

November 19, 2007

Memorandum

To: President Hill

From: The Benefits Committee<sup>1</sup>

Re: Recommendations on Post-Retirement Health Insurance

The Benefits Committee wishes to relay its recommendations regarding post-retirement health insurance at Vassar College.

We were charged in August of 2005 to study post-retirement health insurance and make recommendations to the President. We recognize that our recommendations have been sought to respond to concerns of the Board of Trustees: namely, concern with the escalating cost of retiree health insurance and concern that the value of Vassar's generous post-retirement health care benefit is not captured in comparisons of active employee compensation, most notably in the AAUP comparisons used for faculty compensation analysis.

The Committee's recommendations follow from its investigations and discussions over the last two years; consultation with the Faculty Compensation Committee and the Committee on Priorities and Planning; feedback from open sessions for faculty, administrators and retirees last fall; feedback from the publication of a discussion paper this past spring; and periodic meetings with Board committees concerned about the rising unfunded liability under the current program. The recommendations we make at this time should substantially reduce the college's accounting liability and help to control cash cost, without making dramatic changes to the post-retirement health insurance program.

We understand that adopting the following recommendations at this time will not preclude the need for continued vigilance and study of post-retirement health benefits at Vassar. The future course of health costs, changes in government provision for retiree health care, the development of new products in a changing market as well as unforeseen shifts in demographics and usage patterns all may alter the post-retirement health benefits landscape. These developments will call for continued research by the Human Resources staff and oversight by the senior officers of the College and the appropriate governance committees. This was stressed in much of the communication our colleagues shared with us during our deliberations and we concur that Vassar as an employer must stay abreast of these developments.

---

<sup>1</sup> Members 2006/07: Betsy Eismeier, Dan Gianinni, David Kennett, Bill Lunt, Alan Marco, Sabrina Pape, Mary Carole Starke. Consultants and staff: Marianne Begemann, Leslie Power, Ruth Spencer, Members 2007/08: Betsy Eismeier, Dan Gianinni, David Kennett, Rachel Kitzinger, Alan Marco, Sabrina Pape, Bob Rebelein, Staff: Ruth Spencer, Leslie Power. Marianne Begemann and Mary Carole Starke reviewed and approved the wording of this memorandum with recommendations.

## Recommendations

- 1) In recognition of the value conveyed through the defined benefit approach to post-retirement health insurance, the College should incorporate an estimate of the per-eligible-employee value of the future benefit in its compensation planning and comparisons. Clearly, this requires careful calculations and even more careful interpretation. Given that the College has reserved, and will continue to reserve, its right to make future changes to the post-retirement health insurance program, estimates of average total compensation that include an adjustment for post-retirement health insurance must be interpreted cautiously, in light of the limitations of the valuation methodology. Still, it is clear that the expectation of this benefit has significant value to eligible employees and should not be ignored in compensation planning.
- 2) We recommend that the College make certain changes, effective January 1, 2010, in the defined benefit program now in place to control cash cost and accounting liability. We believe that selection of a future date, two years hence, will allow adequate time for the change in expectations and will increase employee acceptance of the changes.
  - a. A new eligibility rule of ten years of service and age 60 for retirements beginning on or after January 1, 2010. The current requirement that individuals retiring prior to age 65 pay the full cost for their coverage until they become Medicare eligible would remain in effect.
  - b. Premium cost-sharing. The Committee recommends premium cost-sharing between retirees and the College, but we had differing opinions on the best strategy for “grandfathering” current retirees. The table below summarizes the options for premium cost-sharing that seemed reasonable to members of our committee.

In each case, the effective date would be January 1, 2010. See footnote for estimate of current annual cost and estimated lifetime cost.<sup>2</sup>

Options	For those who retired before July 1, 1999	For those who retired on or after July 1, 1999 but before January 1, 2010	For those retiring as of January 1, 2010 and thereafter
A	0% contribution	0% contribution	15% contribution
B	15% contribution	15% contribution	15% contribution
C	0% contribution	10% contribution	15% contribution

---

<sup>2</sup> 15% of the current annual premium is \$790, which is approximately a present value of \$17,000 for an average life span in retirement. Assumptions used in the present value calculation are: health insurance inflation rates used by Mercer in their actuarial calculations for the College, a twenty year post-retirement life expectancy, and 5% discount rate.

Some of us believe that the College should grandfather all those who have already retired or will have retired by January 1, 2010, with no cost-sharing obligation. Other members of the Committee feel that there should not be a distinction in premium cost-sharing based on date of retirement.

- 3) The recommended changes in premium cost sharing for the current defined benefit plan is not a complete rejection of the option we presented in the discussion paper in the spring of 2007: to provide benefits through a more cost-effective Medigap J and Medicare D plan combination. We certainly recognize that there are serious concerns about the Medicare D plans during their initial implementation. If Government-sponsored drug plans become more acceptable in the future, there may be a significant cost advantage to both the retiree and the College to seek retiree health insurance through a Medigap plan coupled with a Medicare D plan. We believe that the College should continue to study the development of these plans, and leave open the possibility that such an approach might be appropriate. Clearly there are efficiencies related to being part of a large risk pool, and the defined benefit plan must take those efficiencies into account over the years ahead.
- 4) We recommend that the College, through the Human Resources Office and the Benefits Committee, continue to research the option of a transition in the near future to either a defined contribution or a defined dollar plan for faculty and administrators *hired after a specific date* (to be determined based on the research). The earliest possible date to transition to a new plan should depend on how rapidly the college makes progress defining the parameters of a new program. Once the plan is defined, some members of the Committee urged that current employees should be given a choice to select the new program in place of the grandfathered program. (See the Discussion Paper for the details of a defined contribution or defined dollar program.)
- 5) We recommend that, when considering a new defined contribution or defined dollar approach, Vassar should target a relatively high level of post-retirement health insurance for the new plan. Comparability to the current system for active employees would imply 85% of the cost of a generous plan design. It is important to provide future employees with a health care program that does not act as a disincentive to timely retirement in the future.

In closing, we wish to acknowledge our awareness of the balance that the College must strike to reach the desired goal of reducing the unfunded liability and moderating the growth of retiree health care premiums paid by the College against the expectations and needs of current and future retirees. We hope that these recommendations are helpful in moving the College forward toward a decision.