# EXECUTIVE SUMMARY

# Total Rewards Advisory Committee Review, Findings, and Recommendations

from the

# Study on Retiree Insurance Benefits

University of Missouri System
January 2016

The University of Missouri System (UM) is committed to offering a total rewards package that allows each UM campus and the hospital system to recruit, retain, and reward talented faculty and staff. Our people are the most valuable resource, allowing the University to fulfill its mission and to serve its students.

In 2013, UM embarked on an analysis of the University's total rewards package, encompassing the entirety of the pay and benefits offered. The Total Rewards Ad Hoc Task Force (Task Force) was comprised of faculty, staff, and retiree representatives. Among other things, the Task Force recommended that UM investigate ways to leverage options available in the retiree medical insurance market. The goals were to determine if similar, more affordable coverage was available for current retirees, and improve the balance between benefits and compensation for current employees in order to better support employees throughout their careers and retirement.

Left unchanged, the current UM retiree medical insurance structure and related benefits risk the long-term financial stability of the institution. Retiree medical costs are escalating and unsustainable. This affects UM's ability to meet its core missions to educate students, conduct ground-breaking research, serve constituents across the state, and provide competitive pay to its employees. 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 the University's operating budgets and prevent the institution from funding other mission-critical projects.

The Total Rewards Advisory Committee (TRAC) is an outgrowth of the Task Force and serves in an advisory capacity to the Vice President for Human Resources regarding the total rewards package. (See umurl.us/trac for TRAC membership and charter.) The TRAC commenced its work by carefully reviewing a Retiree Medical Study commissioned by UM (umurl.us/TRTFrec5). The study focuses on retiree medical insurance as it accounts for nearly 90% of the costs and liabilities associated with retiree insurance, but also includes retiree dental, vision, and life insurance.

The TRAC reviewed feedback from 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; and outreach to campus, employee, and retiree leaders, as well as comparator institutions. It met with finance leadership from each of the campuses to better understand strategic priorities and financial constraints. External experts provided actuarial analysis, additional information on plan design options, current market offerings, and context. The TRAC considered more than 30 initial scenarios from the study and requested further actuarial work for a number of the scenarios to narrow the options to one recommended course of action.

The recommendations proposed by TRAC (outlined below) are focused on retiree insurance. No changes have been proposed for the pension program (which provides post-retirement income to benefit-eligible employees hired before 10/1/2012) or the employee retirement investment program (which provides post-retirement income to benefit-eligible employees hired on or after 10/1/2012). Those core plans are stable and well-funded. Nor are any changes proposed to any of the voluntary post-retirement savings plans available to all employees. (See umurl.us/retplans for more information regarding these programs.)

The TRAC was careful to honor the guiding principles from the Task Force in preparing its draft recommendations. 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 importance of Sponsored Adult Dependent coverage, among others.

The TRAC proposes the following recommendations for modifying retiree insurance. Recommendations are different for current retirees than for current employees (i.e., future retirees), as follows.

## *Recommendations for Current Retirees and Covered Dependents*

- 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 their covered dependents. The TRAC supports this recommendation.
- For current retirees, both Medicare-eligible and pre-Medicare-eligible, UM should explore insurance plans that may offer similar coverage and the same or lower costs.

## *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.

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.

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; however, the reduced liability along with other cost-control measures are critical to the future stability of UM total rewards programs. A full report of the TRAC's review and findings is available at umurl.us/retireerec. A chart provided at the end of this executive summary illustrates how an employee would be affected given their specific age and years of service.

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)]. The TRAC recommends providing additional education to employees regarding the need to plan for post-retirement medical expenses and the availability of these resources.

No decision is final until the Board of Curators of the University of Missouri takes action. The TRAC expects that UM leadership will consider the TRAC's recommendations and present a final recommendation to the Board in 2016. 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 will affect him or her. 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.

Respectfully submitted,

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| Kelley Stuck, Chair | Kurt Kosbar | Rose Porter |
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*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 |
| 26 | D | 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 |
| 28 | D | 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 |
| 30 | D | 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 |
| 32 | D | 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 |
| 34 | D | 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 |
| 36 | D | 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 |
| 38 | D | 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 |
| 40 | D | 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 |
| 42 | D | 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 |
| 44 | D | 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 |
| 46 | D | 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 |
| 48 | D | 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 |
| 50 | D | 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 |
| 52 | D | 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 |
| 54 | D | 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 | B |
| 56 | D | 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 |
| 58 | D | C | C | C | C | C | C | C | C | C | C | C | C | C | C | C | C | C | 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 |
| 60 | D | C | C | C | C | C | C | C | C | C | C | C | C | C | C | C | 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 |
| 62 | D | C | C | C | C | C | C | C | C | C | C | C | C | C | B | B | 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 |
| 64 | D | C | C | C | C | C | C | C | C | C | C | C | B | B | B | B | 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 |
| 66 | D | C | C | C | C | C | C | C | C | C | B | B | B | B | B | B | 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 |
| 68 | D | C | C | C | C | C | C | C | B | B | B | B | B | B | B | B | 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 |
| ≥70 | D | C | C | C | C | C | B | B | B | B | B | B | B | B | B | B | 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 |
| **A** | Age ≥ 60 **and** Years of Service ≥ 20 | UM coverage and current percentage subsidy |
| **B** | • Age + Years of Service ≥ 80<br>• But either Age < 60 **or** Years of Service < 20 | 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 |
| **C** | • Age + Years of Service < 80<br>• Years of Service ≥ 5 | $100 fixed subsidy/Year of Service with $2,500 maximum annually, to purchase UM coverage |
| **D** | 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.