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City Colleges of Chicago
Chancellor's Comments to the Board of Trustees
College Insurance Program (CIP)
April 7, 2005

I would like to take a few minutes this morning to discuss a very important issue: medical insurance for City Colleges' retirees. As you know, we have a program which has been in place for many years. Unfortunately, it no longer meets the needs of our retirees. And with rising healthcare costs, the issue is becoming more and more acute each day.

Current Program

Today's medical plan for retires provides very good coverage for the first 10 years following retirement. City Colleges offers a comprehensive package which includes medical/pharmacy, vision and dental insurance plans. Moreover, since City Colleges pays 80% - 90% of the cost of insurance premiums, these plans are very affordable for retirees. In short, it's a very good deal for our retirees within the initial 10-year window.

However, things change dramatically when we look beyond those first 10 years. This is where the issue arises. After the initial 10 years, two things happen:

1. City Colleges will no longer subsidize the cost of insurance premiums after the initial 10 year period. Retirees must pay 100% of the premium cost, which is very expensive today and getting more expensive as time passes. Crossing the 10-year mark has created a significant hardship for many of our retirees. We can understand their hardship when we consider that the cost for single, PPO medical coverage for a Medicare eligible retiree is $373 per month. Extending coverage to family members doubles the cost to $745 per month.
2. Vision and dental coverage are no longer available. But of course, retirees can seek alternatives at their own expense.

In short, our current plan is untenable and a change is needed. We have both a morale obligation and duty to address this situation for all of our

current retirees, as well as for our active employees who will become tomorrow's retirees.

Options

So, what are the options? Unfortunately, extending the very favorable City Colleges' program which is offered in the first 10 years is not an option. I sincerely wish we were in a financial position to do that, but we are not. This is simply not possible.

What is possible: the College Insurance Program (CIP). This is an option, and a very viable one at that. In 1997, legislation was enacted to create the College Insurance Program (CIP) for the sole purpose of providing comprehensive healthcare coverage to retirees of Illinois community colleges. Currently, retirees from all Illinois community colleges, except City Colleges of Chicago, participate in this program. Today, I am recommending that we move as quickly as possible to gain access to this program. As you know, this will require legislative action in Springfield, and we are working aggressively to get this accomplished during this current legislative session. By participating in CIP, our retirees will have access to comprehensive and affordable healthcare insurance throughout their retirement years.

How CIP Would Work at City Colleges

This is how we would propose to implement CIP. Immediately upon retirement, all City Colleges' retirees would be eligible to elect CIP-provided medical coverage. It is very important to note that we would continue the City Colleges' insurance premium subsidy for the first 10 years following retirement. Let's take a closer look at how CIP would work for our retirees.

1. Retirees inside the 10-year window. Retirees inside the initial 10-year window following retirement would receive CIP-provided medical/pharmacy, vision and dental coverage – very similar in quality to the current City Colleges program – at a cost to retirees which is virtually the same as they pay under the current City Colleges plan.

2. Retirees beyond the initial 10-year window. Retirees beyond the initial 10-year window would continue to receive the same comprehensive medical coverage. Importantly, this means that under CIP, these

retirees – who currently do not have City Colleges-provided vision and dental coverage – would immediately benefit by obtaining this coverage as part of the CIP plan. Like today, these retirees would pay 100% of the cost of the insurance premium. But, please remember that in the vast majority of cases, retirees would pay significantly less in premium costs under CIP than they pay under the current City Colleges plan.

- Cost of single coverage. The cost of single coverage, whether the retiree chooses PPO or HMO coverage or whether the retiree is Medicare or non-Medicare eligible, will be less under CIP than the cost of today's City Colleges-provided coverage. In fact, the actual savings under CIP will range from $101 to $285 per month. These savings are even more impressive when one considers that under CIP, the retiree will receive both vision and dental coverage (in addition to medical/pharmacy coverage).

- Cost of family coverage for Medicare eligible retirees. The cost of family coverage for Medicare eligible retirees (82% of our retiree population) will also be lower under CIP. In fact, savings will range from $65 to $306 per month... once again, even more impressive when one considers that the CIP coverage includes vision and dental plans.

- Cost of family coverage for non-Medicare eligible retirees. The cost of family coverage for non-Medicare eligible retirees (18% of our retiree population) will unfortunately be higher under CIP. Specifically, additional costs will range from $140 to $361 per month more than the cost of the current City Colleges plan. Again, however, one must consider that the CIP coverage includes vision and dental coverage.

3. Current/Active Employees. CIP is funded statewide in four ways:

- 25% come from retiree premium contributions.
- 25% of CIP funds come from annual State of Illinois contributions.
- 25% come from Illinois community colleges as the employers.
- 25% come from payroll contributions from active, full-time community college employees.

Accordingly, all full-time City Colleges employees would be required to contribute an amount equal to .5% of their salary to fund CIP. For an employee making $40,000 per year, the cost would be $200 per year. Similarly, an employee making $60,000 would pay $300 per year, and an employee making $80,000 would pay $400 per year. On a per payroll basis, an employee making $60,000 and working 36 weeks per year would pay $16.67 per pay period. For the employees in these examples, the daily cost (assuming 365 days per year) would be $.55 to $1.10 per day. Please note that as the employer, City Colleges would pay an amount equal to the total of employee contributions.

For our current employees (future retirees), the payroll deduction amount seems like a very affordable and reasonable cost to pay for comprehensive insurance coverage – including medical/pharmacy, vision and dental – throughout one's retirement years. As an aside, the CIP funding mechanism is very comparable to how Medicare is and has been funded for years. In the case of Medicare, however, both employee and employer contribute 1.45% of employee gross pay, substantially more than the cost of CIP.

Who Supports This Change?

First and foremost, a significant number of our retirees support the move to CIP. We have been approached by the City Colleges of Chicago Chapter of the State Universities Annuitants Association (CCC/SUAA). Nearly 40% of all current City Colleges retirees (which total about 1,400 retirees) are members of CCC/SUAA. Additionally, about 350 of CCC/SUAA's members are retired City Colleges faculty members (and, most likely, former members of CCCTU Local 1600). Given these facts, I believe it is fair to say that the CCC/SUAA represents the opinions of a significant cross section of our retiree population.

Last Fall, the CCC/SUAA passed a resolution proposing to join CIP. The CCC/SUAA resolution was endorsed by the State Universities Annuitants Association, which represents retirees from all across the State of Illinois including those from community colleges as well as 4-year institutions. The CCC/SUAA is strongly and actively urging the immediate move to CIP.

Unfortunately, leaders of Local 1600 have rejected the idea, citing the cost to active employees (i.e., the requirement to contribute .5% of salary to

fund the program), cost of dependent coverage, and some differences in insurance plan details. We have carefully studied a recent communiqué from Local 1600 and, admittedly, do not understand their numbers or rationale for rejecting what would appear to be in the best interests of current and future Local 1600 retirees. We will continue to reach out to Local 1600 leadership for dialogue and, hopefully, reconsideration.

Summary

We have a serious problem. Our current retiree medical insurance program is not meeting the needs of our retirees, and there is no reason to assume that it will in the future. A change is needed.

CIP represents a very viable alternative. While moving to CIP will render some savings to City Colleges compared with the cost of our current program, the reason to move to CIP is motivated by its compelling benefits to our current and future retirees.

Thank you for your attention. I'd like to invite any questions or comments you may have.