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Growing Beyond Academic Roots

Program for retirees adds certainty for sponsors and workers

By **JERRY GEISEL**

A pioneering program that funds retiree health care benefits for colleges and universities is expanding beyond its academic roots while giving participating institutions more time to make contributions.

Launched four years ago, experts at the time said Emeriti Retirement Health Solutions' program was a first-of-its-kind approach in designing and pre-funding retiree health care plans for the academic community.

Under the program that has grown from an initial 29 schools to 50, each school makes contributions to tax-exempt trusts, known as voluntary employees' beneficiary associations. Each school decides its contribution based on the level of financial support it wants to provide. The minimum contribution is 0.5% of payroll of the group of employees eligible to receive an employer contribution.

Employees also contribute aftertax dollars to separate VEBAs. Employees direct both VEBA contributions into a set of mutual funds offered by Fidelity Investments. Mutual funds available include a money market fund as well as life-cycle funds, in which the investment mix becomes more conservative as employees approach retirement.

The contributions and the investment income earn tax-free interest. When employees retire and are eligible for Medicare, they can withdraw funds tax-free to pay premiums for one of several health care plans—including those offering prescription drug coverage—provided by Aetna Inc. Retirees also can take out funds to pay for other uncovered health care expenses, such as claims subject to a deductible as well as Medicare Part B and Part D premiums.

Employees who have met their academic institution's retirement eligibility requirements but retire before they are Medicare-eligible can withdraw funds tax-free to pay health care-related expenses.

Benefit experts say the Emeriti program strikes that elusive middle ground between the extreme of offering no coverage, which may prompt employees to stay long past age 65, and the other extreme of traditional defined-benefit style retiree plans, which have costs that are difficult to predict and have become increasingly unaffordable.

"It is a way of building on a promise that can be kept," said Michael Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

"It allows us to get our arms around funding. It is a way in which we can budget our costs because we know what our contributions will be," said Peter Michell, vp-finance at St. Mary's College of California in Moraga, Calif. St. Mary's, which joined the Emeriti program in 2007, contributes \$1,320 a year for each eligible employee starting at age 40 and continues those contributions up to 25 years.

While the Emeriti program was limited initially to colleges and universities, it is expanding beyond academia, said Ken Cool, Emeriti's president in New Windsor, N.Y.

Last month, Emeriti received a letter from the U.S. Securities and Exchange Commission that will allow it to market the program to a wide variety of other nonprofit institutions: elementary and secondary schools; teaching hospitals; medical research organizations; libraries and museums; certain educational associations; and certain charitable foundations, such as those that direct a substantial part of their philanthropic efforts to colleges and universities.

That expansion is a natural fit, as many of the newly eligible nonprofits already are comfortable with a defined contribution plan approach through their retirement savings plans—known as 403(b) plans—said Stuart Alden, chief health care actuary in the Philadelphia office of Watson Wyatt Worldwide.

In addition, Emeriti is broadening its funding options.

Under one new approach, the Insurance First Option, institutions that pay at least 25% of their premiums can delay making contributions to the VEBAs until the fifth year of joining the program yet give retirees full access to the program's health care plans.

Under another approach, which Emeriti calls the Incremental Prefunding Option, institutions can start with a reduced funding level and gradually boost funding to the minimum level required by the fifth year of participation.

These approaches will appeal to institutions that may not have the resources to make all of the required contributions, but want to give retirees access to the health care plans and allow employees to begin making their own contributions to the health care accounts.

"You contribute what you can now and then ramp up when the economy rebounds," said Barbara Perry, Emeriti's vp of marketing and membership.

Meanwhile, institutions extol the advantages

they believe they are reaping by joining the program. For example, funds that accumulate in the accounts and the availability of retiree health care plans reduces the likelihood that older employees will delay retirement even after they become eligible for Medicare at age 65, noted Merry Laskowski, benefits team leader at Baylor College of Medicine in Houston.

Baylor joined Emeriti in January and contributes \$500 a year for each eligible employee beginning at age 40.

Getting employees to retire at an average age can allow academic institutions to reap significant financial advantages, Mr. Cool said. That is because older employees typically have much higher health care costs and draw higher salaries than younger employees.

Aside from higher benefits and payroll costs, there is a more subtle but real problem when employees delay retirement: It can delay hiring new employees with fresh ideas.

Having a retiree health care program like Emeriti's enables institutions to better manage intellectual renewal when older employees retire at average ages and new employees can be hired, PwC's Mr. Thompson said.

In fact, an earlier Emeriti study found that employees typically retire between 18 and 36 months earlier at institutions that provide substantial financial support for retiree health care coverage compared with institutions that do not provide coverage.

Yet another benefit to the program, say participating institutions, is the breath breadth of plans available through Aetna. For example, as retirees get older, they can move from plans with lower premiums and coverage levels to those with higher premiums but richer coverage, said Paul Maroni, vp-finance at Connecticut College in New London, Conn. Connecticut College joined Emeriti several years ago and contributes \$300 a year for each eligible employee.

By banding together, academic institutions also have been able to secure better coverage than either they or retirees could afford individually, school executives say.

"Emeriti has much greater buying power than a college of our size would have" because of the program, Mr. Maroni said.

Rates are very competitive and retirees would not find the richness of benefits in the personal lines market, said Michael Fusaro, vp-client management at Aetna in New York.