TO: Institutional Policy and Planning Committee (IPPC)
FROM: IPPC Budget & Finance Subcommittee
DATE: April 15, 2008
RE: An Update on Retiree Health Recommendations

Introduction

Over the past year, the IPPC Subcommittee on Budget and Finance has been engaged in a thorough review of the College's health care insurance program. We have been particularly concerned about the cost of the retiree health benefit, the rapid growth in the cost of these benefits and the accumulating debt on our balance sheet. That debt has now surpassed $34 million, a figure that is significantly higher than the retiree health benefit related debt of any of our peer or aspirant institutions, especially as a percentage of endowment resources. Left unchecked this debt represents a considerable financial challenge to the College in the years ahead.

We have also been very concerned about the planned 10% increase in the cost sharing formula for health benefits for current employees. We have deferred the second and third 5% increases in the cost sharing formula for the past three years. We believe these deferrals have been wise and that they should continue, but the rising cost and debt associated with retiree health has undermined our capacity to continue these deferrals.

In seeking to address these issues - rising debt associated with retiree health benefits and planned increases in cost sharing - we have sought a solution that is fair to all of our employees, past and present, honors our commitments from previous years, and is both sustainable and financially responsible. We believe that we can achieve these goals if we implement the following recommendations.

1. *Discontinue the current Retiree Health Care Plan for individuals whose Skidmore employment begins starting after September 3, 2008 and replace it with a new benefit: a contribution of one percent of base salary made annually by the College to our tax-deferred program that may be used by the employee to defray health care costs during retirement.*

2. *Implement effective January 1, 2009 several key changes in the Prescription Drug Coverage benefit <u>only</u> (including the requirement for those in HMO's plans at age 65 to move to the College PPO plan), as described below.*

The net results of these recommended changes are significant. First, they will both stop the growth of the obligation on our balance sheet and eventually eliminate it. Second, they will generate an estimated $500,000 in annual savings to our operating budget, due in large part to a significant annual subsidy ($225,000) that we would receive from Medicare through the insurance provider and the greater efficiencies achieved through group prescription purchasing by the insurance provider. And, finally, these changes will also allow us to *put off indefinitely, the second and third scheduled 5% increases in the*

cost sharing formula for health benefits for all current eligible employees, which has been deferred for the past three years.

We want to underscore that we are recommending no changes in benefits pertaining to hospitalization, physician services or other medical care items. In addition we are proposing no change in the College's age and service requirements for eligibility for the Retiree Health Care Plan. While there is some complexity to these proposed changes (and we encourage you to spend some time working through the following proposals) we believe that they will yield the financial results needed with only modest impact on the vast majority of current employees and retirees.

Proposed Changes in Health Plan Prescription Drug Coverage
Skidmore currently has three options for health care coverage for eligible employees and retirees: a self-insured PPO plan with Blue Shield of NENY and two HMO's (CDPHP and MVP). The proposed plan change would require that all future retirees, once they reach age 65, participate in the PPO plan, with a specific "carve out" for prescription drug coverage. That is, all future post-65 year old retirees will be required to elect coverage under a Medicare Preferred Drug Plan (PDP) which will be part of the PPO. This introduction of a Medicare PDP has several benefits to the College, including a significant annual subsidy from Medicare (totaling approximately $225,000), and more efficient group prescription purchasing by the insurance provider, thus resulting in significant additional savings to the College.

To minimize disruption for current retirees and to allow time for near-term future retirees to incorporate these changes into their retirement planning, we are also proposing the following three-stage phase-in for the new Prescription Drug Plan (PDP):

Current Retirees: All current Medicare eligible retirees (who are eligible for the Retiree Health Care Plan) who are enrolled in the College PPO Plan will be moved to a Medicare Preferred Drug Plan (PDP) for prescription coverage that has benefits very similar to their current plan. Under this plan, the College would impose no new cost sharing of monthly premiums (for retirees who meet the age and service requirements of the current plan); the new plan would continue to offer the same physician and hospital coverage provisions as your current plan; the same co-pays as the current plan; and no new deductibles. At the present time, the College is recommending waiving the requirement for current retirees to move from an HMO to the PPO (and associated PDP).

Under the Medicare PDP plan there is an annual out-of-pocket catastrophic coverage threshold of $4,350 (for 2009; this number is mandated by Medicare and is indexed each year based on rising prescription costs). Using actual Skidmore prescription claims data from 2006 (the most recent available) none of Skidmore's retirees reached this high threshold. In the event, however, this threshold was reached, the retiree would be required to pay 5% of the cost of the drug, or $2.40 for generic/$6.00 for brand name drugs, whichever is higher.

"Near-Term" Retirees (Next Five Years): All employees currently eligible for the Retiree Health Care Plan who will retire on or before January 1, 2014 will be required, upon retirement, meeting eligibility requirements, and reaching age 65, to move to the College's PPO Health Care Plan and a Medicare Preferred Drug Plan (PDP). There would be no option to elect coverage under one of the College's HMO plans. The benefits and provisions for this group are identical to those described above in the "Current Retirees" section.

Current Employees Eligible for the Plan Who Retire after January 1, 2014 : All current employees who will be eligible to participate in the Retiree Health Care Plan after January 1, 2014 will be required, upon retirement and meeting eligibility requirements, to move to the College's PPO Health Care Plan and a Medicare Preferred Drug Plan (PDP). Under this plan, the College would impose no cost sharing of monthly premiums (for retirees who meet the age and service requirements of the current plan). The new plan would also continue to offer the same provisions for physician and hospital coverages as our current eligible employee health plans. Under the Medicare PDP, there would, however, be a $100 combined annual deductible for prescriptions for each covered individual; and the prescription co-pays would in most instances be higher than under regular current health plan.

The prescription co-pay schedule for a 30-day supply at a retail pharmacy will be $10 for generic drugs and $30 for brand name drugs. The schedule for co-pays for a 90-day supply on a mail order pharmacy basis for generic drugs will be $25, and brand name drugs will be $75.

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Projected Impact

We believe that the impact of these changes on most individuals will be modest. For example, an analysis of Skidmore's actual retiree prescription drug usage during 2006 (the most recent data available) showed that these new deductibles and higher co-pays would have resulted in an increase in cost of less than $250 ($21 per month) per covered individual for more than three quarters of the Skidmore participants. And while some would have paid more than that, only in one instance would the cost have reached approximately the $1,000 mark ($84 per month).

Other Aspects of the New Medicare PDP

The Medicare PDP Plan also has some non-financial differences, when compared to the current Retiree Health Care Plan. These relate principally to outlets where prescriptions may be purchased and specific drug formularies (listings by the insurance company of

which specific brand-name drugs are included in each drug category). Once again, based upon 2006 data, over 97% of the prescriptions filled could be filled at the exact same pharmacies. In fact, the geographic options available, while not identical to, actually exceed the options available under the current plan. And while there are differences in the drug formulary plans between the current Rx plan and the proposed PDP, the great majority of prescriptions would be able to be filled with the identical drugs. Of all prescriptions filled during 2006, only 8 out of the top 300 employee-used drugs (2.5%) would have had to be filled with an equivalent drug.

Certain physicians and others may have strong preference for their prescribed non-formulary scripts for medical and other reasons, and if these were purchased, they would not be covered under this plan. Finally, since this represents a change to a new vendor, there may be some difficulty initially adjusting to the new plan requirements. We will work with the new service provider to make the transition as seamless as possible.

Summary

The proposed shift to a Medicare PDP for prescription drug coverage produces a number of benefits. First, it allows us to leave substantially intact all other health care benefits and to put off indefinitely the two planned increases of 5% each in the cost sharing formula for those benefits, which would have been a much more costly alternative for almost all employees. Second, it should have only a modest impact on the vast majority of our current retirees and their families. And third, we believe that it will help address the underlying financial challenges that have prompted this review, arresting the growth of and eventually eradicating the $34 million liability that has accumulated on our balance sheet, and even providing a substantial annual savings allowing us to continue this benefit with modest modifications for all currently eligible employees.

We must, of course, recognize that we might need to change these policies in the future, should circumstances dictate. However, we have no intention to do so at this time or in the immediate future. The intermittent review of policy should not be confused with the normal and expectable changes in the plan coverages, insurance providers, co-pays, deductibles and related elements, which may be adjusted in the future as conditions and circumstances warrant.

Again, we recognize that many members of our community will need time to reflect upon these recommendations and we expect that many will have questions. We encourage you to attend one of the two Open Community meetings scheduled for **Monday, April 21st, 10:00 a.m. in Gannett, or Tuesday April 22nd at 2:15 p.m. in Emerson**, at which we will discuss these proposed changes in greater depth. We also have constructed a website (http://cms.skidmore.edu/ippc/retiree-health-care.cfm) with this information and a place for questions on this important matter.