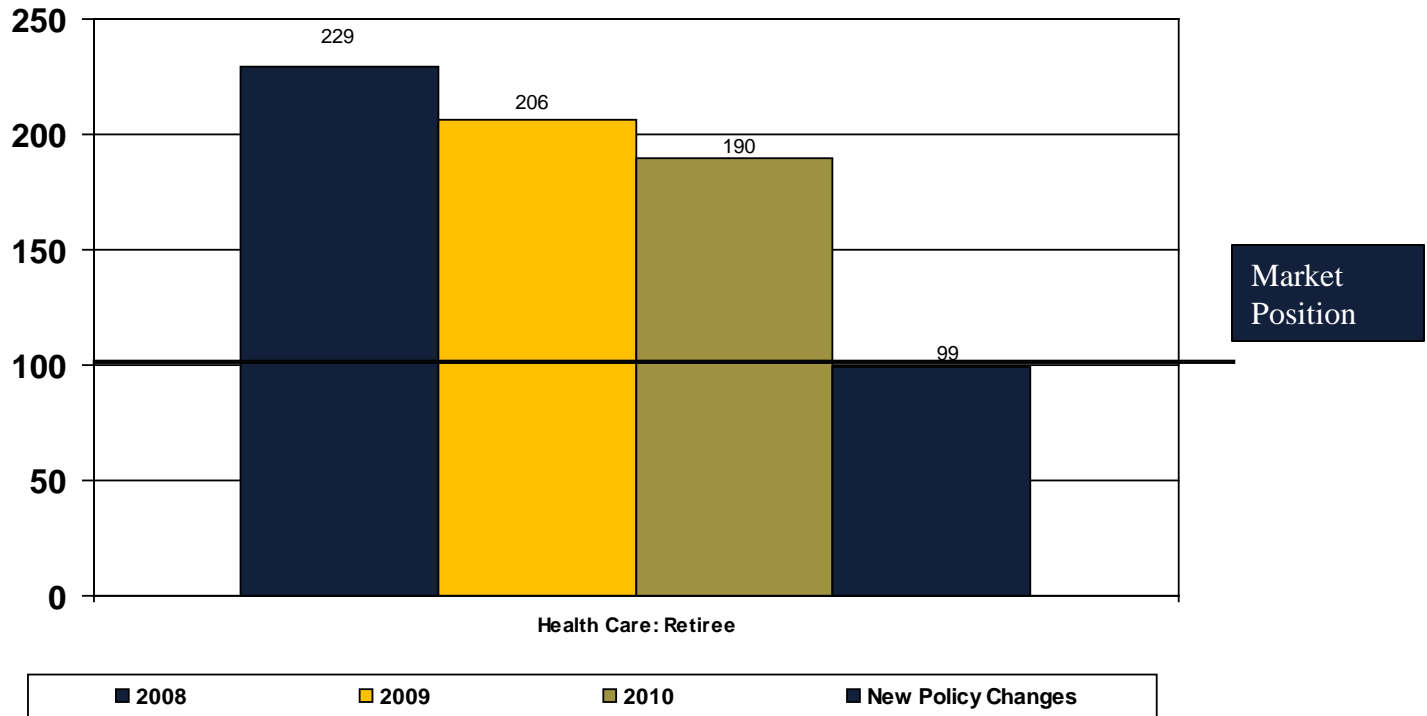
Retiree Contribution Differences							
For BCBS PPO Plan Based on Calendar Year 2011 Rates							
		Medicare Rates Only					
		Retiree Monthly Contribution Changes (% Single/% Dependent)					
2011		Current Employees/Retirees Retired After					New Hires
Retiree		1/1/2000	1/1/2013	1/1/2015	1/1/2017	1/1/2019	After 1/1/2013
Contribution		90%/70%	87.5%/65%	85%/60%	82.5%/55%	80%/50%	68%/26%
Retiree Only Contract							
Employee Contribution	\$ 21.00	\$ 30.00	\$ 37.00	\$ 44.00	\$ 52.00	\$ 59.00	\$ 95.00
2 Adult Contract							
Employee Contribution	\$ 110.00	\$ 119.00	\$ 141.00	\$ 162.00	\$ 185.00	\$ 207.00	\$ 314.00

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

- 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

- 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

- 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

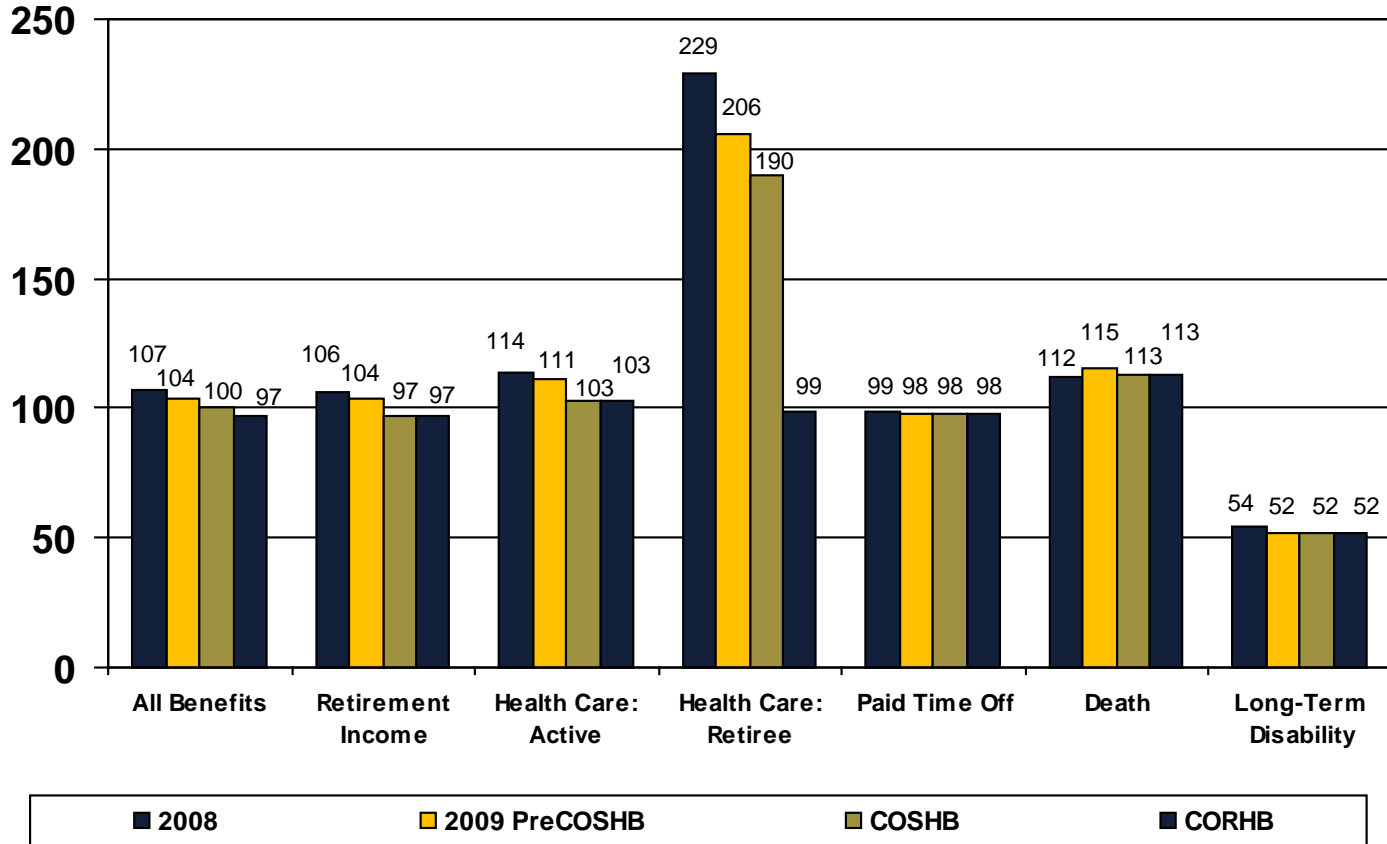
Appendix

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