



The Strategic Value of the Emeriti Program

A sustainable retiree health care solution built on a predictable defined contribution paradigm

The Emeriti Program delivers retiree health care benefits on a predictable defined contribution paradigm. In this respect, Emeriti differs markedly from the traditional defined benefit approach that makes an open-ended promise of subsidizing retiree health insurance and exercises little control over future expense. Typically, actuarial evaluations of such defined benefit promises project expanding balance sheet obligations far out into the future. It is unlikely that defined benefit approaches can remain sustainable for an aging workforce with an increasing lifespan.

Emeriti starts from a radically different financing premise: funding retiree medical benefits today with predictable employer contributions from institutional resources at hand, as opposed to passing along uncertain and potentially volatile legacy costs to successor budgets in the years ahead. It uses the prefunding construct commonly associated with higher education's 403(b) pension plans. This approach maximizes budgetary predictability and cost control for the institution by making the employer's commitment to employees a defined amount in the annual budget and by offering faculty and staff opportunities to contribute their own savings. Vested employees own the employer contributions deposited into health savings accounts and direct the long-term investment of all sources of contributions. The depository structure is a VEBA Trust, a long-established vehicle in the IRS Code that provides a highly tax-advantaged way to fund health and welfare benefits.

Emeriti's Three Core Benefit Features

1. Emeriti Health Accounts

When an institution becomes a member of the Emeriti[®] consortium, it makes contributions to an Emeriti Health Account on behalf of the employee (beginning at a specified age). These contributions are held in tax-advantaged trusts called VEBAs (Voluntary Employees Beneficiary Association) serviced by Fidelity Investments. **Employer contributions are made tax free, and all contributions plus any earnings are disbursed tax free for retiree health benefits.**

Employees may also make voluntary contributions to their health account. These contributions are made after tax, and all assets including earnings accumulate tax free and are paid out tax free, exclusively to pay for retiree health benefits.

At retirement, the accumulated assets held within each employee's health account are made available on a tax-free basis for two purposes: to purchase fully insured, guaranteed issue, nationally portable health plans, and to reimburse other qualifying medical expenses not covered by Medicare or supplemental insurance.

Even if the health accounts should become depleted, retirees may continue to fund insurance premiums and other qualifying medical expenses through electronic transfers of assets from other retirement savings.

2. Emeriti Health Insurance

A key feature of the Emeriti Program is access to Emeriti's **fully insured post-65 health insurance plans**, underwritten by Aetna Life Insurance Company. Emeriti offers a choice of portable, group health insurance options for retirees and their dependents. Insured participants may move among the various insurance options at annual enrollment. In the current configuration of Emeriti group insurance offerings, two Medicare supplement plans coordinate with Original Medicare and offer access to any provider accepting Medicare. The other two medical plan options are Medicare Advantage (Part C) Private Fee-for-Service plans where a private insurer assumes responsibility for the benefits defined by Medicare. All participants also choose from among a selection of Medicare-approved Part D prescription drug plans. In Minnesota, HealthPartners provides post-65 health insurance plans.

3. Emeriti's Reimbursement Benefit

The Emeriti Program also includes a tax-favored Reimbursement Benefit (similar to a flexible spending account) for other qualifying medical expenses after retirement. Unlike the flexible spending accounts for active employees, the **balances remain in the VEBA trust health account throughout the lifetime of the retiree and any eligible dependents**. The range of applicable uses for the Reimbursement Benefit is defined in Section 213(d) of the IRS Code; eligible expenditures include vision, hearing, and dental services; long-term care; various medical equipment and home health services; Medicare premiums and cost shares. Purchase of health insurance outside of Emeriti group plans is possible, but may result in loss of future access to Emeriti insurance options.

The Grantor Trust

Institutions that adopt an Emeriti Plan based on the VEBA Trusts may also utilize a second very flexible funding vehicle called the Grantor Trust. This Trust may be used selectively by the employer for various recruitment, retention and retirement incentives; and for various catch-up funding purposes. One-time or periodic lump-sum amounts may be added to this trust on behalf of individuals or cohorts of employees, on a case-by-case basis, who satisfy the eligibility criteria for the Emeriti Retiree Health Plan. The assets residing in the Grantor Trust are owned by the institution. At retirement, eligible individuals can use the accumulated monies to purchase fully insured health care benefits provided under the Emeriti Program.

New in 2009: Pre-65 Retiree Health Insurance

Emeriti now offers consortium member institutions the opportunity to add **pre-65 retiree coverage for faculty and staff retiring at age 60 and older**. The need for group pre-65 coverage for the period after COBRA and before Medicare eligibility is every bit as critical as post-65 health protection. Pre-65 retirees do not yet benefit from Medicare's foundation, and they are typically entering a period of higher medical and drug utilization. In the individual market, such coverage is subject to medical underwriting. This means that about 1/3 of employees retiring between 60 and 65 are sufficiently healthy to obtain affordable pre-65 coverage in the individual market; another 1/3 may be able to obtain coverage at a very high premium; the remaining 1/3 are unlikely to obtain coverage at any price. Institutions that have previously kept pre-65 retirees in their active plans will be able to remove that group from the active risk pool. In that age group, claims often run around 2 times higher than medical expenses for younger employees. Emeriti's pre-65 coverage will be guaranteed issue group insurance, with a range of coverages and costs that feature the same core principles as Emeriti's post-65 insurance. The Funding vehicle for pre-65 insurance is the Grantor Trust.

Emeriti's Evaluation Support

The Emeriti Program offers plan flexibilities for institutions with widely varying post-retirement benefit cultures and diverse financial circumstances. Its model plan documents allow each institution to define a number of distinctive plan elections in accordance with various regulatory constraints. Among other features, member organizations may define participant eligibility, funding levels, vesting criteria, and insurance eligibility. Emeriti works closely with the institution's decision makers to design a plan consonant with institutional retirement objectives.

Emeriti recognizes that each institution has a distinctive benefits history:

For those colleges and universities with an existing defined benefit plan, the Program offers a conversion strategy for moving all or defined cohorts of their insured retirees into Emeriti health insurance options and funding continuing employer premium commitments on a pay-as-you-go basis. At the same time, the employer begins defined contribution prefunding for active employees, thereby reducing exposure to FAS 106 or GAS 45 liabilities over time. Emeriti offers a number of options for transitioning near-term retirees into the insurance coverage and for determining any catch-up contributions for mid- and late-career employees.

For institutions that never had a retiree health benefit, Emeriti provides a cost-effective and predictable way to set aside defined contribution amounts to stimulate timely retirements around eligibility for Medicare and Social Security and reduce financial exposure to rising compensation costs associated with delayed retirements. Institutions may also invite current retirees into the insurance options at no cost to the institution. In many situations, institutions can take a cost-neutral approach to the prefunding by analyzing the savings differential between retiring employees and entry-level or lower-paid replacements. Another approach is to view the financing of the Emeriti benefit as a trade-off among various salary and benefit objectives in the base of total compensation. The minimum employer contribution is defined as 1/2% of payroll for benefit-eligible employees.

To aid institutions in determining an appropriate level of ongoing employer contributions, Emeriti has **developed a proprietary prospective funding modeling tool**. Emeriti has also developed a **proprietary transition modeling tool** to illustrate the cash flow and accounting expense of moving from a defined benefit to a defined contribution plan and measure the long-range cost-effectiveness of the defined contribution approach.

Emeriti's Service Model

The Emeriti consortium enables the institution to outsource the administrative burdens of post-retirement medical benefits. Services include:

- overseeing vendor selection, product review, and service integration;
- coordinating trust administration, investment management, master record-keeping functions, and disbursement services;
- securing fully insured health plans and COBRA administration;
- providing the legal framework for plan documents and regulatory compliance;
- ensuring a coordinated model of customer service; and
- facilitating many post-implementation administrative tasks and administrator training.

Integral to Emeriti's mission in the higher education community is **ongoing participant education**. Emeriti is committed to helping employees understand the multiple dimensions of future health care exposure in retirement and offers multiple channels of communication—printed and electronic materials, campus workshops, a toll-free telephone service center, and a dynamic website—for current and future retirees who need to understand their investment, insurance and other health care costs.

About Emeriti

Emeriti® Retirement Health Solutions is a membership consortium offering post-retirement medical benefits for the higher education community. The consortium is managed by Emeriti, a tax-exempt, nonprofit organization anchored in higher education. Emeriti is governed by a national Board of Trustees and engages a national Advisory Council in the regular review of Emeriti products and services.

Support for the Emeriti Program comes principally from two national organizations prominent in the retirement services field — Fidelity Investments® and Aetna Life Insurance Company. HealthPartners provides fully insured health plans in Minnesota. Acclaris serves as the third-party administrator for the Emeriti Reimbursement Benefit.

The early development of the Emeriti Program has been made possible by continuing generous support from The Andrew W. Mellon Foundation and from The William and Flora Hewlett Foundation.

As a consortium, Emeriti leverages purchasing power, designs group products uniquely for the higher education community, and achieves administrative efficiencies in the delivery of retiree health care products and services for institutions of all sizes, both public and private, in all parts of the country.

Contact Emeriti

If you are interested in exploring how Emeriti can help you to create a sustainable retiree health program, please call **1-866-685-6565**, or email us at info@emeritihealth.org. Now more than ever, health care security is an essential component for any individual contemplating retirement and for any institution concerned with workplace renewal in a difficult budget environment.

Please also visit our website at www.emeritihealth.org.

