

MU Benefits Advisory Committee

March 3, 2011

2011 Health Care Reform - Medical Program Changes

- Choice Health Care Program
 - Elimination of Lifetime Limit
 - Elimination of Non-network \$200 Preventive Maximum
- Catastrophic Program
 - Elimination of Lifetime Limit
- Retiree Indemnity Medical Program
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 - Elimination of \$200 Preventive Maximum

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Other Medical Program Changes

Medical Programs:

- Autism Coverage Up To Age 19 – State Mandate
- Bariatric Surgery – One Per Lifetime Elimination
- OP Surgery Copay in Physician Office –
 - Applies to Choice only
- Prior Authorization Additions

Other Benefit Changes

- Rx
 - Step Therapy process will apply to specialty medications (Choice only)
 - Expand list of vaccinations available under the prescription drug benefit
- Vision
 - Frame allowance increase from \$130 to \$140
 - Slight premium decrease

Retiree Premium Changes

	2007	2008	2009	2010	2011
UM Choice Health Care Program					
Pre-Medicare Retirees	0%	0%	3%	5%	13.0%
UM Catastrophic Medical Program					
Pre 9/1/90 Retirees	0%	0%	5%	5%	0%
Post 9/1/90 Retirees	0%	0%	5%	5%	0%
Retiree Indemnity Medical					
Pre 9/1/90 Retirees	-4.1% to -5.6%	-7.0% to -7.7%	0%	3.8% to 5.1%	3.4% to 5.3%
Post 9/1/90 Retirees	-4.4% to 1.4%	-4.2% to -6.4%	3-4%	1.5% to 2.6%	3.0% to 5.6%

Active employee premiums increased 12.7% and can be found at www.umsystem.edu.

Health Plan Stats

	Subscribers	Dependents	Total
Active	17,509	19,085	36,594
Retirees	4,880	1,674	6,554
LTD	196	82	278
Totals	22,585	20,841	43,426

Total Plan Budget:

Actives = \$159,395,448

Retirees = \$24,370,260

Retirement Plan Project

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Why the UM Defined Benefit plan has been successful

- **UM plan encourages and rewards long service.**
- **UM plan is significantly different from peers** – and therefore used as recruiting tool (especially for faculty and high level administrators).
- **Operates as a ‘hybrid’ plan ---minimum benefit feature prior to retirement eligibility.**
- **UM plan is structured to minimize volatility, and high employer expense:**
 - Investment gains and losses are ‘spread’ over 5 years
 - Few expensive plan features (e.g., limited early retirement, no guaranteed COLAs, 5-year average final salary)
 - Recent creation and funding of stabilization fund
 - Fully funded (on an actuarial basis)

Project Objectives – Why are we doing this?

- **Mitigation of long-term risks to the institution;** provide a sustainable total compensation package
- **Increase benefit flexibility** to meet the evolving needs of the University as well as current and future staff and faculty
- Use our resources strategically and judiciously to deliver on the university's mission now and into the future

Advisory Committee

- **Committee members:**
 - 4 Intercampus faculty council members
 - 4 staff council members
 - 1 hospital representative
 - 6 members of retirement & staff benefits committee, including 1 retiree
 - UM advisors (finance, legal, benefits)
- **Committee Charge:** To assist the Vice President for Human Resources in the development and communication of recommendations regarding retirement plan offerings, including the possibility of a defined contribution plan for future employees, and to facilitate the dissemination of information to and from stakeholders.

Advisory Committee Findings

- No inherent harm to UM DB plan if closed to new participants
- Retirement income adequacy is the most important objective in retirement plans
- There are ways to mitigate investment and other risk for employees in DC-type plans
- When competitive, the retirement plan is not a determining factor in attraction or retention of employees

Turnover Statistics

- Turnover is about 10 to 12% each year
- 60% of employees leave before achieving vesting (5 years of service)
 - Turnover prior to vesting is much higher for hourly staff
 - Turnover among tenure track and tenured faculty, as well as those in the trades is significantly lower
- 16% of employees will work 20 years or more at UM

Advisory Committee Recommendations

1. Board and administration should document commitment to current UM DB plan, regardless of future decisions:
 - a) Provide full funding of annual required contribution
 - b) Payoff of unfunded liability over time
 - c) Continue the stabilization fund with primary purpose of minimizing employee contributions to DB plan

Advisory Committee Recommendations (continued)

2. Strive to maintain low mandatory employee contributions, with consistency between the current plan and any future plans
3. Develop and support a strategic employee communications plan to foster understanding and appreciation of benefits
4. Future plans must include options to reduce employee investment and other retirement risk (e.g., auto-enrollment, default to highest contribution levels, etc)

What makes the final recommendation so difficult?

- Cost, and unknown future
- Initiating change is difficult when that decision impacts future generations of UM employees
- Volumes of complex information without obvious solution
- Philosophical challenges (competing and conflicting retirement plan objectives)

Competing and Conflicting Objectives

- Reduce risk/volatility → Requires more funding
- Provide security/guarantee → Limits flexibility, control of assets/investments
- Low mandatory employee contributions → Difficult to provide adequate retirement income
- Concern for lower paid employees → Cost to all employees in order to protect small segment

Competing and Conflicting Objectives (continued)

- University assumes responsibility for retirement → Employee should share in responsibility for retirement
- All employees should have similar benefits → Future employees will have different benefits, if plan changes
- Competitive with peers → Peers don't reward long service
- Reward long service → Recognize significant contributions from shorter term employees

Next Steps

- Final advisory committee meeting held Feb. 18
- Developing University recommendation for Board consideration
- Release committee findings as Q/As on UM website
- Provide summary presentations to interested employees/groups

Questions???

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