

Emeriti Forum FAQs

The following questions and associated answers were asked during the October 2008 forums conducted by the Emeriti Subcommittee of the Committee on Compensation. Any response with “T” is from Amelia Taylor.

The members of the subcommittee are Cathe Bailie, Chad Schonewill, and Amelia Taylor. Shaleen Prehm in HR has worked extensively with this committee and is also a great resource. Please contact any member of the subcommittee if you have any questions.

More information can be found in the Emeriti FAQ and the Emeriti memo on the HR web page: <http://www.coloradocollege.edu/hr/faq.php>.

- **Does CC have control/input on administration of the program?** Yes, in the sense that all clients, such as CC, can let Emeriti know how things are going and can suggest changes. This has happened in the past. For example, when the program started, Emeriti/Fidelity charged \$6 for all reimbursement requests. Now, based on client requests, the first four reimbursement requests are free (see the next question).
- **What are the fees for Emeriti accounts?**
 - **Now?** There is a monthly administrative fee of \$4 for active employees. The amount contributed by the College and the employee mandatory contribution were computed to allow for \$2 of each contribution (\$1 per pay period) to offset this fee. There is also a Fidelity fee of \$5.00 per quarter for record keeping.
 - **When you begin using it?** The Fidelity fee increases to \$18.75 per quarter after a retiree (or former employee) first accesses the VEBA and/or Grantor Trust to pay for expenses.
 - **Processing from account?** There are four free reimbursement requests allowed per year, with an additional cost of \$6 per submission, so if you bundle and submit quarterly, there is no fee for submitting requests for reimbursement.
- **How much does the Aetna insurance cost?** This depends on the plan you choose. Aetna has many options for the level of coverage; hence, the premium. The amounts range from \$29.70 to \$369.52 per month. Please visit www.emeritihealth.org for specific rates based on age, zip code, and plan elected.
- **Is it possible to revisit mandatory employee contributions to Emeriti at a later date?** Absolutely. In fact, there are many changes that are likely to happen in the next few years that will necessitate revisiting the question of employee mandatory contributions and even more, whether or not Emeriti is the right solution to retiree health care.
- **Criteria for use of VEBA?** More information on this can be found in the FAQ on the HR web page <http://www.coloradocollege.edu/hr/faq.php>, but in short, it can be used for *any* qualified medical expense. To help you think about this, the rules for the VEBA are the same as the medical rules for the flexible spending accounts we offer to active employees. You may begin using the funds at age 55 and when you are no longer working for the college. You can begin accessing the group health insurance through Aetna at age 65 and when you are a retiree of the college.
- **Can I make additional VEBA contributions and how do I do that? Is there a way to catch up?** The answer is yes, you can make additional contributions and “catch up”. However, any additional contributions are made after-taxes, but the money still grows and is withdrawn tax-free, so additional contributions are like contributions to a Roth IRA. You can do this most easily through an after-tax payroll deduction. HR can help you with this, and it is also possible to contact Emeriti directly.

- **What’s the difference between the lump sum and the VEBA (the monthly contributions), and how can each be used?** The lump sum was given to employees age 48 and older with at least 3 years of service at the time the college transitioned from the previous benefit to Emeriti. The lump sum can *only* be used to purchase group health insurance through Aetna. The VEBA can be used to pay for *any* qualified medical expense, just like a Flex account. Choosing a lump sum Grantor trust for the employees to try to adjust for the transition between programs allowed us to set the amount employees received based on their age at that time. The VEBA requires all contributing participants to receive the same amount of money, no matter what. So the college gave up the flexibility in the use of the money to gain the flexibility in the amount of contribution. Like all things, there was a trade-off.
- **Could we do better elsewhere?** This question can be considered in two ways.
 - **First, we might interpret this as a question about other retirement health care programs or benefits.** The answer is that, at this time, there is not a better solution to the combination of the problem of having a retirement health care benefit at all *and* satisfying IRS tax laws like FAS 106. Even just eliminating a retirement health care benefit (and thus eliminating our future involvement with Emeriti) is fraught with difficulty. This is due, at least in part, to the fact that while the VEBA will remain with individual employees, if the college and the employee both stop contributing, the fees will take away much of the money employees have already contributed. The subcommittee prefers a solution that allows us to take as much advantage of the money already invested as possible.
 - **Or is it a question about whether or not an individual employee might be able to do better investing the current employee mandatory contribution somewhere else?** Maybe. That depends on your ability to invest and track your investments. The Fidelity fund(s) that the VEBA money is invested in has generally performed on par with the average rate for TIAA-CREF funds. If we make the contribution voluntary, then any money you are putting in the VEBA or TIAA-CREF is either taxed before it goes in (VEBA or Roth structure with TIAA-CREF) or in the case of TIAA-CREF, you can put it in tax-free, but then withdrawals are taxed. *So either way, you pay tax.* Thus the investment choices the employee makes would not only have to out-perform the Fidelity funds, but make up for the losses due to taxes to truly “do better.” For most employees, the tax consequence would result in a loss, probably at least as large as \$8,000 at age 65 for an employee who starts contributing at age 40.
- **If mandatory contributions continue, can it be restructured?** Maybe. For example, we can certainly change the amount of the mandatory contributions. However, I think this question referred more to the following sub-question.
 - **i.e. health insurance options and if funds could be used before you retire or leave CC.** Use of the funds before retirement or leaving CC is governed by IRS tax law and there are hardship rules just like those for IRA type funds (see end of this FAQ for more on this). However, CC can change its own rules for retirement, should we want that (not likely to happen soon). The health insurance options are set by Aetna and the choice of Aetna is set by Emeriti. However, Emeriti has been very receptive to client input and has already made some key changes based on client feedback. So, if there are changes you would like, please contact Human Resources, who will pass the feedback to Emeriti, or call 866-EMERITI.
- **Is contribution amount changeable?**
 - **For college** – Officially yes, but given the current financial state of the college it is unlikely to change.
 - **For employees**— Yes, but any change must be the same for all employees.

- **Any chance of changing the amount but keeping the mandatory aspect? YES!** We can keep the employee mandatory contribution (and thus the tax benefits) and increase or decrease the amount. If you think this would be a good choice for you and/or the college please say so in one of the open answer sections of the survey!
- **What's going on with health insurance, and should that impact my opinion?** This is a great question (it refers to the premiums for the college insurance increasing). It is difficult to answer at this time, but premiums are likely to go up. The Human Resources office does take a careful look at complete benefits package to watch for decisions about one benefit that make another benefit totally unaffordable for employees. Should it impact your opinion? We don't think WE can answer that for you. It probably impacts your feelings about the employee mandatory contribution for yourself, but maybe not for the direction the college should take (or vice versa).
- **What happens to the VEBA when I die? What if I die and there's money left?** If you have an IRS qualified spouse or dependent (this includes elderly parents, siblings, etc. whom you claim as a dependent on your taxes), then they may continue to use the money in your VEBA or lump sum account (if there is any) to pay for qualified medical expenses, or group health, in the case of the lump sum. If you do not have an IRS qualified spouse or dependent at the time you die and you have money left in either the VEBA or lump sum account, then the remaining money may either be used by the college to offset the contributions they are making on behalf of employees, or it is divided equally amongst the College's living employees and retirees. So we all benefit from the money left by such a colleague. **NOTE:** Colorado College recognized domestic partners *may* use the Aetna group health insurance on an after-tax basis whether the retiree is alive or dead.
- **If the employee contributions are voluntary what is the impact on the College?** The college will have to pay higher taxes (Social Security, Medicare, etc.) because the amount of money used to calculate taxes will be higher for all employees.
- **What happens if the college goes to voluntary contributions (tax implications)? How would it work if the college chose not to have mandatory contributions?** If the college "went to voluntary contributions," then each Emeriti benefit eligible employee only receives the college contribution, which is about half of what is currently being contributed to the program. The employee mandatory contribution (pre-tax) is \$564.96 for 2008-2009. Here are several other consequences (all numbers are approximate).
 - The college will have to pay more in Social Security and Medicare taxes for employees because their pay, on which this is calculated, will be larger. Employees will also pay more for these.
 - The amount the employee will see in their paycheck will be less than \$454 per year for employees making under \$40,000 per year and less, ranging to less than \$400 for employees making over \$65,000 per year. I say less than because these numbers do not account for Social Security or Medicare taxes.
 - If an employee does not contribute voluntarily or save and/or invest their contribution somewhere else, their VEBA will be worth about half of what it is worth under the current system. This could be a difference, at age 65, of at least \$65,000, while the employee has only gained, at most, \$11,350 in net pay.
 - If an employee continues to make an after-tax contribution to Emeriti or puts the money in a Roth IRA and chooses to contribute the full \$564.96, then they will have approximately the same amount of money saved and available at age 65 as they will now, but are losing \$100 per year in useable income, which is about \$2,500 over the 25 years the employee contributes to the program. This is an "at least" approximation—some employees will lose closer to \$200 per year (or as much as \$5,000 over 25 years).

- If an employee contributes the \$564.96 pre-tax into their 403b (TIAA-CREF) account, then the tax implication at this time is alleviated, but that money will be taxed on withdrawal (where as it is not with the VEBA) which will result in at least a \$7000 difference in the amount of money available to the employee.

For more information on this, please check out the Emeriti Memo at

<http://www.coloradocollege.edu/hr/faq.php>.

- **What happens if everyone opts out?** That depends on what they decide to do with their net take-home pay of somewhere between \$350-450 per year (this all depends on tax law and incomes, etc). Generally everyone will have about half of what they would have now in their VEBA account at age 65. This means that the college is paying more in taxes and the rest depends on the individual as listed in the previous question, but it is likely that most of our employees will have not saved enough for health care in retirement. (Note, the amount employees are projected to have right now is only about half of what they will need if they live until 95).
 - **Is dollar amount rather than percentage a federal law?** Yes. It is mandated by IRS tax law. It is also IRS tax law that states it must be the same amount for all benefit eligible employees.
- **What is the biggest problem as the positives seem to outweigh the negatives? Why did we revisit this?** A simple answer to the second question is that the President asked the Committee on Compensation to revisit it. A more complex answer to the two questions follows. There are two major constituencies on campus who have raised valid concerns.
 - Employees at the lower end of the pay scale find that making the Emeriti contribution on top of health care and parking and other benefit contributions leaves them with too little take-home pay and puts them in a difficult position.
 - Colorado College recognizes domestic partners. However, employees with domestic partners for whom marriage is not a legal option cannot (due to IRS tax law) use the benefit in the same way that married couples can use it. In particular, this is a change from the retiree health care benefit given by Colorado College before the switch to Emeriti. These two situations are serious concerns for our community.
- **Is a same-sex working partner going to be able to qualify as an IRS-qualified dependent?** Same-sex working partners generally make too much money to be claimed on the taxes of the employee as a dependent (non-working partners, on the other hand generally can be claimed). This is a concern. See the response directly above. The subcommittee is also composing separate FAQ specifically addressing questions about domestic partners.
- **Does the college have to provide anything for retiree health care?** No. However, it has for a long time, so Emeriti was an effort to continue that and comply with the law in a financially reasonable way. Many schools and corporations avoid the challenges we have with Emeriti by offering nothing.
- **Will poll responses be published?** Summary results will certainly be published. We must let the Office of Institutional Research make sure there are no identifying responses first and make sure that the published material complies with institutional research guidelines.
- **Why are we locked in to IRS criteria?** One answer to this might be because it is the law. But in the context in which this was asked, the answer is that in order to have our own program (for example, the one previously used with contributions of \$60/month toward health care premiums, where we could choose to recognize domestic partners), we must follow another IRS tax law, FAS 106. FAS 106 states that we must do an actuarial analysis of all employees, whether they will retire at CC or not, and set aside, in a savings account, the amount of money we would be contributing to employees for the duration of the benefit. Furthermore, all of that money and, more importantly, any interest it earns, is off limits to the college. Even if the college had that much money to put in such an account, cutting off all

access to the earning power (i.e. the interest) to that money is not a financially sound decision. Thus, to avoid FAS 106 we must go with a VEBA like system or have no benefit at all. VEBA's are governed by IRS tax law and thus we are locked into their criteria.

- **What happens if I retire and move away from Colorado?** You use your VEBA money where you live. Aetna sets premiums based on the laws in the state where you are living when you use the health insurance, so those premiums may change, but Aetna and/or Emeriti has services, both for your VEBA and for group health in all 50 states.
- **Any reason faculty would “vote” differently than staff?** The differences in votes are much more likely to come from differences in income and life circumstances. So the survey asks questions about income and life circumstances rather than whether you are faculty or staff. Of course, many staff have a different income than faculty, so in this way, there may be a difference in the survey results.
- **If we change from mandatory employee contributions to voluntary employee contributions will the College continue to contribute? YES!**
- **Will the poll consider annual income? YES.**
- **What happens if you leave CC before age 55?** If you leave CC before you qualify for retirement benefits, and if your VEBA has less than \$5,000 in it (everyone at CC is in this category right now), then you may begin using your VEBA for qualified medical expenses, right away. Your VEBA account belongs to you. If your VEBA has more than \$5,000 in it, then you must wait until age 55 to use the money (as mentioned, this does not currently apply to active employees at CC).
- **What does “benefit eligible employee” mean, and are they the only ones who will answer the poll?** In the case of Emeriti, “benefit eligible employee” refers to any employee receiving benefits from the college who is over 40 years old and meets the general eligibility requirements for benefits. They are not the only ones who will answer the poll; all college employees are invited to answer the poll as many will eventually be 40. However, we will ask about age, so we will know if all the employees under age 40 answer very differently from all the employees over age 40.
- **What are possible IRS changes?** Great question. There are two major bills that have been introduced in congress that would take care of many of the inequities created by our change to Emeriti for retiree health care. Our formal statement on this follows. “Colorado College has worked with TIAA-CREF and EMERITI to support H.R. 1820, Tax Equity for Health Plan Beneficiaries Act of 2007, introduced by Congressman Jim McDermott (D-WA) in the House and S. 1556, Tax Equity for Domestic Partner and Health Plan Beneficiaries Act of 2007, introduced by Senator Gordon Smith (R-OR) in the Senate. Colorado College has also expressed its support for these pieces of pending legislation to Sen. Ken Salazar and Rep. Diane DeGette. For more information on these measures, see <http://www.govtrack.us/congress/bill.xpd?bill=h110-1820> and <http://www.govtrack.us/congress/bill.xpd?bill=s110-1556>.
- **How was the “half health care to age 95” estimate determined?** By an actuary at the time we adopted the program.
- **Will fees change if mandatory contributions are discontinued?** No. Since the fees are a flat dollar amount, if the mandatory contributions are discontinued then the percent of your account that the fees take up will be larger (same fees, smaller amount in the account). The dollar amount of the fees is the same.
- **Is there an age limit at which dependents can use Emeriti funds (except terminal illness)?** Once again, there are two ways to interpret this.
 - There is no age limit for the dependent themselves, as long as they are a dependent. They could be three years old or 95—they just need to be claimed on your taxes as a dependent.

- There is an age limit on the participant. The participant must be retired or no longer employed to access the Emeriti funds for themselves or dependents, unless they qualify for hardship funds. Check with HR if you might face a hardship situation.
- **Is pre-tax pre-Social Security?** Yes. So, if it goes to after-tax it is also then after social security, which was not taken into account in most of the round figures we gave.
- **What if your IRS-qualified dependents have a terminal illness? What if they're disabled? Can you access funds early and how hard is it to do that?** Yes. "Terminal Illness or Injury Expenses" of you, your spouse (or dependent domestic partner), dependent child, or dependent relative can be reimbursed from your accounts. The term "Terminal Illness or Injury Expenses" means Qualified Medical Expenses (QMEs) of the terminally ill or injured individual which are incurred: (i) within one year prior to the date of the individual's death; or (ii) within one year prior to, or at any time following, the date of certification by the individual's physician that the individual has suffered an illness or injury expected to result in such individual's death within five (5) years of the date of certification. QMEs do not include expenses incurred prior to the date you became a participant. We are not sure how hard it is to do this as it has not occurred. However, HR would assist the participant at the time of the event if requested.
- **Can I access my accounts earlier if I have extraordinary medical expenses?** Yes, the plan provides catastrophic protection. If you submit valid evidence (as a single claim) of Qualified Medical Expenses incurred by you, your spouse (or dependent domestic partner), dependent children, and/or dependent relatives during a single 12-month period, and those expenses exceed \$15,000 in the aggregate, then the plan will reimburse you for the portion of those Qualified Medical Expenses (QMEs) that exceed \$15,000. QMEs do not include expenses incurred prior to the date you became a participant. We not sure how hard it is to do this as it has not occurred. However, HR would assist the participant at the time of the event if requested.
- **Is it mandatory to choose Aetna coverage or can you choose your own?** You may use your VEBA account to pay for any health care coverage you choose. Two key things to consider.
 - The Aetna coverage is group health coverage extending your CC coverage, and thus does not set premiums based on your current health status and you do not have to worry about pre-existing health exclusions. Neither of these are true for individual plans, like AARP.
 - The Lump Sum Grantor account money can only be used to pay for Aetna health coverage. If you have a lump sum account, you might consider using that money up on Aetna group health and then getting your own coverage.