Carleton College

Campus Presentation

January 12, 2004

A benefit program of, by and for the higher education and not-for-profit communities.
WHAT IS THE EMERITI PROGRAM?
CORE FEATURES

- A strategic purchasing alliance of, by, and for higher education

- An innovative retirement benefit paradigm
  - a tax-advantaged savings account
  - a nationally accessible retiree medical plan

- An educational framework for integrating health planning into retirement decision making
WHO CONTRIBUTED TO EMERITI’S CREATION?
KEY PLAYERS

- The Andrew W. Mellon Foundation
- Steering Committee
- Consulting Partners
- Higher Education Field Test Sites
- Fidelity Investments
- PacifiCare Health Systems
WHY SHOULD WE ADDRESS RETIREE HEALTH NOW?
FUNDAMENTAL ISSUES FOR INSTITUTIONS

- rapidly aging workforce
- slowing retirement patterns
- decreasing opportunities for institutional renewal
- escalating compensation costs
- spiraling insurance premiums
- exponential growth of FAS 106 liabilities
AN OLDER HIGHER ED. WORKFORCE
(in percent)

US Labor Force
- < 40: 44%
- 40 - 54: 42%
- > 55: 14%

Faculty
- < 40: 17%
- 40 - 54: 28%
- > 55: 25%

Staff
- < 40: 36%
- 40 - 54: 47%
- > 55: 17%

Sources: 2000 US Census; Cool research (N = 106 colleges)
TYPICAL CONCERNS OF INDIVIDUALS

- Changing attitudes toward retirement age
- General wariness about national social insurance programs
- Strong desire to protect lifetime assets
- Increasing anxiety about health care insurance
- Growing preoccupation with health status (self/spouse)
- Great satisfaction with current job
Emerging Retirement Preference

Actual Retirement Age
Retired Faculty (1994-99)

- 27.8% Early (<64)
- 32.1% On Time
- 40.1% Late (>66)

Source: Mellon Faculty Retirement Project (2000)

Preferred Retirement Age
Active Faculty Over 60 (2000)

- 38% Early (<64)
- 37.7% On Time
- 24.3% Late (>66)

Source: Mellon Faculty Retirement Project (2000)
“One reason why I am staying on teaching... definitely is to keep my present level of health care, which I need [due to pre-existing condition]. I have been one of the people who has been quite a drain on the college ....”

Active Female Professor
Age 65 - Northeast

“[Health insurance] is the number one concern I have about retirement—without a doubt the tremendous cost of medical care.... The one scenario that could wipe me out is a long-term illness.”

Active Male Professor
Age 63 - West
“I had a potentially quite serious health problem last year, prostate cancer; so that...started me thinking...As it turns out, this was early detection...So [health insurance] is a large consideration. The other thing, too, is that I am leaving the area served by my current [HMO in southern California]. [It] does not run as far north as Washington State, so the College’s benefit does me no good.”

Active male professor, age 64, West
WHAT HEALTH PLAN CHARACTERISTICS APPEAL TO FACULTY (AND STAFF)?

- Availability
- Affordability
- Portability
- Catastrophic Protection
- Prescription Drug Benefit
FACULTY STAY LONGER WITHOUT RETIREE HEALTH COVERAGE

18-to-24-month later retirements without insurance

No Plan Some Support High Support

34% 28% 28%
40% 39% 36%
26% 33% 36%

Late (67+)
On-Time (64-66)
Early (<63)

Source: Mellon Faculty Retirement Project (2000)
N=356 retired professors (1994-99)
NATIONAL DIVERSITY OF RETIREE HEALTH PROGRAMS

- **Continuing plans** (no design change)
- **Transitional plans** (reduced benefits)
- **Access-only plans** (employee pay all)
- **No retiree health plan** (no group advantages)

36% of institutions have no retiree health plan
64% of institutions have some kind of retiree health plan
30% of for-profit businesses retain a retiree health plan
WHY DON’T MEDICARE AND MEDIGAP ADEQUATELY MEET INDIVIDUAL NEEDS?
## DESIGN PROBLEMS

<table>
<thead>
<tr>
<th>Medicare Program</th>
<th>Medigap Insurance</th>
</tr>
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<tbody>
<tr>
<td>- No prescription drugs</td>
<td>- Rigid design</td>
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<td>- No catastrophic coverage</td>
<td>- First dollar coverage</td>
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**Medicare Program**
- No prescription drugs
- No catastrophic coverage
- No long-term care
- Inadequate funding

**Medigap Insurance**
- Rigid design
- First dollar coverage
- Unequal access
- Closed group
INDIVIDUAL FINANCIAL SHORTFALLS

55 - 60% Medicare contribution towards retiree’s health care

20% + out-of-pocket commitments from retiree’s disposable income
POTENTIAL FUNDING SOURCES

- Employers
- Individual retirees
- Federal government
  (i.e., our children and grandchildren)
POTENTIAL SOLUTIONS

- Shift burden to future elderly
- Raise taxes on younger workers
- Cut real growth of retiree coverage
- Improve efficiency of health care system
- Improve design of insurance → PacifiCare
- Get employer/employees to save → Fidelity
WHAT SOLUTIONS DOES EMERITI PROPOSE?
PARADIGM SHIFT

Defined Benefit

Social Security
Medicare

Defined Contribution

403 (b) pension
Emeriti health option
KEY DESIGN ELEMENTS

- Collective entity ➔ Consortium (Emeriti)
- Prefunding mechanism ➔ VEBA Trusts (Fidelity)
- Jointly purchased products ➔ Health Options (PacifiCare)
CONSORTIAL ADVANTAGES

- Leverage purchasing power
- Provide national health access
- Move retirees to consortial health plan
- Improve participant education for retirement
PREFUNDING ADVANTAGES

- Predictable cost in the annual budget for the institution
- Unlimited savings vehicle for individuals
- Long-term investment returns on accumulations
- Favorable tax treatment for qualified health expenses
### TAX ADVANTAGES – VEBA TRUST

<table>
<thead>
<tr>
<th>PAYER</th>
<th>CONTRIBUTION</th>
<th>EARNINGS</th>
<th>PAYOUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMPLOYER (non-profit)</td>
<td>Pre-tax</td>
<td>No-Tax</td>
<td>No-Tax</td>
</tr>
<tr>
<td>EMPLOYEE (voluntary)¹</td>
<td>Post-Tax</td>
<td>No-Tax</td>
<td>No-Tax</td>
</tr>
<tr>
<td></td>
<td>(for now)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMPLOYEE (mandatory)</td>
<td>Pre-Tax</td>
<td>No-Tax</td>
<td>No-Tax</td>
</tr>
</tbody>
</table>

¹ Subject to SEC approval

To preserve the full tax advantages of the VEBA trust, employer-contributed and employee-contributed accumulations must be restricted to qualified medical expenditures.
# JOINT PURCHASING ADVANTAGES

## Superior Design And Administrative Efficiencies

### DESIGN
- Catastrophic protection
- Extensive Rx benefit
- National access to health services
- Extended foreign coverage
- Preventive care component
- Individual engagement in health care utilization

### EFFICIENCIES
- Drug discounts
- Reduced administrative charges
- Model plan documents
- Single source vendor negotiations
- Collaborative approach to education
- Outsourced benefit administration
# Custom Plan Designs

<table>
<thead>
<tr>
<th>Plan Options</th>
<th>Prescription Drug Benefit</th>
<th>Major Medical Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan I</td>
<td>70% after $50 Deductible</td>
<td>$150 Annual Preventive Care Benefit&lt;br&gt;$250 Deductible, 80% Coinsurance&lt;br&gt;$1,500 OOP Max (Med + Rx)</td>
</tr>
<tr>
<td>Plan II</td>
<td>50% after $100 Deductible</td>
<td>$75 Annual Preventive Care Benefit&lt;br&gt;$1000 Deductible, 80% Coinsurance&lt;br&gt;$2,500 OOP Max (Med + Rx)</td>
</tr>
<tr>
<td>Plan III</td>
<td>50% after $200 Deductible</td>
<td>No Medical Coverage&lt;br&gt;$2,500 OOP Max (Rx Only)</td>
</tr>
</tbody>
</table>
EMERITI LIFECYCLE

**EMPEROR**

- Determine Eligibility
- Determine Vesting Criteria
- Send Participant Information to Vendor(s)

**Contribute Funds**

- Offer Payroll Deductions
- Send Changes in Participant Status to Vendor(s)

**Inform Vendors of Retirement Status**

- Pay Premiums for Current Retirees (optional)

**Prepare Retiree for New Health Options**

- Pay Premiums for Current Retirees (optional)

**EMPLOYEE**

- Begin Integrated Retirement Planning
- Enroll in Emeriti Program

**Benefit Eligibility**

- Continue Integrated Retirement Planning
- Determine Voluntary Savings

**Accumulation Phase**

- Select Investment Choices

- Choose Payout Method

**Retirement Event**

- Select Health Option
- Enroll in Medicare

**Health Coverage Phase**

- Receive Health Care Benefits
- Submit Medical Reimbursement Claims (optional)

**Death Benefit**

- Spouse/Dependent Continue to Receive Health Benefits
- Distribute Residual Balance to Beneficiary

1 Pending regulatory approval
EMERITI CONSORTIUM oversees

- FIDELITY Delivers
  - Trust administration
  - Investment options
  - Record-keeping
  - Annuity and other insurance products
  - Disbursements for premiums and other reimbursable health expenses

- PACIFICARE Delivers
  - Fully-insured indemnity health plans on a national basis
  - Prescription drugs through its pharmacy benefit organization
  - Additional ancillary health-related coverages for participants
EMERITI BOTTOM LINE

- To offer an affordable, high-quality, cost-effective, nationally-available medical benefit plan;
- To prefund that benefit during the working years;
- To support the health security of post-65 retirees over their lifetime.
EMERITI CONTACT INFORMATION

EMAIL info@emeritihealth.org
PHONE (866) 685-6565 (toll-free)
FAX (866) 686-6565 (toll-free)
URL www.emeritihealth.org
POST EMERITI Retirement Health Solutions
P.O. Box 350
Beacon, NY 12508
WHO IS RESPONSIBLE FOR THE EMERITI PLAN?
THE NEED FOR STABILITY: Consortial Decisions

- Health Plan Options
- Investment Options
- Medicare Parts A & B
- Participation Rules (for the institution)
- Exit Provisions (for the individual)
- Participant Education (retirement planning)
- Program Monitoring (environmental changes)
PACIFICARE

- One of 5 largest providers of health care
- Serves 1 million seniors and over 9 million active employees
- Specialized focus on senior health products and services
- Extensive pharmacy benefit program
- Annual revenues of $11 billion
- Senior healthcare division headquartered in Cypress, CA. (suburb of L.A.)
THE VIRTUES OF FLEXIBILITY: Institutional Choices

- Benefit Eligibility (start/stop)
- Target Plan
- Funding Target
- Cost-sharing Expectations
- Contribution Methodology
- Spousal Coverage
- Vesting Criteria
- Pay-out Strategies
WHAT ARE COSTS OF CONSORTIAL MEMBERSHIP?
WHY FIDELITY AND PACIFICARE?
FIDELITY

- Top provider of retirement savings plans
- Serves 18 million individuals
- Largest mutual fund company in the U.S.
- Extensive health and welfare record-keeping services
- Managed assets of nearly $890 billion
- Tax-exempt service division in Marlborough, MA. (suburb of Boston)
CONSORTIAL FEE STRUCTURE

501(c) (3) not-for-profit organization
revenues equal expenditures

- One-time entry fee $15,000
- Annual membership fee $6,000 - $36,000
- Premium charge 3%
- New contribution charge 0.3%
FIDELITY FEE STRUCTURE

- Trust administration: no charge
- Investment management: basis points on selected fund(s)
- Record-keeping services: $20 / active, $75 / retiree
- Medical reimbursement process: $6 / claim
- 5500 reporting requirement: no charge

★ Fee reduces by 50% at $10,000 average account balance per institution
★ Fee eliminated entirely at $20,000 average account balance per institution
PACIFICARE FEE STRUCTURE

<table>
<thead>
<tr>
<th>Total Retention Basis</th>
<th>Cost Tiering Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>premium tax</td>
<td>1,000 lives</td>
</tr>
<tr>
<td>risk charge</td>
<td>5,000 lives</td>
</tr>
<tr>
<td>administrative costs</td>
<td>10,000 lives</td>
</tr>
<tr>
<td>claims processing</td>
<td>25,000 lives</td>
</tr>
<tr>
<td>customer service</td>
<td>50,000 lives</td>
</tr>
<tr>
<td>marketing support</td>
<td></td>
</tr>
<tr>
<td>account management</td>
<td></td>
</tr>
<tr>
<td>profit factor</td>
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