

President's Letter

Now that Emeriti is into its second full year of operation, we believe it is time to begin a periodic newsletter for institutions that have expressed interest in the Emeriti Program. This newsletter will be sent to you electronically twice a year, with special issues as needed. Topics will cover Emeriti benefit design, insurance enhancements, service updates, regulatory information, and other program developments. We will also brief you about Fidelity, Aetna or HealthPartners service improvements that support the comprehensive framework of the Emeriti Program. And we will alert you to relevant changes in Medicare and other federal or state issues that might affect Emeriti and you as plan sponsors who deal with retiree benefit issues. We will also provide information and interviews with Emeriti Member Institutions that have designed especially noteworthy approaches to funding schemes and plan elections for adoption of the Emeriti retiree medical benefit on their campuses.

We hope that you will find ***Emeriti Matters*** a useful source of program information. We will be happy to send this newsletter to additional people at your institution who are involved in benefit administration, financial decision-making, and campus leadership on retirement matters relating to overall retirement strategies. We also welcome your suggestions for future topics. Please contact Deanne Shallcross at dshallcross@emeritihealth.org or at 1 866-685-6565.

Sincerely,



Kenneth E. Cool
President, Emeriti

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A Progress Report on Emeriti

Looking back on our first full year of operation, we have made much progress on many fronts. The Emeriti consortium now includes 42 member institutions geographically distributed all across the country. Almost every member institution is coming from a different place with its retiree health arrangements — from very rich defined benefit plans, to modest employer support, to access only arrangements, to no plan at all.

Many of our member institutions have decided to terminate their existing post-65 plan and move all retirees into the Emeriti health insurance options. Some members have grandfathered existing retirees into an old insurance plan, while enrolling new retirees in Emeriti. We can accommodate either approach, and we can also do a split implementation, with active employee participation in the health accounts effective on one date, and insurance coverage for current retirees effective January 1 to coincide with the annual enrollment for Medicare Part D.

We have found that the road to adoption for many institutions is longer than we had anticipated, with many important decision points along the way. As a new paradigm, Emeriti merits careful reflection as part of an institution's overall retirement strategy. We are pleased by the extremely high level of interest in Emeriti, as evidenced by the evaluation of our products and services by literally hundreds of institutions of all types and sizes, including large public and private universities. We are also finding that wherever we go, higher education administrators — and increasingly faculty and staff on their campuses -- are aware of Emeriti and interested in hearing about its progress. Many colleges and universities have heard about Emeriti directly from our member institutions, which are very willing to share their experiences and decisions. *(Please see the **Emeriti Matters** article on our plans to work more closely with institutions that are very engaged in exploring adoption of the Emeriti Program, including a formal proposal process and a new transition modeling tool.)*

With nearly a year of actual insurance experience with Emeriti's participant risk pool, Aetna was able to reduce by over 10% the cost of the major medical portion of Emeriti's comprehensive coverage coordinating with Medicare Parts A and B. The new 2007 rates for drug coverage range from a 2% decrease for the Emeriti insurance options with the standard Part D drug plan, to a 6.1% increase for our most enhanced drug benefit. The net effect was an overall decrease in 2007 insurance rates in virtually all areas of the country. We replaced our geographically restricted Medicare Advantage HMO offering with a new Private Fee-for-Service plan available nationally. This new plan is the lowest priced of the Emeriti post-65 insurance options in many areas of the country (although Medicare's county-by-county reimbursement schedule does result in variable premium rates from one location to another). The Private-Fee-for-Service plan is generating considerable interest among retirees, because there are no network restrictions in terms of access to doctors and medical facilities. We were also able to increase the preventive care benefit at no additional cost in our comprehensive plans I-III underwritten by Aetna. And we are offering optional dental coverage to post-65 retired participants who enroll in any Emeriti insurance options underwritten by Aetna. Retirees have been very happy to have the additional choice of dental coverage to round out their

insurance protection.

Retirees from Minnesota institutions who continue to reside in Minnesota have a different set of plan options, with two comprehensive plans provided by HealthPartners and two prescription drug-only plans provided by Aetna. The rates for the two HealthPartners plans, which are community-rated statewide, increased somewhat, by 6.6% for Plan 1 and 8.6% for Plan 2. The Aetna enhanced prescription drug-only plan increased by 2.3% in Minnesota, and the standard Part D plan decreased by 2%.

We held teleconferences about the 2007 Emeriti Program benefit and rate changes in October, prior to the start of the fall participant workshops. If you were not able to attend that teleconference, or you would simply like (another) copy of the slides or a digital recording of the teleconference, please contact Christina Fendley (cfendley@emeritihealth.org) at Emeriti.

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Major Grants for Emeriti Operations

We are delighted to announce that Emeriti has received not one, but two, grants this fall from prominent East and West Coast foundations that support strategic change within higher education. The Andrew W. Mellon Foundation, which has nurtured our national consortium from its earliest conceptual phases, has once again provided a most generous award of \$1,500,000 to the Program. It is with equal pleasure that we announce an exceptional commitment of \$1,000,000, over three years, from The William and Flora Hewlett Foundation, long a champion of risk capital investments in innovative educational partnerships. Emeriti is blessed by these votes of confidence from preeminent national philanthropies devoted to strengthening the long-term vitality of American higher learning.

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Emeriti Featured in *Change Magazine* Article by John Biggs

In the November/December issue of *Change Magazine*, Emeriti Chairman of the Board John Biggs reviews the current crisis in retiree health care, with particular attention to higher education. Given that the total cost for all health care in the U.S. is likely to increase to 35.2% of the GDP by 2040 (from 15.6% in 2005), Mr. Biggs argues that the federal government and employers are likely to shift more and more of the costs to individuals, who already pay approximately 40-50% of their medical costs in retirement out of their own pockets. These trends, Biggs notes, are exacerbated by accounting rules requiring institutions to show the future costs of defined benefit retiree health promises on their financial statements, thereby putting additional pressures on institutions to reduce or eliminate their retiree health benefits or identifying alternate funding arrangements. Without a new defined contribution paradigm, such as Emeriti, which is both sustainable and affordable, Biggs observes, rapidly aging faculty at many institutions are likely to delay retirement in the absence of reasonable assurance of health care protection beyond the foundation of Medicare.

Additional views on the problem and potential solutions are provided by David Breneman, dean of the Curry School of Education at the University of Virginia; John L. Palmer, university professor at Syracuse University and public trustee for the Medicare and Social Security programs; and Robert L. Clark, professor of economics and business management at North Carolina State University. To view the *Change* article, visit the Emeriti website at emeritihealth.org, or request reprints by calling Emeriti at 1-866-685-6565.

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The Road to Emeriti Membership—New Ways That Emeriti Can Help

At every new interaction with institutions contemplating membership, Emeriti gains a better sense of where the detours might lie in the decision-making path. We already knew that every institution is somewhat different, with its own benefits culture and financial circumstances; and each constituency on a campus approaches the retiree health benefits issue with a slightly different concern and focus. But there are commonalities. We heard from a number of institutions that the decision process might be aided and accelerated with more comprehensive and customized materials that provide a common set of facts about Emeriti, and also address the particular situation at an institution. We also heard that the biggest, most complex, question facing the institution is what to do about its current retiree health arrangement(s), and how to transition from the current defined benefit arrangement(s) to the Emeriti Program. And we heard from you that a tool that could calculate the impact and cost of several transition scenarios, tailored to the desired level of benefits and based on the institution's own population, would be very valuable.

We have made it a top priority for 2007 to help institutions wherever they are in the evaluation process, and to work most closely with those that are committed to an intensive evaluation of Emeriti, with the goal of reaching a decision within a fairly short timeframe. We have designed a three-step process of engagement, with corresponding levels of communication and contact:

LETTER OF INTEREST: The signing of a non-binding statement of interest, which many of you have already done, indicates to Emeriti that you have a preliminary level of interest and want to remain engaged in deepening your understanding about the Program. For this group, Emeriti will provide periodic updates on program developments and service enhancements through this newsletter, extend invitations to upcoming events and teleconferences, and follow up with periodic contacts. Letter of Interest signers will be asked to complete a retirement survey. Emeriti will analyze the survey response and provide input for the institution's consideration. *If your institution has not signed a Letter of Interest and you would like to continue to receive information from Emeriti, please take a moment now to call us at 866-685-6565 about signing up.*

LETTER OF INTENT: This represents a high level of commitment by both the institution and Emeriti. It is a nonbinding statement of a commitment to engage in an in-depth evaluation of the Emeriti Program, with the goal of reaching a decision on the institution's membership in the Emeriti Consortium. It is a signal that a college or university is willing to dedicate the resources necessary to

engage in a series of action steps to evaluate plan design, funding considerations, transition issues, and implementation strategies for joining the Emeriti Consortium. In turn, Emeriti will allocate appropriate resources to support your internal deliberative processes and work closely with your designated campus liaison. We will suggest a number of sequential action steps, offer a customized decision-making timeline, prepare various financial modeling outputs, and provide a formal proposal tailored to your institution's current situation and goals. *If your institution is ready to commit resources to conduct a thorough exploration of Emeriti, let us know and sign a Letter of Intent. Keep in mind that if you are interested in offering Emeriti insurance to your existing retirees, enrollment for that group will need to occur in the mid-October through December 31st timeframe each year to coincide with the Medicare Part D annual open enrollment. January 1, 2008 is still possible, but you would need to move quickly. The Emeriti Program can begin for active employees and age-in retirees at any time during the year.*

DECLARATION OF MEMBERSHIP: This is the last step in the process. The institution signs a Declaration of Membership in the Emeriti Consortium, thus starting the implementation process. Emeriti provides a complete set of plan documents for review and completion. A launch date for the Program is selected, and Emeriti, Fidelity and Aetna (along with HealthPartners for institutions in Minnesota) work closely with you to complete the process, ending with announcement materials, enrollment packets and workshops provided for eligible participants and retirees.

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Emeriti Implementation Fee to Increase January 1, 2008

Emeriti is committed to providing both transparency in pricing, and as discussed in the previous article, close collaborative consulting with institutions pursuing membership. Based on our several years of experience, we have found that institutions want and need considerable support from Emeriti, not only in the evaluation phase, but also at points throughout the implementation process. Emeriti provides the legal framework, and support for the model plan document review, benefit plan design, and prospective and transitional funding decisions. Emeriti also provides implementation support, and educational workshops for the campus community. We have found that our one-time implementation or set-up fee of \$15,000 does not represent the true cost of these services. Therefore, this fee will increase to \$25,000 on January 1, 2008. We are providing you with advance notice so that institutions that are now contemplating Emeriti membership might be able to sign a Declaration of Membership and pay the current \$15,000 fee before January 1, 2008, as long as they have a scheduled implementation date of no later than January 1, 2009.

As a reminder, there are other fees associated with the Emeriti Program. There is the Emeriti Consortium fee of \$4.00 per month per participant to cover the ongoing participant education, administration, and other services that Emeriti provides on behalf of participants. In addition, there is a Fidelity record-keeping fee of \$1.67 per active employee per month and \$6.25 per month for services to retirees. These fees are not increasing. An institution may elect to pay all, a portion, or none of these participant fees. All monthly fees payable by

participants are withdrawn directly from the participants' accounts. Insurance fees are included in the premiums charged to retirees. Finally, there is a \$6 processing fee for each (bundled) submission of receipts for reimbursement of out-of-pocket expenses through the Reimbursement Benefit. This fee does not apply to regular processing of claims through Aetna.

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EMERITI UPDATES

Two new Freedom Funds have been added to the investment lineup for participants in the Emeriti Program. The Fidelity Freedom 2045 and 2050 funds are natural extensions of the existing Freedom Funds family, and are appropriate for participants who expect to retire on or near these lifecycle funds' targeted maturity dates of 2045 and 2050. The asset allocation for each of these funds is more aggressive and assumes a higher level of investment risk due to the longer investment horizon. 2045 and 2050 Funds can be selected by any Emeriti participants who want to be somewhat more aggressive in their fund mix, and will be the default allocation for the youngest participants in the Program who are a long way from their anticipated retirement date.

Strategic Advisers, Inc., a subsidiary of FMR Corp., manages the Freedom Fund

Emeriti Newsletters for Retirees and Active Employee

In addition to this newsletter, we have also launched a retiree newsletter, and we plan to begin an active employee newsletter this year, in order to provide information and updates to our participants and to increase their level of engagement with Emeriti. In the first newsletter to retirees, we addressed important changes to Medicare for 2007 and how to choose the best Emeriti insurance option for their health care needs. A copy of that newsletter is attached for your information. The future active newsletter is intended to help eligible employees understand the issues surrounding the future costs of health care in retirement, the value of long-term, tax-advantaged savings and disbursements through the Emeriti Program, and the importance of individual contributions toward their future health care costs, beyond whatever level of support their employers may provide.

Spring and Summer Events:

Emeriti will attend/or participate in the following association meetings in the coming months:

April 15 – 18 Northwest CUPA-HR Annual Meeting Jackson Hole, Wyoming

Attending: Joe Mininni, Associate Director of Marketing; Linda Herkenhoff, Emeriti Senior Advisor

Monday, April 16 1:45-3:00 pm *"Integrating Retiree Health Care into Overall Retirement Planning: Public and Private Institutional Perspectives.*

Panelists: Mike Humphrey, Director of Statewide Benefits, University of Alaska; Jane Buser, Executive Director, Human Resource Services, Boise State University. Moderated by Linda Herkenhoff.

April 18 – 19
Minnesota CUPA-HR Annual Meeting
Minneapolis, MN

Attending: Paul Aslanian, Emeriti Senior Advisor; Tabatha Erck, Director Medicare Business Development, HealthPartners

Thursday, April 19 1-2 pm *"An Overview of the Emeriti Program"* with Paul Aslanian and Tabatha Erck.

2:30 -3:30 pm *"The Business Case for Retiree Health in Higher Education."*

Panelists: Roger Loftus, Director of Human Resources, St. Olaf College; Linda Laughlin, Interim Director of Human Resources, Carleton College. Moderated by Paul Aslanian.

April 19
Indiana CUPA-HR Annual Meeting
Indianapolis, IN

Attending: Chris Keeley

Thursday, April 19 2-2:55 pm *"Retiree Health Care Benefits as a Strategic Tool for Managing Talent and Resources: What Every HR Practitioner Needs to Know"*

Panelists: Stant Clark, Director of Human Resources, University of Indianapolis; Teresa Wesner, Benefits Manager, Retirement, Life, Disability, Purdue University; Keith Gehlhausen, Director of Human Resources, University of Evansville; Debra Kelly, Director of Human Resources, Saint Mary's College. Moderated by Chris Keeley.

April 22 – 24
SACUBO Annual Meeting
Oklahoma City, OK

Attending: Larry Broomall, Emeriti Senior Advisor; Joe Mininni.

April 22 – 25
Southwest CUPA-HR Annual Meeting
San Antonio, TX

Attending: Barbara Perry, Linda Herkenhoff.

Tuesday April 24 10:15-11:30 *"Integrating Retiree Health Care into Overall Retirement Planning: Public and Private Institutional Perspectives"*

Panelists: Martha Peugh-Wade, Associate Director of Human Resources, University of San Francisco; Dr. Bill Detwiler, Associate Vice President, Human Resources and Business Services, Southern Methodist University; Dr. Graham Gillis, Associate Vice President for Benefit and Risk Management Services, University of Arkansas System. Moderated by Barbara Perry.

April 29 - May 2
Eastern CUPA-HR Annual Meeting
Atlantic City, NJ

Attending: Linda Cool, Emeriti Co-Founding Director and Senior Advisor; Chris Keeley, Jolynn Oblak, Emeriti Marketing Manager

Emeriti will be sponsoring and presenting.

Monday, April 30 1:30-3:30 pm *"Integrating Retiree Health Care Into Overall Retirement Planning: Public and Private Institutions' Perspectives"*

Panelists: Martha Turnbull, Former Director of Human Resources, Ithaca College; Joan Tambling, Director of Human Resources, University System of New Hampshire; Barbara Johnson, Associate Vice President for Human Resources, University of Vermont. Moderated by Linda Cool.

May 3 – 6
WACUBO's 69th Annual Meeting
Reno, NV

Attending: Ken Cool, Paul Aslanian, Joe Mininni.

Monday, May 7 12:30-1:45 pm. Emeriti will host a constituent lunch for small institutions

Monday May 7 3:45-4:45 *"Tales from the Front: Retirement Health Care Issues."*

Panelists: Jeanne DeMatteo, Director of Finance/ Controller, Saint Mary's College of California, Ken Cool.

May 6 – 9
Midwest CUPA-HR Annual Meeting
Madison, WI

Attending: Barbara Perry; Keith Groty, Emeriti Senior Advisor.

Monday May 7 10:30-11:45 am
"Integrating Retiree Health Care into Overall Retirement Planning: Public and Private Institutions' Perspectives"

Panelists: Paul Schmitt, Director of Human Resources, DePauw University; Renee Rivard, Director of Benefits, Michigan State University; James Kemper, Associate Vice President for Finance and Administration, Ohio University; Jim

Ables, Director, Human Resources, Denison University. Moderated by Keith Groty.

Emeriti welcomes opportunities to meet with peer groups who are coming together throughout the year and who would welcome opportunities to learn about the Emeriti Program in the context of overall retirement strategies for managing aging workforces, controlling financial costs, and offering more benefit choices and flexibilities to current and future retirees. If you or your association would like to invite Emeriti into dialogue, please contact Emeriti's Marketing Manager, Jolynn Oblak, by email at joblak@emeritihealth.org or at our toll-free number 866-685-6565.

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