



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

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Brahm P Verma, Ph.D.  
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Athens, GA 30602-4435

Hello Dr. Verma,

I received your message on Monday, and wanted to thank you for reaching out to me at the meeting in Athens on April 3 and also for sharing your thoughts.

Please understand and keep in mind this change is about a secondary coverage plan for retirees whose primary care is provided by Medicare. This change does not affect the coverage for active employees. Nor does it affect the coverage for retirees who are not Medicare eligible. No one is losing health insurance coverage. There is a lot of misinformation being discussed and I want to provide the facts.

I understand our retirees want to know the contribution rates to be provided by the Board of Regents. Unfortunately, we are not at a point in the year in which we are able we can provide information on the contributions for the USG health plans; for active employees or retirees. Timing is critical because of how our healthcare plan rates are set. These rates are set based on our approved budget by the state legislature each year combined with data from the claims experience both last year and projections for the current and future years. Because we are making projections for the current and consecutive years, it is important that we have a large quantity of claims data for as many months as possible in 2015 to make accurate projections for 2015 and 2016 and appropriate contribution decisions for 2016. It takes time for us to gather and analyze the data given the large number of participants we have in our plan. Even data from prior years can change given the nature of health insurance and the provision of health services.

It would be irresponsible to establish the benefits rates and premiums based on insufficient data. We cannot provide contribution numbers prior to having adequate claims experience data for the past and current plan years. We want to use the latest, most accurate data to set rates.

Each quarter, our team of BOR benefit employees, financial experts and benefit consultants review our claims data and have an annual full financial review to project the BOR's liability for healthcare. We are not able to obligate the BOR to funds that may or may not be available for healthcare. We have a proven approach to determining the cost for the BOR; its employees and retirees, and we will continue with our due diligence to set rates. Our experience with setting rates, as you acknowledged yourself, has been very good and we want to keep it that way by using best practices and by utilizing the most accurate data before setting rates.

As I stated during the meeting on April 3, we will provide the contribution to retiree healthcare as soon as possible, but retirees should not expect the information before August.

It is unfortunate that some of our retirees learned of the changes to our retiree strategy through inappropriate and biased channels instead of hearing it directly from their respective institution. The information the retirees received was also inaccurate. UGA retirees did not receive the information while other retirees were informed during last year's open enrollment cycle.

There was a breakdown in communications and I am dedicated to ensuring this issue is corrected going forward and that we do a better job from the USG office on this important issue. While I am not asking retirees to overlook the communication deficit that we have had in the past, I am asking retirees for their help in ensuring that we are communicating more effectively and timely in the future. I am asking that we focus on facts, and continue to review how the plans are typically managed, and to understand the need for us to use the most accurate data for setting rates. That approach in the past has been successful for us and it is to the advantage of all plan participants.

Our intent is to share information at the most appropriate time, which is why communications are typically not initiated until the Board has voted on funding for the healthcare plan in August. Meanwhile, I am attaching the presentation that was presented by Dr. Valerie Hepburn to the Board of Regents on November 13, 2013. The Board of Regents meetings are open to the public, and they are streamed to our campuses as the meetings are being conducted. The media is also present at every Board of Regents meeting. Finally, as I have explained there was an extensive process leading to the changes the Board approved and that process included several faculty experts from UGA and other institutions in the USG as well as the former UGA Chief HR Officer.

As a reminder, we currently have one retiree on our Total Rewards Steering Committee (TRSC) and will invite a second retiree to join later this year. While soliciting feedback from every retiree on healthcare strategy is not possible, adding an additional retiree along with our benefit consultants, will help better represent our retiree population. We use a broad cross-section of advisors and experts to help us manage our plan. We have found this to be the most efficient way to manage a large, complex plan like ours. Addressing retiree benefits has been a national issue for many years and a number of states and cities you may not be aware of have faced serious financial problems for failing, in part, to manage these benefits appropriately. It is a complex public policy matter, but an important one. We are dedicated to managing our health care plans so that they are financially healthy and continue to provide the important healthcare coverage that our active employees need and the supplemental coverage that our retirees need. Our track record to date has been good, and our goal is to keep it that way through following appropriate management practices.

Finally, I want to make sure to address your request to provide data behind the rationale for this change. Here are the two critical factors:

**1. OPEB liability approaching \$2 billion**

First and foremost, the change is being made to address the University System of Georgia's rising net OPEB (Other Post-Employment Benefits) obligation. The University System of Georgia is required to disclose this liability on its financial statements each year. Since the requirement was put in place in 2008, the net OPEB obligation has increased substantially, rising from \$137.8 million for FY2008 to \$1.843 billion for FY2014. The size of the liability and the rate in which it was rising was a significant concern to the Board of Regents. As a result, the Board requested that the System Office address this liability due to the considerable growing obligation for the State of Georgia. Also of concern was the rising annual cost for USG retiree health coverage.

## **2. Rising retiree healthcare costs - increasing 9% annually**

At the direction of the Board, over the past several years, changes have been made to the USG retiree health coverage to stem these rising costs including the following changes: requiring an extra premium or full premium for retirees not enrolled in Medicare Part B; moving to a Medicare Part D plan within the USG plan to capture pharmacy discounts; and implementing a graded retiree health benefit schedule based on years of service for new hires after January 1, 2013. Even with these significant changes and annual plan design changes, over the course of the last several years Medicare eligible retiree health costs continue to grow at a high rate. Medicare eligible retiree health costs have grown an average of 9% over the last three years and annual costs have increased from \$67 million in 2011 to \$85 million in 2014.

Through a broad review of options, the Board of Regents approved the move to a private retiree health exchange. This move is expected to help manage the aforementioned OPEB escalation while moving to a more financially efficient model for the Medicare eligible retirees and the University System of Georgia. This efficiency is partly a result of the size of the Medicare market (30 million retirees) and resulting significant competition between plans; something we are unable to duplicate in the Group market given our relative size. To help illustrate this, retiree Medicare market premium trends have averaged about 4% over the last 5 years (Medicare Part D pharmacy premiums average somewhat higher, but make up a smaller percentage of the costs), while also providing meaningful choice of designs and carriers, significantly better than our experience above and our current two carrier platform

The private retiree marketplace allows Medicare eligible retirees to maximize the health contribution they receive from the USG in that the marketplace provides a full range of plan options allowing maximum flexibility for retirees to choose a plan that best meets his/her health coverage. Given the wide range of health and delivery needs the marketplace optimizes access to choices well suited for our retirees.

The goal of these efforts is to keep our plans financially sound while still offering affordable coverage. We have not faced steep increases in premiums as you point out, and it is because we have implemented cost containment measures. Across the nation and even locally, many other private and public institutions have been forced to curtail retiree coverage. At the University System of Georgia, we have worked diligently to manage the cost of our healthcare benefits.

These are complex issues and can be difficult to understand. We will work hard to make sure all questions are answered. If you, or any retiree has questions please do not hesitate to let me know.

Sincerely,



Marion Fedrick

Vice Chancellor for Human Resources