



# **ERIC 2008 Health Policy Conference**

## **Cutting Edge Strategies in Employee Benefits - UAW VEBA**

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THE ERISA INDUSTRY COMMITTEE



# Agenda

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- Background
- Alternatives
- VEBA transfers
- Issues
- Political environment

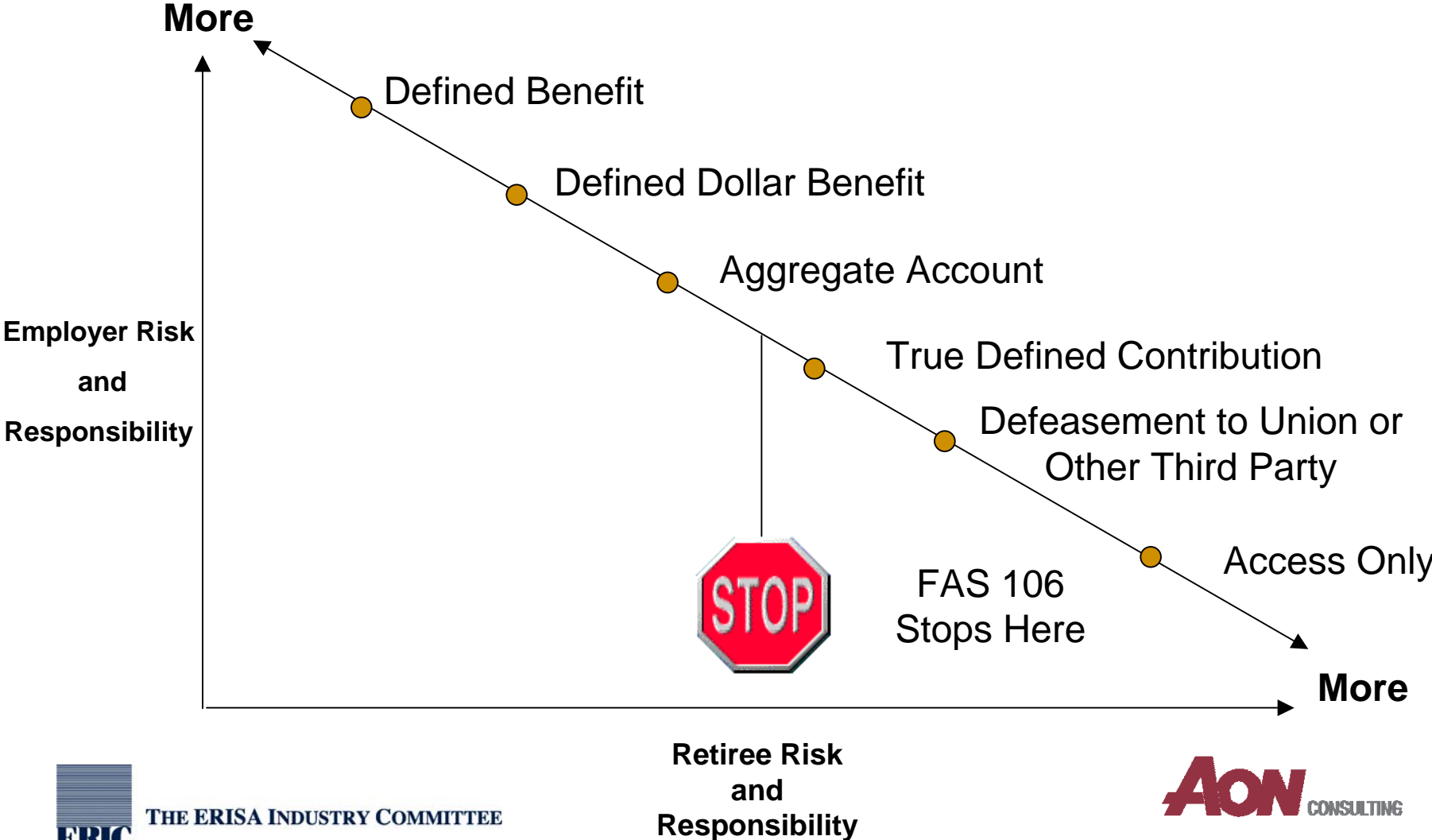


# RETIREE HEALTH - Background, Objectives, Constraints

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- ↳ Significant unfunded liability
- ↳ Excessive medical inflation
- ↳ Increasing number of retirees
- ↳ Possible drain on corporate resources
- ↳ Union retiree “obligations”
- ↳ Current design may need updating
- ↳ Current programs based on historical conditions
- ↳ Align program with existing business and financial strategies
- ↳ **Objective: Limit company obligation and role with health strategy/plan responsive to retiree interests**

# RETIREE HEALTH - Retiree Medical Financial Models



# RETIREE HEALTH - The Financial Commitment of Employers is Changing

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- Retiree health plans are being reduced, frozen or eliminated
- Retirees are likely retiring into Defined Dollar Plans or Aggregate Account (Lump Sum) Plans if there is any financial subsidy
- Employers are becoming more comfortable with the offerings in the individual marketplace, prompting many to change their roles as plan sponsor



# RETIREE HEALTH - The Role of the Employer Can Change From . .

## ↳ Plan-Sponsor:

- Designs/communicates/enrolls
- Negotiates with vendors
- Funds (and bears financial risk)
- Administers

**TO**

## ↳ Facilitator:

- Locates external plans
- Communicates/enrolls
- Funds (possibly through insured plans)

**TO**

## ↳ Disengaged:

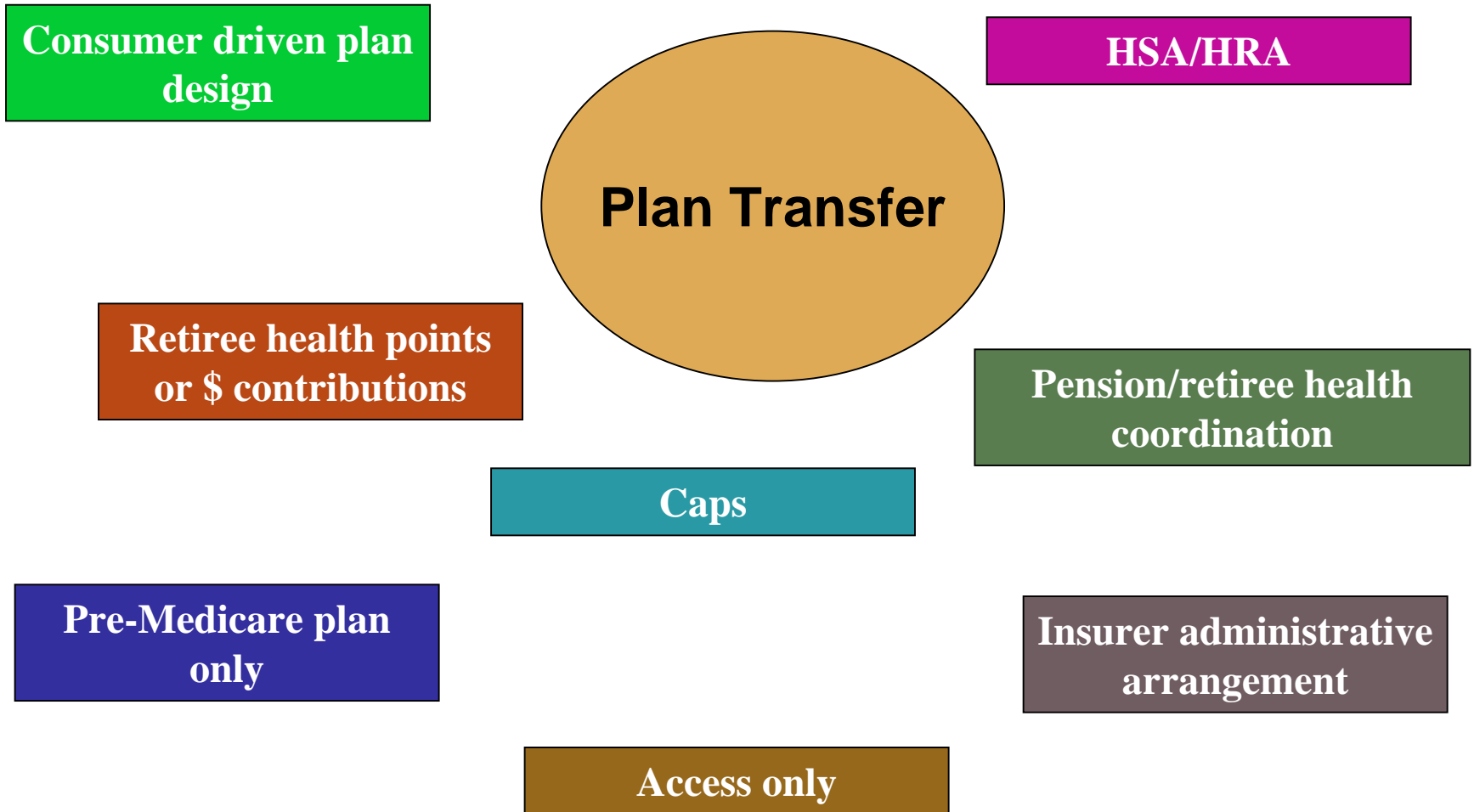
- Provides fixed financial subsidy directly to retirees



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# RETIREE HEALTH - Summary of Possible Alternatives



# RETIREE HEALTH - Plan Design Alternatives

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- ↳ Specify company obligation
  - Cap/Fixed annual dollar during retirement
  - Fixed company “contribution” during employment or tied to length of service
  - Eliminate company subsidy
- ↳ Consumer driven/high deductible
  - Deductibles, co-payments, preventive coverage
- ↳ Pre-Medicare eligibility only
  - Eliminate Medicare eligible participation
- ↳ Human Resources Policy Association insured access plan (primary insurer is Aetna)
  - No company contribution required
  - Variation of access only plan
- ↳ Access only/Cobra extension
- ↳ May need separate solutions for union/salaried retirees





# RETIREE HEALTH - Funding Alternatives

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- ↳ Pay as you go
- ↳ Company VEBA
- ↳ Excess pension asset transfer
- ↳ Employee VEBA
- ↳ Employee pension payment for retiree health premium
  - After tax payment
- ↳ Company subsidized HSA/HRA
- ↳ Transfer plan/obligations to union or other third party
- ↳ Other solutions may require legislative/regulatory changes



# RETIREE HEALTH - Plan Transfer

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- ↪ Industry experience -- Agreements with Steelworkers and UAW
  - Steelworkers - Goodyear, AK Steel (independent union)
  - UAW – GM, Ford, Chrysler, Dana
- ↪ Negotiate fixed Company asset transfer
  - One-time or over set number of years
  - Favorable if accomplish with significant discount
  - GM had large existing VEBA that helped to fund transfer
- ↪ Company relieved of all sponsorship obligations
  - No remaining financial, legal or administrative responsibility

# RETIREE HEALTH – Why Transfer?

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## → Company

- Eliminate issue, financial burden
- Eliminate bargaining

## → Union

- Insolvency risk
- Gain control
- Best of “bad” alternatives



# RETIREE HEALTH - Plan Transfer

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- ↳ Companies seek court/SEC approval
  - Right to modify
  - Exception to Taft-Hartley prohibitions
- ↳ Plan sponsor must be willing to commit to asset transfer or “guaranteed” funding amount
- ↳ Union must be amenable to option – may find favorable
  - Eliminate Company termination or insolvency risk
  - Control plan management/design
  - Enhance relationship with retirees
- ↳ Blend of union/independent trustees

# RETIREE HEALTH - Plan Transfer

- ↪ Possibility of similar transfer for management retirees
  - To financial or insurance entity or independent VEBA
  - As long as fixed plan obligation
  - Legal/regulatory issues
- ↪ Accounting treatment
  - Settlement – recognize full gain immediately
  - Negative amendment – amortize gain over approximately 15 years
  - Gain = difference between pv and negotiated contribution
- ↪ Could explore combined pension/retiree health transfer



# RETIREE HEALTH - Possible Concerns/Impediments Regarding Design/Funding Alternatives

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- ↳ Will depend upon alternative(s) desired or selected
- ↳ Flexibility to modify benefits for current retirees
- ↳ Union reaction/agreement
- ↳ Legal/regulatory compliance
- ↳ Litigation risk
- ↳ Administrative responsibilities
- ↳ Can be managed/addressed through careful oversight

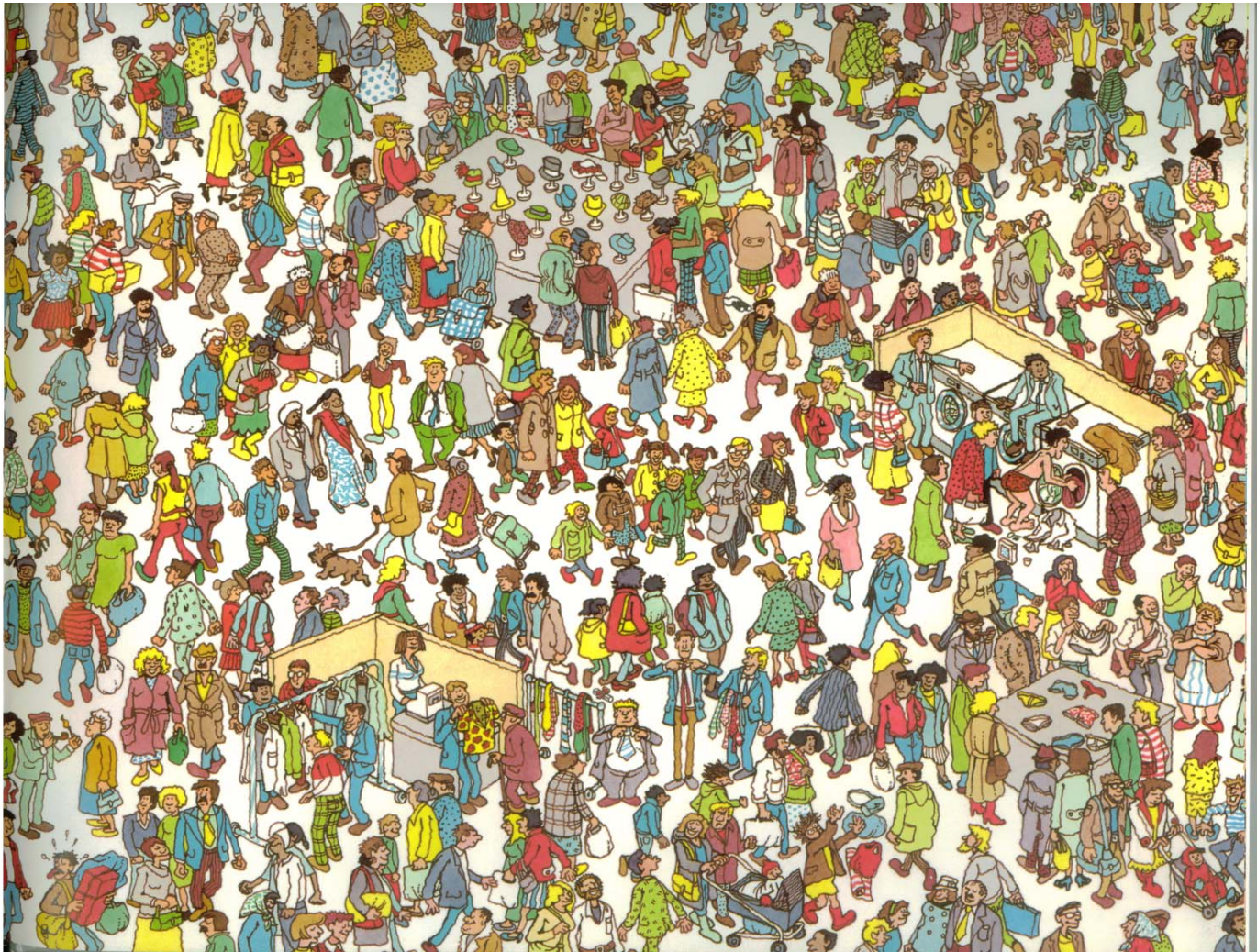
# Political Environment

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- ↳ Concerns over healthcare in general and retiree health in particular
- ↳ Proposals in Congress
  - Unlimited Cobra
  - Tierney retiree health bill
    - precludes modifications/termination
    - retroactive effect
  - Prospects/harbinger of future congressional action
  - Miller/Andrews PPA Tech. Corrections bill includes Tierney provisions
  - Other (e.g., Medicare extension to early retirees)
- ↳ Outlook/harbingers of future Congressional action



# Balancing Company Competitiveness and Retiree Health Security May Be Like Looking For Waldo





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# Questions?

