



EMERITI ASSOCIATION  
101 UNIVERSITY HALL  
BERKELEY, CA 94720-1550

April 6, 2018

To: UCOP and the UCOP Working Committee on Health Insurance

Re: An URGENT message on UC Retiree Health Benefits

From: UC Berkeley Emeriti Association (UCBEA) Health Benefits Working Group\*

### Background

During the summer of 2017 UCOP (OP) announced that retiree health benefits funding was not sustainable and that substantive changes were needed to reduce the underfunded liability of Retiree Health Benefits. Although no specific changes were recommended, over the next few months there were several suggestions, all of which, if adopted, would have substantially reduced both the UC contribution and quality of the UC Retiree Health benefit. Significant concern was expressed to President Napolitano among stakeholders throughout the entire UC system that substantive changes would be made in the Retiree Health Benefit without discussion or deliberations among the affected parties. To address this concern, the OP appointed an Advisory Committee to make recommendations on retiree health benefits. The Advisory Committee was appointed in January 2018 and its report is due June 1, 2018.

### Concerns and Comments

Listed below are our concerns and comments pertaining to changes to the current Retiree Health Benefits program (items 1-6).

1. UCBEA is concerned and disturbed that revisions of retiree health care benefits potentially affecting current employees and retirees, are being discussed by UCOP and its Advisory Committee without the appropriate transparent discussion and consultation with the affected groups. Informed consultation cannot occur when a considerable amount of the deliberations of UCOP's Advisory Committee are held confidential without a built-in opportunity for an exchange of information and ideas with affected parties following these deliberations. Furthermore, informed consultation and careful decision making cannot occur when the deliberations are rushed with unreasonable time scales. ***We strongly recommend that the deliberation process be made transparent, carried out with careful consultation with all involved parties, and any final recommendations not be made until June 1, 2019 rather than the current deadline of June 1, 2018.***
2. The UCBEA is also concerned that OP is proposing to abandon the 2010 agreement that set a 70% minimum contribution by OP for retiree health care benefits, including the cost of Medicare supplementation policies. This agreement went through a long review process which was transparent and had the input of all involved parties. Moreover, it was adopted with the understanding and acknowledgement that healthcare costs would likely increase. The agreement was discussed and approved by the Regents and is the current governing policy document. For OP to now propose to abandon this agreement seems unfair and unjustified. Equally important is that

we are concerned that making changes to one of the important retirement benefits ultimately will do irreparable harm to recruitment, retention and planned retirement and thus have a serious long term effect on the University. ***We believe that reducing the current benefit support level commitment to employees and retirees will result in faculty and employee discontent and a denigration in our competitive advantage with other institutions of higher learning.***

3. The retired faculty and staff who are on Medicare are relatively inexpensive to UC, because all of Medicare Part B health premiums are paid directly by the retiree. But the costs are not inexpensive for the individual retiree, because Medicare copays and coinsurance are substantial and are paid with after-tax dollars. In addition to bearing increasingly high out-of-pocket costs under Medicare Part B and D, many retirees have a modified adjusted gross income that causes them to pay considerably higher Part B premiums. This contrasts with current employees whose co-insurance payments are made using pre-tax dollars and retirees who are not on Medicare and able to continue their health savings accounts allowing them to pay for non-covered health costs using pre-tax dollars. The large cohort of UC Medicare retirees have been long term and loyal employees of UC and retired with the expectation that Medicare supplement health care costs would be largely covered by UC. ***UCBEA feels UCOP retiree health care benefits should be adjusted such that Medicare retirees are not asked to pay a larger fraction of healthcare costs using after tax dollars. If UCOP adopted this strategy, there should be substantial savings to the University given that approximately 33% of the retirees are not on Medicare but account for approximately 48% of the health budget.***
4. As a general principle, health benefits should be provided in proportion to an employee's contribution to the University. The 2013 benefit plan recognizes this important concept and revised the eligibility for health insurance coverage based on age and years of service for retirees. This 2013 change greatly levels the playing field for retirees who have 30-40 years of service, retire on Medicare and have made substantial contributions to the University. ***UCBEA recommends that OP not make long-term employees pay for the benefits that were distributed to those who contributed less. We recommend that OP move to the 2013 healthcare benefit schedule for all retirees. This could be done in gradual steps but needs to be applied equitably to all retirees.***
5. Beginning in 2014, UC retirees living out of California were denied the option of UC group coverage and placed into the individual market place. This move was done with very little notice, no discussion with the affected groups and without consideration of the long-term effects that this change might mean for out-of-state retirees. Although UC provides up to \$3,000.00 per eligible retiree, these plans are often inferior to what in-state health insurance plans offer. These individuals' policies are inferior to the group coverage currently offered by UC. ***UCBEA recommends that a yearly cost adjustment to the \$3,000.00 be made to each eligible out-of-state retiree to off-set increases in health insurance premiums in the private market.***
6. While the issues listed above most directly affect retirees, they also have an impact on current employees. For years, many of us worked at UC for sub-market salaries with the explicit recognition that UC would provide good benefits as a *quid pro quo*. As noted above, we believe changing this relationship will have a significant adverse effect on the attitude of current employees and potential hires making it more difficult to recruit and retain the best employees. It may also have a deleterious effect on philanthropic contributions. Additionally, it is probable that some faculty and staff who are nearing retirement may elect not to retire when they learn that future personal healthcare costs may make retirement financially difficult. ***UCBEA strongly recommends that UCOP carefully evaluate how proposed changes to the retiree health benefit impact recruitment, retention and retirement choices, and philanthropy, not simply from a budgetary perspective but from the vision of what such changes may do to the long-term excellence of the University.***

***A Potential Solution for Consideration:***

*We recognize that UCOP is seeking a solution to growing healthcare costs and at the same time wants to maintain high quality group health insurance for the UC community. In considering possible changes, we offer a solution based on two premises: (1) The yearly increase in the UC portion of healthcare spending needs to be reasonable and predictable. This can be achieved by using current UC spending on health care as the base year and for subsequent years, adjust UC expenditures on retiree health care at the standard nationwide Medicare rate. (2) Distribute these UC funds equally over all Medicare and non-Medicare retirees.*

We respectfully submit these comments and concerns for your consideration. Further, we welcome an opportunity to discuss our recommendations, as well as any other proposed solutions, before any final decisions are made.

\*UCBEA Health Benefits Working Group: John Swartzberg, President; Amy Block Joy, First Vice President; Guy Micco, Second Vice President; Caroline Kane; Richard Mathies; Kenneth Polse; Sheldon Zedeck

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