



**BOARD OF REGENTS OF  
THE UNIVERSITY SYSTEM OF GEORGIA**

**MEMO TO:** USG Senior Leadership  
**FROM:** Marion Fedrick, Vice Chancellor for Human Resources  
**SUBJECT:** University System of Georgia Medicare Eligible Retiree Healthcare Strategy for 2015-2016  
**DATE:** December 16, 2014

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Over the last few years, the Board of Regents has been reviewing and expressing concern over rising retiree healthcare costs. Retiree healthcare costs have become more transparent since the Governmental Accounting Standards Board (GASB) required state and local governmental employers to report Other Post Employee Benefits (OPEB) liabilities beginning with Fiscal Year 2008. OPEB liabilities include employee benefits other than pensions that are received after employment ends (e.g., healthcare and life insurance). Since we began reporting this number, our liability has increased exponentially each year, highlighting the need to address rising retiree healthcare costs.

The Total Rewards Steering Committee (TRSC) has been instrumental in leveraging their expertise to offer solutions to rising OPEB liabilities and retiree costs. In the November 2013 Board meeting, the Board of Regents approved a multi-year strategy approach recommended by the TRSC. The approach involves two steps. First, starting in 2015, the USG healthcare plan will provide secondary coverage only for all Medicare eligible USG retirees/dependents. Then, effective January 2016, USG Medicare eligible retirees/Medicare eligible dependents will receive retiree healthcare benefits through a defined contribution to a healthcare account which they will use to purchase coverage through market place exchange options outside of the USG healthcare plan. We anticipate this approach will prove to be a strong agent for the Board of Regents to successfully manage rising retiree healthcare costs and our OPEB liabilities. While this solution will be a change from the current USG healthcare offering for Medicare eligible retirees, it is important to note that USG remains committed to providing both financial support and enrollment facilitation for current and future retirees.

**Who is impacted by the change?**

All USG Medicare eligible retirees and covered Medicare eligible spouses will transition to the Retiree healthcare exchange options in 2016. Retirees and covered spouses who are not Medicare eligible will remain on the USG retiree healthcare plan options until they become Medicare eligible, at which time they will move to the retiree market place exchange options. There is no grandfathering under this approach.

Medicare Eligible retirees who retired or turned age 65 prior to January 1, 2011 and are not enrolled in Medicare Part B will be contacted in December 2014 and notified of the changes to the USG health plan for 2015. They will be given assistance in enrolling in Medicare Part B. Because these retirees were "grandfathered" and advised that they did not need to enroll in Medicare Part B at retirement, USG will be working with CMS to pay the monthly penalty on behalf of these retirees as long as they enroll during the January – March 2015 Medicare General Enrollment period.

## **What are private exchange options?**

Medicare private exchange options are healthcare coverage options available through retiree healthcare exchanges. Private retiree healthcare exchange options have been available for many years and are different than the public exchanges (healthcare.gov) that were created as a result of the Affordable Care Act. These Retiree healthcare exchanges, developed in 2005, provide access to all types of Medicare supplemental insurance (also known as "Medigap"), Medicare Part D prescription drug coverage, and Medicare Advantage plans from a variety of insurance companies. They also provide a "concierge" service of expert benefit advisors that assist retirees with selecting and enrolling in plans based on their individual health care needs, budget and location.

The Retiree healthcare private exchange is comprised of millions of retirees. A key element of the healthcare exchange option is that, historically, this large risk pool has aided in moderating increases in health care costs and premiums for these plans, unlike the limited risk pool of those currently participating in the USG retiree healthcare plan.

## **What is a defined contribution healthcare account?**

A defined contribution healthcare account is an account that can be used towards healthcare premiums or eligible out-of-pocket healthcare expenses. Funds deposited in the account are nontaxable when used for eligible medical expenses and the funds roll-over from year to year. The University System of Georgia will make contributions to a defined healthcare account, commonly referred to as a Health Reimbursement Account (HRA), on behalf of Medicare eligible retirees as their retiree healthcare benefit. The defined contribution amount is still being determined.

## **What are the advantages of offering coverage under an exchange option?**

Retiree healthcare private exchanges offer a wide variety of medical plans and prescription drug options through several different insurance companies and include Medigap, Medicare Advantage plans, and Medicare Part D plan options. For retirees, this means having a greater range of plan choices, including various plans, carriers, and price points available. With the healthcare exchange option, the retiree will be able to choose best-in-market plans, maximize the value of each dollar spent on healthcare premiums since the retiree will be able to choose coverage specific to their needs. In addition, there is a strong focus on retiree enrollment and support through decision support tools as well as customized communications which will also be managed through the exchange vendor and targeted specifically to Medicare eligible retirees.

An advantage to USG is the ability to capture savings and reduce the amount our OPEB liabilities rise each year.

## **What is the Communication Strategy and Project timeline for this change?**

### **Phase I:**

- On December 19, 2014, letters will be mailed to Medicare eligible retirees are not enrolled in Medicare Part B to notify them of the change to the healthcare plan for 2015 and help them enroll in Medicare Part B during the General Enrollment Period (January 1 - March 31, 2015); USG will pay the Medicare late enrollment penalty for retirees who enroll during this period to ensure they are held harmless from not enrolling in Medicare Part B
- Beginning July 1, 2015, the USG healthcare plan will provide secondary coverage only for all Medicare eligible USG retirees/dependents

**Phase II:**

- January – May 2015, the University System HR office will contract with a retiree private healthcare exchange vendor
- April – June 2015, the change will be communicated system-wide; campus based retiree meetings will be held to explain the change to retirees and announce the vendor
- During the fall 2015, the private exchange vendor will provide education, decision-support tools and enrollment assistance to Medicare-eligible retirees to help them enroll in coverage through the retiree private healthcare exchange options

**Phase III:**

- Effective January 1, 2016, all USG Medicare eligible retirees and covered Medicare eligible spouses will transition to the retiree private healthcare exchange with a defined contribution healthcare account

**More Information**

Attached is a Frequently Asked Questions (FAQs) document which provides more details. As noted above, the change will be communicated system-wide in the spring of 2015, at which time letters will be mailed to retirees and the USG HR/Benefits team will be available to meet with campus based retiree groups to explain the changes and answer any questions.

**Questions**

General questions regarding this change can be directed to Karin Elliott, Associate Vice Chancellor Total Rewards at [Karin.Elliott@usg.edu](mailto:Karin.Elliott@usg.edu).

# USG Medicare Eligible Retiree Health Insurance Coverage

## FREQUENTLY ASKED QUESTIONS (FAQs)

### Board Approved Strategy for 2015-2016

#### 1. What did the Board approve in regards to Retiree benefits at the November 2013 Board meeting?

The Board approved a two-stage retiree strategy that will be implemented over the next year. Stage one will facilitate Medicare Enrollment for Medicare-eligible retirees/spouses currently not enrolled in Medicare Part B and for the University System of Georgia healthcare plan to provide secondary coverage only for retirees. Stage two will be for the University System of Georgia to provide secondary coverage to all Medicare-eligible University System of Georgia Retirees/dependents through a defined-contribution healthcare investment account using private marketplace options outside of the University System of Georgia healthcare plan.

#### 2. Why did the Board make this change?

The Board has been evaluating retiree healthcare costs over the past several years. Retiree healthcare costs have become especially significant since the Governmental Accounting Standards Board (GASB) required state and local governmental employers to report Other Post Employee Benefits (OPEB) liabilities beginning with Fiscal Year 2008. OPEB liabilities include employee benefits other than pensions that are received after employment ends (e.g., healthcare and life insurance). Determining future benefit costs uses actuarial assumptions such as number of employees expected to receive benefits, expected employee tenure, life expectancy, expected healthcare costs increases, and investment return. GASB does not require that the OPEB liability to be funded, so the USG and most other state and local governments are on the “pay as you go” system. The purpose of this requirement is to provide reliable and decision-useful financial reporting for governments, as post-employment health benefits are a significant financial commitment. Since the required reporting took effect, the University System of Georgia’s OPEB accrued actuarial liability has increased 89%; the net OPEB obligation, which is the cumulative amount of differences between an employer’s annual OPEB costs and amounts actually contributed to the plan since the OPEB reporting effective date, has increased 987%. As the University System of Georgia retiree population, retiree health care costs, and retiree healthcare liabilities continue to increase, the University System of Georgia must take actions to reduce costs in order to preserve retiree benefits for current and future retirees.

#### 3. What is the timeline for this change?

##### Phase I:

- On December 19, 2014, letters will be mailed to Medicare eligible retirees are not enrolled in Medicare Part B to notify them of the change to the healthcare plan for 2015 and help them enroll in Medicare Part B during the General Enrollment Period (January 1 - March 31, 2015); USG will pay the Medicare late enrollment penalty for retirees who enroll during this period to ensure they are held harmless from not enrolling in Medicare Part B
- Beginning July 1, 2015, the USG healthcare plan will provide secondary coverage only for all Medicare eligible USG retirees/dependents

# USG Medicare Eligible Retiree Health Insurance Coverage

## FREQUENTLY ASKED QUESTIONS (FAQs)

### Phase II:

- January – May 2015, the University System HR office will contract with a retiree private healthcare exchange vendor
- April – June 2015, the change will be communicated system-wide; campus based retiree meetings will be held to explain the change to retirees and announce the vendor
- During the fall 2015, the private exchange vendor will provide education, decision-support tools and enrollment assistance to Medicare-eligible retirees to help them enroll in coverage through the retiree private healthcare exchange options

### Phase III:

- Effective January 2016, all USG Medicare eligible retirees and covered Medicare eligible spouses will transition to the retiree private healthcare exchange with a defined contribution healthcare account

#### **4. Will Medicare-eligible Retirees be required to enroll in Medicare Part B?**

The University System of Georgia cannot require retirees and/or their Medicare-eligible dependents to enroll in Medicare Part B. However, in 2015 the University System of Georgia healthcare plan will provide secondary coverage only to Medicare-eligible retirees and their Medicare eligible dependents.

#### **5. As a retiree, I was told when I retired that I was not required to enroll in Medicare Part B. Will I be required to pay penalties because I did not enroll in Medicare Part B?**

Some retirees were told that they and their dependents were not required enroll in Medicare Part B when they retired or became eligible. Because retiree healthcare coverage is not considered 'credible' by Medicare, these retirees would be subject to late penalties if they enrolled in Medicare Part B now. Therefore, the University System of Georgia will offer a one-time opportunity to retirees and their dependents to pay any late enrollment penalties if they enroll in Medicare Part B during the 2015 Medicare General Enrollment Period January through March 2015 with a Medicare effective date of July 1, 2015.

#### **6. Will Medicare-eligible active employees be required to enroll in Medicare Part B and use the market place options for their healthcare coverage?**

No. The University System of Georgia healthcare plans will remain serving as primary coverage for active Medicare-eligible employees and their dependents. Medicare-eligible active employees and their dependents will not use the market place options for their healthcare.

#### **7. If a Medicare-eligible retiree's spouse is not Medicare eligible, how will the coverage work in 2016?**

A non-Medicare-eligible Spouse of a Medicare-eligible retiree will continue to obtain their coverage through the University System of Georgia healthcare plan. The Medicare-eligible retiree will obtain coverage through the market place option.

## USG Medicare Eligible Retiree Health Insurance Coverage

### FREQUENTLY ASKED QUESTIONS (FAQs)

**8. If a retiree's spouse is Medicare-eligible but the retiree is not, how will the coverage work in 2016?**

The retiree will remain in the University System of Georgia healthcare plan and the retiree's spouse will obtain coverage through the market place option.

**9. Is the retiree health insurance benefit being eliminated for Medicare-eligible retirees through this change?**

No. The retiree health insurance benefit is not being eliminated with this change. Instead, this change transforms the way the University System of Georgia provides retiree healthcare coverage to its Medicare-eligible retirees and their Medicare-eligible dependents. The University System of Georgia will provide healthcare contributions to a defined contribution healthcare account that the retiree can use to pay premiums for secondary coverage through the market place option and/or use towards eligible out-of-pocket healthcare expenses.

**10. What is a defined contribution healthcare account?**

A defined-contribution healthcare account is an account that can be used towards healthcare premiums or eligible out-of-pocket healthcare expenses. Funds are deposited pre-tax and the funds roll-over from year to year. The University System of Georgia will make contributions to a defined healthcare account on behalf of Medicare eligible retirees as their retiree healthcare benefit.

**11. How much will the University System of Georgia contribute to the Defined Contribution Healthcare Account?**

The contribution amount has yet to be determined.

**12. Will the contribution be constant year-over-year or will it be indexed to keep up with healthcare cost inflation?**

No decision has been made at this point.

**13. What is the market place option?**

The market place option is also referred to as the market place exchange. The market place option gives retirees the ability to choose from a wide variety of Medicare Advantage, Medigap and individual Part D plans. Retirees will have the ability to choose the plan that provides the coverage needed for their specific health and prescription pharmacy needs, which could be more or less coverage than the coverage the University System of Georgia provides today. Retirees also will have the ability to enroll in plans that provide coverage in a state other than Georgia or in a plan that has international coverage. The advantage of the market place options is the ability to obtain a more customized health plan to suit retirees' needs instead of a 'one-size fits all' plan.

# USG Medicare Eligible Retiree Health Insurance Coverage

## FREQUENTLY ASKED QUESTIONS (FAQs)

### **14. How will retirees enroll in the coverage through the market place?**

The University System of Georgia will contract with a vendor to provide communication, education and enrollment assistance to help retirees enroll in the best plan options for their individual needs. Enrollment will be done on-line or over the phone.

### **15. Will retirees and/or spouses not enrolled in Medicare Part B be required to pay the penalty when they enroll in Medicare Part B?**

The University System of Georgia will offer a one-time opportunity to retirees and/or spouses to pay any late enrollment penalties if they enroll during the 2015 Medicare General Enrollment Period which is January through March 2015, with a Medicare Part B effective date of July 1, 2015. The University System of Georgia HR office will work directly with CMS to pay the penalty on the retiree's behalf.

### **16. How will the Pharmacy benefit work in the market place option?**

The pharmacy benefit will be provided through Medicare Part D plan options available in the market place. Medicare-eligible retirees will have the opportunity to shop for Medicare Part D coverage, similar to the health coverage, and will be able to purchase a plan specific to their prescription drug needs. Medicare-eligible retirees may utilize the defined contribution healthcare investment account to pay for their Medicare Part D coverage.

### **17. What are the advantages to retirees in moving to the defined contribution healthcare investment account approach and purchasing coverage through the market place option?**

The retiree will be able to choose best-in-market plans, maximize the value of each dollar spent on healthcare premiums since he/she will be able to choose coverage specific to his/her needs, have a variety of options to choose from, and receive plan enrollment assistance and advocacy support. The majority of retirees may see a decrease in costs unless they are electing to enroll in a very rich benefit plan (richer than the coverage provided today under the University System of Georgia plan).

### **18. What are the disadvantages to retirees in moving to the defined contribution healthcare investment account approach and purchasing coverage through the market place option?**

Retirees will need to be engaged in their healthcare in order to choose the best plan for their needs. A very small percentage of retirees may see an increase in total cost if they are a high utilizer of healthcare and pharmacy services.

### **19. What are the advantages to the University System of Georgia in moving to the defined contribution healthcare investment account approach for Medicare-Eligible retirees?**

## USG Medicare Eligible Retiree Health Insurance Coverage

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### FREQUENTLY ASKED QUESTIONS (FAQs)

There is the potential for the University System of Georgia healthcare plan to obtain cost savings and reduce OPEB liabilities. This will allow the University System of Georgia to continue providing a retiree healthcare benefit for current and future retirees.

**20. When will information about the new retiree strategy be communicated to retirees?**

Information about the changes will be communicated to retirees in the spring of 2015. Campus based retiree meetings and home mailings will be used to communicate the changes to retirees.