Retiree Health – Emerging Strategies

TIAA
Emeriti Retirement Health
Research Foundation for Mental Hygiene
October 11, 2016

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SPEAKERS

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Emeriti Retirement Health Solutions & Head of TIAA Health

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Senior Director, TIAA Health

Robert B. Weinman, CEBS
Vice President of Benefits and HR Operations
TIAA

Theresa Conlin
Director of Human Resources
Research Foundation for Mental Hygiene

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Today’s discussion

Retiree healthcare trends

Savings needed for healthcare in retirement

Case studies - defined contribution retiree health plans

Question & answer
**Retiree Healthcare Challenges**

- Rising healthcare costs
- Unsustainable legacy benefits
- FASB & GASB liabilities
- Delayed retirements
- Workforce renewal

- Information overload
- Rising cost of healthcare
- Risk to retirement assets
- Lower incentive to retire
- Medicare’s sustainability

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Retiree healthcare challenges

An average couple, age 65, currently needs more than $250,000 to cover their healthcare costs in retirement.

Any discussion about retirement readiness must include planning for healthcare expenses.

Source: EBRI Notes, October 2015.
DEFINED CONTRIBUTION PLANS
ONE OF THE MOST TAX EFFICIENT WAYS TO HELP COVER HEALTHCARE EXPENSES IN RETIREMENT

Driving better retirement outcomes by addressing both health & financial well-being
Triple tax-free defined contribution retiree health plan

1. Employer contributions are made tax-free
2. Earnings grow tax-free
3. Benefits are provided tax-free for qualified medical expenses in retirement

* Based on maximum marginal tax bracket. Individual rates will vary.
TIAA CASE STUDY

Robert B. Weinman, CEBS
Vice President of Benefits and HR Operations
TIAA - challenges

- Design TIAA retirement program to meet employee needs for wealth accumulation while providing lifetime income in retirement
- Offer 11,500 employees defined contribution plans to help address income and healthcare security needs:
  - TIAA Retirement Plan
  - TIAA 401(k) Plan
  - Retirement Health Savings Plan
  - Health Savings Account
- Historically provided retired TIAA employees financial subsidies and access to corporate-sponsored health benefits
- In 2015, plan subsidy changes introduced
- Subsidy still provided to current retirees and active employees meeting eligibility requirements on 12/31/2014 (approximately 2,000)
- High plan liabilities and expenses, high annual trend and expense volatility with group

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TIAA - solutions

Transitioned from corporate-sponsored health plan coverage to coverage through private exchange for Medicare-eligible retirees, effective 7/1/2015

Gained access for retirees to different plan options—Medigap, Medicare Advantage and Medicare Part D plans

Provided financial assistance for eligible retirees through an annual credit to a Health Reimbursement Account (HRA)

Increased flexibility and lowered costs for retirees through a private exchange with access to counselors—provide decision and enrollment support and health advocacy services

Lowered current and long-term costs for retirees and TIAA—plan liabilities have been reduced by nearly 40% and annual expense by 65%
TIAA - post-65 retiree Medicare exchange results

<table>
<thead>
<tr>
<th><strong>4 days</strong></th>
<th><strong>96%</strong></th>
<th><strong>88%</strong></th>
<th><strong>68%</strong></th>
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<tbody>
<tr>
<td>of in-person retiree meetings in New York and Charlotte + 1 day of telephone meetings</td>
<td>or 879 of our 912 initial eligible retirees and spouses losing TIAA medical and prescription drug coverage were contacted as result of enrollment process and call with Benefits Advisor</td>
<td>or 806 of our 912 initial eligible retirees and spouses losing TIAA medical and prescription drug coverage enrolled in a healthcare plan through OneExchange as of 6/30/2015</td>
<td>or 131 of our 193 initial eligible retirees and spouses losing TIAA dental coverage only enrolled in a dental plan through OneExchange as of 6/18/2015</td>
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<th><strong>192</strong></th>
<th><strong>4,838</strong></th>
<th><strong>38</strong></th>
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<tbody>
<tr>
<td>Unique plans selected</td>
<td>Phone calls handled</td>
<td>Total carriers</td>
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RFMH CASE STUDY

Theresa Conlin
Director of Human Resources
Research Foundation for Mental Hygiene, Inc. profile

- Private not-for-profit
- Established in 1952
- Affiliated with the NYS Office of Mental Health (NYS OMH)
- Administer research and training programs for NYS OMH
- Primary source of funding is National Institutes of Health (NIH)
- Approximately 1,100 employees
- Approximately 750 active employees on health insurance
- Approximately 150 retirees on health insurance
- Provided Defined Benefit Retiree Health Insurance to employees with 10 years of service (same as NYS OMH)
<table>
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<tr>
<th>Challenges</th>
<th>Details</th>
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<tr>
<td>Revenue from NIH Shrinking</td>
<td>Liability for post-retirement healthcare increased from $25M to $45M over past 10 years ($10 million in the past 2 years)</td>
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<tr>
<td>Number of retirees increased from 25 to 150 over past 20 years</td>
<td>Had set aside funding totaling $38M to cover retiree health</td>
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<tr>
<td>Active employees on health insurance decreasing</td>
<td>Unrestricted net assets eroding</td>
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<td>Wage growth stagnant and fringe costs rising</td>
<td>Ability to cover liability in the future becoming Increasingly uncertain</td>
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RFMH—POSSIBLE SOLUTIONS PRESENTED TO BOARD OF DIRECTORS

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<th>Possible Solution</th>
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<tr>
<td>1</td>
<td>Discontinue defined benefit retiree health plan</td>
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<tr>
<td>2</td>
<td>Significantly reduce benefits</td>
</tr>
<tr>
<td>3</td>
<td>Require additional cost share by retirees (already had implemented increased cost share for new retirees)</td>
</tr>
<tr>
<td>4</td>
<td>Convert to a Defined Contribution plan and use $38M to fund a VEBA</td>
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Reevaluating retiree benefits package

- Assess the impact of providing reduced or no retiree health benefit at all
- Consider budget-neutral approaches to total retirement benefits spend
- Use savings from benefit re-design to help employees pursue retirement readiness
- Explore allocating a portion of retirement contributions to triple tax advantaged retiree health accounts
TAKE ACTION!

1. Evaluate gaps in current retiree health benefits
2. Consider more tax-efficient savings plans
3. Contact Emeriti or TIAA regarding retiree health plan design alternatives
4. Implement benefit plan changes to help improve the retirement readiness of your workforce

Connecting health & financial well-being can significantly improve the retirement readiness of your employees

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Q&A

Retiree Health – Emerging Strategies
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