

**REPORT FROM THE JOINT BENEFITS COMMITTEE (JBC) TO THE COUNCIL OF UC EMERITI ASSOCIATIONS (CUCEA) & THE COUNCIL OF UC RETIREES ASSOCIATIONS (CUCRA), AT THEIR MEETINGS - AT UCSB - 4/30 & 5/1/2014**

CUCEA and CUCRA function, among other things, as partners and advisors to the Office of the President on matters relating to retirees, annuitants, and retirement benefits. JBC, as an agent of both Associations, advises CUCEA and CUCRA by providing insights and information to aid in their partnership with the Office of the President.

1 - **Extend Health/OneExchange**: Since the first interaction in 2011 with Extend Health (recently re-branded as OneExchange) representatives from the JBC, CUCEA, and CUCRA have repeatedly expressed concerns about outsourcing health benefits with Extend Health. Those concerns continue, bolstered by numerous complaints received from out-of-state, Medicare-eligible retirees who were forced into this Medicare exchange provider this year. A preliminary report (through 12/31/13) from University administrators indicates that at least 20% of the affected population was “dissatisfied” or “very dissatisfied” with their experiences in enrolling with a new insurance provider via Extend Health/OneExchange. **This level of dissatisfaction is unacceptable.**

We are pleased that OneExchange is required to follow up with each dissatisfied retiree to identify the issues and resolve any continuing problems, and report its findings to UCOP. OneExchange is required to conduct another survey on July 1 to recognize any new issues that may arise (e.g., reimbursements, prescription drug providers). We also have been informed that a periodic evaluation of OneExchange’s performance will be an ongoing activity. Of course, only those dissatisfied individuals who participated in the survey would be contacted in their follow-up. If those not responding to the survey have similar views as those who responded, that would leave more than 700 dissatisfied individuals without such contact.

In addition to anecdotal feedback from retirees, similar negative evaluations of Extend Health have been noted on a variety of websites. Consistent with UC retirees’ feedback, most complaints focus on customer service quality and the delay in reimbursement for out of pocket costs to care providers and pharmacies. **We recommend continuous monitoring of retirees’ experiences with OneExchange and the associated insurance providers.**

In a discussion of the insurance exchange model at the November 2013 Regents Meeting, University administrators stated that this program is not a pilot program, but it is estimated that the program will reduce the University’s actuarial liability for health care costs by \$718M for out-of-state retirees. The administration also believes that most Medicare-eligible retirees will be better served by insurance that is tailored to the health providers in their respective locations. Moreover, this program provides a tax-advantaged funding arrangement that retirees and covered family members can use to pay for premiums and eligible medical expenses. What this analysis fails to take into account is the fact that the costs of the program are paid for by the health care provider organizations. They would clearly have to cover these costs by increasing their premiums, which would ultimately be paid for by annuitants, since the University contributions are fixed.

2 - **Retirees Who Move Back to California**: We also maintain the view that those who move back to California in the future should be granted the same health care benefits as those living in California continuously, and not be forced to continue to use OneExchange.

3 - **CalPERS Model**: Again, we suggest that it may be possible that major benefits could accrue to UC retirees living outside California if their health care were combined with the similar group of CalPERS participants. CalPERS handles enrollments itself, and annuitants are offered a choice between an HMO or a PPO. We have been informed that CalPERS members are generally satisfied with this arrangement. **The University should explore a combination with CalPERS.**

4 - **University Investment Policies and Annuitant Concerns**: The University of California’s endowment has produced the worst investment returns of any of the 10 richest colleges in the country over the past decade, an analysis by The Center for Investigative Reporting shows. From the 2004 through 2013 fiscal years, the investment payout for the UC endowment ranked last among the 10 U.S. universities with the largest endowment

funds. The university earned an average of 7.3 percent on the combined endowment of the system and individual campuses, while the other nine colleges – which include the public University of Michigan and University of Texas – averaged 10 percent. Responding specifically to the report, it was claimed that the restrictive nature of earlier Regental policy hampered 10-year returns and more recent comparisons show progress and steady improvement. Further, it was justified by a statement from the UC Chief Financial Officer, who was quoted as saying: “the University of California has to invest more conservatively than its peers because it is a public institution.”

The University has taken a less aggressive approach to investing funds than our peers, which has materially reduced yields over a ten-year period. UC’s more conservative investment policy was a reaction to the rather dramatic adjustments in the equity markets and to lawsuits involving alternative investments; these materially impacted negatively the value of University funds. While conservatism makes sense for older individual investors, the University invests for the long haul. However, the University’s investment policies govern both UC retirement funds and certain investments in individual annuitants’ investment accounts [403(b), 457(b) and DC plans]. Results are couched in terms that compare our results with various benchmarks, but this approach eliminates the comparison of our results with those of our peer institutions.

Policies that befit one of the leading universities in the world need to be among the leaders and not in the lower performance ranges. We believe that **investment conservatism is not a requisite for “public institutions,”** and we hope the newly hired chief investment officer shares that view and is able to bring about a shift in investment policies approved by The Regents.

**5 - Financial Reporting:** In our last report, we called attention to the wide disparity in the quality of financial reporting on retirement investments between UC annuitants and CalSTRS members, and recommended that the University include in regular reports to UC employees and annuitants easily understood details about their investments and returns, which are similar to reports produced by the CalSTRS.

**6 - MRD Process:** From reported experiences, it would appear that the MRD process went according to plan, and was highly successful. Again, we thank those from OP who were responsive and responsible for making it work!

**7 - Wellness Program:** As a follow-up to our recommendation about the Wellness Program made six years ago, and our comments made three years ago, we request comments from OP representatives with respect to how well it is meeting its goals, and the design of a survey that could lead to positive changes for future years. In addition, has the existence of the program brought about cost savings through reductions in premiums paid to our health care provider organizations or otherwise, as envisaged by the Health Benefits Task Force?

**8. Consultation:** In response to our voiced concerns about the lack of consistent and adequate consultation on issues that affect UC’s retirees, we are pleased to learn that Ellen Lorenz, director of the Retirement Administration Service Center, has established a bimonthly consultation forum with the chairs and vice chairs of CUCRA and CUCEA. Beginning in May, these every-other-month telephone conferences are intended to provide a two-way communication channel between the two associations and key staff in the RASC. We applaud this UCOP initiative.

We continue to look forward to cordial and cooperative relations with OP staff with whom we deal, for the mutual benefit of the University and its family of annuitants.

Adrian Harris, Chair, UCLA,

Julian Feldman, UCI; Jack Fisher, UCSD; Charles Hess, UCD; Richard Jensen, UCSC & UCSB; Larry Pitts, UCSF; Louise Taylor, UCB; *Ex-Officio*: Roger Anderson, UCSC; Lee Duffus, UCSC; Doug Morgan, UCSB; Marianne Schnaubelt, UCI