

# **FULL REPORT**

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# **Total Rewards Advisory Committee Review, Findings, and Recommendations**

from the

# **Study on Retiree Insurance Benefits**



University of Missouri System  
January 2016

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## Background

Formed in June 2013, the University of Missouri System (UM) Total Rewards Ad Hoc Task Force (Task Force) was charged with assisting the Vice President for Human Resources in developing and communicating recommendations to improve the University's Total Rewards program offerings. The Task Force issued findings and eight recommendations to the Board of Curators in April 2014. Additional information regarding the Task Force, including the report of findings and recommendations, can be found at [umurl.us/taskforce](http://umurl.us/taskforce).

Since that time, the broad recommendations have been, and will continue to be, further developed and analyzed by the University. As a direct result of the Task Force recommendation that the University treat pay and benefits as interrelated parts of the University's Total Rewards, the Total Rewards Advisory Committee (TRAC) was formed in May 2015. The charge of the TRAC, with representatives from faculty, staff, and retirees, is to advise the Vice President of Human Resources in matters related to the University's total rewards programs. See [Appendix A](#) to view the committee's charter and membership.

The first significant initiative the TRAC has undertaken is to make recommendations for modifying the University's retiree insurance benefits. This report is focused on retiree insurance and not the retirement/pension program, which is stable and well-funded. The TRAC's work, related to this report, addresses several recommendations issued by the Task Force including:

- Treat pay and benefits as interrelated parts of the overall Total Rewards strategy.
- Establish a benefits rate cap. (See [Appendix E](#) for a definition of the "benefit rate.")
- Leverage marketplace opportunities for retiree medical benefits.

Retiree insurance has historically been part of employee benefits packages offered by some employers, including UM. However, in light of significant improvement in accessibility and affordability of retiree medical coverage in the marketplace (particularly for Medicare-eligible retirees), many employers have discontinued their employer-sponsored retiree insurance offerings. Part of the research into how retiree insurance benefits may need to change was an evaluation of the UM System's peer institutions. Eight were reviewed, and these are the results:

- 25% have eliminated retiree insurance.
- 38% offer coverage for retirees but do not subsidize retiree premiums.
- Another 38% are part of their state's plan, meaning university employees receive whatever state employees receive.

The Task Force determined there may be other products available on the market that, in most instances, provide more choice and/or lower costs than employers are able to negotiate for their employees. There were a number of other factors motivating UM to review its retiree insurance benefits. Increasing medical costs, an aging workforce, the growing number of retirees, and recent changes to accounting standards associated with employer-funded retiree medical costs are all factors considered in the recommendation. The TRAC used analyses of these factors provided by the UM Office of Human Resources, the Office of Finance, and an external actuarial consultant to develop the recommendations herein, as well as the guiding principles, process, and findings that follow.

## Guiding Principles

In performing its work, the TRAC reaffirmed the guiding principles established by the Task Force (published on pages 2-3 of the Task Force report and summarized below):

- Competitiveness of benefits in combination with salaries when compared to appropriate industry/higher education peers.

- Effect on recruitment, retention, motivation, engagement, and performance of faculty/staff.
- Perceived value by employees and retirees.
- Increased cost predictability of total rewards programs for both employees and the university.

In addition, the TRAC established additional guiding principles which it considered to be priorities in considering possible changes to retiree insurance offerings:

- **Length of service:** The TRAC gave significant weight to employee length of service in conducting its deliberations. Both UM and its employees believe long-term service should be valued and rewarded (verified by employee/retiree surveys and face-to-face meetings). When asked, most define long-term service as twenty years or more.
- **Age of employee at time of transition:** The TRAC, as recommended by the Task Force, gave special consideration to current retirees and employees nearing retirement, as those individuals would have the least time/ability to make alternate arrangements to accommodate any proposed changes.

In addition to length of service and age, the TRAC considered salary level, effect on recruitment/retention/engagement, and the value of various benefit programs to employees, among others. Finally, the TRAC agreed that insurance benefits and current subsidy percentage levels for current retirees should be preserved.

## Process

Understanding the importance of comprehensive review and transparency in its process, deliberations, findings, and recommendations, the TRAC provides the following additional details regarding its process.

The TRAC commenced its work by carefully reviewing a Retiree Medical Study commissioned by UM ([umurl.us/TRTFrec5](http://umurl.us/TRTFrec5)). The study focused on medical insurance, but it is important to note that UM's retiree insurance benefits include dental, vision, and life insurance plans. This study focused on medical insurance because it comprises nearly 90% of retiree insurance costs and liability.<sup>1</sup>

The Retiree Medical Study included 30 listening sessions around the state; 11 focus groups on all campuses; a survey of over 2,500 employees nearing retirement; comparison with peer institutions to learn how various universities support their retirees; and outreach to campus, employee, and retiree leaders. External experts provided actuarial analysis, additional information on plan design options, current market offerings, and context. Significant time and effort were expended in understanding employee demographics (using de-identified data), focusing primarily on length of service and age. The TRAC also met with finance leadership from each of the campuses to better understand the strategic priorities and financial constraints facing each campus as well as the effect on individual campuses of any increase in the benefit rate. (See [Appendix E](#) for a definition of "benefit rate.")

The TRAC considered more than 30 initial scenarios from the study, reviewing each scenario with a focus on providing a significant benefit to the greatest number of individuals while addressing financial constraints described in the next section. The TRAC requested further actuarial work for a number of the scenarios to narrow the options to one recommended course of action.

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<sup>1</sup> Segal Consulting, a member of The Segal Group, as contracted by the University of Missouri System Office of Human Resources. Primary analysis provided July 2015.

## Findings

### 1. Current retiree insurance programs are not sustainable.

The TRAC's work has confirmed that continuing to offer UM's current employer-sponsored retiree medical insurance, without changes in the benefits provided to those not yet retired, is simply not sustainable. Left unchanged, UM's liability will reach \$1 billion by 2020, increasing to \$4.5 billion by 2045. Paying for this liability in the face of new accounting standards would impose an added cost of nearly \$30 million annually to the benefit rate, significantly increasing funding required by the campuses and hospital for benefits. (See [Appendix B](#) for details.) Given the current state and projected growth of UM's revenue sources, continuing to provide UM-sponsored and subsidized medical insurance to future retirees under the current program would seriously impair UM's ability to improve the competitiveness of salaries and wages for employees (identified as the most important component of Total Rewards by most employees) as well as place a financial burden on other strategic priorities.

It is important to note that there are no cost savings associated with the TRAC's proposed recommendations to reduce the liability of retiree insurance benefits. Most employers who sponsor retiree insurance are currently paying the annual costs as they occur, without paying toward the future liability. This is known as a pay-as-you-go program and is the same program the university uses. A simple way to understand this approach is to compare it to an individual paying only the minimum payment on a credit card balance (i.e., the current annual premium required to pay claims) while continuing to make purchases on the credit card (i.e., adding retirees and increasing costs) which exceed the minimum payments made. Implementing the TRAC's recommendations described below will reduce liability in the next few years. Beyond the short term, the reduced liability along with other cost-control measures will increase the future sustainability of UM total rewards programs.

### 2. The value of retiree medical coverage has declined.

The TRAC also found that, even if affordable, the value of continuing to offer the current retiree medical offerings to UM employees has been significantly reduced and will continue to decline as marketplace solutions are further developed and continue to improve. As a result, using the University's limited financial resources to continue to offer employer-sponsored retiree insurance simply does not represent the best investment for UM or its employees. Accessible and affordable retiree medical insurance is available in the market that could offer the same or better value to UM employees while reducing unfunded liabilities for UM.

## Recommendations

### *Current Retirees and Covered Dependents*

- The TRAC recognizes that current retirees, spouses, and covered dependents currently participating in UM-sponsored retiree insurance plans have the least ability to accommodate changes in their coverage. In fact, UM leadership determined prior to the TRAC commencing its work that UM would continue to provide access and current percentage subsidy levels for current retirees and covered dependents. The TRAC supports this recommendation.
- For current retirees who are Medicare-eligible, the TRAC recommends UM further explore whether a Medicare Advantage Plan (sometimes referred to as "Part C" or "MA Plans"), or

other similar UM-supported vendor platform, might offer similar coverage and the same or better value for current retiree medical plan participants. Nearly 30 percent of UM retirees already decline UM coverage for various reasons, including the availability of other affordable coverage.

- For current pre-Medicare-eligible retirees, the TRAC recognizes the open market currently has less robust offerings than that available for Medicare-eligible participants. Recognizing the market is likely to continue to evolve and mature, the committee recommends UM continue to monitor and explore opportunities to improve choice and reduce costs for current (as well as future) pre-Medicare-eligible UM retirees.
- Currently about 18 percent of retirees receiving UM medical coverage are pre-Medicare, with the remaining 82 percent being Medicare-eligible.

### *Recommendations for Current Employees (Future Retirees) and Covered Dependents*

The TRAC recommends more significant modifications to the retiree insurance offerings available to current employees upon their retirement from the university. The TRAC recognizes some employees are close to retirement and have begun to factor the existing retiree insurance benefits into their retirement planning, while others are farther from retirement and have more time to prepare for post-retirement insurance costs. These circumstances carried significant weight in TRAC's deliberations, both in formulating its recommendations and in choosing its proposed implementation date

*Proposed criteria for UM insurance coverage:* Effective January 1, 2018, an employee must meet all three of the following criteria. For purposes of eligibility, partial years are not counted. The three criteria are:

1. Be benefits-eligible with at least five years of service prior to January 1, 2018; and
2. Be at least 60 years old on his/her retirement date; and
3. Have at least 20 years of service to the UM System on his/her retirement date.

*If the three criteria above are met, the method for calculating the subsidy will be as follows. For purposes of calculating the subsidy, partial years are not counted:*

- If age and years of service add up to 80 or greater prior to January 1, 2018, then the employee will receive the same percentage subsidy as current retirees.
- If age plus years of service add up to less than 80 on January 1, 2018, then the employee will receive a fixed annual subsidy of \$100 per year of service, up to a maximum of \$2,500 annually.

*The retiree insurance program will close on January 1, 2018, to:*

- Current employees who do not accrue at least five years of service before January 1, 2018.
- All employees hired on or after January 1, 2018.

UM will continue to offer its other tax-advantaged tools to assist faculty and staff in saving for retiree insurance costs, including its Health Savings Account (HSA) and voluntary retirement savings plan options [i.e., 403(b) and 457(b)]. (See [umurl.us/retplans](http://umurl.us/retplans) for more information regarding these programs.) The TRAC recommends providing additional education to employees regarding the need to plan for post-retirement medical expenses and the availability of these resources. As with all benefits, retiree insurance options are subject to change. It is important that every employee consider their own unique financial and health care needs in planning for retirement.

These recommendations apply to medical insurance, which accounts for nearly 90% of costs and liabilities associated with retiree insurance, as well as ancillary dental and vision insurance. TRAC recommends a review of retiree life insurance as well to leverage the marketplace and provide focused value to retirees needs.

The following chart provided (see Figure 1) illustrates how an employee would be affected given their specific age and years of service.

FIGURE 1: ELIGIBILITY FOR RETIREE MEDICAL INSURANCE, BY AGE AND YEARS OF SERVICE, PER RECOMMENDED CHANGES

Age on 12/31/17	Years of Service on 12/31/17																								
	≤4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25*			
≤ 25	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
26	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
27	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
28	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
29	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
30	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
31	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
32	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
33	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
34	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
35	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
36	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
37	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
38	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
39	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
40	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
41	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
42	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
43	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
44	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
45	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
46	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
47	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
48	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
49	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
50	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
51	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
52	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
53	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
54	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
55	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	B		
56	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	B	B		
57	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	B	B	B	B		
58	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	B	B	B	B	B		
59	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	B	B	B	B	B	B		
60	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	A	A	A	A	A	A	A		
61	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C	B	A	A	A	A	A	A	A		
62	D	C	C	C	C	C	C	C	C	C	C	C	C	C	B	B	A	A	A	A	A	A	A		
63	D	C	C	C	C	C	C	C	C	C	C	C	C	B	B	B	A	A	A	A	A	A	A		
64	D	C	C	C	C	C	C	C	C	C	C	C	B	B	B	B	A	A	A	A	A	A	A		
65	D	C	C	C	C	C	C	C	C	C	C	B	B	B	B	B	A	A	A	A	A	A	A		
66	D	C	C	C	C	C	C	C	C	C	B	B	B	B	B	B	A	A	A	A	A	A	A		
67	D	C	C	C	C	C	C	C	C	B	B	B	B	B	B	B	A	A	A	A	A	A	A		
68	D	C	C	C	C	C	C	C	B	B	B	B	B	B	B	B	A	A	A	A	A	A	A		
69	D	C	C	C	C	C	C	B	B	B	B	B	B	B	B	B	A	A	A	A	A	A	A		
≥70	D	C	C	C	C	C	B	B	B	B	B	B	B	B	B	B	A	A	A	A	A	A	A		

Legend		
Access category	Benefit-eligible employees with the following age/years on 12/31/17	Access to retiree insurance benefits
<b>A</b>	Age ≥ 60 <b>and</b> Years of Service ≥ 20	UM coverage and current percentage subsidy
<b>B</b>	<ul style="list-style-type: none"> <li>Age + Years of Service ≥ 80</li> <li>But either Age &lt; 60 <b>or</b> Years of Service &lt; 20</li> </ul>	UM coverage and current percentage subsidy, as long as the employee works until he/she reaches an Age of 60 or more and has 20 or more Years of Service
<b>C</b>	<ul style="list-style-type: none"> <li>Age + Years of Service &lt; 80</li> <li>Years of Service ≥ 5</li> </ul>	\$100 fixed subsidy/Year of Service with \$2,500 maximum annually, to purchase UM coverage
<b>D</b>	Years of Service less than 5	Ineligible for retiree insurance

\*Please note: Employees with more than 25 years of service should locate themselves on the legend provided. They will fall into categories A, B, or C depending on Age and Years of Service.



The TRAC carefully considered these recommendations and made an effort to ensure that as many employees as possible would remain eligible for UM retiree insurance, while recognizing very real financial constraints. The TRAC bases the recommendation for the new eligibility threshold on the fact that individuals are living longer, making retirement prior to age 60 financially less feasible. In addition, many employees leave the university prior to retirement and, therefore, do not rely on the current benefit. Requiring at least 20 years of service at the time of retirement is consistent with rewarding years of service as the most important principle established by the TRAC. In addition, most UM employees who reach the threshold for university retirement, retire around age 60 with 20 years of service; the TRAC's research found:

- Faculty average age 64 with 24 years of service at retirement.
- Staff average age 62 with 23 years of service at retirement.

The TRAC notes that those employees who are already Medicare-eligible but unable to meet the eligibility requirements proposed in this document have several alternatives available in the marketplace (as verified by the number of Medicare-eligible current retirees who decline UM-sponsored coverage).

The TRAC recognizes that employees who meet the eligibility threshold of 60 years of age and 20 years of service, as well as employees who are nearing these thresholds, are most likely to have already developed some reliance on access to UM retiree insurance plans and subsidy in their retirement planning. Also, these groups have the least time to make other adequate preparations so close to retirement. The TRAC was very concerned that, given the number of current employees who are already eligible for retirement, discontinuing retiree insurance offerings and subsidies for all employees, as of some future date, could result in significant undesirable disruption to staffing levels.

## Next Steps

The TRAC expects that UM leadership will deliberate on the recommendations herein and will present recommendations to the Board of Curators of the University of Missouri. No decision is final until the Board of Curators of the University of Missouri takes action. Subsequent to action by the Board, UM has committed to and the TRAC endorses personalized support to assist each faculty, staff, and retiree in understanding how modifications to retiree insurance benefits will affect him or her. The TRAC recommends that every faculty and staff member affected by a change to current retiree insurance benefits have at least a year to evaluate the changes in light of their plans for retirement.

## Summary

The TRAC acknowledges that its recommendations regarding retiree insurance offerings are complex. The TRAC feels strongly, however, that such complexity is necessary to honor UM's strong commitment to its faculty and staff, who are the university's most valuable resource for fulfilling its mission and serving its students. The TRAC will continue to work on other recommendations made by the Total Rewards Task Force as well as identifying other opportunities for improving pay and benefits as part of its charge. More information regarding the TRAC can be found at [umurl.us/trac](http://umurl.us/trac). The TRAC encourages your suggestions and feedback.

## APPENDIX A: Total Rewards Advisory Committee Membership

Membership of the Total Rewards Advisory Committee (TRAC), as of the writing of this report, is listed here. More information, including the committee charter, is available on the TRAC webpage at [umurl.us/trac](http://umurl.us/trac).

### **Kelley Stuck, Chair**

Interim Vice President for Human Resources  
UM System

#### University of Missouri-Columbia

##### **Sean Brown**

Assistant Manager, Hospitality Services  
Campus Dining Services

##### **John David**

Associate Professor,  
Biological Sciences

##### **Kristofer Hagglund**

Dean  
School of Health Professions

##### **Rose Porter**

Dean Emerita  
School of Nursing

##### **Bob R. Stewart**

Emeriti  
College of Education

##### **Lisa Wimmenauer**

Director III, Business Administration  
Finance Division

#### University of Missouri Health Care

##### **Ginger Gibson**

Service Line Specialist  
Cardiac Intensive Care Unit

#### University of Missouri-Kansas City

##### **Brent Never**

Associate Professor  
Public Affairs

##### **Jonathan Pryor**

Student Service Coordinator II  
Student Life

#### Missouri University of Science and Technology

##### **Shannon Fogg**

Associate Professor and Chair  
History and Political Science

##### **Sara Lewis**

Manager, Student Support Services  
Student Financial Assistance

##### **Kurt L. Kosbar**

Associate Professor  
Electrical Engineering

#### University of Missouri-St. Louis

##### **Joseph Martinich (Retired)**

Founders Professor  
Logistics and Operations Management

##### **Shirley Porterfield**

Associate Professor  
School of Social Work

##### **Meg Naes**

Supervisor  
IT Business Services

## APPENDIX B: Financial Considerations Pertaining to Retiree Medical

Retiree medical insurance was created decades ago to ensure employees who retired after long service were able to obtain affordable and accessible insurance coverage, primarily medical coverage. Over time, the value of an employer-sponsored benefit has decreased, primarily due to similar or better products being readily available in the open market.

In particular, during the last decade, legislation has been enacted that provides subsidies for low income and Medicare-eligible retiree benefits, the guarantee of coverage regardless of health status, and increasingly attractive benefit designs with broad provider networks. These changes, as well as increasing costs and changes to financial reporting requirements, have prompted many employers to consider alternative strategies.

### *Financial Effects of Retiree Medical Insurance*

New accounting standards finalized this year by the Government Accounting Standards Board (GASB) are causing public institutions across the nation to begin reporting the future costs (i.e., unfunded liability) imposed by retiree insurance benefits on financial statements.<sup>2</sup> The recognition of this additional liability on the Statement of Net Position provides additional transparency of the significant effect that these benefits have on the public sector.

Many public sector employers have begun to review their retiree insurance programs in reaction to these changes. Some have eliminated retiree medical benefits for new employees and provide access only, without subsidy to retirees. Others have looked at alternative avenues for providing these benefits, such as Medicare Advantage Plans, defined contribution plans, and private exchanges for Medicare-eligible retirees.

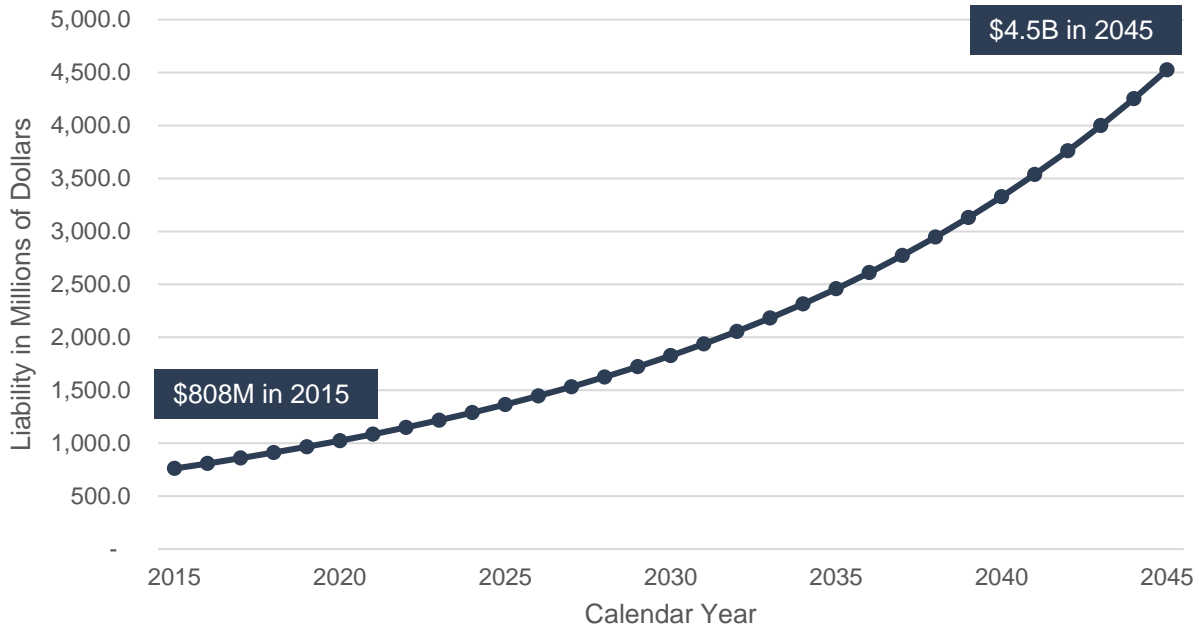
### *An Unsustainable Liability*

The University will need to pay more each year toward the retiree insurance liability to maintain financial stability for this program—as shown in Figure 2—with the potential to significantly affect campuses' ability to fund other priorities in areas of academics, compensation, and other benefits.

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<sup>2</sup> Governmental Accounting Standards Board (GASB). (2015, June). *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Retrieved from [www.gasb.org](http://www.gasb.org) on October 26, 2015.

FIGURE 2: UM RETIREE MEDICAL INSURANCE PROJECTED LIABILITY, 2015 TO 2045



NOTE: The projected liability is based on the last biennial valuation of retiree insurance benefits; the projection could change slightly when the next valuation is complete at the end of this year. However, the directional information from this chart will remain relevant even if the specific values are adjusted slightly.

SOURCE: Segal Consulting, a member of The Segal Group, as contracted by the University of Missouri System Office of Human Resources. Primary analysis provided July 2015.

UM maintains a large liability for retiree insurance costs made up of current and projected future costs. This liability continues to grow disproportionately to the University’s financial resources, largely driven by a medical expense trend rate that far exceeds UM’s rate of revenue growth, as shown in Figure 9. From a financial standpoint, the current plan and funding methodology is unsustainable. To fully fund this liability over a period of 30 years, UM would have to roughly double its current contributions to the plan, an added cost of approximately \$30 million annually.<sup>3</sup> Given the current state of the University’s revenue sources, retiree insurance is an option UM cannot afford without salary reductions, other significant benefit cuts, and possibly reductions in resources for other campus priorities.

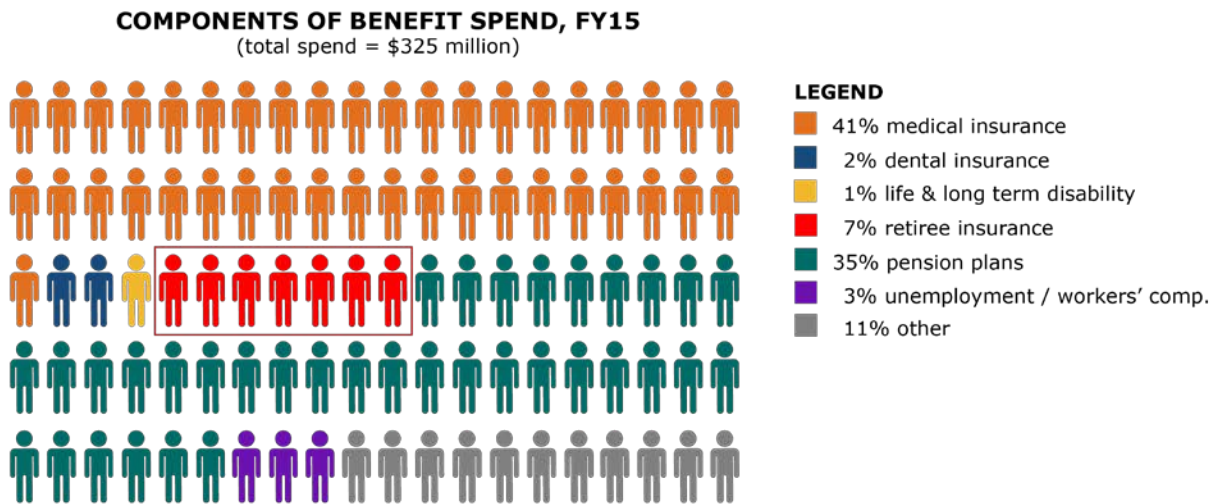
<sup>3</sup> This estimate of \$30 million is based on the last biennial valuation of retiree insurance benefits; the estimate could increase or decrease slightly when the next valuation is complete at the end of this year.

## APPENDIX C: UM's Broader, Systemwide Financial Considerations

### *Retiree Medical Insurance as It Currently Relates to the Total Rewards Package*

Retiree medical insurance is but one small piece of the total rewards program. Pay and many different benefits comprise the total compensation offered to each faculty and staff member, as shown in Figure 3. While retiree medical benefits are currently only 8 percent of the total benefit cost, left unchanged, these benefits will take an increasing portion of the overall funding available for benefits, effectively reducing the funds available for core programs such as employee medical and pension plans.

FIGURE 3: RETIREE MEDICAL INSURANCE AS A COMPONENT OF THE TOTAL REWARDS PACKAGE



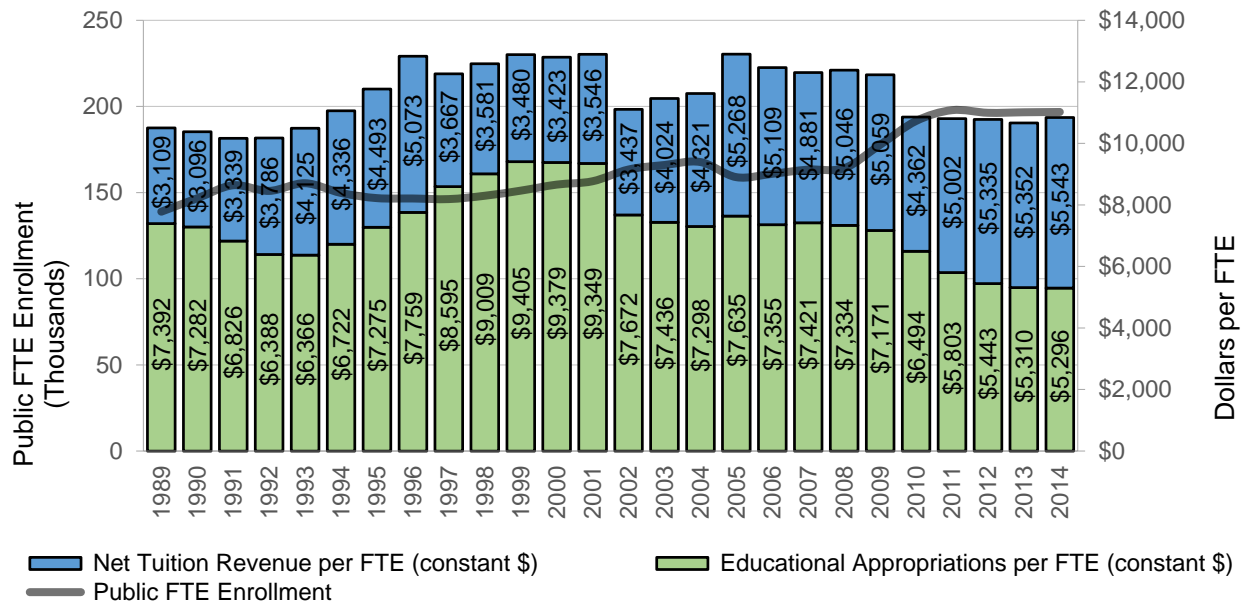
SOURCE: University of Missouri System Office of Finance. Primary analysis provided January 2016 as an update to: University of Missouri System Total Rewards Ad-Hoc Task Force (2014). Chart 8: Components of Benefits Spend FY14. *Report from the UM Total Rewards Task Force*, April 2014, pg. 1-28. Retrieved from [umurl.us/taskforce](http://umurl.us/taskforce) on August 22, 2015.

Similarly, the total rewards package is but one piece of the University's financial picture. University funding components are interrelated, with many levers for change. The rising costs and liability for retiree insurance affects other benefits and other funding decisions across the UM System. Therefore, it is important to understand how retiree insurance fits into the University's broader financial picture. The remainder of this appendix will focus on the interrelated nature of UM funding.

### *Funding Environment in State of Missouri*

Missouri consistently ranks in the lowest quartile for state funding per FTE (full time equivalency) student, ranking at 43<sup>rd</sup> in FY 2014. Over the past decade, states have reduced the funding per FTE of student, as demonstrated in the chart below. Across the country, public institutions raised tuition to meet appropriation funding shortfalls, increasing tuition by 29% in real dollars from 2008 to 2014. However, in Missouri, this increase was only 10% in real dollars from 2008 to 2014. (See Figure 4.)

FIGURE 4: PUBLIC FULL-TIME EQUIVALENCY (FTE) ENROLLMENT, APPROPRIATIONS, AND TUITION PER FTE, MISSOURI, 1989-2014



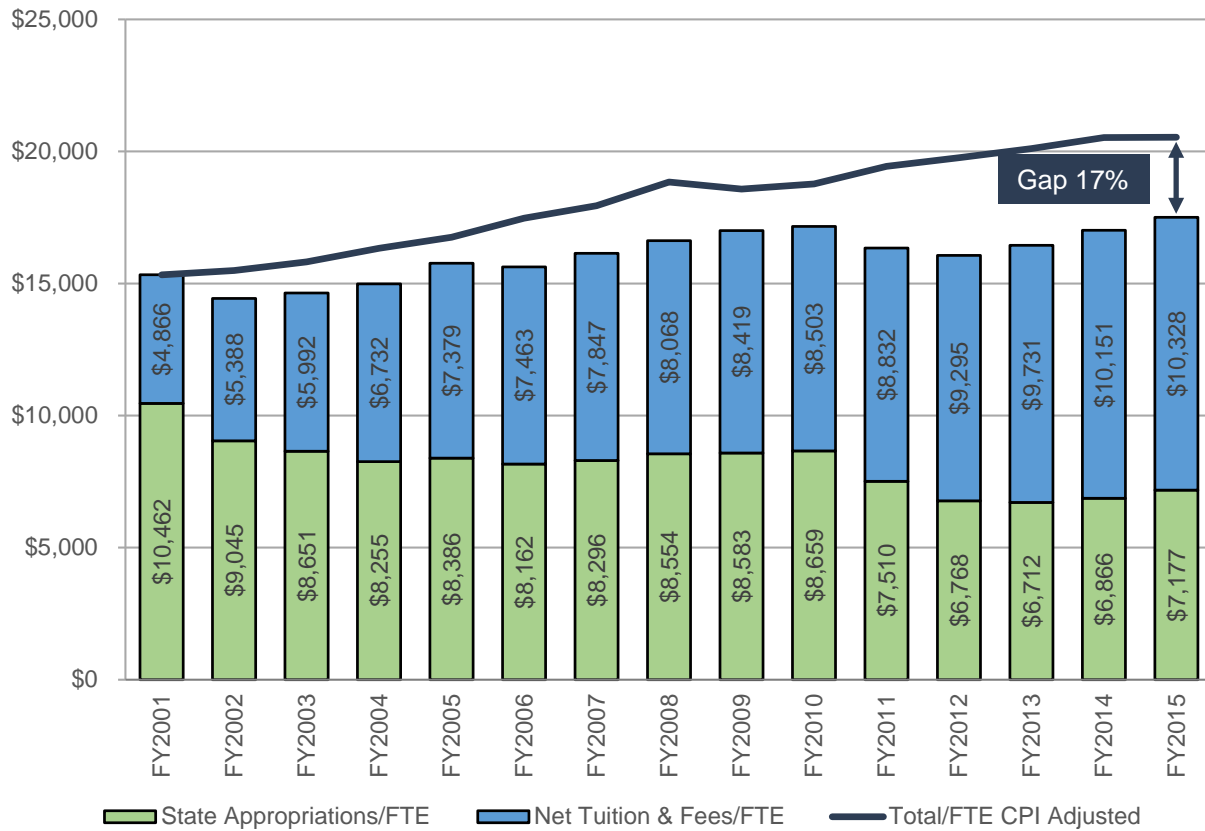
**NOTE:** Constant 2014 dollars adjusted by the Higher Education Cost Adjustment (HECA) of the State Higher Education Executive Officers Association (SHEEO). Educational appropriations include funds from the American Recovery and Reinvestment Act of 2009.

SOURCE: State Higher Education Executive Officers Association. SHEF—State Higher Education Finance: FY14, Interactive SHEF data. Retrieved from <http://www.sheeo.org/resources/publications/shef-%E2%80%94state-higher-education-finance-fy14> on October 27, 2015.

### Per-Student Revenues Decline for UM System

Figure 5 shows total state appropriations and net tuition and fees per FTE student for the University of Missouri since FY2001. State appropriations per FTE student have declined while net tuition and fees per FTE student have increased. In nominal terms, the University is essentially receiving the same amount of revenue on a per student basis as it did in FY2001. Adjusted for inflation, the combined total funding per FTE student has actually fallen by 21%, as compared to FY2001. University cost management efforts have helped to bridge this gap.

FIGURE 5: FUNDING TO UM FROM OPERATIONAL STATE APPROPRIATIONS PLUS NET TUITION & FEES PER FTE STUDENT, COMPARED WITH CONSUMER PRICE INDEX-ADJUSTED COSTS PER FTE STUDENT, 2001 - 2015

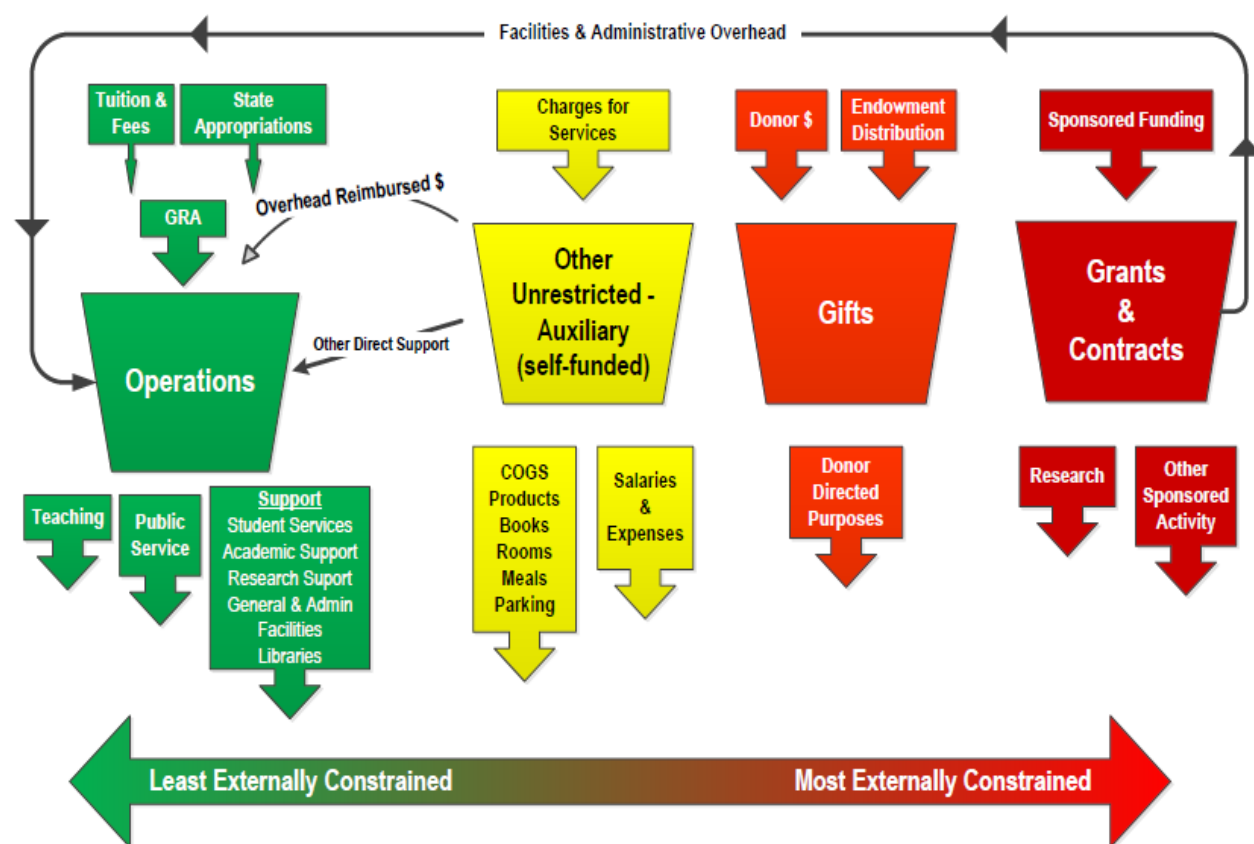


SOURCE: University of Missouri System Office of Finance. Primary analysis provided October 2015.

### How UM Funding Works

The next diagram shows how the various types of funding work together to benefit the University. (See Figure 6.) This graphic depicts the flow of the different types of funding sources for UM, color coded similar to a stoplight to represent the level of spending restriction on the funding source. In the context of this report, it is important to understand which sources of University funding can be used to help offset the rising costs of retiree insurance as well as other insurance benefits.

FIGURE 6: UM FUNDING CATEGORIZED BY FUNDING RESTRICTIONS



SOURCE: University of Missouri System Office of Finance. Primary analysis provided October 2015.

The operations fund, shown in green, is where the bulk of the University’s teaching, research, and supporting service activities occur. Its primary funding sources (90%) are tuition, fees, and state appropriations, although UM does receive some support from unrestricted auxiliary and other enterprise-like operations in the form of overhead payments for services provided by the operations fund (such as accounting, procurement, legal, grant management, facilities, etc.). In addition, the operations fund receives facilities and administrative cost recovery funding from grants and contracts to partially offset the costs of providing space and support services (overhead). Operations fund revenues are the least constrained by third parties and hence the most desirable. Operations fund revenues contribute 41% of total current fund revenues.

Other unrestricted funds are illustrated in yellow on the chart. The primary source of funding for this group is fees for services provided. These operations are treated as separate business-type enterprises and are expected to set fees for services to cover current operating costs plus depreciation, which is set aside for future capital and equipment replacement. Included in this category are student auxiliaries (housing, dining, bookstores, and recreation centers), intercollegiate athletics, student unions, MU Health Care, the University of Missouri Research Reactor, service operations (energy management, facilities design and construction, telecommunications, etc.), continuing education, and self-insurance funds. These activities comprise 50% of the current fund budget.

Third parties, primarily donors, and granting agencies, restrict the remainder of the current funds. These funds are shown in red on the chart because there is very little flexibility in how the



funds are spent. The primary funding sources are gifts, spendable distributions from the endowment funds, and external grants and contracts. Grants and contracts are primarily for specific research, although some grants and contracts fund public service and instructional activities. This fund is also where federal financial aid is budgeted and accounted for due to the restricted nature of these federal funds.

*UM Expenditures by Type of Funding*

The graphic in Figure 7 breaks down spend by type of funding restriction for Operations, Auxiliary/Health Operations (includes Other Unrestricted Operations), Grants & Contracts, and Gifts.

FIGURE 7: UM COMPENSATION EXPENDITURES VS. OTHER EXPENDITURES, BY TYPE OF FUNDING RESTRICTION, FY2014



SOURCE: University of Missouri System Office of Finance. Primary analysis provided October 2015.

The pie charts in Figure 7 demonstrate that for the University’s core operation, most of the money is spent on people. The compensation expenses above include both pay and related benefits cost. Pay for people on Grants & Contracts, if not included in those, would otherwise be

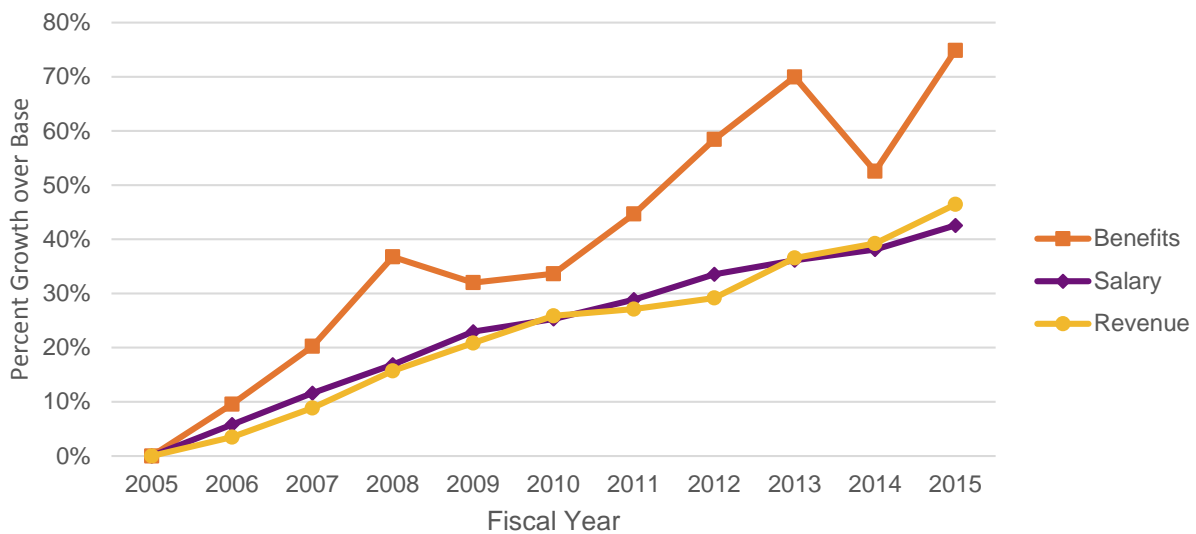
funded by operations. The pay piece of the gift funds generally supports endowed faculty chair positions, providing UM with the opportunity to pursue higher paid faculty.

It is important to note tuition and state appropriations largely go toward the University's pay programs. They are the primary sources of revenue used to fund the University's benefit rate and related retiree insurance costs. If tuition or state appropriations are significantly cut, the University's only realistic options to balance the budget involve decisions on reducing staffing and benefits.

### Compensation Cost Trends

Over the past 10 years, UM's growth in pay has largely tracked with its overall growth in revenues. Conversely, UM's benefit costs have grown faster than both revenues and pay, consuming a larger portion of the budget. (See Figure 8.)

FIGURE 8: UM GROWTH IN SALARY AND BENEFIT COSTS, AS COMPARED TO THE GROWTH IN REVENUE



SOURCE: University of Missouri System Office of Finance. Primary analysis provided October 2015.

### Benefit Cost Trends

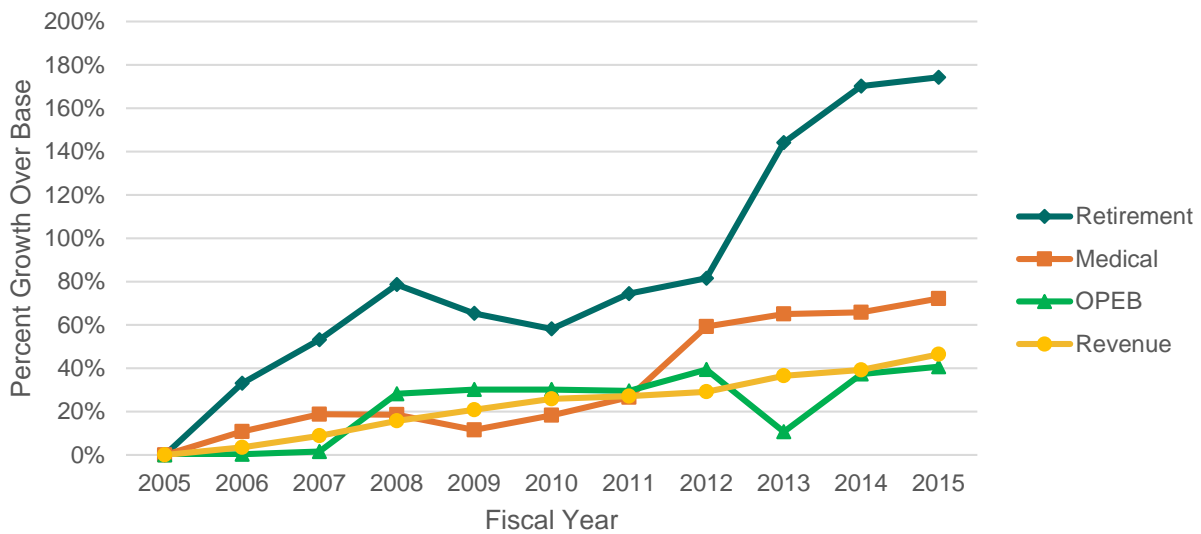
Like many employers in the US, UM continues to struggle with disproportionate increases in medical costs, although the University's cost growth experience is significantly lower than the national average.<sup>4</sup> Even though the trend is less than the national average, the overall growth rate has exceeded the University's growth rate in revenues over the past 10 years. (See Figure 9.)

This expense growth means that active-employee medical costs are taking a larger and larger portion of University operating budgets. Given these cost increases, UM has been unable to fund salary increases at a similar rate. This cost growth correlates strongly with the retiree benefits cost growth, as the plans provide medical benefits to current and former employees, respectively. Medical plan costs present the largest long-term problem for the University

<sup>4</sup> Towers Watson. (2013). *2013 Health Care 360 Performance Study, Customized Report for University of Missouri*, pp. 7-10, 24, and 26-27.

operating budgets, as the growth has been sustained and consistent, whereas pension cost has been volatile but should decline barring any major negative market events.

FIGURE 9: UM GROWTH IN ACTIVE-EMPLOYEE MEDICAL INSURANCE, OPEB, AND RETIREMENT PENSION COSTS, AS COMPARED TO THE GROWTH IN REVENUE



SOURCE: University of Missouri System Office of Finance. Primary analysis provided October 2015.

### *Benefit Cuts are Largely Cost Avoidance, Not Cost Savings*

Changes to retiree insurance benefits are necessary to change the trajectory of benefit cost growth for UM. Making the changes will not result in any net savings for operating budgets. Rather, benefit costs will continue to consume the small revenue growth generated by the University and prevent it from using that growth to fund mission-critical priorities.

Left unchanged, UM retiree medical insurance and related benefits risk the long-term financial stability of the institution. This impacts UM’s ability to meet its core missions to educate students, conduct ground-breaking research, and serve the constituents across the state. Benefit costs will not become the huge issue that bankrupts the institution in any one year. Rather, the growth trajectory of benefit costs will continue to steadily erode UM’s operating budgets and prevent the institution from funding other mission-critical projects.

In fact, the Total Rewards Ad Hoc Task Force (Task Force) found this has already been the case for years at the University; and as shown in appendices B and C of this report, benefit preservation over the last ten years has slowly eaten into operating budgets because 75 percent of operating budgets are total compensation related. (See the green pie chart in Figure 7.)

## APPENDIX D: UM's Research into Ways to Mitigate the Negative Financial Effects of Retiree Medical Benefits

In response to the findings of the Total Rewards Task Force, the UM Office of Human Resources and Office of Finance began a Retiree Medical Study in early 2015. This study informed the deliberations of the Total Rewards Advisory Committee (TRAC). The study had four main objectives:

- Ensure that UM and retirees are getting the most for the money they spend.
- Help ensure UM can continue to offer retiree medical benefits to current retirees over time.
- Explore what other universities and employers are doing to address the challenges and new offerings in retiree medical benefits.
- Reduce the retiree medical liability to mitigate the effect on UM's financial statements.

### *Scope*

The Retiree Medical Study looked at all of the program elements that employers can adjust to generate savings:

- **Eligibility:** the criteria employees must meet to receive benefits (i.e., age and/or years of service). Currently, UM requires an employee to be at least age 55 with 10 years of service or age 60 with 5 years of service.<sup>5</sup>
- **Plan design:** the type of plan (i.e., HMO, PPO, etc.) and its cost sharing design (i.e., deductible, coinsurance, copays, etc.). Currently, pre-Medicare retirees choose between the [Healthy Savings Plan](#) and the [PPO Plan](#). Medicare-eligible retirees choose among the [myRetiree Health Plan](#), the myRetiree Health Plan-No Prescription, and the [Healthy Savings Plan](#).
- **Funding:** how much an employer contributes for retiree medical benefits and how they contribute it (i.e., percentage of premium, defined dollar amount, etc.). Currently, UM subsidizes a variable amount of the premium based on years of service and age at retirement to a maximum of 73%.

### *Process*

The Retiree Medical Study pursued a five-step process for researching ways to mitigate rising costs.

#### Step 1: Review of University Demographics

UM identified and considered the following information about the employee population as of December 31, 2014:

- Active employees: 19,201
  - Average years of service: 9
  - Number with less than five years of service: 8,000
  - Percent eligible to retire with subsidized retiree insurance benefits: 20%
- Retirees: 7,658
  - Number of retirees in the UM medical plan: 5,700
    - Medicare eligible: 4,800
    - Pre-Medicare eligible: 900

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<sup>5</sup> University of Missouri Retirement Programs. (2015, January). *Retirement, Disability, and Death Benefit Plan (Level One) and Voluntary Retirement Plans* (pg. 14). Retrieved at [umurl.us/retplans](http://umurl.us/retplans) on October 13, 2015.

### Step 2: Benchmarking Study

UM engaged Segal Consulting to review the retiree medical benefits of 15 of its comparator institutions. In addition, UM's Office of Finance reviewed the financial statements of 8 comparator institutions. Key findings included:

- The University's eligibility rules are generous in comparison to its peers.
- Some of the institutions have moved to managed care arrangements for their retirees.
- One institution is using a private exchange in conjunction with a defined contribution plan.
- Alternatives for pre-Medicare retirees are still an issue for these institutions. Pre-Medicare retiree costs are high, and there are limited alternatives on the open market. (In contrast, Medicare Advantage Plans offer alternatives for Medicare-eligible retirees, as explained in Step 4 below.) Most institutions offer pre-Medicare retirees their active plan, either with the active rate (with a subsidy), a higher premium, or a 100% retiree-paid premium (access only).

Of the 8 UM System peers reviewed by the UM Office of Finance:

- 25% have eliminated retiree insurance.
- 38% offer coverage for retirees, but do not subsidize retiree premiums.
- Another 38% are part of their state's plan, meaning university employees receive whatever state employees receive.

### Step 3: Attitude Research

In order to understand UM faculty, staff, and retiree attitudes toward their retiree medical benefits, the University conducted a listening tour and meetings with retiree associations, a survey of employees close to retirement, and focus groups with both employees and retirees. The objectives of these efforts were to:

- Obtain feedback on current retiree medical benefits.
- Discuss how UM might take better advantage of the latest developments on the open insurance market.
- Gauge reaction to various options such as defined contribution plans and Medicare Advantage Plans.
- Obtain feedback on who should receive subsidized benefits if UM is unable to offer such benefits to all future retirees (i.e., those with higher service, those who are older, etc.).

The following key themes emerged from this research:

- **Level of preparation for retirement among active employees:** UM faculty and staff closest to retirement had done the most planning and were the most aware of UM's current retiree insurance plans. Some who were farther from retirement were not even aware that retiree insurance benefits were available at retirement.
- **Concerns about a takeaway:** Retirees and employees closest to retirement were concerned about losing benefits and/or the UM subsidy. Many felt entitled to UM retiree insurance, since they had served the University for a number of years. Retiree insurance is only available to faculty and staff who become eligible for UM retirement. Some study participants understood this fact; many did not.
- **Concerns about the availability and quality of Medicare doctors:** This was particularly an issue during discussions about Medicare Advantage Plans. In general, participants liked the idea of these plans but wanted the flexibility to see non-Medicare doctors if needed.

Further research indicated that there are an adequate number of doctors who accept Medicare.<sup>6</sup>

- **Fairness issues:** Most participants felt that higher subsidies should be given to longer service employees. They defined long service as 20 years or more.
- **Desire for simplicity:** Most preferred a few plan choices offered with clear communications and support from UM to essentially “curate” the plans.

#### Step 4: Market Review

UM reviewed the options available for retirees on the open market. The key findings from this review were:

- The Medicare Modernization Act of 2003<sup>7</sup> created the Medicare Part D prescription drug benefit plan for Medicare-eligible retirees. The Patient Protection and Affordable Care Act of 2010 made gradual enhancements to this plan. By 2020, the Standard Part D prescription plan will provide a much more meaningful benefit for retirees. This means that viable prescription coverage will be provided by Medicare, resulting in a reduced need for employer-sponsored retiree drug plans.
- The Patient Protection and Affordable Care Act (PPACA)<sup>8</sup> also created the Health Insurance Marketplace that allow individuals to purchase medical insurance, with subsidies provided to those between 100% and 450% of the federal poverty level. In addition, PPACA included a “guarantee issue” provision, which means that individuals applying for coverage cannot be declined coverage due to health conditions. For Medicare-eligible retirees, Medicare Advantage Plans offer similar benefits to the UM retiree medical plan with a lower cost. Early analysis indicates that this type of plan would generate savings for both UM as well as its retirees and their dependents.
- Private Medicare exchanges are also available. Through these exchanges, Medicare-eligible retirees can enroll in individual Medicare Advantage or Supplemental Plans, which the University could still subsidize.
- For pre-Medicare retirees, the open market options are less developed and UM will need to continue to monitor these developments closely.

#### Step 5: Analysis and Recommendations

Following the above steps, data and findings were reviewed by the Total Rewards Advisory Committee (TRAC).

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<sup>6</sup> Shartzter, A., Zuckerman, R., McDowell, A., and Kronick, R. (2013, August). *Access to Physicians' Services for Medicare Beneficiaries*. Retrieved from <http://aspe.hhs.gov/basic-report/access-physicians-services-medicare-beneficiaries> on October 26, 2015.

<sup>7</sup> Medicare Prescription Drug, Improvement, and Modernization Act, Pub. L. No. 108-173 (2003).

<sup>8</sup> Patient Protection and Affordable Care Act, Pub. Law. No. 111-148 (2010).

## APPENDIX E: Glossary

**AGE** – The whole years of an individual’s age; does not include partial years. For example, an individual who is 55 and 7 months is considered to be 55.

**ANCILLARY INSURANCE BENEFITS** - Benefits that are used to supplement group medical insurance. These typically include the three most sought-after ancillary employee benefits: dental, vision, and life insurance.

**BENEFITS RATE** - The benefits rate is established by collecting cost and enrollment information on each benefit plan and coverage level, and averaging the costs across the employee population. Benefits are paid by departments as a flat-rate percentage of the pay for each benefits-eligible employee, regardless of individual employee choice.

**FACULTY** - Typically those individuals whose initial assignments are made for the purpose of conducting instruction, research, or public service as a principal activity (or activities), and are in a tenured, tenure track, or non-tenured track position.

**GASB** - Governmental Accounting Standards Board is the independent organization that established standards of accounting and financial reporting for governmental entities. GASB Statements 74 and 75 are accounting and financial reporting standards necessitating that government employers measure and report the liabilities associated with other (than pension) post-employment benefits (or OPEB).

**HEALTH SAVINGS ACCOUNT (HSA)** - A tax-advantaged medical savings account available to those who are enrolled in a high-deductible health plan (HDHP). The funds contributed to an account are not subject to federal income tax at the time of deposit, are not subject to income tax if used for qualified expenses, and accumulate year to year if not spent.

**MEDICAL PREMIUM** - The cost of health insurance shared by the employee and the University.

**MEDICARE ADVANTAGE PLANS** - A type of Medicare health plan offered by private insurance companies that contract with Medicare to provide beneficiaries with all their Part A and Part B benefits. Medicare Advantage Plans include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-for-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. If a retiree is enrolled in a Medicare Advantage Plan, Medicare services are covered through the plan and are not paid for under original Medicare.

**MEDICARE PART C** - See Medicare Advantage Plans.

**MEDICARE PART D** - Also called the Medicare prescription drug benefit, it is a program to subsidize the costs of prescription drugs and prescription drug insurance premiums for Medicare beneficiaries. These plans can be purchased as a stand-alone plan in Addition to Part A and Part B or as a part of a Part C Medicare Advantage Plan.

**RETIREE MEDICAL PLAN/BENEFITS** - The University’s medical and prescription drug coverage provided to eligible retirees. Retirees under age 65 (or non-Medicare eligible) may elect to continue participating in the [PPO Plan \(http://umurl.us/ppo\)](http://umurl.us/ppo) or [Healthy Savings Plan \(http://umurl.us/hsp\)](http://umurl.us/hsp). Once a retiree becomes

Medicare eligible (generally age 65) or retires at age 65 or older, they may elect to continue to participate in the [Healthy Savings Plan \(http://umurl.us/hsp\)](http://umurl.us/hsp) or enroll in the [myRetiree Health Plan \(http://umurl.us/myretiree\)](http://umurl.us/myretiree) with or without Prescription Drug Coverage.

**TOTAL REWARDS** - All of the tools available to the employer that may be used to attract, motivate, and retain employees. Total Rewards includes everything the employee perceives to be of value resulting from the employment relationship. The University of Missouri uses Total Rewards as the branded name of the division that oversees the Benefits, Compensation, Retirement, and Wellness programs.

**UNFUNDED LIABILITY** - The amount, at any given time, by which future payment obligations exceed the present value of funds available to pay them. For example, a pension plan's payment obligations, including all income, death, and termination benefits owed, are compared to the plan's present investment experience. If the total plan obligations exceed the projected plan assets at any point in time, the plan has an unfunded liability.

**YEARS OF SERVICE** – The whole year(s) of an individual's service to the University; does not include partial years. For example, an individual who has been employed by the University for 10 years and 8 months is considered to have 10 years of service.



## APPENDIX F: For Further Information

Information about the TRAC recommendation and subsequent actions by leadership in the University of Missouri System, visit the Retiree Insurance Recommendations webpage at [umurl.us/retireerec](http://umurl.us/retireerec). Also, a Retiree Medical Study webpage has been available since early 2015 and can be found here: [umurl.us/TRTFRec5](http://umurl.us/TRTFRec5). It provides an overview of the work conducted thus far, and information on this page will be updated as it becomes available.

This report was prepared by the Total Rewards Advisory Committee (TRAC) ([umurl.us/trac](http://umurl.us/trac)) with data and research provided by the University of Missouri System Office of Human Resources and Office of Finance. Third-party actuarial analysis was provided by Segal Consulting Group. Special thanks are extended to the retiree associations of each UM campus. These associations have provided ongoing and invaluable input to the Retiree Medical Study.