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TIAA-CREF Retiree Health Care Premiums Expected to Rise

Michigan Tech and General Motors have more in common than engineering. Public universities are now facing some of the same tough requirements for funding retirement benefits as big corporations.

Currently, the university has been handling TIAA-CREF retiree health care on a pay-as-you-go basis—the bills are paid as they come in. Beginning July 1, 2007, new rules under the Government Accounting Standards Board (GASB) Statement 45 now require universities to recognize in their financial records that they are liable for future retiree health-care costs.

For several years, corporations have been required to recognize such liabilities, so that even if they were to close their doors, benefits would still be available to past employees.

If Michigan Tech were to fully fund such an obligation, it would cost an additional \$3.3 million annually, until the university accrued \$47 million, the anticipated liability under GASB.

Setting aside \$3.3 million a year was not an option. As a result, the university administration asked the Benefits Liaison Group to develop a selection of proposals, as well as to identify other retiree health-care options that could benefit the Tech community. The BLG began its task with three primary goals: 1) maintaining access to retiree health insurance for TIAA-CREF employees, 2) implementing the GASB 45 rules, and 3) smoothing the transition from relatively low-cost, subsidized TIAA-CREF retiree health-care premiums to higher-cost, unsubsidized premiums.

The recommendations do not affect MPSERS retirees or employees, who have a separate retiree health-care package.

They are recommending that the university gradually phase out its subsidy of health-care premiums for TIAA-CREF retirees. Health-care costs for the 181 current retirees are significantly subsidized: revenue from premiums is \$492,000, compared to \$1.2 million in retiree health care costs.

Under the plan, the monthly premium for employees under 65 who retire as of Jan. 1, 2008, would be \$482, about \$50 higher than it would be under the current structure. The subsidy on their premiums would gradually be phased out until 2014, when they would be paying the entire value of the premium. By 2014, that figure would rise to \$1,541 per month.

Those costs drop significantly for retirees age 65 and older, since then Medicare becomes the primary health-care insurer. Monthly premiums for single retirees over 65 would rise from \$345 in 2008 to \$655 in 2014.

The new premiums would also affect the university's current TIAA-CREF retirees. They now pay from 20 percent to 100 percent of the 2007 premium, which is \$385 for those under age 65, \$300 for those 65 or older. Retirees would continue to pay the same percentage, but of the new premium amount.

The university is maintaining its other benefits to help employees plan for retirement. Under the 2-plus-2 plan, the university matches an employee's contribution to their TIAA-CREF account, up to 2 percent of their salary. That benefit was designed to help employees pay for health insurance after retirement.

The RSVP benefit allows employees to receive up to 50 percent of their salary, up to \$50,000, when they retire. That money can be used to cover the cost of health insurance premiums or may be taken as a cash payout if families have other health-care options. Affordable life insurance is also available for retirees, up to \$50,000.

Meanwhile, the BLG is continuing to work on health-care and cost-containment proposals and expects to present options to the Executive Team in June.