TWO WAYS TO SAVE FOR YOUR RETIREE MEDICAL EXPENSES

All regular full-time and extended part-time employees will be eligible to participate in a new medical savings account program. These accounts will be funded with employee contributions—there will be no RIT contribution to these accounts. A tax-favored savings vehicle will be used to accumulate money to be used for medical expenses in retirement. It is anticipated that these accounts will become available in 2005, and more detailed information will be provided at that time.

In the meantime, consider increasing your contributions—or start contributing, if you are not already doing so—to the retirement (403(b)) plan. The retirement plan is an excellent, tax-deferred vehicle to save for retiree medical expenses and other living expenses in retirement. Consider contributing as much as you can to your account to ensure a quality lifestyle in retirement.

We recognize that it can be difficult to increase your savings while keeping up with today's living expenses. However, there are strategies for increasing contributions over time. Over the next several months, we will communicate with you about the importance of maximizing your retirement savings and provide you with helpful tools and resources for doing so.

RIT provides access to professional retirement planning counseling through TIAA-CREF and Fidelity Investments. Representatives of those organizations are available on campus biweekly and can provide you with sound expertise and other financial resources.

To schedule an on-campus appointment, contact TIAA-CREF or Fidelity at the following telephone numbers:

TIAA-CREF	585-246-4600 or 585-246-4610/TTY
Fidelity Investments	1-800-642-7131 (select option 1) or 1-800-259-9743/TTY

For Newly Hired Employees Only: An Account-Based Approach

For employees hired on or after January 1, 2004, RIT will take a completely different approach to providing retiree health care. When an individual in this group retires, he/she will be provided with a "retiree medical account (RMA)."

An RMA is a lump sum account fully funded by RIT. Future retirees who will be participating in this program will have access to RIT-offered medical plans when they retire but will pay the full premium. The money in a retiree's RMA can be used to pay for retiree health care coverage through RIT, through a spouse's or other employer's plan, or to reimburse himself or herself for Medicare premiums. The unused account balance will increase in value, but most likely at a rate lower than the increase in health care costs. Most individuals will need additional resources to help pay for their health care coverage during their retirement years.

Note: RMAs will not apply to current retirees or employees hired (or rehired with adjusted dates of hire) before 2004.

Retiree Medical Opt Out

Currently, full-time employees who choose not to be covered by RIT's health care program receive an "opt-out benefit" of $400 annually. Typically, this occurs when an employee has coverage through another source, such as their spouse's employer.

Although no such benefit currently exists for retirees, we will be evaluating the possibility of offering an opt-out benefit to retirees in the future.

A Note about Medicare Reform Legislation

Recently, President Bush signed into law the Medicare Prescription Drug Improvement and Modernization Act. Although many of the provisions of this act will not become effective until 2006, RIT is currently working with experts to understand the implications of this legislation and its impact on our current retiree health care program. As a result, we may need to make additional changes to our program in the future. There are still many questions and details to be worked out before we can understand the full impact of this new legislation on our retiree medical program. We will provide you with more information as details become clearer.

Check out the Human Resources Department website at:
http://finweb.rit.edu/HumanResources/benefits/

FOR MORE INFORMATION

For any benefits questions you may have, please contact your benefits representative in the Human Resources Department (TTY (585) 475-2420):

LAST NAME	CONTACT	TELEPHONE (V)	E-MAIL ADDRESS
A–L	Valerie Liegey	(585) 475-5346	valpsn@rit.edu
M–Z	Nicki Bruno-Collins	(585) 475-5983	nmb9501@rit.edu

Rochester Institute of Technology
Department of Human Resources
George Eastman Building
8 Lomb Memorial Drive
Rochester, New York 14623-5604

R·I·T
HUMAN RESOURCES
FINANCE AND ADMINISTRATION
Rochester Institute of Technology

2004 RETIREE HEALTH CARE UPDATE Newsletter

SPECIAL EDITION JANUARY 2004

This newsletter concerns the following RIT populations:

- Current Medicare-eligible retirees (generally those age 65 and older)
- Current pre-Medicare retirees
- Current employees who are retirement-eligible
- Current employees who are not yet retirement-eligible
- New hires

a letter from the President

Dear Colleagues:

Last spring, I wrote to you regarding senior management's and the Board of Trustees' deep concern about the rapidly accelerating cost of RIT's retiree health care benefits. At that time, I appointed a multidisciplinary committee to "review RIT's retiree health care benefits and recommend changes that will reduce RIT's projected future liability while still providing quality health care protection for our present and future retirees."

I would like to thank the committee for their diligence and congratulate them on an outstanding job. Designing a program that balances quality of care and cost is a tremendous challenge in the current health care environment. The committee spent much time meeting with both employees and retirees to obtain input from all those who would be affected by a change before making any decisions. I would also like to thank all who participated in these meetings—your feedback played an important role in shaping the committee's recommendations.

I am pleased to announce that the committee's recommendations have now been approved by senior management and endorsed by the Board of Trustees. This newsletter provides a summary of the changes that were approved, some background on why the changes were needed, and a description of the process the committee followed to formulate their recommendations.

The changes outlined in this newsletter are the first significant changes to this program in ten years, but it is likely that they will not be the last. We live in a dynamic world. Ten years ago, we could not have predicted the ways in which the delivery or cost of health care has changed, and we cannot anticipate today what will happen in the future.

Despite the uncertainty of the health care environment, RIT plans to continue to provide retiree medical benefits as part of our competitive total compensation package. In order to do this, it is vital that we design our retiree medical program to adapt with today's changing health care environment. We believe the changes being introduced will enable us to do that. There are still many details to be worked through during the coming year and further information will be provided as it becomes available.

In the meantime, if you have any questions about your RIT benefits, please contact your benefits representative in the Human Resources Department.

Sincerely,

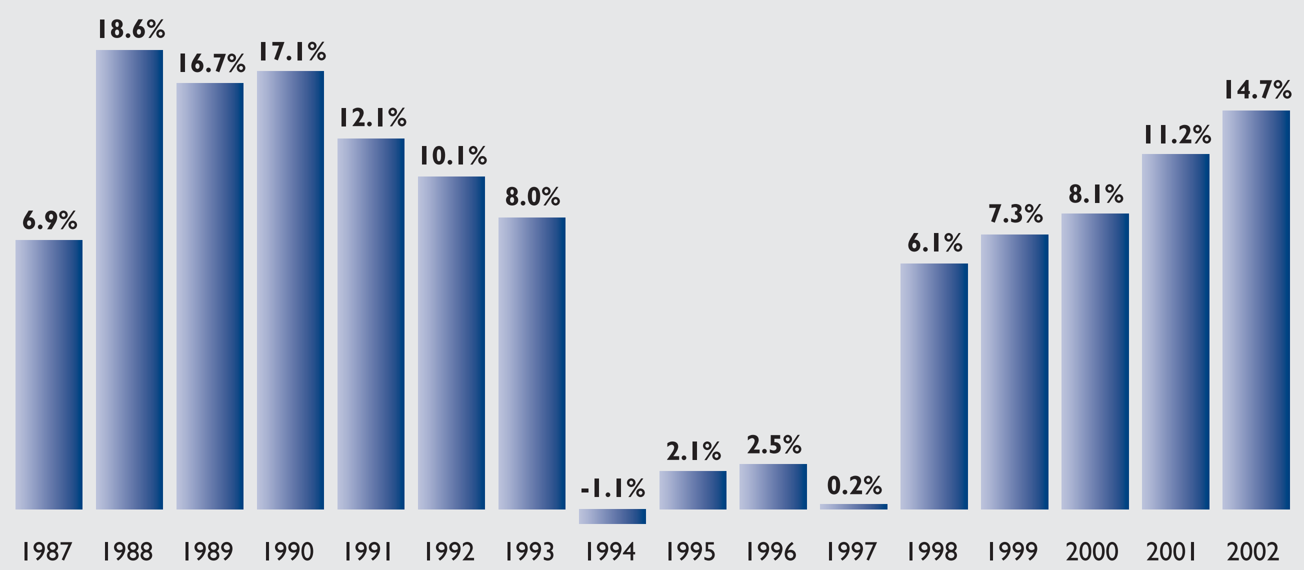
Albert J. Simone
President

WHAT'S INSIDE

Why Change the Retiree Medical Program?

Simply stated, the reason for change is that health care costs are rising at an alarming rate. The graph below shows the last 15 years of "year-over-year" increases in U.S. employer health care costs. The rate of health care increases is rapidly accelerating and there seems to be no end in sight.

Health Care Cost Increases 1987–2002
All U.S. Employers
Mercer 2002 Health Care Survey

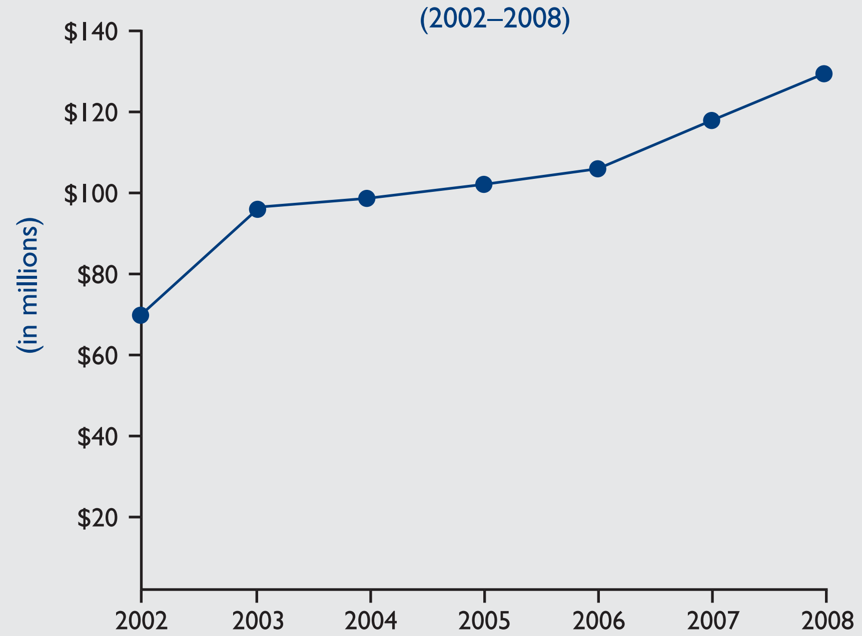


Why the specific focus on retiree health care?

In the early 1990s, the Financial Accounting Standards Board (FASB) first started requiring employers to estimate, and report on their financial statements, future obligations (liabilities) associated with retiree health benefit programs. In 1994, RIT began to report its liability for retiree health care benefits, which includes coverage for current and future retirees and surviving spouses. At that time, the total liability for retirees and employees (future retirees) was $39 million. By 2002, the liability had reached $70 million. That year, RIT commissioned a study by the actuarial firm PriceWaterhouseCoopers to project the value of its retiree medical liability over the next several years. The results are shown on the graph to the right. If RIT did nothing, its projected total liability would reach an estimated $130 million by 2008.

In reviewing these results, RIT management and Board of Trustees concluded that this rapid rate of liability growth was not sustainable over the long term. To respond, they chartered a committee to review the program and recommend changes.

RIT Projected Future Retiree Health Care Benefits Cost (2002–2008)



The Road to Redesign

Early in 2003, Dr. Simone commissioned a task force to **"review RIT's retiree health care benefits and recommend changes that will reduce RIT's projected future liability while still providing quality health care protection for our present and future retirees."** The multidisciplinary committee consisted of faculty, staff, and a retiree. As part of their work, the committee conducted open forums and stakeholder interviews with a cross section of employees and retirees to ensure that the needs and concerns of all populations potentially affected by a change would be considered. From their findings, the committee established a set of guiding principles as the basis for their recommendations.

Redesign Process Timeline

2003

January–March
The committee was formed and outside consultants were hired to assist RIT with the redesign process.

January–October
The committee met on a biweekly basis.

May–June
Several open forums and stakeholder interviews were held, and guiding principles were established.

June– August
Working with a health care benefits consultant, alternative design pathways and their impact on various populations were analyzed.

September
Recommendations were delivered to RIT's senior management.

November
Board of Trustees agreed to adopt the Committee's recommendations.

2004

January 1
New employees begin coverage under new "Retiree Medical Account".

January–September
Program details are finalized and implementation begins.

Fall 2004
Open enrollment takes place, including informational sessions.

2005

January 1
Revised retiree health care program becomes effective.

Committee Members

Name	Position
Renee Brownstein	Human Resources (Chair)
Cookie Campbell	Retiree
David Edborg	Campus Safety
Margaret Ferber	Finance
Eugene Fram	College of Business
Rhona Genzel	English Language Center
Sarah Haberbusch	ITS Data Center Operations
Carl Lundgren	College of Applied Science and Technology
Patty Spinelli	Human Resources
Roger Stackpoole	Finance
Nancy Valentage	College of Science

Guiding Principles

- Retiree medical benefits are part of RIT's competitive total compensation package
- Long-term commitment by RIT to provide sustainable retiree medical benefits
- RIT will share in the cost of retiree medical benefits
- Potentially RIT will provide greater subsidy for retirees than other family members
- Consistent benefits for faculty and staff with stratification by group reflecting life-stage needs
- Catastrophic coverage and prescription drug benefits included
- Choice and flexibility where possible
- Geographic portability of health care plan coverage
- Access to health care coverage

Highlights of the New Program

WHO'S IMPACTED BY THE CHANGES?

The changes to RIT's retiree health care program outlined in this section impact both RIT employee and retiree populations. Not all changes impact all populations. The following chart shows which changes impact which populations. If you are identified as an impacted population, be sure to read the applicable article in this section for more information.

Population	Applicable Changes
Current Medicare-eligible retirees (generally those age 65 and older)	• Changes in Plan Offerings • New Prescription Drug Plan • Medicare HMOs for Retirees in Rochester • Potential Retiree Medical Opt Out • A Note About Dependents
Current pre-Medicare retirees	• Changes in Plan Offerings • New Prescription Drug Plan • Cost Sharing Changes for Future Medicare-Eligible Retirees • Potential Retiree Medical Opt Out • A Note About Dependents
Current employees who are retirement-eligible and Current employees who are not yet retirement-eligible	• Changes in Plan Offerings • New Prescription Drug Plan • Cost-Sharing Changes for Future Medicare-Eligible Retirees • Two Ways to Save for Retiree Medical Expenses • Potential Retiree Medical Opt Out • A Note About Dependents
New hires	• For Newly-Hired Employees Only: An Account Based Approach

MEDICARE HMOs FOR RETIREES IN ROCHESTER

Approximately 80% of RIT's retirees live in Rochester and the surrounding area. The two local Medicare HMOs—Preferred Care Gold and Medicare Blue Choice—offer very comprehensive coverage with premiums that are a fraction of the cost of the indemnity plans like Blue Million or the BlueCross BlueShield Comprehensive Plan. Both of the HMOs have been highly rated by national and state organizations, and both have achieved very high satisfaction levels among their participants.

To help RIT maintain quality health care for retirees at an affordable price, we will launch an HMO educational initiative next fall for Medicare-eligible retirees. The goals are to raise awareness about the advantages offered by these cost-effective plans and to encourage increased HMO participation.

CHANGES IN PLAN OFFERINGS

Beginning January 1, 2005, **the BlueCross BlueShield Blue Million/Complementary Plan will no longer be offered to RIT employees or retirees.** For 2004 only, the Blue Million Plan will continue to be available to employees and retirees who were already enrolled. No new entrants will be permitted.

In 1999, RIT stopped offering this plan to employees, with the exception of those already enrolled. Presently there is a very small number of employees still enrolled. Because the premium for Blue Million has increased more rapidly than for other health care plans that RIT offers, the cost of the plan now outweighs its value. Therefore, it no longer makes sense for RIT to offer this plan to our retirees.

For many years, RIT has offered the BlueCross BlueShield Comprehensive Plan to employees and pre-Medicare retirees. **Beginning January 1, 2005, the Comprehensive Plan will also be made available to Medicare-eligible retirees as a supplement to their Medicare coverage.**

The Comprehensive Plan is similar to the Blue Million Plan in that it is an "indemnity plan," rather than a "managed care plan." Under an indemnity plan, a participant is able to obtain services from any qualified health care provider—there is no network of participating providers, and no referrals are required. The Comprehensive Plan has an annual deductible (currently $200) that must be met before the plan begins to cover services. Once the deductible has been satisfied, the plan covers 80% of most eligible expenses. The plan includes an out-of pocket maximum (currently $950), which is the most a participant would have to pay out of his or her own pocket in a calendar year. After the out-of-pocket maximum is reached, the plan covers eligible expenses at 100% for the remainder of the calendar year.

New Prescription Drug Plan

It's nearly impossible to read a newspaper or watch the news on television without reading or hearing some reference to the rising costs of prescription drugs. Prescription drug benefits are a significant factor in the cost of retiree health care. While prescription drugs represent about 16–18% of medical costs for a working population, they represent 35–45% of medical costs for all retirees, and over 50% of medical costs for retirees age 65 and older.

In order to better control prescription drug costs, **RIT will create a new plan called the RIT Prescription Drug Plan, effective January 1, 2005.** The RIT Prescription Drug Plan will be a separate self-insured, managed prescription drug benefit plan. The plan will be managed by a pharmacy benefit manager who specializes in this area.

What does this mean? You will receive your prescription drug coverage from the RIT Prescription Drug Plan, instead of from your medical plan. You will have the same prescription drug benefit design regardless of which medical plan you choose[1]. In the past, many of you have told us that you are choosing your medical plan based on the prescription drug benefit. This change eliminates your need to do this.

Prescription drugs are the fastest rising component of medical care cost in the U.S.

There are several advantages to this approach. RIT will have the flexibility to create its own plan designs, and provide our employees and retirees with incentives for making cost-effective prescription drug choices. There will be opportunities to save on administrative fees; to benefit from negotiated discount arrangements with retail pharmacies, mail order pharmacy and pharmaceutical manufacturers; and to receive manufacturers' rebates that are currently returned to the insurance carriers.

Detailed information about the new prescription drug benefits, including plan design and information about the pharmacy benefit manager, will be provided in this fall's open enrollment package.

In November 2003, Congress enacted legislation that will add a prescription drug benefit to Medicare starting in 2006. As more detailed information becomes available, we will look at opportunities that the new legislation presents to help employers such as RIT continue to provide comprehensive prescription drug benefits to their retirees.

[1] By design, participants in the Preferred Care Opportunity Plan will continue to have no coverage for prescription drugs.

Cost-Sharing Changes for Future Medicare-Eligible Retirees

Beginning January 1, 2005, RIT's contribution for health care coverage for Medicare-eligible retirees will be based on the premium for a "benchmark plan." If a Medicare-eligible retiree enrolls in a plan that has a premium that is higher than the benchmark plan's premium, the retiree will pay the difference. If the retiree enrolls in a plan that has a premium that is lower than the benchmark plan's premium, there will be no contribution required for medical coverage. If the retiree enrolls in the benchmark plan, there will be no contribution for his/her own coverage, but there will be a contribution required for spouse/partner or dependent coverage.

Current Medicare-eligible retirees will not be impacted by this change.

Employees who reach age 65 on or before June 30, 2005 (to be notified by Human Resources) will not be impacted by the benchmark plan if they:

- provide written notice by December 31, 2004 of their intent to retire by June 30, 2005, and
- retire by June 30, 2005.

The benchmark plan has not yet been identified. More information will be included with this fall's open enrollment package.

A NOTE ABOUT DEPENDENTS

Based on our guiding principle to provide access to health care coverage, anyone who becomes an eligible dependent of a retiree on or after January 1, 2005, may be added to the retiree's coverage. However, the retiree will be required to pay the full difference in premium for the added person(s). This will not impact a spouse, partner, or other eligible dependent who became a retiree's dependent before January 1, 2005.