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## **Transcript: RETIREE INSURANCE: FACULTY AND STAFF ONLINE SEMINAR ON RECOMMENDED CHANGES**

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### **[Slide 1]**

Thank you for viewing this online seminar today. And thank you for engaging with us as the University of Missouri System considers possible changes to retiree insurance benefits.

We are making this seminar available for anyone who cannot attend an in-person open forum, or who wishes to review the information on their own.

The recommendations we will describe in this online seminar were developed by the Total Rewards Advisory Committee—known as TRAC—which is a committee comprised of faculty, staff, and retirees from across the system. Also, the recommendations are supported by leadership on each campus including Finance, Human Resources, and Academic leaders.

We understand that the recommendations could have an important effect on you as an individual. And as you'll hear, the recommendations are just as important to the sustainability of the many benefits provided to employees.

We are recommending changes to retiree insurance benefits because the costs are simply unsustainable. If we continue on the path we're on, retiree insurance will take up more and more of our budget, and cut into the money available for pay, pensions, and other benefits.

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During this online seminar, we will focus discussion in a few different areas:

- First, why changes have been proposed to retiree insurance benefits.
- Second, the history and research that led to the recommendations.
- Third, the recommendations themselves.
- And fourth and finally, the next steps and how you can be involved.

The Board of Curators is in the process of conducting their own review of the recommendations.

- On February 4 and 5, the curators heard the same recommendations we'll be describing in this online seminar, but it was only a discussion item.
- The board has not taken action yet. They are expected to take action at a meeting later this year, which may be in April or in June.

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It is important that we understand why changes are needed to retiree insurance.

We must be responsible stewards of university finances, preserving the financial stability of the university.

But equally important, we must remember the very real needs of our faculty and staff. It is important that we offer a pay and benefits package that is competitive.

And as a university, we value and reward long service.

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In considering the dual concerns of employee needs and university finances, let's first discuss university finances.

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.

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The growth in liability shown here is just for retiree medical insurance—not for the ancillary retiree insurance plans, which are dental, vision, and life insurance. This liability can be thought of as the future costs of retiree medical insurance. And if no changes are made, the liability will grow to 6.2 billion dollars by 2050 as illustrated in the higher of the two curves.

Neither the 2015 amount shown on the higher curve, nor any liability along that curve, is currently funded because—up until last year—nationwide accounting standards said that public institutions had to pay for current costs only. Many institutions, including our university, followed these standards. But state and public accounting standards changed last year.

To begin funding the liability, as the new standards guide us to do, would require cash from each of the system's campuses. This would mean an immediate increase in costs for retiree insurance. And as we noted on the previous slide, benefit costs are already growing faster than revenue or salary.

The recommended changes to retiree insurance are reflected in the bottom curve on the chart. The liability and corresponding costs would be reduced to a much more manageable level.

**[Slide transition]**

If we don't make changes to retiree insurance this year, we will see our current costs rise year by year.

We have an \$808 million liability this year, and it will grow over time. This year alone, we need to identify approximately \$33 million to pay toward this liability—above and beyond what we have available now—if we don't make any changes to the program.

This extra \$33 million is roughly equivalent to 660 jobs across the UM System or a reduction in annual pay of \$1,200 for all employees.

And we will have to continue to identify more and more funding for retiree insurance benefits over subsequent years. We will have to identify more funding that equates to more than the 660 job or \$1,200 pay reduction shown.

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This graphic illustrates components of the benefits rate. The benefits rate is the additional charge made to departments to cover the employer part of insurance, retirement plan funding, and other costs. In other words, the benefits rate is used to pay for the items listed in the legend on the right-hand side.

For the 2015 fiscal year, only 7 percent of the total rewards funds were spent on retiree insurance.

When compared to other expenses, retiree insurance is a small portion of the total rewards package. For example, look at the medical insurance for active employees shown in orange, or the pensions and other retirement plans, represented in green.

But as the expenses associated with retiree insurance grow, the spending on retiree insurance will grow and crowd out the other colors in the graphic. In other words, the percentage of the total rewards funding dedicated to retiree insurance will grow over time if we do not make changes. And that has a very real effect on every faculty and staff member.

We must be able to focus spending on what employees have identified as most important, which are:

- pay,
- access to insurance during employment, and
- retirement savings.

We will be unable to do so if we don't make changes to retiree insurance benefits.

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The University of Missouri System has been considering ways to manage the costs of insurance and other benefits since 2013. In 2013 and 2014, the Total Rewards Ad-Hoc Task Force reviewed the entirety of the pay and benefits package (what we call the total rewards package) and made eight recommendations where efforts for improvement should be focused.

The fifth of the eight recommendations was to “leverage marketplace opportunities for retiree medical benefits.”

The Retiree Medical Study began in January 2015, as an outgrowth of the Task Force recommendation. The study was completed in November 2015.

The goals were:

- To reach out to retirees and active employees close to retirement by conducting 30 listening sessions, 11 focus groups, and a survey of over 2,500 employees close to retirement.
- To research what action our peer institutions have taken.
- To ensure our retiree medical program best serves current retirees, future retirees, and the university.
- And to support retirees in getting the most for their medical premiums paid.

The study included financial analysis from university experts as well as third-party actuarial analysis.

Finally, the Total Rewards Advisory Committee, or TRAC, recommendations stemmed from the Retiree Medical Study.

Starting in June 2015, TRAC, in collaboration with HR and finance experts, carefully reviewed the research, including more than 30 scenarios. It is important to note that many peer institutions have eliminated retiree insurance benefits completely, but TRAC was able to identify a solution whereby UM benefits would continue to be made available to as many employees as possible.

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TRAC followed 5 guiding principles as they worked to develop the recommendations:

- (1) Make retiree insurance available to as many employees as possible, especially those with long service or nearing retirement. This principle recognizes that employees nearing retirement have the least time/ability to make alternate arrangements to accommodate any proposed changes.
- (2) Maintain pay and benefits for active employees.
- (3) Offer a pay and benefits package that ensures UM can recruit, retain, and reward talented people.
- (4) Keep the benefits rate at an affordable percentage for campuses. And ...
- (5) And improve cost predictability for the overall pay and benefits package.

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TRAC's recommended changes do not include any changes to the pension plan. The pension plan is stable and well-funded.

Also, the recommended changes are not about the insurance you have right now as an active employee. Competitive coverage for faculty and staff remains available.

The recommended changes are only about retiree insurance, which is not a benefit everybody earns. An employee has to reach the appropriate eligibility criteria to even have the opportunity to enroll in retiree insurance.

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The Retiree Medical Study and TRAC's work revealed some key findings that helped to inform the recommendations that TRAC ultimately settled on:

- For instance, about 30% of current retirees are declining UM insurance. That means a good portion of our retirees are already finding insurance elsewhere that they prefer to UM insurance.
- The age and service milestones at which our university employees retire also informed the recommendations:
  - On average, UM faculty retire at Age 64 with 24 Years of Service.
  - For UM staff, the average retirement is Age 62 with 23 Years of Service.
  - In a moment, you'll see that the university is recommending that we change the eligibility for retiree insurance to Age 60 or older with 20 or more Years of Service. The change in criteria was based, in part, on these averages.
- Additionally, most of our retirees—82 percent—are eligible for Medicare.
  - That means that most retirees obtain their primary insurance from Medicare, and the university insurance is a secondary plan.
  - That's not the case for the 18% of our retirees who are not yet eligible for Medicare, however.
  - We are aware that we will have to carefully consider how pre-Medicare retirees are provided benefits in the future as the marketplace continues to evolve.

Part of the Retiree Medical Study was to also examine actions peer institutions have taken, shown on the right-hand side of your screen.

Twenty-five percent of our peers have eliminated retiree insurance altogether.

Another 38 percent offer insurance coverage to their retirees, but do not subsidize retirees' premiums. In other words, the retiree pays the full costs of their monthly insurance premium.

A different lens applied to the same peers revealed that 38% are part of their state's plan—meaning that whatever state employees get, the university employees get the same.

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We have now reached the point where we will explain TRAC's recommendations.

In the next few slides, the recommendations for changing retiree insurance will be described in a few different ways so that people who learn differently can become familiar with them.

The recommendations relate to three different types of changes relating to (1) retiree insurance coverage, (2) a subsidy from the university to help pay for monthly retiree insurance premiums, and (3) plan closure.

Let's begin with recommendations related to coverage. Should the recommendations become effective on January 1, 2018, a faculty or staff member must meet all three of the following criteria to be eligible for retiree insurance coverage:

- An employee must have at least five years of service prior to January 1, 2018; and
- Be at least 60 years old on his/her retirement date; and
- Have at least 20 years of service on his/her retirement date.

Now let's move to recommendations related to subsidies. An employee must meet all of the eligibility criteria covered above to be eligible for a subsidy at all. If an employee meets the eligibility criteria for retiree insurance coverage, then the employee is also eligible for one of two subsidies:

- If the employee's age plus 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, **but** the employee waits to retire until he or she is at least age 60 with at least 20 years of service, then the employee will receive a fixed, flat-rate subsidy of \$100 per Year of Service to purchase university coverage, up to a maximum of \$2,500 annually.

For purposes of eligibility and the subsidy, partial years are not counted.

Finally, on January 1, 2018, the plan will close to those current employees who did not reach five years of service before that date, and to employees hired on or after January 1, 2018.

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It may help you to find yourself in one of the four access categories that help to define how the recommended changes to eligibility and subsidies could affect you:

If the university's Board of Curators approves the recommendations, then employees who are Age 60 or older and have 20 or more Years of Service will be in Access Category A. These criteria must be met before the effective date of the changes, which is January 1, 2018. In other words, an employee must be at least 60 with at least 20 Years of Service by December 31, 2017, to be in Access Category A.

Employees in Category A would be eligible for university coverage and the same percentage subsidy available to employees retiring before the changes take effect. In other words, the recommendations have no effect on employees in Category A.

Now, let's focus on Access Category B. Employees in Category B are those who have Age plus Years of Service equal to 80 or more as of December 31, 2017, but, the employee is either not yet age 60 **or** has not yet reached 20 Years of Service.

Some examples might help to distinguish Category A from Category B. Employees with an Age of 60 plus 20 Years of Service are in **Category A**. But an employee who is 59 years old and has 21 Years of Service is in **Category B**. Similarly, an employee who is Age 61 with 19 Years of Service is in **Category B**. In these particular examples, the "Category B employees" must work an extra year to reach the Age 60 with 20 Years of Service threshold to have access to university coverage and the same percentage subsidy available to employees retiring before the changes take effect.

Access Category C includes employees whose Age plus Years of Service add to **less than 80** but who have **at least 5** years of service prior to January 1, 2018. If the recommendations become effective on January 1, 2018, these employees will have access to university coverage if they work to Age 60 and 20 Years of Service and will receive a fixed, flat-rate subsidy rather than the percentage subsidy available to employees retiring before the changes take effect.

The last of the four categories is Access Category D. This category includes employees who have worked for the university for less than 5 years. If the recommendations are approved by the Board of Curators, then employees who have less than 5 Years of Service on January 1, 2018, will not be eligible for the university's retiree insurance. Instead, they will purchase their insurance for their retirement years from another source.

No matter the category you find yourself in, the university will provide resources to help if the Board of Curators approves the recommendations.

First, the university will provide many different tools and resources for you to consider your individual situation. These resources will help you think about the effect of different potential retirement dates on your pension payments, your access to retiree insurance, and your other retirement savings and long-term goals. Every person's situation is unique; the tools and resources will help you consider what could work best for you.

Second, the university will provide tools and resources that help employees save for their retirement throughout their careers. These tools and resources will be available before January 1, 2018, but are ongoing after that date.

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Here is a chart that illustrates the same four access categories described.

If the Board of Curators approves the recommendations, you will be in Access Category A if--on December 31, 2017--you are Age 60 or older with 20 or more Years of Service. If you are in Category A, you will have access to university coverage and the same percentage subsidy available to employees retiring before the changes take effect.

You will be in Access Category B if you have Age plus Years of Service that add up to 80 or more, but you have either not yet reached Age 60 or not yet reached 20 Years of Service. In Category B, if you choose to keep working until you reach Age 60 and 20 Years of Service, then you will have access to university coverage and the same percentage subsidy available to employees retiring before the changes take effect.

You will be in Access Category C if your Age plus Years of Service add up to less than 80 but you have 5 or more Years of Service. In Category C, as long as you work to at least Age 60 and 20 Years of Service, then you will have access to university retiree insurance coverage. Your subsidy to help purchase university insurance will be \$100 per year for each Year of Service, up to a maximum of \$2,500 annually.

Finally, we come to Access Category D. If the recommendations are approved, you will be in Access Category D if you have less than 5 Years of Service as of the effective date. The retiree insurance plan will be closed to employees in this category.

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What are the next steps for the retiree insurance recommendations?

University leaders and TRAC members are holding a series of open forums on every campus, with a panel of campus leadership as well as finance and HR experts gathering feedback from employees in attendance during February and March.

You can visit the webpage shown on your screen to access many self-service tools, including a "Retiree Insurance Access Calculator" where you can enter your Age and Years of Service and get direct access to a webpage explaining exactly how you would be affected if recommendations were to be implemented.

Right now, the emphasis is on gathering feedback so university leaders can present what we've heard from you and from other employees at an upcoming Board of Curators meeting. No immediate action is needed other than for you to give us your feedback and get an idea of how you could be affected by the potential changes.

In April or June, university leaders expect to ask the Board of Curators to take action.

If the board approves the recommendations, then more personalized materials will be mailed to you and to all benefit-eligible employees, including personalized calculations of what retirement would look like for those impacted by the changes.

Other tools and resources will also be provided, including pre-retirement seminars, one-on-one appointments, and more as we approach and continue through the effective date of January 1, 2018.

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So how to these next steps translate into actions you might want to take?

For now, please provide your feedback so it can be included with the information presented to the Board of Curators.

If the board chooses to approve the recommendations, then personalized information and next steps will be delivered to you, and you have well over a year to consider your own unique situation. For example, immediately after the Board of Curators makes a decision, should the board decide to vote **for** the recommended changes, then the university will mail to every eligible employee an explanation of their own, individual retirement benefits that will help them determine what the changes mean to them personally.

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More information about the retiree insurance recommendations is available at:

- <http://umurl.us/retireerec>
- Or at the HR Service Center, accessible by phone at 573-882-2146 or toll-free at 1-800-488-5288, or by email at our dedicated email address: [retiree-ins@umsystem.edu](mailto:retiree-ins@umsystem.edu).

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[No audio. Visual display of the official seal of the University of Missouri System.]