Post-Retirement Health Care Savings Plan

March 18-20, 2003

Key Concepts

- Contributions are tax-free going in and coming out.
- “Employee Class” - everyone in a defined class must participate at the same rate.
- Funds are available at termination of employment.
- Refer to information sheet for more detail.

Faculty Retirement Subcommittee Recommendation

- Prior to the state’s budget cuts:
  - U contribution to FRP - 13%
  - Employee contribution to FRP - 2.5%
  - Employee contribution to PRHCSP - 1.5%
  - Total contributions increase to 17%

Faculty Retirement Subcommittee Recommendation

(continued)

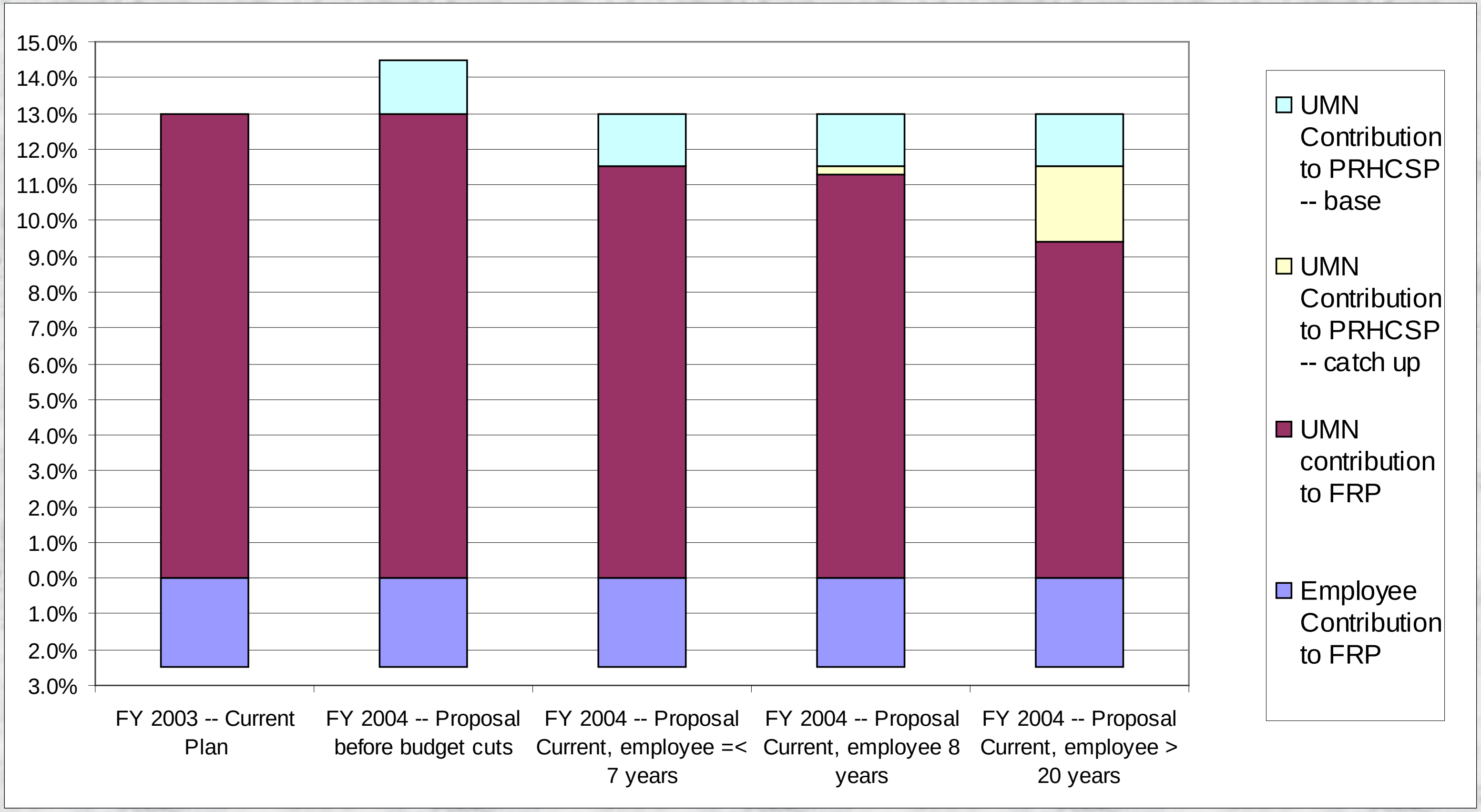
- After the state's budget cuts:
  - U contribution to FRP - 11.5%
  - U contribution to PRHCSP - 1.5%
  - Employee contribution to FRP - 2.5%
  - Employee contribution to PRHCSP - 0.0%
  - Total contributions remain constant at 15.5%

Faculty Retirement Subcommittee Recommendation

(continued)

- Additional contributions based on Employee Class
  - Class is defined by the number of years of service at the U
  - Employees with 8 years of service or more will have an additional portion of the U's FRP contributions shifted to the PRHCSP.
  - .2% per year of service will be shifted, to a maximum of 3.6%.

Faculty Retirement Subcommittee Recommendation



Next Steps

- Recommendation has been endorsed by the Faculty Retirement Subcommittee and its parent, SCFA.
- Forums are held on March 18, 19 and 20.
- CAPA meets on March 21 to vote on the resolution, which is then presented to U Administration.

Next Steps

(continued)

- Faculty Senate meets on March 27 to vote on the resolution, which is then presented to U Administration.
- Administration Responds
  - Finalizes design details
  - Vendor selection
  - Implementation timeline

Next Steps

(continued)

- Working timeline targets implementation for Fall, 2003, but no later than January 1, 2004.

Post-Retirement Health Care Savings Plan

Health Care Costs in Retirement

- 2003 premium-only costs range from $4,700 to $12,800 annually for a retiree and spouse.
- Even assuming no increase in cost, premium-only health care costs could exceed $190,000 for those in retirement 15 years.

General Plan Information

- Primarily tax-exempt
- Funded through University contributions
- Contributions are not optional, but are mandatory within an employee class
- May not be withdrawn until termination or retirement
- May be withdrawn for IRS-approved health care costs only

Qualified Health Care Costs

- Medical, Dental, Long-term care, Medicare or COBRA premiums
- Other items which are currently reimbursable through a flexible spending account as “medical care”. For example
  - Fees to doctors, hospitals, etc. for medical care
  - Dental treatment including dentures and orthodontia
  - Prescriptions
  - Eyeglasses and contact lenses
- “Medical Care” is further defined in Internal Revenue Code Section 213(d)(1)(A) and IRS publication 502 for reference.

Eligibility

- Any faculty member or P&A who is eligible for the Faculty Retirement Plan, except
  - A foreign national who plans to return to his/her country of citizenship after retirement or termination; or
  - Anyone who will receive full-coverage, employer-paid post retirement health care coverage through his/her public employer; or
  - Anyone who will receive post-retirement health care coverage from the military.
- Contributions are mandatory for eligible employees.

University Contribution Rates

- In general, the University contribution to the Faculty Retirement Plan is split between the PRHCSP and the FRP.
- For those employees with up to 7 years of service, the PRHCSP contribution would be 1.5%. An additional .2% would be contributed for each year of service from years 8 through 25. The maximum rate in the PRHCSP would therefore be 5.1%.
- Faculty and P&A employees who participate any University program which entitled them to a health care subsidy after termination of employment would have it deposited in a lump sum (at current rates) to the PRHCSP.

University Contribution Rates

Years of Service	PRHCSP Contribution Rate	FRP Contribution Rate
0-7	1.5%	11.5%
8	1.7%	11.3%
9	1.9%	11.1%
10	2.1%	10.9%
11	2.3%	10.7%
12	2.5%	10.5%
13	2.7%	10.3%
14	2.9%	10.1%
15	3.1%	9.9%

University Contribution Rates

Years of Service	PRHCSP Contribution Rate	FRP Contribution Rate
16	3.3%	9.7%
17	3.5%	9.5%
18	3.7%	9.3%
19	3.9%	9.1%
20	4.1%	8.9%
21	4.3%	8.7%
22	4.5%	8.5%
23	4.7%	8.3%
24	4.9%	8.1%
25 or more	5.1%	7.9%

How does it work?

- Contributions are made each pay period and deposited into employee accounts.
- Employees designate investments among several investment options, which accumulate investment earnings or losses.

How does it work?

(continued)

- Employees receive regular statements reflecting the market values of their accounts.
- Employees will have the opportunity to transfer funds and change investments regularly as their needs change.
- Funds continue to grow until withdrawn for qualified medical expenses after termination or retirement.

How do I claim benefits?

- After termination of employment with the University or retirement, a former employee, spouse or dependent incurs health care expenses.
- The employee pays the expense and submits documentation and a claim form to the claims processor for reimbursement.

How do I claim benefits?

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- The claims processor reviews the documentation, verifies the qualified medical expense, and authorizes the investment manager/recordkeeper to distribute the funds to the employee.
- The investment manager/recordkeeper mails a check to the employee.

Taxation

- Contributions are not subject to federal, state or Social Security/Medicare taxes when deposited.
- Account balance withdrawals are tax-free as well, as long as they are made for reimbursable health care expenses for you, your spouse or dependents.
- Remember, while Faculty Retirement Plan contributions are tax-free when deposited, withdrawals are taxed at regular rates and, in some cases, with a penalty as well.

What happens if I die before I exhaust my account?

- Spouse and dependents continue to draw on the account for eligible health care expenses on a tax-free basis.
- If you have no spouse nor dependents when you die, your designated beneficiary may draw on your account for eligible health care expenses. These withdrawals, however, will be subject to federal and state taxes.

Next Steps

- CAPA will vote on the general design concept on Friday, March 21, 2003.
- Faculty Senate will vote on the general design concept on Thursday, March 27, 2003.
- If approved, the plan will be recommended to Administration.
- Assuming Administration’s approval, plan implementation will occur no later than January 1, 2004.