

Review by Stanford retiree Jack Truher of

Potential Changes to Stanford's Retiree Medical Plan

January 14, 2005

Abstract:

If current conditions prevail, in five years the University's fractional contribution to retiree medical costs would be reduced to a half or a quarter of Stanford's current fractional contribution. In ten years that fractional contribution toward retiree medical benefit would be reduced to a quarter or even a tenth of its current value.

A projection calculation of this sort is one which Provost Etchemendy should include in his public presentations. This should be provided to both current and future retirees, who will be affected in this regard.

Provost Etchemendy explains as follows in the Stanford Report, Jan 12, 2004, paragraph 4 in an article title: **"Hundreds Flock to Hear Update on Changes to Retiree Medical Plan."**

<http://news-service.stanford.edu/news/2005/january12/qa-011205.html>

What changes are being proposed in the retiree medical benefits?

There are two changes being proposed. And again, this is still all in flux. First, under the new program, the university's contribution to the medical plans of retirees would be linked to their years of employment. In other words, the university would no longer cover the cost for retirees of the lowest-priced health plan. It would, instead, calculate a dollar contribution toward the cost of medical benefits based on the number of years of service at retirement. Second, the amount of the contribution would be increased each year to match the percentage increase in the salary/benefit program for active employees, rather than being tied to the cost of the lowest-cost plan.

Jack comments:

This is a strange formulation: The provost says there are two provisions. But clearly there are three provisions of his proposal mentioned here. Provision 1.5 abandons the prior baseline entirely: "the university would no longer cover the cost of retirees of the lowest-priced plan." The University is shifting future risk to staff. Provision 1.5 applies to all existing and future retirees. Provision 2 is a parity provision whereby all retirees' benefits are linked to still-working staff total budgeting.

Look again at the last of the "two changes" (actually three changes) in the paragraph just above, stating that increase in retiree medical benefits "will be limited to the percentage increase in the salary/benefit program for active employees...".

In the December 8, 2004, meeting, Provost Etchemendy opened with the clarification, **"None of these changes will affect** any current retirees. This was not made entirely clear." I had read the same false assertion in page 13 sidebar Stanford Report announcement for the December 8 meeting. The Stanford Report announcement of December 8th read as follows: "Provost John Etchemendy invites all current faculty and staff to a Town Hall Discussion: Potential Changes to Stanford's Retiree Medical Plan." There have been no invitation to retirees to this or any comparable discussion.

The last two of three proposed changes certainly does affect those already retired.

Beyond the significance to retirees of the intended change in benefits, it is appropriate to ask how the the Provost and all his readers and public agents can be so wrong on this issue of applicability, and so completely ignore the retiree community in such a basic issue? It's because as Provost Etchemendy also said in the December 8 meeting, "the retiree medical benefit is not a guarantee benefit."

That's true, and it's has been clear from all that Stanford has not said. But the result has been a kind of denial. Retirees are a non-existent constituency, here being consigned to oblivion, as non-negotiators to a benefit which

the Provost properly explains is "not guaranteed", and then he promptly reassures us that (in practice) would should pretend to ourselves that it is guaranteed. How deep into denial should the staff and faculty be?

I taped the Etchemendy presentation of December 8th. He was largely but not entirely correct to explain (finally) that staff has no explicit contract rights to the medical benefit which all Stanford faculty and staff so believe is theirs. There are provisions in law as to implied contract, prevailing practices, issues of presumption. When argued before a jury in such circumstances, employers can lose the argument for intent and contract rights. There is little sympathy for obfuscation. Here is the segment with Etchemendy's long-delayed University statement on employee's absent rights to benefit:

The provost was answering a question of whether the University's proposed retiree medical benefit of \$100/yr-service might be adjusted upward or downward beyond parity with active employee wages-benefits.

Here are the Provost's words:

"The question was about the option of decreasing the \$100/yr factor. Well, in some sense, yes. I mean, in some sense... the University. The retiree medical benefit is not a guaranteed benefit, so technically, from a legal standpoint, we could zero it out, and say "therefore were aren't paying it anymore". We're not going to do that. That's not the kind of employer we are. As a matter of fact, that's why we're grandfathering all these (existing?) retirees. So is it possible to decrease that factor? Technically, yes it is. Would the university do it? I doubt it."

Why such an optimistic projection, especially since there there has been zero attempt to involve existing retirees in the changes which will affect them. Retirees are without political leverage because, unlike working staff, retirees can not withdraw their labor, their cooperation, their loyalty or enthusiasm or commitment, or their more usual defense by acts of malicious obedience.

Working staff have those options and retirees do not. Working staff has bargain power to acquire the luxury of not organizing. Retirees have behaved as if they had the leverage of working staff. Retirees are delusional in that regard and administrators encourage them to be so.

AS TO THE SUBSTANCE OF THE UNIVERSITY'S PROPOSAL

My views are mixed and obviously of no interest to the University. It does seem apparent that:

Proposal 1.0: A graduated year benefit accrual has apparent equity advantages over the arbitrary "rule of 75". There will be winners and losers in the class war. I think of the many single mothers with children that I have known, who joined Stanford with just enough time to earn a decent retirement. There were fewer opportunistic overpaid executives who caught the same protective wave, when they didn't really need it. The desperation quotient is different.

Proposal 1.5: Not covering the "lowest cost plan" seems unnecessary since the University can always devise some restrictive, huge deductible, bare-bones health plan. This provision is designed to simplify University benefits administration.

Proposal 2.0: Linking annual retiree medical benefit contributions so as not to exceed active staff contributions seems a new arbitrary constrain. Since the University can adjust retiree contributions by whatever formula it chooses, linking anything with anything seems unnecessary. But what if inflation or deflation makes the result absurd or perceived as grossly unfair? Why is the new prior rule better than annual review, and decent administration?

The answer follows Stanford's apprehension about how to indemnify itself from unlimited liability for retiree costs, given the experience that medical medical benefits are rising at 15-20% over inflation while salaries are comparable to inflation in short term. Retirees are part of the fast rising segment of costs. The university intends to limit the fast rising, politically powerless element, so as not to eat all the potential gains of the working staff. Provost Etchemendy explained that this was his primary concern. He said that he had been forced to deny salary increases last year for this reason. He said he found administering such a budget personally distressing.

But what is the projected value loss to retirees if Proposal 2.0 is adopted, and the current level of disparity(*) between medical costs and total working staff salary/benefit costs persists. That's a pretty simple calculation. The running disparity recently is somewhere between 10 - 20%. It's a simple compounding value table. The values in the table intend to represent what is left of the \$100/yrService or that the University will agree to

provide in retiree medical benefits, or as happens the % of that \$100.

The calculation is that, if the university falls behind the rise in retiree medical cost by 10% next year, then university contribution (\$100/yrService) to medical costs will only be worth \$90 relative to actual retiree cost and to current expectations. If that repeats for another year, then the \$90 shrinks again to \$81, or 81% of retiree cost.

benefit to staff over time would be reduced in value to percent:

		retiree benefitSU \$ diff		
		10%	15%	20%
year		-----retiree medical----	-----residual value-----	
2006	1	90.	85.	80.
2007	2	81.	72.	64.
2008	3	73.	61.	51.
2009	4	65.	52.	41.
2010	5	59.	44.	33.
2011	6	53.	37.	26.
2012	7	47.	32.	21.
2013	8	43.	27.	17.
2014	9	38.	23.	13.
2015	10	34.	19.	11.

Employer and employer-retiree health insurance is a perk with complex social consequences (not all benign or equitable) that Stanford, along with many other employers, are abandoning. Stanford's planned changes intent to withdraw the staff-faculty medical benefit incrementally. I'm not arguing that is "wrong" by some moral standard. It simply appears to be the process anticipated if present trends medical cost increases continue.

This table applies to Stanford's stepwise withdrawal in a general sense. We should be able to find other projections that are more precisely defined and computed.

Conclusion:

If current conditions prevail, in five years the University's fractional contribution to retiree medical costs would be reduced to a half or a quarter of Stanford's current fractional contribution. In ten years that fractional contribution toward retiree medical benefit would be reduced to a quarter or even a tenth of its current value.

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link above: <http://news-service.stanford.edu/news/2005/january12/qa-011205.html>

revisions to the statement will be at <http://www.truher.net/grp/RetireeSU/benefit-changes.pdf>

or a word version at <http://www.truher.net/grp/RetireeSU/benefit-changes.doc>

other comment at <http://www.geocities.com/retireesofstanford>