



Retiree Health Care in Today's Financial Equation

Executive Summary

During this time of economic uncertainty, higher education is facing challenges on many levels. There is tremendous pressure to cut costs. What choices do you make? How far do you go in restructuring programs and budgets, while still preserving the core mission of your institution, rewarding your faculty and staff with competitive compensation today, and helping to secure their future retirement?

Emeriti's innovative defined contribution paradigm controls your financial exposure, whether you do or do not have a retiree health benefit today

- by contributing predictable amounts from the current budget into tax-advantaged health savings accounts for employees during active service;
- by offering access to a range of cost-effective, fully-insured post-65 group health insurance plans, with or without a subsidy;
- by enabling retirees to use fungible dollars for tax-free reimbursement of other qualifying medical expenses not covered by Medicare and supplemental insurance.

Retirement is a significant problem in higher education's cost structure – and essential to its solution

As you know, compensation is one of your greatest costs, and increasingly so as communities age. Many faculty and staff are nearing traditional retirement age; some have already passed the benchmark of initial Medicare and Social Security eligibility. But will they retire? Baby Boomers comprise upwards of 60% of the workforce on many campuses, and a growing number are now saying that they cannot afford to retire. They have lost significant portions of their retirement accumulations, and they are increasingly preoccupied by retiree health care costs and access to insurance.

Postponed retirements will have an impact on your bottom line

Consider some of the financial implications for your institution:

- On the immediate horizon, higher health care utilization by aging Baby Boomers will place further strains on already high active health insurance costs, because the institution continues to pick up medical costs--and Medicare remains secondary-- as long as employees work beyond age 65;
- In the near term, end-of-career salaries and percentage-based contributions to pension plans and FICA benefits for the Baby Boomer workforce will drive your overall compensation budgets higher;
- In many instances, retirement incentive packages, framed as multi-year salary inducements with generous insurance coverage provisions, can be tax-inefficient for retirees and expensive for the institution;
- In the longer term, under defined benefit scenarios, the age dependency ratio will shift the balance of benefit dollars from productive faculty and staff to dependent retirees and will further escalate the proportion of future annual budgets allocated to those who are no longer contributing to the institution's critical mission; and
- Where traditional defined benefit promises remain in place, the accounting liability will grow geometrically on financial balance sheets and undermine credit worthiness for future strategic investments.

Consider, also, the security implications for future retirees:

- A growing number of Baby Boomers say they cannot afford to retire;
- They recognize that they need supplemental insurance beyond what Medicare provides;
- They will likely spend between **20% and 35% of their disposable retirement income just on health care expenses** beyond Medicare covered services;
- Their out-of-pocket medical expenses will increase far more rapidly than Social Security benefits, and Medicare's tenuous financing will shift greater costs to them; and
- Their increasing life expectancies will further strain inadequate savings for retirement income protection.

Emeriti's Grantor Trust helps facilitate intergenerational turnover

As you know, significant opportunity costs are embedded in each retirement decision because savings captured today -- and the compensation differential can be significant -- are central to the down payment for the next generation. Even in the best of times, thoughtful leaders have to balance investments in the next generation of young faculty and support staff, while still honoring prior commitments to the retirement security of those who came before. In an era of strained resources, much harder choices are required to achieve immediate financial equilibrium and appropriate programmatic investment for the future.

The Grantor Trust may be used selectively by institutional leaders for retirement, recruitment, or retention purposes. One-time or periodic lump-sum amounts may be contributed by the employer on behalf of individuals or cohorts of employees for workforce management objectives. **Contributions, earnings, and disbursements from the Grantor Trust are tax-free.** Accumulated assets can only be used for Emeriti's Pre- and Post-65 insurance offerings.

Emeriti is not about eliminating a benefit, but repositioning the cost structure for retiree health security

Now may be the time to rethink old ways and embrace new approaches that put retirement security on a sound and sustainable financial footing for the long term. From the experience of Emeriti's member institutions, it is clear that the defined contribution approach works, whether you now have a defined benefit retiree health plan, offer retirees access-only to the active medical plan, or have no retiree health benefit at all.

Emeriti starts from the premise of multi-party financing: employers, current and future retirees, and Medicare. Medicare was never intended to fund all post-retirement health care expenses, nor are employers in a position to make up all the shortfalls of Medicare. Individuals will inevitably bear an expanding cost share. Emeriti provides a framework for shared responsibilities.

We invite you to examine six core principles of the Emeriti Program and see if they make sense in the context of your institution's cultural values and financial realities:

1. the collective buying power of a non-profit consortium of higher education institutions;
2. tax-advantaged contributions, earnings and distributions linked to individually invested health savings accounts;
3. a range of nationally available, guaranteed issue health plans offering annual choice at favorable group rates;
4. a tax-free reimbursement benefit for other qualifying medical expenses;
5. robust educational resources for participants at various life stages; and
6. integrated, streamlined benefits administration.

If Emeriti's value proposition is appealing, we encourage your financial, compensation, and benefit officers to learn more about the Program and to request financial modeling to assess Emeriti's defined contribution approach to retiree health security.

Please contact Barbara Perry, VP Membership and Marketing, at 866-685-6565 or email bperry@emeritihealth.org.

