SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
APRIL 2, 2002

[In these minutes: Welcome, Update on Hiring for the Director of Retirement Programs, Continued Discussion of Establishing an Integral Government Trust (Post Retirement Health Care Savings Plan)]

PRESENT: Daniel Feeney, Chair, Barry Melcher, Josef Altholz, Richard Goldstein, Michael Murphy, George Seltzer

REGRETS: Gordon Alexander

ABSENT: Dwight Purdy

OTHERS: Joe Jameson, Carol Carrier, Gavin Watt, Chris Suedbeck

GUESTS: Ron Schweitzer, Retirement Administrator from MSRS

I). Professor Feeney called the meeting to order, welcomed those present and asked members to introduce themselves.

II). Carol Carrier, Vice President, Human Resources, announced that University employees will have an opportunity to meet the four finalists for the Director of Retirement Programs. Dates are pending.

III). Professor Feeney introduced Ron Schweitzer from the Minnesota State Retirement System (MSRS). Mr. Schweitzer was invited to answer the Subcommittee's questions about establishing an Integral Government Trust, also known as a post retirement health care savings plan.

Currently there are approximately 35 groups participating in the state's plan. Typically it takes 3-4 months before a group decides if it wants to participate or not. The first step is to explain how the program works to those affected and then there must to be a consensus among group members before the program can be implemented. The program does not allow for individual choice, either everyone in a particular class participates or none. Or in other words, it is not like a deferred comp plan because it is not an elective process. Achieving consensus within a group can be difficult. While some individuals are ready to implement the program, other members are often not as anxious to do so. Mr. Schweitzer referenced the MSRS web site that provides more information about the plan: www.msrs.state.mn.us

Program highlights include:

- Totally tax free health reimbursement account – contributions into the plan are tax-free and payouts from the account to cover health care premiums or medical expenses for employees and dependents are tax-free.
- Money for employee and eligible dependents – dependents are defined as someone listed on an individual's tax return. If the employee passes away, dependent coverage continues. If there are no dependents the money transfers to beneficiary(ies) and is taxed. If there are no beneficiaries the money goes to the person's estate and is also taxed.
- Individual choice of investments
- Guaranteed full payout
- Multiple methods to fund account
- Biennial contract negotiations
- Low fees – capped maximum
- Weekly payout
- Web access
- Termination activated - once an individual leaves their place of employment they can start drawing on this money no matter what age
- Dollar smart program
- No reimbursement to domestic partners because they are not considered dependents. The employee can, however, list his/her domestic partner as a beneficiary.

The state's trust document has been submitted to the IRS and they are reviewing the plan. It will probably be approved within a couple of months. There is 15 months from the point that the product is first introduced until final IRS approval must be received. The IRS process is:

1. Draft trust document
2. Application for Determination
3. 15 month filing period
4. "Item severability" – The IRS cannot deny the state the right to operate the program but rather the IRS could say that it does not like a particular aspect of the program.
5. "Conference of Right" – This process asks the IRS what it sees as onerous in the plan and how can that process be moderated.
6. Approval

The state currently sees nothing negative about the program that has been submitted and expects the plan will be approved. Supporting rationale includes:

- The state is not a for profit organization
- Governments have the right to provide benefits to their employees
- Governments are not subject to taxes on values in these accounts

The plan has a single administrative charge and that is 60 basis points which equals 1/100th of one percent. The maximum that the state can charge on an account is 6 tenths of one percent. There is a cap cost of $35 per quarter. There are no other administrative charges other than an investment charge. Investment charges range from one to thirty-two basis points (0.01 - 0.32%). The investment charge is coordinated through the state board of investments.

It is anticipated that once the teacher contracts are completed, the state's plan will have over 100,000 people enrolled in the program. There are also a large number of contracts that have not been completed.

Example mechanisms for funding the program include:

- Severance pay e.g. "terminal agreement" term used at the University
- Early Retirement Notification
- "X" percent of an employee group's compensation
- Vacation pay
- Incremental percentage based on years of service as long as everyone in a class contributes and contributes the same amount. The IRS allows an organization to discriminate against employees up 40 years old; meaning that if employees are under 40 years old they can be excluded from the group. Although the IRS prefers not to use this criteria it is permissible.

The criteria can be staged and changed at the end of the specified contract period e.g. if the University establishes a biennial contract that is as long as the criteria runs.

An Integral Government Trust program is an economic driven process. The people that have larger compensation will be more inclined to opt into such a program which overtime can add additional investment choices.

As people educate themselves about the necessity to use this program advantageously then more people will have contributions going in earlier in their life cycle. The basic assumption of this program rests on two questions: do individuals plan to have health care when they retire and, if so, how will the health care be paid for? Based on the responses to these questions a program can be stylized to meet employees' needs.

If employees are in a defined benefit program it is not advantageous to have an employer contribution. Typically an employee would want their full contract paid in as salary.

Enrollment exceptions include:

- Seasonal employees
- Less than 21 years old
- Less than 3 years of service
- Less than 1/2 time employee

- Foreign national/non-resident alien
- Vested TRICARE or equivalent – TRICARE is a federal program for its employees and military which covers their medical costs.
- Employees not covered by pension plan e.g. contract employees

Although the program has a lot of restrictions the contract is very wide. There is a lot of latitude depending on how the contract is drafted. It will be important to implement programs at least initially that will have the least amount of resistance and that allow participants to have some latitude in the conversions.

While a lot of people are concerned with what happens if they have money in this program and they die, the reality is people should plan for the living part of their lives. In this way the dollars put into this program can be viewed as an investment. Mr. Schweitzer predicts that eventually a lot of people will be faced with unlimited health care costs and limited resources.

Professor Goldstein suggested conducting a survey of faculty and P&A to get their feedback and ideas about implementing such a program. However, before a survey can be conducted open forums will need to be held to educate constituents about the program. Mr. Schweitzer commented that it takes time to determine how the program should be designed and how it should be introduced to those affected; demographics are an important consideration. The program can be viewed as a process of evolution and the most urgent matters need to be dealt with first e.g. the people that are retiring right now and then lead into other group to determine what they want to do at earlier points in their careers.

Once a program is designed, criteria has been established and there is a consensus among participants, a program can be implemented fairly quickly. Because the University's payroll department already submits money to the State of Minnesota, contributions into an Integral Government Trust can be easily interfaced.

Next steps discussed by Committee members included:

- Draft a list of selling points to promote this program
- Hold open forums to educate affected groups about the program
- Stylize communications to each class of employees
- Conduct surveys

Competitors include Vanguard, Fidelity, etc. Average administrative fees for outside vendors are running between 2%-7% and these fees are significantly different than what MSRS offers. MSRS has taken a different approach and looked at administrative fees from a users perspective versus an administrative perspective. In other words, more of the University's resources would be spent on the product and less on administration. The more people manage their own accounts means the less money will be spent on administration fees. In turn, participants will have more money to spend on health care as opposed to administrative fees.

Professor Feeney asked Mr. Schweitzer for statistics on what individuals are paying on average either statewide or nationally into this type of program. Mr. Schweitzer suggested:

- If the University participates in a deferred comp plan or 403B it can use these numbers to get an idea about contributions into a post retirement health care; or
- Get current premium cost statistics from Human Resources. Vice President Carol Carrier mentioned Chris Hulla from Buck Consultants is in the process of collecting this data.

Mr. Schweiter made two suggestions:

1. Look at other programs and vendors to make an informed decision.
2. Do not rush into making a decision – due diligence is a positive trait.

IV). With no further business, Professor Feeney adjourned the meeting.

Renee Dempsey
University Senate