REPORT OF THE ALL-COLLEGE COMMITTEE ON COMPENSATION

A Proposal to Fund Healthcare in Retirement

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Executive Summary

A year ago the Colorado College decided to join a growing number of institutions of higher education in creating a plan for retirement healthcare called Emeriti Health Solutions. This year's Compensation Committee endorses that decision and recommends that implementation begin July 1, 2005, with the following provisions:

1. Mandatory contributions by all benefit-eligible employees who are at least 40-years old. The College will match the employee contribution of $524 a year.

2. Persons who retired before 1995 will move from insurance provided by the Hartford company through Colorado College to one managed by Aetna through Emeriti. The plan is coverage is similar.

3. Employees who retired after 1995 and who currently receive $720 a year (with an additional $720 a year for spouse or partner) toward health insurance will receive grants of $12,300 (with an additional $12,300 for spouse or partner). They will be able (but not obliged) to purchase health insurance from Aetna through Emeriti.

4. Active employees who are at least 48-years old with three years of service to the College will receive grants ranging from $400 (age 48) to $12,300 (age 65) in increments of $700. These grants and contributions will go into accounts managed by Fidelity investments, under contract with Emeriti Health Solutions. The employee contributions will be deducted before taxes; both employee and College contributions will appreciate free of taxes, and will be available to employees free of income tax to defray costs of health insurance or health care after retirement. Employees will choose among Fidelity investment options, as they currently choose among investment vehicles offered by TIAA-CREF.

The Problem

The need for this change arises from the healthcare crisis in the United States. Soaring costs of health care have driven the costs of insurance to unprecedented levels, and there is no end in sight. In the case of active employees, the College has moved toward self-funded insurance in an effort to control costs. Employee contributions have risen and will continue to rise in response to increasing costs. (See our report on health insurance for active employees.)

The problem of health insurance for retired employees became acute in 1995, when the adoption of new accounting standards required all institutions providing health insurance for retirees to carry those obligations on the books as a liability. The College was then providing 80% of the cost of health insurance for retired employees, and even 100% for those who had retired earlier. Since the future cost of health insurance is virtually unknowable, the potential liability was infinite. In that year the College began paying a fixed sum, $720 a year, toward retiree health insurance. That sum now constitutes roughly 20% of the costs of health insurance for one retired person eligible for Medicare. For those who have retired since 1995 the College has also been paying $720 a year toward a partner or spouse who is insured through the College. By moving to a fixed sum the College managed to make its liability finite rather than infinite.

The College liability toward retirees currently stands at roughly $5.5 million. It has been setting aside a reserve to offset this liability. The Business Office estimates that by the adoption of Emeriti Health Solutions for post-1995 employees and for active employees it will reduce its liability by about $2.5 million. By virtue of that fact the College will be able to make a one-time settlement and fund lump-sum payments to employees nearing retirement. It is anxious to move from a defined benefit program (which it will continue to honor for those who retired before 1995) to a defined contribution program. The College liability toward those who retired before 1995 will eventually diminish, leaving it liable only for life-insurance benefits to employees. Thus the College believes the change to Emeriti will be beneficial to its long term financial health.

We believe the change will also be beneficial to all categories of employees and retirees. All employees will be guaranteed access to a national health insurance plan at retirement, or at age 65, whichever comes later. They will have the option of joining one of the plans offered through Emeriti Health Solutions to all its member institutions. Coverage will be automatic if elected at retirement or age 65. Employees may, however, choose to use their accumulated resources to buy other insurance or for health care items not covered by insurance.

The Impact of Change on Employees and Retirees

I. Persons who retired before 1995

Employees who retired before 1995 will move July 1, 2005 from the Hartford Health Plan to the Aetna Option I Health Plan offered by Emeriti. The College will continue to contribute either a 100% or 80% towards the premium, as it currently does. The Aetna Plan has three age brackets and for the group over age 75 where the College pays 80% of the premium the retiree will incur a $7 increase per month. There seems to be support from those who retired before 1995 for this recommendation.

II. Persons who have retired since 1995

For employees who retired after 1995, the College will fund a VEBA[1] account with $12,300 for each retiree and spouse currently enrolled in the College Health Plan. The retired employee and spouse will have the option to enroll in one of the Aetna Health Plans once they reach age 65. Prior to age 65 they have the option to remain on the College Great West Health Plan. The College will no longer pay a portion of the premium for this group.

This group will be better off under the new plan. The present value of the current practice for someone who retired last year at 65 is roughly $6,500, substantially less than the $12,300 each employee will receive under the Emeriti Plan. The Aetna Plan is less expensive than Hartford for anyone under age 75. The plan coverage is similar to that of Hartford, and the Emeriti consortium provides an assurance of a strong retiree health plan. Those who have retired since 1995 seem supportive of the change.

[1] Voluntary Employees Beneficiary Association (VEBA)

III. Active Employees of the College

Effective July 1, 2005 the College will make an annual contribution of $524 to the VEBA account of every employee who is 40 years old and working at least 1,000 hours per year. The employee will be required to contribute that same amount to the account. The mandatory employee contribution will be deducted from gross salary. For an employee in the 25% Federal tax bracket, the net mandatory contribution will be $394. The size of the contributions by College and employee will be, like all benefit programs, subject to annual review. We recommend that persons in the 30-to-40 age group be enabled to contribute to the program and that the College match their contributions, if the law permits such a voluntary arrangement.

Spouses and partners currently covered under College health insurance will not be required to contribute, and the College will not make contributions except for employees. Any employee can make voluntary contributions to the program on an after-tax basis. (Contributions to TIAA-CREF come out of salary before taxes but those contributions together with the appreciation in the account are taxable upon withdrawal. Deposits to the VEBA accounts and accumulated appreciation are not taxable at withdrawal but can be used only for health insurance or health care. See Appendix One for a list of acceptable uses of VEBA funds.

The objective of the program is to permit employees who participate in the program for 25 years to generate funds sufficient to fund half of projected health insurance costs in a retirement period of roughly 20 years. According to projections prepared by PricewaterhouseCoopers, this proposal reaches that objective. The accountants assume for purposes of modeling 1) that the cost of health insurance will increase 9% a year in the beginning and then taper off to 5%; 2) that employee and College contributions will increase 4% a year; and 3) that employees will achieve a gross return on investments of 8%.

The proposal for Emeriti advanced last year embraced an objective of 100%, but many employees objected that the cost of that proposal was too great. Some employees find that the current proposal, which is half as large, is still too costly. To do nothing would, however, might also prove costly to those who reach retirement without adequate means to pay for healthcare.

Clearly the plan will be most advantageous to those who participate for the full 25 years. Those least advantaged are those who will retire in the next few years. To compensate for this disadvantage, we endorse the College's proposal to award grants for persons nearing retirement. We suggest that all employees who are at least *48 years old and who have served the College for at least three years* receive grants on the following scale:

48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65+
400	1,100	1,800	2,500	3,200	3,900	4,600	5,300	6,000	6,700	7,400	8,100	8,800	9,500	10,200	10,900	11,600	12,300

We see the grants not as rewards for service but as efforts to assure that all employees are prepared for retirement. In fashioning the grants, the committee considered two options besides the one adopted: 1) using age with a requirement of one year of service and 2) using a formula that adjusts the grant according to service according to this formula: Adjusted grant = initial grant (based on age) times (years of service)/(age minus 40). By that formula a person 59 years old with three years of service would receive 8100 x 3/19= $1,279. We decided that the formula was too punitive to recent hires and especially to staff, who do not, on the average, stay at the College for as many years as do faculty.

We believe that the grants coupled with employee and College contributions will leave all employees better off than they are under current College policy. The current policy provides about 20% of the cost of health insurance for a post-1995 retiree at this year's premiums. Note that even those now 65, receiving grants of $12,300 with no further contributions to a VEBA account, will be able to pay for roughly 20% of the projected cost of health insurance during retirement. The following table assumes a 4% annual increase in the contributions of the College and employee, an 8% gross return on investments, and projections about the value of health insurance in retirement furnished by PricewaterhouseCoopers.

Start Age	Grant	Age 65	Value of Insurance	% Coverage
40	0	121,146	219,967	55.1%
45	0	72,183	172,350	41.9%
50	1,800	42,488	135,041	31.5%
55	5,300	26,055	105,788	24.6%
60	8,800	17,225	82,036	21.0%
65	12,300	12,300	61,274	20.1%

Persons in the 63-65 age bracket with spouses/partners covered under College insurance will be slightly less well off than they would have been under the old plan, if they had retired after July 1 at 65 and received two allocations of $720 (self and spouse). But the difference is probably less than $2,000 and disappears if the employee continues to work for three years, participating in the Emeriti program. That is, the present value of $720 a year for twenty years (discount rate of 8%) is $7,069; doubled for two persons would be $14,138. The grant for a person 65 is $12,300. For a person now 63 the present value of that same $720 for 20 years[2] is $6,061, which makes $12,121 for two persons. But two years' worth of College contributions plus appreciation bring the total value to $11,888. With employee contributions the accumulation becomes greater than that of the current plan for two people. The committee decided that these differences were not sufficiently large to warrant special transitional provisions for those ages 63 to 65 with spouses or partners covered under the College health plan.

Employees who leave Colorado College will keep their VEBA accounts. They will be able to use them for health insurance and health care at age 55, which is the minimum retirement age at

[2] We have used 20 years of life beyond retirement as an approximation. It is not the actuarial estimate used by PricwaterhouseCoopers.

Colorado College. If an employee dies, the VEBA account becomes available to the surviving spouse or partner and dependents. If something remains in the account at the death of the employee and spouse/partner and all dependents, then the remaining sum must revert to the College. Such is the rule established by the Internal Revenue Service. It is analogous to the rule that requires annual balances in Flex Spending Accounts to revert to the College, if not used for the designated purposes. However disturbing in principle, this rule is unlikely to have great impact. Most retirees will probably choose to use their VEBA accounts relatively quickly and use other savings to fund health care later.

Employees who retire before age 65 may choose to remain on the Great West plan at their own expense until they reach age 65 and become eligible for the insurance offered by Emeriti Health Solutions. One can retire from the college at age 55 with ten years of service.

Work on the Emeriti Health Solutions Program

This proposal originated at the national level and caught the attention of Colorado College at least two years ago. Last year a task force chaired by Joseph Pickle, professor emeritus of Religion, developed a recommendation that the College participate in the program as a founding member. The administration endorsed that recommendation a year ago.

This year's Compensation Committee thus inherited a draft proposal. We are grateful to Professor Pickle and Professor Werner Heim, professor emeritus of Biology, for their contributions again this year to the development of the proposal. Under the auspices of the committee, David Lord has conducted a series of open meetings about the proposal, and those meetings have produced response from all quarters of the College community, most of it favorable in general though sometimes critical of specifics. We have considered all these responses and sought to refine the proposal in the light of them. It is not, of course, possible that our efforts will satisfy everyone.

We are especially grateful to David Lord, ex officio member of our Committee, who has been enterprising not only in explaining the proposal to all comers but also in seeking additional information and exploring further options in response to comments from within the committee and from without. We think it is time to move forward with the proposal so that yet this spring employees can make investment choices and prepare for implementation of the program July 1.

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Appendix 1

General Listing of Items Available for Reimbursement under IRS Code Section 213.
For more specific information please refer to IRS Publication 502.

- ●Acupuncture
- ●Alcoholism (treatment)
- ●Ambulance (hire)
- ●Autoette or wheelchair
- ●Blind persons services
- ●Braces
- ●Capital expenditures -Home modifications for handicapped. Primary purpose must be medical care
- ●Car equipped to accommodate wheelchair and/or handicapped controls
- ●Childbirth preparation classes (mother)
- ●Chiropractors
- ●Christian Science treatment
- ●Contact lenses, replacement insurance
- ●Crutches
- ●Deaf persons -Hearing aid and batteries, Hearing aid animal and care, Lip reading expenses, Special education, modified telephone
- ●Dental fees
- ●Dentures
- ●Diagnostic fees
- ●Diapers (adult disposable) used due to severe neurological disease
- ●Doctor's fees
- ●Domestic aid -rendered by nurse
- ●Drug addiction recovery
- ●Drugs (prescription)
- ●Dyslexia language training
- ●Elevator alleviation of cardiac condition
- ●Eyeglasses and examination fee
- ●Fluoride device (on advice of dentist)
- ●Halfway house (adjustment to mental hospital)
- ●Healing services fees
- ●Health Maintenance Organization
- ●Hospital care
- ●Insulin
- ●Iron lung
- ●Laboratory fees
- ●Laetrile (by prescription)
- ●Lead paint removal
- ●Legal expenses (authorizing treatment of mental illness
- ●Lifetime medical care (Prepaid; retirement home)
- ●Limbs (artificial)
- ●Lodging (limited to $50/night)
- ●Mattress (prescribed for alleviation of arthritis)
- ●Membership fees (association furnishing medical services, hospitalization, and clinical care)
- ●Nursing home (medical reasons)
- ●Nursing services (board and Social Security paid by taxpayers)
- ●Obstetrical expenses
- ●Operations (legal)
- ●Optometrists
- ●Orthodontia
- ●Orthopedic shoes (excess costs
- ●Osteopaths
- ●Oxygen/oxygen equipment
- ●Prosthesis
- ●Psychiatric care
- ●Psychologists
- ●Psychotherapists
- ●Reclining chair for cardiac patient
- ●Remedial reading
- ●Retarded person's costs for special home
- ●Retirement home Lifetime medical care
- ●Sanitarium rest home (medical, educational, rehabilitative services)
- ●Schools (special, relief, or handicapped)
- ●Sexual dysfunction treatment
- ●Surgical fees
- ●Swimming pool (treatment of polio or arthritis)
- ●Teeth (artificial)
- ●Television (closed-caption decoder)
- ●Therapy treatments (prescribed by a physician)
- ●Transportation (essentially and primarily for medical care)
- ●Vitamins (prescription)
- ●Wheelchair or autoette
- ●X-ray