

TO: Council of Deans

FROM: Larry Lewellen

Report on Meeting Held by the Healthcare Committee of the STRS Board on August 27th. The Healthcare Committee of the STRS Board held a Roundtable discussion with various constituency representatives on the future of STRS-sponsored retiree healthcare. I attended the meeting as a representative of the IUC (public four-year universities in Ohio). The information below is as stated by STRS, without any interpretation or opinion at this time.

MY ONE EDITORIAL PARAGRAPH IS AS FOLLOWS---these are extremely serious changes, and deserve the full attention of all institutions. This is by far the largest reduction of retiree healthcare benefits in the history of the system. It is hard to tell on short notice whether STRS is over-reacting, or appropriately reacting to the healthcare, demographic and investment return trends. STRS sponsored legislation two years ago to boost high-service pensions, and is now suddenly announcing the potential bankruptcy of the healthcare fund.

THE BOTTOM LINE: STRS is projecting that the STRS healthcare fund will be bankrupt in a little less than a decade. The Board is putting forth significant changes in healthcare eligibility and cost-sharing for STRS retirees. These changes will be in two phases-Jan 2003 and Jan 2004. Most of the changes are planned to affect all current and future retirees, not just future retirees. STRS believes that the changes are necessary, with the assumption that employers will not support an increase in the 14% employer contribution.

PROCESS: STRS held this first roundtable to share information. Constituency representatives are to share information and get collective reaction from constituency. Reactions and ideas must be in writing and delivered by October 3rd to STRS.

BACKGROUND: STRS reminds us that they are required to ensure pensions are correctly and fully funded, and are only allowed to fund healthcare after pension obligations are met. Historically 2% of the 14% employer contribution has gone to fund healthcare; periodically STRS has been able to make their contributions into the healthcare fund. If STRS had depended on just the 2% employer contribution, the fund would have been depleted in 1990. The healthcare fund is currently at \$3 billion; the annual healthcare expenditure is expected to approach \$600 million for 2003; about \$400 million is available from employer & employee contributions, and investment earnings, resulting in a \$200 million "draw" from the fund just for one year. The funding gap widens in ensuing years. STRS is uncertain about its ability to make major ad-hoc contributions in the future; health care costs have ballooned; and the ratio of employed teachers/faculty per retiree continues to decline, as with Social Security.

CHANGES FOR 2003: (These are set, not open to change)

- * STRS will subsidize 87% of enrollee cost (from 90%) and 50% of dependent cost (from 70%)
- * Pharmacy co-payments are increased
- * Deductibles are increased to \$500 per person on some plans

CHANGES FOR 2004: (For roundtable discussion, but

STRS Board is at a "consensus" on these changes)

- * New retirees in 2004 will need 10 years of service to be eligible (up from 5 years)
- * No subsidy will be provided unless a retiree has at least 15 years of service (up from 5 years)
- * Subsidy formula for enrollees will reduce from 87%, to a subsidy matching the individual's pension formula percentage; e.g., if a retiree's pension formula is 66% of average salary, then the healthcare subsidy will be 66%.

OTHER CHANGES BEING CONSIDERED:

- * Any new retiree under age 60 would have no subsidy until reaching age 60
- * Subsidies for dependents would be reduced to zero by 2007
- * Reduce subsidy of Medicare Part B reimbursement to 2.2% by 2007 (from 3.0%) ---
OR---- eliminate Medicare Part B reimbursement entirely in 2004.

ADDITIONAL OPTION ON THE TABLE:

- * Limit STRS aggregate increase in annual subsidy by the amount of annual growth in employer contributions

EFFECT ON HEALTHCARE FUND: Depending on the number of changes effected above, the fund life would be extended somewhere between two years and ten years.

NEXT STEPS: The Human Resources Committee of the IUC will draft a memorandum, for review and discussion, to articulate the reaction of the universities.