Questions and Answers
Emeriti Retirement Health Solutions

Funding/Accumulation:

1- Q. I understand some money will be set aside until retirement. How will the funds be invested?
A. The funds will be deposited in individual accounts with Fidelity. Employees will have some limited investment choices with varying degrees of risk and return.

2- Q. How much money will be added to this fund each year?
A. That will depend on the plan, if any, that the College adopts. For example, an amount of about $650 the first year, increasing by 4% per year for 25 years and accumulating for a career of 35 years at 8% returns, will provide half the amount needed to fully fund the expected costs of PacifiCare plan II for the expected lifetime of an average retiree. The College may decide to fund the 50% level of plan II or another per cent of that or another plan.

3- Q. If the College plan covers 50% of a plan, how will the rest be paid?
A. Employees will have the option to contribute additional funds to their account throughout their career; voluntary employee contributions are made with after-tax income but enjoy the same tax-free treatment on earnings and upon withdrawal for qualified medical expenses. Alternatively, employees may pay for the balance of retirement medical expenses from their retirement income, as they would in the absence of this plan.

Further, the College could choose to have a plan requiring an employee contribution. A required contribution is exempt from payroll taxes, similar to our pension contributions.

4- Q. If the required employee contribution will be exempt from taxes and the voluntary employee contributions are made with after-tax income, and we all will need some kind of medical care savings in retirement, why not make the employee share required?
A. That is a question we will want to answer as a community. In the abstract it is a clear advantage to require the employee contribution. In practical terms it may be a hardship for lower-paid employees to experience both a salary increase that is slightly reduced after taxes to fund the College portion and also to accept a required contribution, even if it is tax-exempt.

5- Q. What is the benefit of this plan compared to saving on my own?
A. There is a significant impact by saving for health care costs using this tax-advantaged process. Also, it will be an automatic, enforced savings of a limited amount each year for a lifetime benefit.

6- Q. How will this program affect my salary and benefits?
A. If this program is adopted by the College it will depend on how it is funded. Likely the benefit will be funded from the budget for salaries and benefits, meaning a portion of the funds that would have been used for your annual salary increase will instead be used for this non-taxable benefit. The net dollars after taxes for you should be greater over your lifetime but the benefit is delayed until retirement. (See the attached worksheets for samples.) For the lowest paid employees there likely will be a reduction in their eventual Social Security benefits. Even with that reduction the net received from both social security benefits and fund accumulations should be greater over your lifetime.

7- Q. Why would there be a reduction in Social Security benefits and how much?
A. Social Security may and likely will change over the next 25 to 50 years. Based on the current formulas for calculating benefits, the best 35 years of earnings are used. Of those earnings the first $5,244 per year are given the most credit or weight toward the benefit. The second $26,376 is given lesser weight. There are several more tiers with the last dollars earned before the maximum contributing nothing to the final benefit. If the College adopts this plan and reduces salaries by $500 per year per employee, for example, the earnings on which Social Security benefits are calculated will be slightly lower. Depending on what prior earnings have been, depending on whether the employee will draw on his own or his spouse’s Social Security benefit, depending on what increases are made to the SS formula, and many other variables, there may be as much as a .7% reduction on the lifetime Social Security benefit. It would be less than that for employees who are mid-career. Based on the models of projected benefits and returns, returns which are not guaranteed, this reduction in Social Security will be offset by the increase in net taxable income with this plan.

8- Q. What about employees who don’t have a whole career to accumulate savings in this plan?
A. It is true that employees who will be able to accumulate savings tax-free their entire career will have a benefit those who are older will not have. Older employees will be able to make voluntary contributions to this plan on an after-tax basis, presumably from funds they have saved over their career. They can use savings, inheritances, or any other source of funds, not just payroll deductions. If this plan is adopted and if the funding source is a reduced compensation pool the younger employees will experience a one-time reduction in their base salary for the majority of their career. The older employees have had the benefit of the full compensation pool in prior years.

Health Insurance/Medical Costs

9- Q. What can the savings be used for at age 65?
A. The accumulated savings in your account can be used for the costs of insurance supplemental to Medicare as well as to reimburse a wide range of other eligible medical expenses such as co-pays, long-term care insurance, dental, vision, and others.

10- Q. Will this retiree medical program help pay for medical insurance for early retirees?
A. No, the insurance benefits under this program are available only to those who are Medicare-eligible, usually at age 65, and who participate in both Medicare Part A and B.

11- Q. What kind of Emeriti Health Solutions insurance plans are offered for purchase at age 65?
A. PacificCare offers three Medicare wraparound plans:

Plan I
Major medical benefit- $250 deductible, 80% coinsurance, $1,500 annual out of pocket maximum (medical plus prescriptions); prescription benefit 70% after $50 deductible

Plan II
Major medical benefit- $1,000 deductible, 80% coinsurance, $2,500 annual out of pocket maximum (medical plus prescriptions); prescription benefit 50% after $100 deductible

Plan III
Major medical benefit- none; prescription benefit 50% after $200 deductible, $2,500 annual out of pocket maximum

Medicare participation in both parts A and B are required.

12- Q. How does the PacifiCare insurance compare to other Medicare supplements?
A. These plans feature portability as retirees travel or relocate, cost-effective rates, true insurance protection rather than first dollar coverage, and prescription coverage. We expect the rates to compare favorably with Medicare supplements with similar benefits. The PacifiCare plans are "open" plans; that is, there will continually be new retirees joining the plan. Other plans can become "closed". If a carrier finds the plan is not profitable they can close it. They cannot drop the current participants but they can raise the rates for them to cover costs. As ages of the participants in a closed plan continue to increase, costs will rise dramatically due to the lack of new, younger and presumably healthier, participants will not be added.
13- Q. How can I withdraw the funds at age 65?
A. The employee may choose to annuitize the accumulated funds. The options for annuities include one-life, a spouse as a survivor beneficiary, a guaranteed period of years and other common annuity options. Alternatively, the employee may choose the declining balance approach and withdraw funds as needed for eligible medical expenses.

14- Q. What happens to the accumulated savings if I die?
A. If the College adopts this plan it would include a life insurance benefit for unused accumulated savings. If an employee died before age 65 the accumulated savings, both the College and the employee contributions, would revert to a named beneficiary tax free. If the employee died after retirement it would depend on the choice s/he made for withdrawing the funds. If the employee annuitized the balance, the annuity would govern. If the employee chose withdrawals as needed, the life insurance provision would apply.

15- Q. Are domestic partners eligible to receive benefits?
A. Domestic partners of eligible employees and former employees may receive benefits under the plan to the extent permitted by the Internal Revenue Code. Only those domestic partners who qualify as “dependents” under Section 152(a) of the IRS code may receive benefits under the Emeriti Program. To permit otherwise would cause the VEBA trust to become disqualified and would destroy the Program’s tax advantages.
Generally, a qualifying domestic partner is a partner of the same or opposite sex (i) over half of whose support for the year is received from the employee or former employee and (ii) who for the taxable year of the employee or former employee has as his principal place of abode the home of the employee or former employee and is a member of the employee’s or former employee’s household.

General:

16- Q. What are the advantages of using this consortium rather than trying to establish a plan ourselves?
A. The Consortium, with thousands of participants, leverages purchasing power, cost efficiencies in investments, maintaining records, and in the design and delivery of the insurance.

17- Q. What will be the impact of changes in a national health insurance or the new Medicare benefit?
A. While no one can predict what changes might occur over the next 50 years the Mellon Foundation-sponsored Consortium for Higher Education that developed this plan intends to monitor changes in the health care industry and in the political scene and will be able to modify the plans offered to respond to those changes.

18. Q. What are the advantages of Emeriti in light of the new Medicare Legislation with the HSA option?
A. The new Medicare bill authorizes a Health Savings Account (HSA), similar to IRAs, to which individuals can make tax-deductible cash contributions that can then be used to reimburse the individual -- tax free -- for qualifying medical expenses. Participants are limited to those with a high deductible medical insurance plan (at least $1,000 for single, $2,000 for family) and oddly enough, are NOT available to pay medical insurance premiums. The annual limits are the amounts of the deductible plus a modest “catch up” amount for those over 55. This option might well be one considered by the College as part of the plan for employee medical insurance; it does not seem to address significant accumulation for retirement medical costs. While not all the regulations have been analyzed, HSA’s may peacefully coexist with the Emeriti plan. The HSA’s have no provision for a Medicare supplement such as PacifiCare.
19. Q. What about employees who have already retired?
A. If the College elects this option retirees will be able to make voluntary after-tax contributions to this plan and will be able to purchase the PacifiCare insurance products.