

# Retiree Medical Funding Options

## A Side-by-Side Comparison of Option A and Option B

Key Features	Option A: Current Subsidy	Option B: New Retiree Health Account
<b>Retirement Date</b>	On or before June 30, 2006	On or after July 1, 2006
<b>When You Become Eligible to Receive a Benefit</b>	Regardless of which option you choose, you are eligible to receive a retiree care benefit when you retire after age 60 with at least 10 years of continuous full-time service immediately prior to retirement.	
<b>What Your Retiree Health Care Benefit Will Be</b>	<p>The University will continue to subsidize two-thirds of the cost of retiree-only coverage; you will be responsible for the remaining one-third of the cost for retiree-only coverage. In addition, you will be responsible for the full cost of any dependent coverage you purchase.</p> <p><b>Pre-65 Retiree Example:</b> The cost of 2005 retiree-only coverage is \$615 per month. Under this approach, the University will cover \$410 and you will be responsible for \$205 of the monthly cost.</p> <p><b>Post-65 Retiree Example:</b> The 2005 cost for retiree-only coverage is \$375 per month. The University will cover \$250 and you will be responsible for \$125 of the monthly cost.</p> <p>Note: Costs are lower for post-65 coverage since Medicare becomes primary coverage mechanism and University plan becomes secondary when retirees become eligible for Medicare at age 65.</p> <p>For more information about 2005 costs, visit <a href="http://www.luc.edu/hr/retiree/ratesheet.shtml">http://www.luc.edu/hr/retiree/ratesheet.shtml</a></p>	<p>You will have access to a retiree health account that you can use to be reimbursed for health care expenses in retirement. The account is calculated as follows: \$2,750 for each year of full-time university service you have after age 50 (15 year maximum), including an interest credit of 3% for each year.</p> <p><b>Example:</b> If you are age 60 with 20 years of full-time service as of July 1, 2006, your account will be valued at approximately \$31,500 (\$2,750 for each of 10 years of service after age 50 plus 3% interest credit for each year).</p> <p>When you retire on or after July 1, 2006, you will choose one of two payment types:</p> <ul style="list-style-type: none"> <li>• <b>Option B1</b> provides an annuity—an amount of money each month—to offset future health care premiums under the University’s health plan. The annuity can only be used to pay for coverage under the University’s plan. (Read more about annuities on the following page.)</li> <li>• <b>Option B2</b> provides an account balance that you can use to pay for any qualified medical expenses including the University’s health plan, Medicare or Medigap premiums, a spouse’s plan or other coverage.</li> </ul>

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<p><b>How You Can Use the Benefit</b></p>	<p>Upon retirement, the subsidy will be applied to your monthly premiums for coverage under the University plan. You may <b>not</b> use the subsidy to cover the cost of any other health plan.</p> <p>See the enclosed summary of the University's 2005 retiree health plan for more details about what's covered.</p>	<p>Upon retirement, you choose how to use the account:</p> <ul style="list-style-type: none"> <li>• <b>Option B1:</b> Access the account as an annuity—a certain amount of money each year for the rest of your life (and/or your spouse's life)—to offset a portion of monthly premiums for coverage under the University's health plan. You pay the difference between the annuity and the premiums.</li> </ul> <p>You choose from two types of annuities: a <i>standard annuity</i> or an <i>escalator annuity</i>. A standard annuity gives you access to the same amount each year. An escalator annuity initially provides a lower amount than the standard annuity, but the amount will increase each year to counter a portion of health care inflation.</p> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>• <b>Option B2:</b> You have access to the entire account immediately to be reimbursed for eligible health care expenses that are not covered by any other plan. In other words, you may draw down the balance over time to pay for the following: monthly premiums for the University's health plan; monthly premiums for another plan, including premiums for a spouse's health plan; coverage under Medicare and/or Medigap policies; copayments; prescription drug expenses; and more. When the account is depleted, you're responsible for paying 100% of your future health care costs.</li> </ul> <p><b>You choose between Option B1 and B2 at retirement.</b></p>

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<p><b>How the Value Grows</b></p>	<p>As health care inflation continues to rise, the University will continue to subsidize two-thirds of the cost of retiree-only coverage. This gives you some protection from the rising cost of health care.</p> <p><b>Pre-65 Retiree Example:</b> If the premium for retiree-only coverage rises to \$900 per month in 2008, the University would cover \$600 and you would be responsible for \$300.</p> <p><b>Post-65 Retiree Example:</b> If the premium for retiree only coverage rises to \$500 per month, the University would cover approximately \$335 and you would be responsible for \$165.</p>	<p><b>Option B1:</b> If you access the balance as an annuity, the initial amount is determined by dividing the account balance at retirement by a factor based on your age and the type of annuity you select. Here is a partial set of factors<sup>1</sup>:</p> <table border="1" data-bbox="1136 354 1837 727"> <thead> <tr> <th>Retirement Age</th> <th>Standard Annuity Factor</th> <th>Escalator Annuity Factor</th> </tr> </thead> <tbody> <tr><td>60</td><td>192.2188</td><td>275.5858</td></tr> <tr><td>61</td><td>186.9259</td><td>265.1832</td></tr> <tr><td>62</td><td>181.6007</td><td>254.9398</td></tr> <tr><td>63</td><td>176.2545</td><td>244.8694</td></tr> <tr><td>64</td><td>170.9048</td><td>234.9930</td></tr> <tr><td>65</td><td>165.5388</td><td>225.2893</td></tr> <tr><td>66</td><td>160.1691</td><td>215.7724</td></tr> <tr><td>67</td><td>154.8122</td><td>206.4605</td></tr> <tr><td>68</td><td>149.4493</td><td>197.3242</td></tr> <tr><td>69</td><td>144.0799</td><td>188.3597</td></tr> <tr><td>70</td><td>138.7065</td><td>179.5671</td></tr> </tbody> </table> <p><b>Option B1 Example:</b> Assume the value of your account is \$50,000 when you retire at age 65.</p> <p><i>Standard Annuity:</i> Approximately \$302 per month, calculated as follows: <math>\\$50,000 \div 165.5388</math> (age 65 standard annuity factor) = \$302</p> <p><i>Escalator Annuity:</i> Initial annuity of \$222 per month, calculated as follows: <math>\\$50,000 \div 225.2893</math> (age 65 escalator annuity factor) = \$222. This amount increases each year to provide some protection from health care inflation.</p> <p><b>Option B2:</b> If you access the entire balance immediately, the value of the account grows through annual interest credits at a fixed rate of 3% on the remaining amount in the account. This interest rate may be adjusted in the future.</p>	Retirement Age	Standard Annuity Factor	Escalator Annuity Factor	60	192.2188	275.5858	61	186.9259	265.1832	62	181.6007	254.9398	63	176.2545	244.8694	64	170.9048	234.9930	65	165.5388	225.2893	66	160.1691	215.7724	67	154.8122	206.4605	68	149.4493	197.3242	69	144.0799	188.3597	70	138.7065	179.5671
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<sup>1</sup> These factors assume a 3% time value of money and life expectancies according to a unisex version of the RP-2000 Combined Healthy mortality table. See the Society of Actuaries' Web site at [www.soa.org](http://www.soa.org) for additional details.

Key Features	Option A: Subsidy Approach	Option B: Account Approach
<b>Whose Expenses May Be Covered</b>	You may pay for the cost of coverage for you, your spouse and any eligible dependents under both options. However, the amount of the subsidy and the amount of your retiree health account will not increase if you are married or if you have eligible dependents.	
<b>What Happens if You Die</b>	<p>If you've elected to cover your spouse under the retiree health care plan and you die before him/her, your spouse will be eligible for the two-thirds subsidy for the rest of his/her life (unless he/she remarries).</p> <p>If your spouse remarries, then he/she is no longer eligible to receive the subsidy.</p>	<p><b>Option B1:</b> If you've elected to cover your spouse under the retiree health care plan and take an annuity, he or she will continue to receive the annuity for the rest of his/her life (unless he/she remarries). If your spouse remarries, then he/she is no longer eligible to receive the subsidy.</p> <p><b>Option B2:</b> If you choose immediate access to the account, your surviving spouse (who you elected as alternate at time of retirement) will have access to any money remaining in the account to pay for eligible health care expenses.</p>
<b>What Happens if the University Changes the Retiree Health Plan or the Funding Options</b>	<p>If the University needs to make additional changes to the retiree health plan, both Option A and Option B would be affected to some degree. That's because you participate in one retiree health plan, so changes that are made to coverage levels, deductibles and other areas apply to both Option A and Option B.</p> <p>If changes to the funding options are required, you should note that it's more likely that Option A would change than Option B. The reason is that the University has already defined its exposure—or how much it will pay for your retiree health benefits—for Option B. This is not the case for Option A, where the amount the University pays grows with health care inflation. So, if health care inflation grows at a rate that the University can no longer afford, a reduction in the level of the subsidy is possible.</p> <p>Please note that we don't anticipate changes to the program or the funding in the near future. However, if changes are made, we will notify you and all affected retirees immediately.</p>	
<b>Tax Implications</b>	There are no tax implications, regardless of the option you choose.	