TO: Dick Celeste, President of the College

FROM: Committee on Compensation

DATE: February 16, 2009

RE: Employee mandatory contribution to Emeriti Program

In the fall of 2007, the Committee on Compensation was charged with gathering information about the mandatory employee contribution to Emeriti and recommending whether or not CC should continue the practice. As a means of gathering employee input, it was agreed that the Subcommittee would hold three campus-wide forums regarding mandatory employee Emeriti contributions, followed by a survey of benefits-eligible employees. The survey data was then analyzed by Amanda Udis-Kessler, Director of Institutional Research. This letter discusses the data and provides a recommendation regarding mandatory employee contributions.

Of approximately 750 benefit eligible employees, 305 (41%) responded to the survey. Respondents were from all demographics (see Appendix). For the non-open ended questions, the original question and raw survey results are given in the Appendix to this memo. However, to aid our discussion in the memo, we include the following two questions from the survey and their raw results here.

Question 1: Based on your individual circumstances, do you think that Colorado College should continue its practice of requiring eligible employees to make mandatory contributions to Emeriti? Yes: 51%, No: 36.8%, Unsure: 12.2%

Question 3: Based on the direction you think is best for the college as a whole, do you think that Colorado College should continue its practice of requiring eligible employees to make mandatory contributions to Emeriti? Yes: 48.2%, No: 35%, Unsure 16.8%

1. In the survey results, there is not a statistically significant relationship between respondents' views on keeping the mandatory contribution and their family structure.[1]

2. There is not a statistically significant relationship between respondents' views on keeping the mandatory contribution and age.[2]

3. There is a highly significant relationship between question 1 and question 3 and expectation of group health insurance options.[3] Specifically, those who did expect to have group health insurance options other than CC's plan or Medicare were significantly more likely to say no to question 1 and question 3, and those who did not expect to have such options were significantly more likely to say yes to question 1 and question 3.

4. There is a highly significant relationship, for those who answered both questions, between responses to questions 1 and 3 and income.[4] Specifically, those who answered yes to these two questions had significantly higher incomes (approximate mean $69,700

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[1] Based on a chi square test.

[2] Based on a chi square test.

[3] Based on a chi-square test, with $p = 0.000$ for both questions 1 and 3.

[4] Used a t-test. $p=.000$ for both questions 1 and 3.

for question 1 and $70,600 for question 3) than those who answered no (approximate mean $48,500 for question 1 and $46,700 for question 3).

5. Very few people, 15.4%, answered questions 1 and 3 differently.

We include six other facts we feel are important to our overall analysis.

1. In the past, retirees and their domestic partners on the CC health plan were each given $720 annually to offset premium costs. So CC has historically provided a retiree health care benefit. We note that only retirees using the CC health plan received this benefit.

2. Emeriti replaced the previous benefit, described in #1, to address FAS-106 regulations and any such benefit provided in the future must meet these regulations.

3. The college contribution to Emeriti was $586.56 in 2008 and was originally scheduled to increase slightly each year. This is less than $720, but the money contributed by the college and the employee is invested and will generally be worth much more to employees than the previous benefit.

4. Domestic partners were recognized by the previous benefit, since it was administered directly by CC, and domestic partners still have access to the group health insurance through Emeriti. However, due to problematic IRS-tax law, domestic partners cannot use the VEBA account of a retired employee. Changing a benefit from one that recognizes certain relationships to one that does not is clearly very problematic. Many schools, including most of those in our various comparison lists (see #6), address this issue by not offering any retiree health benefit. However, this has not been the practice at Colorado College, as noted in #1.

5. Based on 2008 employee contributions, it would cost the college almost $21,000 in payroll taxes to eliminate the employee mandatory contributions to Emeriti. This is due to the fact that eliminating the mandatory contribution will increase each employee's taxable income, thus increasing the amount on which the college must pay taxes.

6. Of the ACM schools only St. Olaf College and Carleton College participate in Emeriti and neither has a mandatory contribution. Carleton contributes only $300 per year while CC currently contributes $586.56. St. Olaf contributes $1008 which is close to the amount of the CC college contribution and the employee mandatory contribution. All other schools in the ACM and in our peer institution list have very little or no retiree health care benefit.

The subcommittee on Emeriti expected age and family structure to show a correlation with respondent's desire to keep or eliminate the mandatory contribution, but the survey only shows significant correlations with income and expectation of future health care resources.

1. While we respect the desire of all people to choose the best health care option available to them, we also believe that CC is providing a valuable and needed benefit to those employees who have no other source for health care in retirement. Survey results confirm that those who do not perceive themselves to have an alternative feel this is an important benefit. Furthermore, while it may save some employees and the college money in the short time to eliminate our retiree health benefit completely, this will likely lead to significant hardship for many employees in the long term, as suggested by the

survey, and goes against our past practice of assisting with retiree healthcare. We also note that after retirement the VEBA can be used by the retiree and IRS-qualified dependents for the same qualified medical expenses as the flexible spending accounts of active employees, so most employees with other health insurance options will make use of their account. Unfortunately, the college and employees cannot retain the tax benefits if we change the mandatory contribution to optional and IRS tax law does not allow us to have varying sizes of mandatory contributions.

2. We think that the significant relationship between an employee's income and desire to retain the program needs to be addressed. One might argue that it is those in the lowest income brackets who need this benefit the most and can least afford it. We therefore recommend that Human Resources and the college work to find other benefits that can be made optional, eliminated, or otherwise adjusted for those employees in the lowest income brackets at the college to offset the sizeable burden that Emeriti poses for these employees. More simply, the college needs to strive for an affordable benefits package for all employees and the mandatory Emeriti contribution plays a large role in this consideration.

3. We think that the college must continue to consider potential alternative solutions to the retiree health care challenge striving to find a solution that returns to a benefit that recognizes domestic partnerships, and particularly, those families on campus involving a same-sex relationship. This may come in the form of changes in the law, or opportunities created by competition for the Emeriti program. We must remain diligent in pursuit of a program that equally recognizes all partnerships recognized by the college.

We applaud the college for striving to provide health care benefits for retirees in the best way that it can and we acknowledge the challenges in this endeavor. In short we recommend that the college continue the mandatory employee contribution. However, we further recommend that mandatory employee contribution continue at the 2008/09 amount, $564.96, for an additional three years (through the fiscal year that ends June 30, 2012). The three-year timeline is in line with the budget forecast projections. This will not completely mitigate the stress of Emeriti on those in lower income brackets, but will make it so that it is taking a smaller percentage as salaries rise, while maintaining a benefit many find valuable.

Cc: Colorado College Benefit Eligible Employees
Barbara Wilson, Director of Human Resources
Robert Moore, Vice President for Finance and Administration

Appendix

Question 1: Based on your individual circumstances, do you think that Colorado College should continue its practice of requiring eligible employees to make mandatory contributions to Emeriti?
Yes: 51%, 155 individuals
No: 36.8%, 112 individuals
Unsure: 12.2%, 37 individuals

Question 3: Based on the direction you think is best for the college as a whole, do you think that Colorado College should continue its practice of requiring eligible employees to make mandatory contributions to Emeriti?
Yes: 48.2%, 146 individuals
No: 35%, 106 individuals
Unsure: 16.8%, 51 individuals

Question 6: Presuming that you had read the available material and educated yourself about the Emeriti program, and presuming that you had a choice about whether to participate, which of the sentences below best reflects how you feel right now?
Opt in: 44.6%, 131 individuals
Opt out: 31.6%, 93 individuals
Unsure: 23.8%, 70 individuals

Question 7: Did you attend one of the Emeriti forums?
Did attend: 42.7%, 128 individuals
Did not attend: 57.3%, 172 individuals

Question 8: How old are you?
Under 40: 19.9%, 60 individuals
40-45: 11.6%, 35 individuals
46-50: 15.6%, 47 individuals
51-55: 20.5%, 62 individuals
56-60: 15.9%, 48 individuals
61-65: 10.6%, 32 individuals
Older than 65: 6.0%, 18 individuals

Question 9: Which of the following best describes you?
Single: 25.3%, 75 individuals
IRS-dependent: 53.9%, 160 individuals
Couple/not IRS-dependent: 20.9%, 62 individuals

Question 10: Do you expect to have one or more IRS-dependent children when you retire?
Yes: 10.4%, 31 individuals
No: 86.2%, 256 individuals
Unsure: 3.4%, 10 individuals

Question 12: What is the likelihood you will work at Colorado College until retirement.
0-25%: 11.5%, 34 individuals
26-50%: 13.5%, 40 individuals
51-75%: 17.9%, 53 individuals
76-100%: 57.1%, 169 individuals

Question 13: Are you currently on Colorado College's health insurance plan?
Yes: 89.6%, 268 individuals
No: 10.4%, 31 individuals

Question 14: Do you expect to have group insurance options for health insurance other than CC's plan or Medicare after you retire?
Yes: 27.3%, 82 individuals
No: 42.0%, 126 individuals
Unsure: 30.7%, 92 individuals