PROPOSAL 9-99

REVISION OF TRANSITION TO FULL CO-PAY OF HEALTH CARE PREMIUMS FOR RETIREES

The Senate recommends that the University contribute supplemental funds to the TIAA/CREF accounts of certain employees to help these employees to be able to pay their medical insurance premiums upon retirement from accumulated earnings in those accounts. The amount of these payments and the mechanism for their distribution shall be in accordance with the following plan which has been developed by the Executive Vice President and Provost in consultation with members of the Senate.

Summary
We propose a one-time contribution of supplemental funds to the TIAA/CREF accounts for these individuals to partially correct this inequity. The amount of this contribution for each individual will be the 1999 value necessary to allow the University share of the 2+2 program plus a new 0.45 percent program to grow to the estimated amount required to fund medigap coverage at age 65. The Finance and Benefits Committees have participated in establishing the planning variables used to perform these calculations. Employees making $50,000 or less per year will receive the entire amount based upon this calculation. Employees making more than $50,000 per year will receive a prorated amount that depends upon current base salary.

Additionally the University will increase its contribution to the TIAA/CREF accounts of all eligible employees by 0.45 percent (from 12.55 to 13 percent) beginning in the 2000-2001 fiscal year.

Background
After reviewing a variety of proposals in 1997 relating to TIAA matching contribution and retiree health care premium funding, the Board of Control adopted the "March Proposal" at its March 14, 1997 meeting. This proposal called for a "Phased in Matching Program (2+2)", combined with a "Phased out Retirement Health Care Premium Subsidy" (10 year transition period). One of the stated "Retirement Benefits Principles" emphasized in the presentation to the Board was to "Provide employees with the wherewithal to acquire post-retirement health care". During the 1997-98 school year, both the Finance Committee and Benefits Committee of the Senate conducted a detailed review of the health care premium component of the March Proposal and found that the transition period violates the basic principle stated above for those employees in the lower wage categories and for those who are scheduled to retire in less than 15 years. Meetings with the Provost during that period led to an agreement in principle to make some adjustment for those employees who were adversely affected.

Proposal 11-98, submitted to the Senate by the Finance Committee in the spring of 1998, called for revising the transition period to 15 years as one possible solution to this problem. During the summer of 1998 Institutional Analysis conducted an extensive analysis of both the degree to which employees were adversely impacted by the current phase out program and the costs of possible solutions. These calculations were shared with the Finance and Benefits Committees in September of 1998 and all parties agreed that the true costs of the 15-year transition were much higher than originally estimated by the Finance Committee. The Provost suggested an alternative solution to the problem that would consist of a one time supplemental payment to the TIAA/CREF accounts of those employees who are being adversely impacted by the current transition. Proposal 9-99 is in response to the Provost's suggestion.

Program Details:
The planning variables used in the analysis and calculations are as follows:

Medigap Premium (1999-2000 value) $2340/year

Annual Health Care Premium Increase 3%

TIAA-CREF Investment Returns

Pre-retirement 10%

Post-retirement 6.5%

Annual Salary Increase 3%

Retirement Age 65

Insurance Premium Payments 20 yr.

The amount of money necessary to fund an annuity that will cover the predicted medigap premium for any future retirement year (at age 65) is a function only of the year of retirement and is independent of the individual involved or their salary, etc. Thus this required annuity amount may be calculated for future years using the data in the above table. Although a two-life annuity is the most likely approach to be used by employees, we have agreed to use a 20-year sinking fund at 6.5 percent to approximate this result. In this manner we are able to compute the amount necessary to cover the premium for the entire 20-year period.

A separate calculation will be performed for each eligible employee that takes into account their current age and salary and predicts the amount which they will have accumulated at age 65 in TIAA/CREF from the University contribution to the (1+1), (2+2) and 0.45 % programs using the assumed returns. The necessary and accumulated amounts will be compared and any shortfall converted to a 1999 value using the assumed 10 percent interest rate. This shortfall is the maximum supplemental contribution available to the employee.

Employees earning $50,000 or less shall receive the maximum contribution. Employees earning more than $50,000 shall receive a portion of the maximum contribution which is to be calculated as the full amount reduced by 2.0 percent for each $1,000 in base salary over the $50,000 amount. Employees who are ages 65 or over at the time of this program and elect to commit to their future retirement date will have the supplemental contribution calculated for them on the basis of this selected date.

The IRS has a 25 percent limitation on total contributions to TIAA/CREF tax deferred accounts by either the employer or employee. In cases where the supplemental contribution may exceed this amount, the contribution will be spread over several years so as to minimize the tax liability. Subject to this limitation, the University shall make the payments to individuals as early as possible. Individuals may elect to receive the payment as taxable income (for example those who are already contributing the maximum to a supplemental retirement annuity) in which case the limitation will not apply

All TIAA/CREF employees will receive an additional contribution of 0.45 percent to their retirement accounts commencing in fiscal year 2000-2001. This contribution will not require any employee match.

Costs

The total cost of the supplemental payments for the employees making less than $50,000 per year is calculated to be $459,000 spread over eight years as shown in Table 1. The bulk of the costs are incurred in the first two years ($237,000 and $133,000). These costs will be met from the Program Development funds allocated in the Five-Year Budget Model.

The maximum cost of the payments to those making more than $50,000 per year would be $356,000 if these employees received the full amount as also shown in Table 1. The prorated value has been calculated by Institutional Planning as shown in Table 2. The total cost of the prorated supplemental payments for these employees is $243,000 in the first year and $21,000 in the second year for a total of $264,000. By deferring the new 0.45 percent contribution for one year we can generate an estimated $171,000 in 1999-2000 ($166,000 in 1998-99 salaries). This amount, from projected salary costs in the Five-year Budget Model, will be used to cover most of the cost in the first year for the supplemental contribution to those making more than $50 K. The balance of $72,000 in this year and $21,000 in the second year will be met using one-time salary costs in the Five-year Budget Model.

The anticipated cost for the new 0.45 percent contribution by MTU is estimated to be $176,000 in 2000-2001. This cost is expected to escalate with salaries at a rate of three percent as shown in Table 2. Future costs for this contribution will also be met from projected salary costs in the Five-year Budget Model.

Table 1: TIAA Employee Maximum Supplemental Contribution ($thousands)SALARY LESS THAN $50 KEmployee StatusNo.of Empl.19992000200120022003200420052006Total Full-time Non-union62$207 $117 $34 $9 $6
$4 $2 $379

Other Non-union	7	$13	$4							$17
Unionized	9	$17	$12	$9	$8	$6	$6	$4	$1	$63
Sub-total	78	$237	$133	$43	$17	$12	$10	$6	$1	$459
SALARY GREATER THAN $50 K										
Full-time Non-union	82	$318	$38	$0	$0	$0	$0	$0	$0	$356
Other Non-union	0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Unionized	0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Sub-total	82	$318	$38	$0	$0	$0	$0	$0	$0	$356
ALL ELIGIBLE EMPLOYEES										
Full-time Non-union	144	$525	$155	$34	$9	$6	$4	$2		$735
Other Non-union	7	$13	$4							$17
Unionized	9	$17	$12	$9	$8	$6	$6	$4	$1	$63
TOTAL	160	$555	$171	$43	$17	$12	$10	$6	$1	$815

Table 2: TIAA Employee Prorated Supplemental Contribution And Source of Funds
(thousands)

SALARY LESS THAN $50 K										
Employee Status	No.of Empl.	1999	2000	2001	2002	2003	2004	2005	2006	Total
Full-time Non-union	62	$207	$117	$34	$9	$6	$4	$2		$379
Other Non-union	7	$13	$4							$17
Unionized	9	$17	$12	$9	$8	$6	$6	$4	$1	$63
Sub-total	78	$237	$133	$43	$17	$12	$10	$6	$1	$459
SALARY GREATER THAN $50 K PRORATED AT MINUS 2%/$1000 ABOVE $50 K										
Full-time Non-union	77	$243	$21	$0	$0	$0	$0	$0	$0	$264
Other Non-union	0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Unionized	0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Sub-total	77	$243	$21	$0	$0	$0	$0	$0	$0	$264
ALL ELIGIBLE EMPLOYEES USING PRORATED VALUES										
Full-time Non-union	139	$450	$138	$34	$9	$6	$4	$2	$0	$643
Other Non-union	7	$13	$4	$0	$0	$0	$0	$0	$0	$17
Unionized	9	$17	$12	$9	$8	$6	$6	$4	$1	$63
TOTAL	155	$480	$154	$43	$17	$12	$10	$6	$1	$723

SOURCE OF FUNDS									
Program Development (one-time)	$237	$133	$43	$17	$12	$10	$6	$1	$459
Salary Costs (deferral, one-time)	$171								$171
Salary Costs (other, one-time)	$72	$21							$93
Sub-total	$480	$154	$43	$17	$12	$10	$6	$1	$723
Salary Costs(0.45 % program)		$176	$181	$187	$192	$198	$204	$210	
TOTAL	$480	$330	$224	$204	$204	$208	$210	$211	

Adopted by Senate: December 16, 1999
Rejected by University Budget Team: September 23, 1999