Retiree Healthcare Challenges and the Affordable Care Act

CACUBO • Kansas City, MO
October 7, 2014
Speakers

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Agenda

- Institutional dynamics
- Aging workforce in Higher Ed
- Retiree healthcare trends
- ACA, retiree health benefits, and Medicare
- Savings needed for healthcare in retirement
- Defined Contribution Retiree Health Plans
- Question & Answer
Justifiable Confusion

- Future of Medicare?
- Public Marketplaces?
- What about Adjuncts?
- Defined Contribution Plans?
- What is the impact of the ACA?
- Defined Benefit Liabilities?
- Delayed Retirements?
- Private Exchanges?
Market Dynamics for Employers

Institutional dynamics for plan sponsors

- Management of aging workforce (changing demographics)
- Evolution of competitive total compensation packages (recruitment and retention)
- Restructure of unsustainable financial model
- Cost shifting to employees
- Strategic design of benefits to promote retirement readiness (encouraging timely retirements)
- Impact of delayed retirements
- Transition strategies are available for legacy benefits and unfunded liabilities
- Will to make the paradigm shift from DB to DC
According to data from the Bureau of Labor Statistics, the number of professors ages 65 and up more than doubled between 2000 and 2011.

Staff Approaching Retirement Age in Higher Education

<table>
<thead>
<tr>
<th>Institution</th>
<th>1990</th>
<th>2000</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornell University</td>
<td>16%</td>
<td>21%</td>
<td>35%</td>
</tr>
<tr>
<td>University of Virginia</td>
<td>15%</td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td>University of Texas at Austin</td>
<td>15%</td>
<td>21%</td>
<td>28%</td>
</tr>
<tr>
<td>Duke University</td>
<td>14%</td>
<td>18%</td>
<td>27%</td>
</tr>
<tr>
<td>George Mason University</td>
<td>10%</td>
<td>16%</td>
<td>27%</td>
</tr>
<tr>
<td>University of North Carolina at Chapel Hill</td>
<td>13%</td>
<td>21%</td>
<td>35%</td>
</tr>
<tr>
<td>Vanderbilt University</td>
<td>13%</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>University of Georgia</td>
<td>10%</td>
<td>11%</td>
<td>21%</td>
</tr>
<tr>
<td>University of Wisconsin at Madison</td>
<td>14%</td>
<td>16%</td>
<td>21%</td>
</tr>
<tr>
<td>Middlebury College</td>
<td>6%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td>Allegheny College</td>
<td>5%</td>
<td>6%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Many of the professors who have reached their mid-60s and 70s continue to teach, creating a dilemma for institutional planners and a bottleneck for newly minted Ph.D.’s on the job market.

Trends in Retiree Health Benefits Triggered by FASB & GASB

Financial Accounting Standards Board (FASB) Statement No. 106 (FAS 106)
- 1990 accounting rule change that required employers to report their retiree health benefit liabilities

Governmental Accounting Standards Board (GASB) Statements No. 43 and 45 (GAS 43 and 45)
- Imposed new accounting standards on public-sector sponsors similar to the FAS 106 standards

Fewer employers offering benefits

When offered, retirees paying more
- Spending caps
- Defined contribution approaches
- Access-only plans

More difficult to qualify for benefit
- Higher age and service requirements
- New hires often not eligible
## Retiree Healthcare Trends

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Plan Features</th>
<th>Major Players</th>
</tr>
</thead>
</table>
| Defined Benefit     | - Future promise to pay some or all of health insurance premium in retirement for eligible retirees and possibly dependents  
                      - Creates FASB 106 or GASB 45 unfunded liabilities                                                                                            | - Employers sponsoring group insurance plans  
                      - Insurers  
                      - Brokers  
                      - Consultants |
| Defined Amount      | - Establishment of notional account (HRA)  
                      - Future promise to pay a fixed amount for health insurance or healthcare expenses in retirement for eligible retirees and possibly dependents  
                      - Creates FASB or GASB unfunded liabilities                                                                                                 | - Employer sponsored or endorsed insurance plans  
                      - Private exchanges |
| Defined Contribution| - Pre-funding in VEBA or governmental trusts  
                      - Employer-sponsored with employer and/or employee contributions in invested tax-advantaged accounts  
                      - Used for reimbursement of qualified medical expenses and health insurance premiums  
                      - No unfunded liabilities  
                      - Access to retiree health insurance plans may be provided  
                      - Can accommodate pay-as-you-go subsidies for cohorts grandfathered into DB arrangements                                                          | - TIAA-CREF RHP  
                      - Emeriti Retirement Health Solutions  
                      - Other mutual fund & insurance companies |
| Access Only         | - Access to employer sponsored or endorsed group insurance plans paid entirely by retiree                                                                                                                      | - Insurers  
                      - Private exchanges |
| No Benefit          | - No allowance for, or access to, employer-sponsored or endorsed retiree health insurance                                                                                                                   | - Individuals are on their own upon retirement |
Percentage of Private-Sector Establishments Offering Health Insurance to Retirees, 1997-2011

Distribution of How Employers Subsidized Early Retiree Health Benefits, 2005-2010

- Defined dollar approach that is limiting current employer cost: 31%, 26%, 28%, 28%, 27%, 24%
- No defined dollar cap to employer subsidy: 38%, 39%, 35%, 29%, 26%, 25%
- Retirees Pays 100%: 30%, 32%, 36%, 41%, 46%, 50%

### Changes to Retiree Health Benefits From 2011 to 2012

<table>
<thead>
<tr>
<th>Change</th>
<th>Early Retirees</th>
<th>Medicare-Eligible Retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased retiree contribution to premiums</td>
<td>73%</td>
<td>75%</td>
</tr>
<tr>
<td>Increased retiree plan design cost-sharing requirements</td>
<td>34%</td>
<td>31%</td>
</tr>
<tr>
<td>Tightened restrictions on new retiree eligibility</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Introduced an HSA-compatible HDHP</td>
<td>12%</td>
<td>N/A</td>
</tr>
<tr>
<td>Terminated subsidized benefits for some or all future retirees</td>
<td>11%</td>
<td>14%</td>
</tr>
<tr>
<td>Introduced a new premium subsidy cap for a group that was previously uncapped</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Terminated subsidized benefits for some or all current retirees</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Moved to a pure defined contribution subsidy approach through a health reimbursement arrangement (HRA)</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Facilitated retiree purchase of individual medical insurance</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>Introduced Medicare Advantage plans</td>
<td>N/A</td>
<td>6%</td>
</tr>
<tr>
<td>Terminated Medicare Advantage plans</td>
<td>N/A</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Aon Hewitt, 2012 Hot Topics in Retirement, 2012
Pre Medicare Modernization Act (MMA) in 2003

Retirees had no ability to obtain comprehensive medical coverage outside of employer provided plans

- Post-65 retirees could purchase Medicare, Medicare Advantage, and Medicare Supplement—however, they had no access to reliable Rx coverage
- Pre-65 retirees had no reliable access to post-employment health coverage (other than COBRA and, ultimately, Medicare)
- Increasing costs meant that employers often offered retiree medical plans that were too extensive—and too expensive—for retirees’ needs

Post MMA

Post-65 retirees now have access to prescription drug coverage outside of the employment relationship (Medicare Part D)

Events over the last 10 years have changed the retiree medical landscape in the US.
Affordable Care Act (ACA)

ACA extends the changes made by MMA – beginning in 2014

Pre-65 retirees (along with those still actively employed) will have access to health insurance with many important protections

- Guaranteed issue
- No medical underwriting or preexisting conditions limitations
- Limits on age-based premium spikes (3:1 ratio)
- All options meeting minimum coverage standards
- Premium and out-of-pocket subsidy may be available from federal government (based on income)

ACA also helps to close the so-called “donut hole” for post-65 retirees
Response to ACA from Higher Ed: Findings from the 2013 CUPA-HR Employee Health Benefits in Higher Education

- Premiums averaged about $6,000/$16,600 for employee-only and family coverage
- 27% increased employee share of premium
- 17% increased employee share of premium for dependent coverage
- 23% adopted or enhanced wellness program
- 40% offering HDHP (17% in 2009)
- About 50% offer retiree health benefits (with about half paying part of premium)

Challenges Ahead
The Number of Medicare Enrollees Is Growing

Source: Partnership for the Future of Medicare.
The cost of Medicare is expected to nearly double over the coming decade, from $565.3 billion in 2011, to $1.058 Trillion in 2022.

The program’s annual spending increases – 7.6% in 2011 – are expected to grow to 10.7% in 2022.*

Medicare Advantage: What’s at Stake

- Medicare Parts A & B are assigned to a private insurer. Medicare pays the insurer a fee to assume all of the benefit coverage defined by Original Medicare. The insurer becomes responsible for all of the Medicare-eligible healthcare costs and sometimes offers additional benefits beyond Original Medicare’s eligible services.

- Medicare Advantage plans are among the most popular and affordable plans for seniors
  - Enrollment grew from 11.1 million in 2010 to 14.4 million in 2013*

- Health and Human Services Department plans to cut the Medicare Advantage budget - roughly 6% to 7%**
  - An ACA funding provision will cut Medicare Advantage subsidies starting in 2015

**Source: The Kaiser Foundation, June 12, 2013, “Projecting Medicare Advantage Enrollment: Expect the Unexpected?”
Individuals will have to assume more cost sharing and purchasing responsibility.

Plan sponsors will have to assess how an employer-sponsored retirement healthcare benefit can best serve employees and the institution.
Today, Medicare only covers about 62% of total retiree healthcare costs*

Future of Medicare funding is in question

Seniors don’t benefit from retiree health insurance tax advantages (no pre-tax treatment of premiums)

Seniors will have to pay more and more for Medicare and supplemental insurance coverage

"We totally underestimated the cost of medical insurance. It is killing our retirement savings."

Source: Couple cited in recent BMO Private Bank focus group report
Retiree Health Savings Model

EBRI Notes, October 2013

- Observations used to determine asset targets for having adequate savings 50%, 75% and 90% of the time
- Separate estimates for men and women
- Joint estimates for married couple
- Estimates for persons with Medigap Plan F & Medicare Part D
## Retiree Health Savings Model

<table>
<thead>
<tr>
<th></th>
<th>Median Drug Expenses Throughout Retirement</th>
<th>90&lt;sup&gt;th&lt;/sup&gt; Percentile of Drug Expenses Throughout Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Men</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>$65,000</td>
<td>$96,000</td>
</tr>
<tr>
<td>75% percentile</td>
<td>96,000</td>
<td>137,000</td>
</tr>
<tr>
<td>90% percentile</td>
<td>122,000</td>
<td>172,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Median Drug Expenses Throughout Retirement</th>
<th>90&lt;sup&gt;th&lt;/sup&gt; Percentile of Drug Expenses Throughout Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Women</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>$86,000</td>
<td>$124,000</td>
</tr>
<tr>
<td>75% percentile</td>
<td>111,000</td>
<td>158,000</td>
</tr>
<tr>
<td>90% percentile</td>
<td>139,000</td>
<td>195,000</td>
</tr>
</tbody>
</table>

Source: EBRI Notes, October 2013.
## Retiree Health Savings Model

<table>
<thead>
<tr>
<th>Married Couple</th>
<th>Median Drug Expenses Throughout Retirement</th>
<th>90&lt;sup&gt;th&lt;/sup&gt; Percentile of Drug Expenses Throughout Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>$151,000</td>
<td>$220,000</td>
</tr>
<tr>
<td>75% percentile</td>
<td>207,000</td>
<td>295,000</td>
</tr>
<tr>
<td>90% percentile</td>
<td>255,000</td>
<td>360,000</td>
</tr>
</tbody>
</table>

Source: EBRI Notes, October 2013.
“Healthcare expenses are the big unknown. I think many just continue working while they can for better medical coverage and to avoid those expenses.”

~ Cheryl Cameron, vice provost for academic personnel at the University of Washington.

Only one-fifth of faculty are “very confident” that they will have enough money to take care of medical expenses during retirement.*

## Case Study: Retiree Healthcare Challenges

**Retiree healthcare benefits challenges prior to 2005 (Emeriti implementation)**

<table>
<thead>
<tr>
<th>FAS 106 liabilities</th>
<th>Unsustainable cost trajectory</th>
<th>Concern for fairness of benefits among different groups of employees <em>(Haves and have nots)</em></th>
<th>Continued need to facilitate timely retirements</th>
<th>Active employees subsidizing retiree health costs</th>
</tr>
</thead>
</table>

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Case Study: Response to Retiree Healthcare Challenges

Board discontinued retiree healthcare 7/1/93

Phased in subsidy reductions to future retirees

Increased premiums to retirees to match cost

Sought a way to untangle retirees from active plan

Convinced Board of defined contribution plan and 1993 - 2005 makeup

“Offload” retirees & create a financially predictable plan
Emeriti solution: Comprehensive defined contribution approach

Employer benefits
- Reduction of FAS liabilities
- Reduction of medical trend risk, demographic risk and longevity risk
- Flexibility of plan design
- Outsourced administration – pre-93 group

Employee benefits
- Prefunding into tax-advantaged accounts
- Access to nationwide, portable group insurance
- Reimbursement of qualified medical expenses
- Flexibility in plans and costs
- Foreign travel coverage
Pre-93 Group

- Pay as you go
- Subsidies
- Three cost sharing plans
- Emeriti administers
- Closed group

Post-93

- Age 40 & full-time
- Today - $106/monthly
- Five-year vesting
- Twenty-five years of contributions
- Transition contributions
- Estimate – 50% coverage
How the Emeriti Program works for Denison

- Integrated, streamlined administration
- The collective buying power of education and education-related nonprofit organizations
- A defined contribution funding model with tax-advantaged contributions, earnings, and distributions
- A range of nationally available, fully insured group health plans with annual choice
- A reimbursement benefit for other qualifying medical expenses
- Ongoing educational resources for retiree benefits planning
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