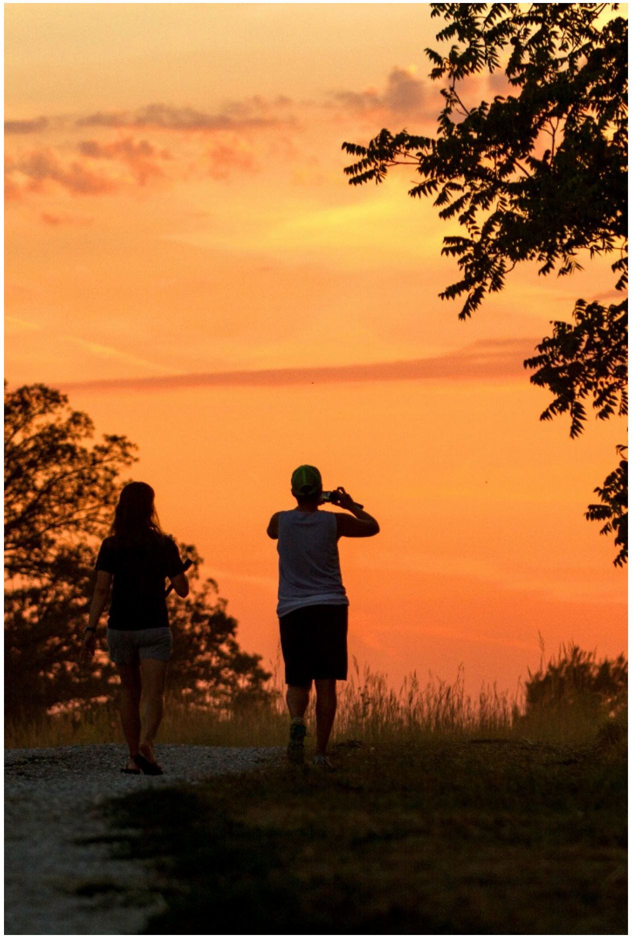
"Inside Grinnell"
A Data and Information Sharing Series*

PURPOSES:

- To share **data**, **information**, and **insights** about higher education and Grinnell College

- To contribute to the **transparency** of process and results at Grinnell.

* HOSTED BY THE OFFICE OF ANALYTIC SUPPORT AND INSTITUTIONAL RESEARCH



Today's Objectives

- Explain changes to the College's retiree health benefit plan.
- Provide sufficient information to ensure understanding and support for the changes ahead.

The **PROBLEM** We're Facing

A combination of **rapidly rising medical costs** and **uncertain lifetime benefit liabilities** put the College's retiree health benefit plan at risk. We needed to find a new, **sustainable** approach to providing retiree medical benefits that would responsibly balance the needs and concerns of our retiree population with those of the institution.

Our Challenge:

Can we **preserve meaningful retiree health benefits** in a way that will also be **financially sustainable** for the College?

What is your #1 concern about this challenge?

Context and Background

Grinnell Retiree Health Benefit Plan

- **Eligibility:**
  Grinnell College provides post-retirement medical and prescription drug benefits to eligible employees and covered dependents retiring at **age 60+ with 10 years of service.**

- **Benefit structure:**
  Benefits are provided on a **defined benefit** basis with no limit on Grinnell's annual cost commitment. As a result, the plan costs are subject to **significant risks** from:
  - Upward spiraling health care cost trends
  - Adverse claims experience – benefits are self-insured
  - Excise taxes under health care reform

- **Cost to participants:**
  - **Pre-65** retirees pay 50% - 70% of the active total cost, based on service at retirement
  - **Post-65** retirees pay 50% of the cost of coverage

Troubling Trend #1

- **Since calendar 2013, payouts <u>from</u> the plan have consistently exceeded contributions <u>to</u> the plan. The plan is losing money at a rate that is unsustainable.**

- **Despite significant premium increases, the plan is becoming unaffordable.**
  - The participant pool is too small to absorb and spread escalating individual costs.
  - Healthy plan members are subsidizing a handful of high-cost plan members.
  - New, healthy retirees are starting to opt out of the plan, which only makes the situation worse.

POST-65 RETIREES: Premium and Claim History

	2015	2014	2013	2012	2011
PREMIUMS					
Single	$350	$286	$276	$266	$258
% increase SINGLE	22.4%	3.6%	3.8%	3.1%	
+Spouse	$700	$572	$552	$532	$516
% increase +SPOUSE	22.4%	3.6%	3.8%	3.1%	
CLAIMS	Higher yet	$901,246	$698,535	$545,709	$565,162
% increase		29%	28%	(3.4%)	

Troubling Trend #2

- **The College's APBO* liability is doubling every 3-4 years.**
  - As of June 30, 2014, the liability was **$43.2 million**.
  - As of June 30, 2011, the liability was **$21.1 million**.
  - As of June 30, 2007, the liability was **$11.5 million**.
  - Factors affecting the liability calculations include **discount rates** and **mortality projections**, as evaluated by actuaries specializing in this area.
- **This is an unsustainable trajectory.**

*__APBO__ = Accumulated Post-retirement Benefit Obligation

Solution:
A new direction

EXPLORED A RANGE OF OPTIONS: Retiree Health Care Landscape

An array of options along the full spectrum of plan sponsorship and financial subsidy

Employer sponsorship	Uncapped subsidy	Capped subsidy	Unsubsidized
None	Account approach with balance based on **traditional funding formula**	Account approach with **capped subsidy** (e.g. premium reimbursement account)	**Full exit** – no sponsorship, subsidy, or enrollment support
Hybrid approach	Offer **government designed** and regulated insured plans (e.g., Medigap, Part D Rx, Medicare Advantage)	**Dual choice account approach** • Employer-sponsored plans • Individual market options	**Facilitated enrollment in individual options** • Endorsed vendor meetings • Communications
Full sponsorship	**Grinnell's Current Plan** **Fully sponsored plan with uncapped employer subsidy (Defined Benefit)**	**Traditional plan sponsorship with capped subsidy**	**Access-only plan** (retiree-pay-all)

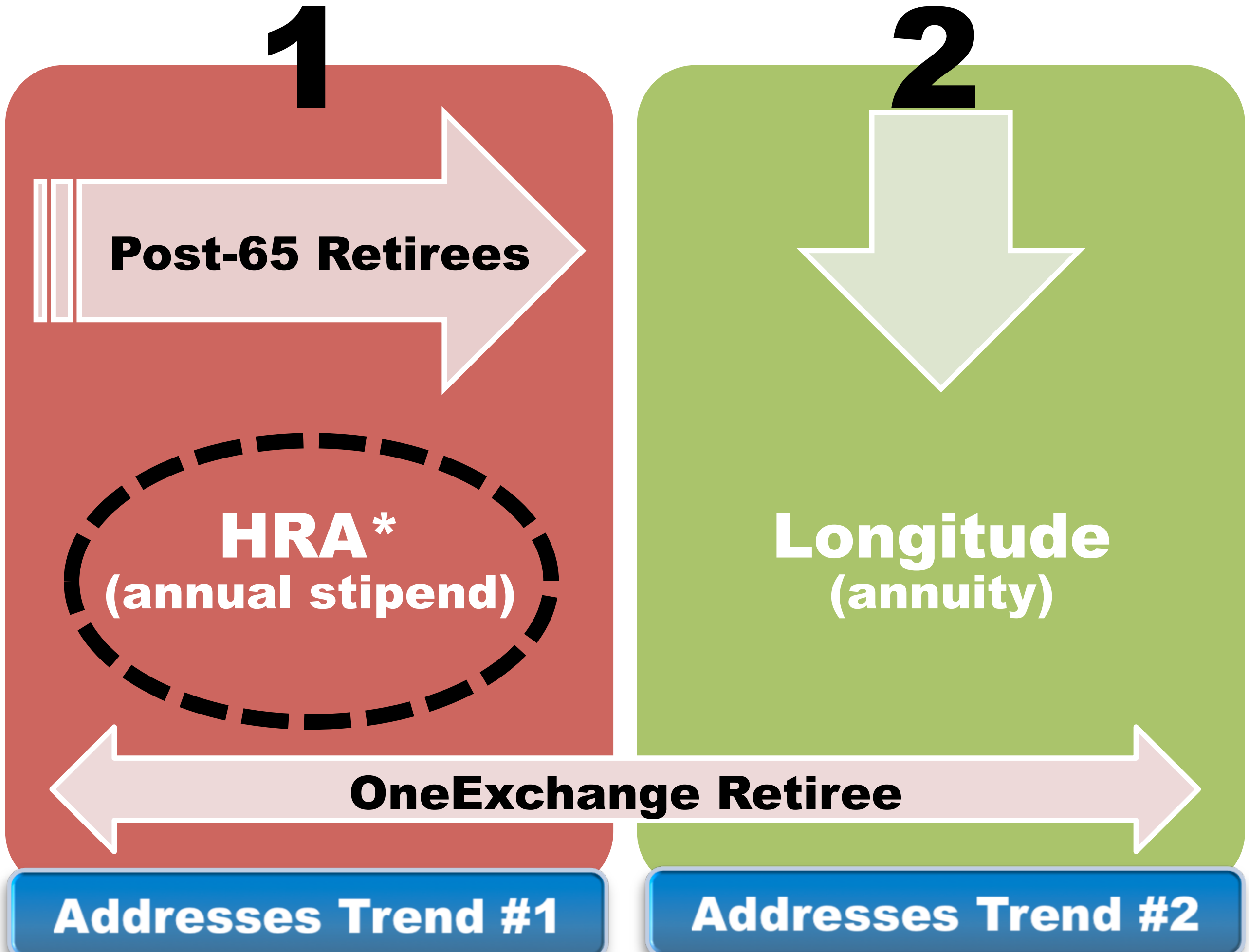
Employer subsidization

SOLUTION:
A Phased Approach

Post-65 retirees NOW
(208 of 228 retirees)

Pre-65 retirees LATER

POST-65 RETIREES:
Two-part solution



* **HRA** = Health Reimbursement Arrangement (premiums only)

POST-65 RETIREES: HRA*
Preserving a meaningful benefit level

Annual Health Reimbursement Arrangement (HRA)

- **$1,500 per year** from the College
- Subject to a **3% COLA**

- **96% of retirees will be <u>better off</u>** than they are under the current plan.
  - Average annual retiree **savings of $2,395**
  - Exploring options to help the remaining 4% of plan participants.

* **HRA** = Health Reimbursement Arrangement (premiums only)

POST-65 RETIREES:
How an HRA* works

Post-65 Retirees

$$

Grinnell contributes $1,500 stipend + COLA to each retiree's HRA account

Retiree HRA Account

Administered by OneExchange

Can be applied toward any eligible premium:

- **Medicare Part B** ($1,258/yr)
- **Medicare Part D** (Rx drug cvg)
- **Other supplemental coverage**

HRA reimburses retirees for premium expenses.

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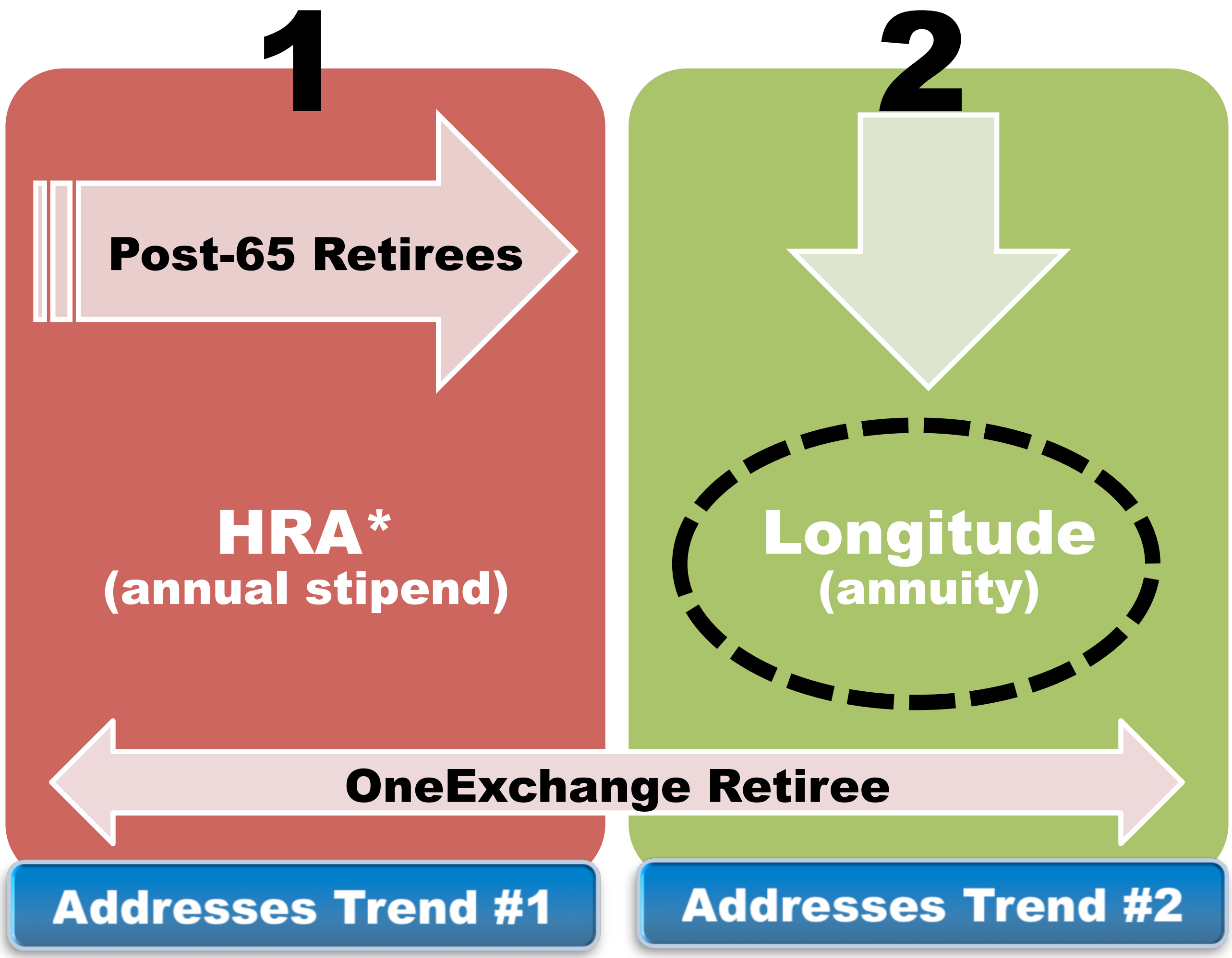
POST-65 RETIREES:
Combined HRA*/Longitude solution



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POST-65 RETIREES: Annuity
The Longitude annuity solution

How does it work?

- The College pays a **one-time premium** to convert existing post-65 retirees to a Longitude **annuity**.
- Longitude uses a **highly-rated annuity insurer** to provide guaranteed annual payments to post-65 retirees.
- Post-65 retirees **continue to receive their annual stipend** to purchase medical plans tailored to their needs via OneExchange (just as they do under the HRA).
- The College can **annuitize future groups** of retirees in tranches, i.e. groups.

Why do it?

- It **preserves a quality medical benefit** plan for our post-65 retirees.
- It secures lifelong benefits for our retirees **without creating taxable income** for them now or in the future.
- It transfers the College's post-65 retiree medical liability to the annuity carrier, **reducing the burden on the College's balance sheet**.
- It **transfers the College's ERISA obligations** to the annuity carrier, including reporting, disclosure, claims administration, and fiduciary responsibilities.

Moving Forward

- **PHASE I: Post-65 retirees:**
  - Implementation is underway.
  - Complete transition to an HRA in time to become **effective Jan 2016**.

- **PHASE 2: Pre-65 retirees:**
  - **Maintain the status quo** through 2016, providing coverage through the College's active employee program.
  - Allow time for pre-65 insurance exchanges to mature and stabilize.
  - Re-evaluate options in a year.

In Summary…

Our Challenge:

Can we **preserve meaningful retiree health benefits** in a way that will also be **financially sustainable** for the College?

YES!

Questions?

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