

Health Insurance Program Review Committee

May 2008

Why is ISU reviewing post retirement health coverage?

The Government Accounting Standards Board (GASB) has set **new** standards for post retirement health and life insurance benefits. GASB requires public sector entities to recognize health/life insurance benefits on financial statements. This is a change from using cash (today's money) to an accrual accounting method to account for costs of retiree future health coverage.

When does ISU have to recognize these benefits on the financial statements?

ISU must apply the new standards in their June 30, 2008 financial statements. At that time, ISU will be required to disclose the unfunded liability for retiree health benefits.

What is unfunded liability?

An actuarial study using demographic data of eligible employees/spouses/retirees, etc. and their expected life expectancy is performed to estimate the future liability (costs) of those covered by or eligible to be covered by the post retirement health coverage in the future. This amount, minus the amounts ISU has accumulated for this purpose (VEBA Trust) and other credits represent the unfunded liability.

What is a VEBA Trust?

The Voluntary Employee Benefit Association (VEBA) is a trust created to fund health/life benefits. This trust was started in 1993 and has been funded approximately 80% by the university and 20% by employee contributions. As of March 31, 2007, the present value of the liability was \$135 million minus \$46 million in assets leaving \$59 million in unfunded liability.

Can the VEBA be cashed out or used for purposes other than health coverage?

NO, the VEBA can only be used for retiree benefits—it cannot be used for anything else.

What has the Committee done thus far?

The Committee has met four times. The first meeting was primarily to review the charge presented by Vice President Gregg Floyd (see Charge to the Committee on the HR web page).

The other Committee meetings have been educational. Aon Consulting has been leading discussions on the issues, the options; ideas for ISU's situation, advantages and disadvantages of possible changes, etc. Per Aon, there are many options from which to choose a solution.

Has the University decided to withdraw retiree health coverage?

No. The committee is charged with evaluating what the new GASB standards mean for ISU and what options there are that will enable ISU to satisfy those requirements. No decisions have been made, but given the reporting standards and balancing the interests of all parties that are impacted, changes may need to be made to the post retirement program and/or the employee plan. The basic discussion surrounds how ISU/Employees/Retirees will be able to pay for the future costs and satisfy the requirements of GASB and which option(s) will best meet ISU's situation.