

The University Senate of Michigan Technological University

PROPOSAL 10-01

SUPPLEMENTAL CONTRIBUTION TO ELIGIBLE TIAA/CREF EMPLOYEES

This proposal is a reintroduction and update to Proposals 9-99, Revision of Transition to Full Co-pay of Health Care Premiums for Retirees, and 13-00, Supplemental TIAA-CREF Contribution for Eligible Employees to Assist with Post-Retirement Health Insurance Costs. The Senate requests that the University implement the remaining two parts of Proposal 9-99:

- Supplemental contributions to the TIAA accounts of those employees making greater than \$50,000 per year who were identified by Institutional Analysis as being unlikely to accumulate sufficient funds in their TIAA/CREF accounts from the University share of the 2+2 program to be able to fund retirement health care costs.
- Increase the University contribution to the TIAA/CREF accounts of all participating employees by 0.45 percent (from 12.55 to 13 percent) beginning in the 2002-2003 fiscal year.
- **In addition the University agrees to set the Medigap premium for retirees to a value less than or equal to the rate use in 1998 times an escalation factor that is identical to the predicted escalation rate used in determining the supplemental contribution.**

Proposal History

The 10-year transition period to full co-pay of health care premiums for retirees, implemented in 1997, causes undue hardship to those with lower incomes and those who reach retirement age within 15 years. In contrast to promises made by Provost Dobney to the Senate in 1997 that no employee would be harmed by the phase out of retirement health care, calculations performed by Institutional Analysis indicate that there are 160 employees who are unlikely to accumulate sufficient funds in their TIAA/CREF accounts from the University share of the 2+2 program to be able to fund retirement health care costs.

Proposal 9-99 called for a one-time contribution of supplemental funds to the TIAA/CREF accounts for these individuals to partially correct this inequity. This proposal was passed in the Senate by a vote of 30 to 4. The amount of this contribution for each individual was to 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. Both the Finance and Benefits Committees participated in submitting this proposal and in establishing the planning variables used to perform the calculations. Employees making \$50,000 or less per year were to receive the entire amount based upon this calculation. Employees making more than \$50,000 per year would receive a prorated amount that depended upon current base salary. Additionally the University was to 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.

The University, in 2000, partially implemented Proposal 9-99 by making the contributions to the accounts of those persons making less than \$50,000 per year. The second and third parts of the proposal were not funded at that time. Proposal 13-00 was then prepared by the Benefits Committee to clearly indicate that employees still felt strongly about these issues and the promises made by the University to them. This proposal passed the Senate unanimously. A letter of rejection was received from Provost Wray on 28 November 2000. The letter from the Provost also cited a memo from Ellen Horsch dated 26 June 2000 regarding Proposal 13-00 as

part of the justification for the rejection. We question some of the statements in the latter memo including the \$400,000 cost estimate and that "the Senate did not specify how it wished to fund this proposal." The history and justification for Proposals 9-99 and 13-00 were reviewed in a meeting between the Provost and the Finance Committee held on 27 February 2001. Armed with a new understanding of the history and significance of this matter, the Provost invited the Finance Committee to submit a new proposal. The current proposal is in response to that request.

Program Details

This program is available to all TIAA/CREF employees who work at least 75 percent of full time. Employees whose appointments are less than full time but at least 75 percent of full time will receive payments that are prorated by their appointment proportion.

The planning variables will remain the same as those used in the 1999 analysis 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.

Calculations will be performed according to the procedure outlined in Proposal 9-99 and already implemented for those employees making less than \$50,000 per year. Employees earning \$50,000 or less have already received the maximum contribution. This proposal calls for the implementation of part two of Proposal 9-99, i.e., employees earning more than \$50,000 at the time of prior payments shall receive a portion of the maximum contribution that 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.

Figure 1 attached presents retiree health care costs for three scenarios; the projection presented by the University in selling the 2+2 program to the employees, the three percent annual increase used as a planning variable in Proposals 9-99 and 10-01 and the actual values being charged to retirees at the 100 percent copay rate. Figures 2, 3 and 4 present the annuity required, the shortfall in savings and the supplemental contribution required in 1999 for various income levels based upon the planning variables shown above. It is clear from these figures that many employees in the \$50,000 plus salary category are being severely impacted by the phase out of retiree health care and that the supplemental contributions being proposed are in fact much lower than the true impact on the employees.

This proposal also calls for the implementation of part three of Proposal 9-99, i.e., that all TIAA/CREF employees will receive an additional contribution of 0.45 percent to their retirement accounts commencing in fiscal year 2002-2003. This contribution will not require any employee match. Employees will benefit from the pretax status of this increase and it should be clear from

the figures presented that all employees will find such additional contributions necessary to prepare for retirement health care.

Costs

Costs for this proposal were estimated in Proposal 9-99. The first part of the proposal was funded using a portion of one-time monies located by members of the Finance Committee at a total cost of around \$500,000 spread over several years.

The cost of part two for those making greater than \$50,000 per year was estimated by Institutional Analysis for Proposal 9-99 as \$243,000 in the first year and \$21,000 in the second year for a total of \$264,000. These cost estimates will still be current since Proposal 10-01 will use the salaries and planning variables that were in effect for Proposal 9-99. To fund part two of this proposal, we propose that the new 0.45 percent contribution be deferred for one year. The amount deferred will cover most of the cost for this one-time supplemental contribution. The balance would come from other one-time monies.

Part three, the 0.45 percent increase in contribution to TIAA-CREF for participating employees, was originally estimated to cost \$176,000 in 2000-2001. With raises and personnel shifts, this amount would actually be \$190,500 if implemented today. This item will be ongoing and we propose that it be budgeted as part of the salary pool in the Five-Year Budget Model.