

# REPORT

## from the UM Total Rewards Task Force

---

April 2014

myTOTAL  
REWARDS

UNIVERSITY OF MISSOURI SYSTEM TOTAL REWARDS



# **University of Missouri**

## **Report from UM Total Rewards Task Force**

### **April 2014**

## **Background**

The University of Missouri (UM) Total Rewards Ad Hoc Task Force was formed in June 2013 to assist the Vice President for Human Resources in the development and communication of recommendations to improve the University's Total Rewards Program offerings.

Total Rewards includes all benefits and compensation for benefits-eligible faculty and staff (employees), retired faculty and staff (retirees), and their respective benefits-eligible dependents (dependents). Task Force members were selected from a pool of recommended and self-nominated candidates and chosen to appropriately represent the diversity within the University population. The selection process was designed to assure appropriate representation of generational, longevity, occupational, and location diversity. The Task Force membership is provided in Appendix B.

The following programs and plans for employees, retirees, and dependents were specifically included in the Task Force charge:

- Retirement plans
- Medical insurance plans
- Ancillary insurance plans (Long Term Disability, Dental, Vision, Life/AD&D)
- Tuition Reduction/Educational Assistance programs
- Post-retirement medical insurance plans
- Staff time-off programs

The University pays for a number of other state and federal programs such as Worker's Compensation, unemployment insurance, Medicare, and Social Security on behalf of its employees. These programs represent approximately 11% of the current total cost of benefits funded by the University. However, these legally required benefits were not included in the Task Force charge.

## **Task Force Guiding Principles**

The University's goal is to provide the best possible Total Rewards package for employees. The Task Force performed its work based on the following guiding principles:

- Retirement plan benefits for current employees and retirees in the Retirement, Disability and Death Plan and the Employee Retirement Investment Plan must not be reduced, and the viability of the retirement trust fund must be maintained. However, the Task Force may consider additional, equivalent-value choices with opt-out scenarios that may be attractive to employees.

- In combination with competitive salaries, benefit costs should be consistent with the appropriate industry or higher education peer group. Consideration will be given to current and expected employee and retiree costs with the goal to remain at or below appropriate cost benchmarks.
- The Total Rewards package must remain competitive with the University's peers for each major employee group, with specific benchmark institutions to be used for future comparisons. Similarly, consideration must be given to the impact of the Total Rewards components on the recruitment, retention, motivation, engagement, and performance of faculty and staff.
- Total Rewards should be considered of value by employees and retirees using pre-established measures while achieving the cost and competitiveness objectives as outlined above.
- The Task Force focus should be on overall plan goals, objectives, and types of plans within various cost structures, and not on plan design details such as medical plan premiums, deductibles, or contribution levels.
- The review should include efforts to increase cost predictability for the Total Rewards Program for both employees and the University.

### **Task Force Charge**

The University system and campuses have many great attributes: life-changing teaching and research, positive community impact (including public service and economic development), a diverse culture, world-class entertainment and athletic events, to name a few. However, there are two key areas of concern on which the Task Force was asked to focus:

- ***Faculty and staff concerns:*** Currently, even with a competitive benefits package, the University's non-competitive pay levels negatively affect employee perceptions of Total Rewards. In addition, a significant number of employees rate themselves as "unhealthy," with low participation in personal wellness programs. This self-rating places their engagement and productivity at risk.
- ***Financial concerns:*** The University faces unfunded pension and retiree medical liabilities of more than \$1 billion. To add further complexity, the projected growth in benefits costs is unsustainable. Rising health care costs plus a looming 40% health plan excise tax – also known as the "Cadillac Tax" – may create budgetary challenges in a few years. These and other revenue and cost challenges are making it difficult to fund University priorities.

In order to achieve the UM System's mission to discover, disseminate, preserve, and apply knowledge, the University must recruit, retain, motivate, and engage talented faculty and staff members, while at the same time maintaining financial discipline.

The Task Force was asked to develop directional recommendations that are purposefully broad in scope but intended to meet its charge consistent with its guiding principles. The Task Force understands and expects that these broad recommendations will be further vetted with stakeholders, including faculty, staff and retiree groups, and campus leadership. In addition, these broad recommendations will be further developed and analyzed by the UM Retirement and

Staff Benefits Committee, aided by professional experts for feasibility, reasonableness, and their “goodness of fit” with the UM Total Rewards Program.

## **Process**

Given the importance of its charge to all members of the University community and the impossibility of meeting all of the objectives and the individual needs of a diverse and constantly changing population, the Task Force is committed to providing transparency regarding its process, deliberations, findings, and recommendations. To that end, the following additional information is provided on the deliberations about the various recommendation options, the underlying data, and the bases for recommendations.

The Task Force commenced its work in July 2013 with a two-day educational session and met consistently each month for the remainder of its term. In addition to reviewing relevant literature, the Task Force was supported in its work by UM Human Resources, Finance, and General Counsel offices. A number of experts from across the campuses and outside the University presented information during the meetings. In addition, the Task Force interviewed leaders from each campus and the MU Health Care System to understand their views on benefits, and in particular the importance of benefits to faculty and staff recruitment and retention.

Employee pay comprises the largest component of the University’s budget and operating expenses. Although not included within its charge, the Task Force reviewed the competitiveness of pay for each employee group relative to appropriate peers to better understand the role of benefits in fulfilling the University’s strategic objectives. Both the cost and value of many University benefits are calculated based on individual pay. Therefore, fully understanding the relationship and interplay between pay and benefits was very important for the Task Force to complete its work. For example, any increase in pay automatically increases the cost of certain benefits (e.g., retirement, life insurance). Even though the University’s benefits offerings are competitive with comparator institutions, because the actual value to the employee is pay-driven for many programs, the University is falling even farther behind in providing competitive combined pay and benefits (Total Rewards).

Task Force meetings focused on understanding the components that comprise Total Rewards and the challenges and choices available to the University and its employees for these programs. To assure confidentiality, the Task Force used de-identified data (including employee demographics such as pay, length of service, values, benefits enrollments, and age). See <http://www.umsystem.edu/ums/hr/isr/> for detailed information regarding the University’s workforce demographics. While anecdotal information and historical perceptions play a role in understanding employee experience and individual values, the Task Force was careful to support conclusions with data.

## **Findings**

The Task Force identified a number of findings during the course of its work, which informed the subsequent development of its recommendations. Major findings are listed below.

### **Demographics**

The following information refers to the University's 19,200 benefits-eligible employees and more than 7,000 retirees. The Task Force acknowledges that a substantial number of part-time employees (including student employees) perform valuable services for the University but are not benefits-eligible and, therefore, not included in the Task Force's charge and findings.

Historically, employee demographics have been relatively heterogeneous. However, more recent trends reveal an aging workforce coupled with an increase in early career employees joining the University (Chart 1) as a result of turnover. Individual employee needs and values have become increasingly diverse and are subject to continued change during employment based on age and various life events (e.g., marital status, birth of a child, etc.). Thus, the value of the benefits programs to each employee varies not only across the employee population today, but also over time.

To better understand employees' needs, the Task Force identified and considered the following information about the University's employee population:

- About two-thirds of employees, or approximately 13,000, reside and/or work in or near Columbia.
- Of these 13,000 employees, about 4,500 work within the MU Health Care System. (The comparator groups for compensation and benefits for the MU Health Care System are other healthcare systems, and not higher education.)
- Of the 19,200 benefits-eligible employees, more than 13,000 are in staff (non-academic) positions.
- More than 5,500 employees are in academic positions and about 2,300 of those are tenured or tenure-track faculty members.
- The average employee age is 46 years old but 14,800 employees are at an age outside of the age 40 – 49 year cohort. About 75% of employees are in their 30s, 40s, and 50s, with the remaining population split between those in their 20s and those more than 60 years of age.
- The average length of service is about 10 years overall, with tenured and tenure-track faculty members averaging nearly 14 years and other academics averaging 6.5 years.
- More than 25% of tenured and tenure-track faculty are at or close to retirement.
- About 57% of employees earn less than \$50,000 per year.
- About 44% of employees are paid hourly and thus eligible for overtime; the remainder are paid an annual salary.
- Overall employee turnover is about 8%, which is comparable to other higher education institutions. However, turnover rates vary dramatically by years of service and employee group. The highest turnover, as much as 20% during the first year of service, occurs

among the lowest paid staff. The lowest turnover, fewer than 1%, occurs among tenured faculty.

- Turnover for employees who have reached the five-year vesting mark in the retirement program is 7% lower than for those who are not vested, with the majority of turnover occurring in the first two years of employment. Turnover drops significantly for all employee groups at five and 10 years of service.
- Surprisingly, some employees terminate employment just prior to important service milestones, such as just prior to reaching retirement plan eligibility at age 55.
- About 20% of employees stay at the University long enough to receive an unreduced retirement benefit (e.g., at least age 65 with at least five years of service).

We hire smart, capable, diverse individuals at every stage in the employee life and career cycle. Many decide well for themselves with respect to employee benefits; many do not. Employees have varying experience, confidence, and time availability for benefits decision-making.

### **Historical pay and benefits decision practices**

Employee pay is the largest component of the University's budget and operating expenses, totaling more than \$1.3 billion in fiscal year 2013 (Chart 2). Pay was 49% of the University's total operating expenses in FY 2013, with an additional 14% of operating expenses for benefits costs (Chart 3). Therefore, any decisions about pay or benefits and projected growth regarding pay or benefits, either separately or in combination, will have a substantial financial impact on the University and its employees.

Historically, benefits decisions have been made with two primary objectives: rewarding long-term service and offering all employees the same benefits, regardless of employee group or geographic location. Those objectives may have served the University well in the past but are misaligned with the University's strategic objectives and employee needs and values moving forward.

The University (similar to other public employers) has relied on its presumably generous benefits offerings as an offset to lower pay. However, findings show that the University's benefits offerings are competitive with comparator institutions, but are not overly generous. And for many employee groups, the University's pay structure has significantly lagged its peers. Overall, UM faculty pay is below market, with MU last among the Association of American Universities (AAU) public higher education institutions, and the other campuses lagging similarly behind their peers. In order to reach pay levels comparable to our peers, the University would need to invest in excess of \$20 million (Chart 4). The University faces similar challenges for staff pay, although the investment needed to address the problem is less costly than for faculty (Chart 5).

A 2010 survey of University employees in all age groups indicated that pay was by far the most valued component of their Total Rewards Package.<sup>1</sup> Further, a Towers Watson Survey<sup>2</sup> of U.S. employees found that individuals rate pay as one of their top two considerations for both

---

<sup>1</sup> Hewitt 2010 University Pay and Benefits Study

<sup>2</sup> Towers Watson 2012 Total Rewards Survey

recruitment and retention. Pay is also the aspect of total compensation most often and easily compared by employees, especially at the time of hire.

### **Employee definition of benefits**

Traditional benefits programs consist of insurance programs and retirement plans, which are funded through the University's benefits rate. However, employees consider many additional aspects of the work environment to be "benefits," regardless of the funding source. These other "benefits" include parking, tuition assistance, access to recreational facilities, flexible work schedule/place, daycare, and group rates on other voluntary insurances and programs (e.g., discounted legal services, home/car insurance, etc.). The segmenting of benefits offerings and communication about these other "benefits" makes it difficult for employees to grasp what is and what is not included in their Total Rewards package. In addition, the lack of an integrated approach means that some employees may not be aware of these additional benefits.

### **Benefits funding and costs**

The University has faced a variety of financial pressures for many years. Those pressures have grown significantly the past five years, and include flat-to-declining state support for higher education, overall public pressure to reduce costs and keep tuition affordable, and a volatile investment market. These financial pressures have resulted in the need to reallocate funds to meet increasing expenses and to fund strategic priorities. Significant increases in benefits costs have directly reduced the amount of funds that would otherwise be available for strategic campus initiatives, including increasing employee pay.

The University's benefits plans are funded as a percentage of employee pay and managed centrally. The "benefits rate" is established annually by collecting cost and enrollment information about each benefits plan and coverage levels and averaging costs across the entire employee population. Because the benefits rate is charged for each employee, individual units or departments are not charged nor credited for cost variances due to individual employee enrollment choices or other demographic differences (e.g., age) that drive benefits costs. The base benefits rate for FY14 is 27.7% of pay. FICA is charged as a separate percent of pay (7.65%) as required by federal law, so the total benefits cost contributed by the University on behalf of its employees for FY14 is 35.35% of pay.

The projected growth in benefits cost is unsustainable. Since 2003, the University's benefits rate has increased by \$191 million, growing from 22% of pay to more than 35% in 2014 (Chart 6). With no changes, the benefits rate could reach 40% of pay by 2017. At the current level of employee pay, each percent increase in the benefits rate is \$12 million in new required funding. Importantly, benefits rate increases do not equate to an increase in benefits value. The most recent and projected annual increases are required to maintain the value and plan designs at the current level of benefits. Failing to increase the future benefits rate would mean less competitive benefits, and ultimately less competitive overall Total Rewards, unless there are substantial changes to the benefits structure.

UM is not unique in the growth of benefits costs; our benefits rate or total spend on benefits is comparable to industry standards. A 2013 Department of Labor report,<sup>3</sup> representing data through the third quarter of the year shows that benefits costs as a percent of pay, averaged 31.1% for higher education and 30.9% for all industries as compared to the University benefits rate of 27.7%. Further, an external 2013 comparative study with 15 higher education benchmark institutions indicated that the University's benefits are competitive overall, with death benefits and retiree medical benefits exceeding those of other institutions in the study (Chart 7).

The two largest components of benefits costs are medical insurance plans and retirement plans. Together these plans make up 83% of the total cost of benefits (Chart 8). For this reason, the Task Force focused most of its efforts on these two areas. As described below, the projected growth in the cost of maintaining current benefits in these plans will negatively impact the University and its employees, who share in these costs.

### **Employee medical plan findings**

Employees experience medical plan costs in two ways: through monthly premiums and out-of-pocket medical expenses such as deductibles and co-pays. The premiums are set annually, but out-of-pocket costs vary widely among employees, depending on how they and their dependents use medical services.

The University offers employees the choice of two medical plans. About 91% of employees participate in these plans. Of those, about 40% select coverage only for themselves; the rest also cover dependents. The majority select the Preferred Provider Plan (PPO), *myChoice*. This PPO plan allows employees to choose their providers from a broad network and requires little out-of-pocket expense other than small co-pays and deductibles and some prescription drug costs.

A small but growing number of employees select the high deductible plan, *myOptions*, which allows access to a broad network and includes a health savings account. It has a higher deductible than the PPO plan but lower monthly premium deductions. Also, the University funds a portion of the health savings account.

### ***Premium cost sharing***

The premium cost share for the PPO is 73% University and 27% employee (Chart 9). The premium cost share percentage favors the high deductible plan (80% University / 20% employees). Overall the University's plan value, including contributions and plan benefits, ranks in the middle of the 15 comparator institutions.<sup>4</sup>

To illustrate the medical premium cost sharing between employees and the University and further examine the cost trend, Chart 9 compares medical premiums for 2004 vs. 2014. In 2004, the monthly family medical premium was \$947.50: the University paid \$658.82 (70%) and employee paid \$288.68 (30%). In 2014, for essentially the same coverage, the monthly family medical premium is \$1,486.42, with the University paying \$1,085.08 (73%) and the employee paying \$401.34 (27%). While the employee is paying more in real dollars in 2014, the University

---

<sup>3</sup> 2013 Department of Labor Employer Costs for Employee Compensation (ECEC) report

<sup>4</sup> Aon Hewitt 2013 Benefit Index



has increased its share and reduced the employee's share of the total cost in this period. Interactions from various employee meetings suggest there is limited employee awareness of the University's significant and increasing contribution and an assumption that employees pay most, if not all, of medical premium increases.

Medical premiums, and the University contributions, are the same for all employees who select the same medical plan, but there is a disproportionate impact on lower-paid employees since the medical premium makes up a more significant percentage of their pay (Chart 10).

Medical premiums are set annually based on the previous year's claims experience and expected increases in medical trend and/or utilization. In years for which premiums collected exceed actual claim costs, excess funds are carried forward to the following year to offset premium increases. This offset directly benefits employees by reducing premium increases that they would otherwise have had to pay. However, they may not be aware of this, and thus may not understand the extent of the actual increase in medical trend.

### ***Medical plan cost drivers***

The increase in the cost of the University's medical plans is not the result of plan performance or increased levels of benefits, but rather reflects several cost drivers.

### ***National health care cost increases***

Based on a 2013 health care performance study,<sup>5</sup> the University has 15% lower costs than other public plans (Chart 11) and is 11% more efficient. This efficiency translates into a cost savings or avoidance of \$23 million annually for the University and its employees. Relative to top quartile performers in the same study, the University's total program is 2% more efficient. However, despite performing in the top quartile, the University's medical plan costs have continued to escalate for both the University and employees.

### ***Federal and state legislative changes***

Legislative changes have required numerous revisions to the University's medical plan designs and eligibility criteria. The most significant changes have occurred as a result of federal legislation, the Patient Protection and Affordable Care Act (PPACA), which required changes beginning in 2010 with additional requirements through at least 2018. The current annual cost of the PPACA to the University's medical plans is more than \$3 million per year, and will increase again in 2015 when medical eligibility is expanded to include some part-time employees.

Of specific concern is the excise tax, commonly referred to as the "Cadillac tax," to be applied to high-cost medical plans in 2018. The definition of "high-cost" is set by the PPACA, and is likely to apply to the majority of employer plans based on current plan designs and cost structures. The University's plans, on average, are expected to reach the excise tax threshold during 2020, if the threshold does not change. However, some University employees (e.g., those with higher Flexible Spending Account (FSA) elections and/or family coverage) will reach the threshold sooner, creating additional tax liability for the University starting in 2018. Estimated liability is as low as \$.8 million in 2018 and, if no plan design changes are made, expected to grow to \$24 million by 2024.

---

<sup>5</sup> Towers Watson 2013 Health Care 360 Performance Study

### *Employee health status*

In a survey of University employees, more than half of those who responded rated themselves as somewhat unhealthy, with 56% indicating that they do not eat a healthy balanced diet and exercise regularly, and 35% indicating that they do not get appropriate preventive health screenings.<sup>6</sup> An analysis of the University's de-identified medical claims by the Health Management Research Center at the University of Michigan shows that for an employee with more than two risk factors (e.g., obesity and high blood pressure), the excess cost per employee can range from \$1,663 to \$4,441 more than for employees with one or no risk factors (Chart 12).

For the past two years, the University has offered employees enrolled in the medical plan a \$100 incentive for completing simple wellness activities. Despite numerous communications and outreach activities, fewer than 30% of employees complete the activities and receive the \$100 incentive for participating in the annual health screening and health assessment.

### **Healthy workforce findings**

Research shows that a healthier workforce is more engaged and productive. As the use of qualification requirements for wellness incentives expand, organizations are employing data and metrics to strengthen the relationship between their medical plans and wellness/health management activities to achieve improved employee health. A 2013 Towers Watson Survey<sup>7</sup> identified a variety of specific strategies that employers are using, such as taking advantage of new care delivery models and treatment settings, encouraging employee engagement and responsibility, and tying employee contributions to successful completion of certain health-related tasks.

To encourage employee wellness, the University developed the T.E. Atkins Healthy for Life (Healthy for Life) program in 2004. The program provides health assessments and screenings, wellness education and programming and support for physical activity to University employees. In 2011, the Healthy for Life program was integrated with the medical plan and alignment between the two programs continues.

The UM Culture of Health Council<sup>8</sup> has identified the following five priority areas deemed important for creating a culture of health. The Task Force endorses continued organizational support for these priorities:

- *Be Active:* Encourage and support physical activity and movement during the workday.
- *Eat Well:* Make healthy and accessible food options available on campus.
- *Work-life Fit:* Offer flexibility in when and where we do our work, which supports all aspects of our lives (work, family, and community).

---

<sup>6</sup> Hewitt 2010 UM Pay and Benefits Preference Study

<sup>7</sup> 2013 Towers Watson Employer Survey on Health Care

<sup>8</sup> The Council was formed in 2012 and is comprised of faculty, staff and HR representatives from each campus and the hospital. Their purpose is to educate, inspire and support the employees of the University in their efforts to be healthy and productive at work.

- *Work Healthy*: Provide ergonomic and technology support that lets us move, be healthy, and do our jobs better.
- *Empower and Appreciate*: Help us feel empowered and appreciated by the organization.

## **Retiree medical plan findings**

Retirees are an important part of the University culture and continue to serve the University in a variety of ways after leaving employment. Retiree medical benefits were developed and subsidized by the University to ensure retirees have access to affordable medical care in retirement.

University retirees are offered medical plan coverage at the time of retirement. If they elect not to enroll, or to enroll and later drop coverage, they are not allowed to return to University medical plans unless they show proof of continuous coverage in a comparable plan. About 70% of retirees are currently in a University-sponsored medical plan, and about 43% of those cover at least one dependent. Many University retirees choose to waive University coverage and may purchase comparable or better coverage for less cost through groups such as the American Association for Retired Persons (AARP). In the past 10 years, significant improvements have taken place in the accessibility and quality of post-65 retiree medical products available on the open market. The market for pre-65 retirees is less mature but expected to improve with the public Health Insurance Marketplace ([www.healthcare.gov](http://www.healthcare.gov)).

### ***Retiree medical plan subsidy***

The University's retiree medical plan subsidy is based on age and years of service at retirement. For example, an employee who retires at age 65 with 30 years of service is eligible for 66.7% University premium subsidy. In comparison, an employee who retires at age 60 with 10 years of service is eligible for 36.5% University premium subsidy.<sup>9</sup>

The average University premium subsidy for retirees is 50%. The University's retiree subsidy is significantly higher than comparator institutions (Chart 7), providing access to coverage for retirees and surviving spouses for life. Almost half of the comparator institutions in the same study provide no retiree medical plan. Even those comparator institutions who offer a retiree medical plan most often require retirees to pay the entire premium cost. Nationally, of the 45 million Medicare participants, fewer than 6 million are also covered by an employer-sponsored medical plan.<sup>10</sup>

Notwithstanding differing needs, the University currently offers retirees under age 65 the same options as employees (see employee medical plan findings above) under the same premium schedule, although the University premium subsidy may be less. However, claims costs for these pre-65 retirees are 155% higher than those of employees; thus, pre-65 retiree costs are also subsidized by the premiums employees pay.

<sup>9</sup> For an eligible pre-Medicare retiree in the *myChoice* Plan who retires at the highest subsidy level, the University would pay 73% of the premium and the retiree will pay 27%. A post-Medicare retiree at the highest subsidy level would have 66.7% of the cost paid by the University. At the lowest subsidy level the University would pay 27% for a pre-Medicare retiree and 36.5% for a post-Medicare retiree.

<sup>10</sup> Towers Watson 2013 Health Care 360 Performance Study

### ***Retiree medical plan coverage***

The University's retiree medical plan for those who are age 65 and older differs from that of its comparator institutions. Most retiree plans (both employer provided or available on the market) are Medicare Advantage or Medicare Supplement plans. It is helpful to understand the Medicare options in order to compare and contrast the various plans available to those who are age 65 and older.

The federal government provides Medicare coverage to eligible retirees. Retirees at age 65 or older receive Medicare Part A (primarily hospital expense coverage) and pay for Medicare Part B (primarily physician expense coverage). Some also elect one of the Medicare Part D prescription drug plans. Medicare Part D has a coverage gap or "donut hole," based on total prescription drug costs. The coverage gap begins after retirees and their drug plan have spent a certain amount for covered drugs and continues until the retiree's medical expenses reach the catastrophic level. Then, the coverage gap closes. However, Medicare is closing the "donut hole" in prescription drug coverage by 2020. This means that viable prescription coverage will be provided by Medicare, resulting in a reduced need for employer-sponsored retiree drug plans.

The University's plan is a medical carve-out plan, which means it only covers the cost differential between the Medicare rate and the University's discounted rate, if one exists. This is often less generous than a Medicare Supplement (Medigap) plan, which pays for most healthcare costs that Medicare does not cover, such as co-payments, co-insurance, and deductibles. The University's plan is also less generous than a Medicare Advantage plan, a private plan that covers all services covered by original Medicare, replaces an individual's Medicare Part A and Part B coverage and usually provides additional benefits.

The University retiree medical plan covers claims that are incurred during international travel, specifically those services received outside the continental U.S. that would be covered within the continental U.S. This is different than Medicare, which in most situations does not pay for healthcare or medical supplies received outside the U.S. However, some Medicare Supplement and Advantage plans currently offer coverage for foreign travel. Single trip insurance is also available from independent companies.<sup>11</sup>

The biggest value for retirees covered by the University retiree medical plan is prescription drug coverage because the plan limits retiree out-of-pocket costs by covering the "donut hole" and prescription drug deductible in Medicare Part D drug plans. Not surprisingly, annual retiree prescription drug costs are significantly higher than those of employees, with an average \$2,058 per retiree per year versus \$732 per employee per year.

### ***Unfunded retiree medical plans liability***

Other Post-Employment Benefits (OPEB) is the funding liability for benefits that an employer offers to an employee at retirement (such as medical, dental, and vision insurance). For the University, OPEB includes the liability for the retiree medical plans. The University, like most other institutions, has funded retiree medical costs on a "pay-as-you-go" basis – essentially

---

<sup>11</sup> Centers for Medicare & Medicaid Services: Medicare Coverage Outside the United States - <http://www.medicare.gov/Pubs/pdf/11037.pdf>

covering each year's costs, but not setting aside reserves to fully fund the accrued future liability. Current accounting guidance requires the difference between the annual required contribution and the "pay-as-you-go" practice be recognized as a liability. This liability increases every year. The full unfunded liability is currently not required to be reported on the University's balance sheet, but is expected to be required in the near future. If no changes are made, the combined unfunded liability for the University's retiree medical plans OPEB could reach \$1 billion in the next five to seven years (Chart 13). This could lower the University's credit rating and reduce its capacity to borrow funds.

## **Retirement Plans**

The University maintains two core retirement plans. The Retirement, Disability and Death Benefit Plan (RDD), a traditional "pension" defined benefit plan, has been in existence more than 50 years. Beginning October 1, 2012, all new hires are covered under a different core retirement plan, the Employee Retirement Investment Plan (ERIP). This newer retirement plan has both a Defined Benefit (DB) and a Defined Contribution (DC) element, with essentially half of the retirement benefits coming from each. The DB element within the new plan uses the same retirement trust as the original pension plan. Thus, the University manages a single DB plan that provides different benefits for RDD participants versus ERIP participants.

The University contribution to the two core plans is about the same, although the University's DB contribution varies primarily due to investment returns, whereas the DC amount varies only when employee voluntary contributions require changes in University matching contributions. Importantly, the University funding for the two plans is blended, with the required funding determined as a percentage of pay across the total employee pay base.

### ***Defined benefit plan funding***

The University's DB plan funding relies heavily on investment returns. Volatile financial markets combined with historically low interest rates have increased the financial pressure on DB plan funding, requiring additional monies to be diverted from strategic priorities to maintain and adequately fund the plan. In addition, the DB plan has grown in size as the number of employees and retirees have grown. As a result, the DB plan is now almost larger in assets than the University budget.

Employees contribute to the DB plan regardless of whether they are in the RDD plan or the ERIP (1% of salary up to \$50,000 and 2% of salary after \$50,000). Prior to 2009 when the employee contribution began, the University was one of the few pension plans in the country that did not require an employee contribution.

The University's contribution to the DB plan is recommended each year by an external actuary. The recommendation provides the percent of pay required to maintain the funded status of the plan, and the amount varies each year primarily based on investment returns. The University's pension plan has been well managed. Unlike many public pension plans, the University has always contributed the recommended annual funding throughout its existence.

### ***Unfunded defined benefit plan liability***

In 2008 and 2009, historic downturns in the stock market created unprecedented investment losses which could not simply be overcome by increasing in the University's annual contribution. This created a large unfunded liability.<sup>12</sup> Changes in the Governmental Accounting Standards Board (GASB) reporting requirements for pension plans now require the University to include this unfunded liability on its balance sheet. In the past, this liability has been a disclosure contained in the notes to the financial statements. And, similar to the OPEB requirements described above under *Unfunded retiree medical plans liability*, this change in accounting standards could lower the University's credit rating and reduce its capacity to borrow funds.

The current unfunded liability is approximately \$500 million, and ultimately represents an obligation of the University. Just like ordinary debt, the unfunded liability must be paid back. In simple terms, the annual payment on this debt is what has significantly driven up the University's annual contribution requirement to the pension plan.

Under current generally accepted pension accounting methodologies, the unfunded liability is amortized over a long period of time (similar to a typical mortgage). As a result, less than 2% of the unfunded liability is paid off in a given year. The unfunded liability is primarily affected by the investment returns over or under the plan's assumed rate of return. When actual investment returns exceed the assumed rate of return, the unfunded liability shrinks and the annual payments required to pay down the debt will be reduced. However, when actual investment returns are less than the assumed rate of return, the unfunded liability grows larger and the annual debt service payments will go up.

### ***Other factors to consider***

Following are other important factors to consider regarding the retirement plans:

- A Towers Watson Study<sup>13</sup> found that employees rate retirement benefits sixth out of seven for job attraction factors and seventh out of seven for retention factors. In the same study, employees rated base pay/salary first for attraction and second for retention.
- During the Task Force interviews with campus leadership, concern was expressed regarding the complexity of the University's new core retirement plan and the difficulty in explaining it to employees. Most campus leaders also agreed that pay is by far the most significant incentive for faculty and staff candidates to accept offered positions.
- The University is one of only two institutions among 15 peer comparator institutions to offer a defined benefit plan to faculty, with most comparators offering a defined contribution plan.<sup>14</sup>
- The new retirement plan, ERIP, has about 3,000 participants. Taking into account projected turnover and new hires, about 85% of employees are expected to be in this plan by 2034.

---

<sup>12</sup> A pension plan's unfunded liability is the difference between the net present value of all future plan obligations—both to existing employees and current retirees—and the value of investments currently set aside to cover such future obligations. When the future obligations exceed the value of investments set aside, an unfunded liability exists.

<sup>13</sup> Towers Watson 2012 Talent Management & Rewards and Global Workforce Study

<sup>14</sup> Aon Hewitt 2013 Benefit Index

- The ERIP incorporates a best practice that is unusual among higher education institutions. New hires are automatically defaulted at the highest University match level (3% of pay). More than 95% of new employees remain at the default level, ensuring that they are saving at appropriate levels for retirement.

## **Time-off findings**

Workers today are placing increased importance on flexible scheduling and greater autonomy in managing their time away from the office according to a 2014 survey by the Society of Human Resource Management (SHRM). Of the organizations surveyed, 52% offer paid time-off (PTO) plans for their full-time workers. Unlike traditional time-off programs which consist of vacation, personal and sick leave offered by the University, integrated time-off plans, like PTO, include all leave time under one umbrella.<sup>15</sup>

The cost of lost work time due to absence is greater than just leave time. Lost time includes absences due to on-the-job injury, short-term disability and family or medical leave, as well as absences that are only a few days in duration. A comprehensive employee attendance program can play a strategic role in reducing unscheduled absences and reducing both health care and workers' compensation costs and increasing an organization's productivity and overall performance.

Because direct costs are the easiest to quantify, consisting of the actual benefit paid to the employee to provide income during the absence, this is the area on which many organizations focus. Despite the significance of direct costs, indirect costs represent the larger impact of employee absence. Unscheduled absences, especially from sick days, affect co-workers and supervisors by creating work delays, unplanned overtime, and the need for temporary replacement workers. Indirect costs result when work is delayed, co-workers and supervisors are affected, or temporary employees are hired as a result of an employee's absence. Lost productivity and the need for replacement labor are consequences of unplanned absences that can significantly increase the overall cost of absence.

Organizations are increasingly revisiting their time-off programs to ensure they are structured to support organizational strategy, optimize the significant investment in these programs and meet employees' needs while avoiding inappropriate use or unintended consequences or costs. At the University, time-off for employees in staff roles (approximately 13,000) is managed under several different University HR policies which are complicated, difficult to administer and therefore sometimes applied inconsistently. Faculty time-off is managed at the department, school or college level. Our findings from University leave data indicate that:

- The University invests more than \$100 million annually for time-off (including vacation, sick leave, personal leave, holidays, jury duty, and funeral leave).
- University liability for banked vacation and sick leave time totals \$198 million.
- In 2013, more than 1,100 University employees used more than 12 days of sick leave.

---

<sup>15</sup> SHRM 2014 Survey Findings: Paid Leave in the Workplace

- While full-time staff accrues 8 hours per month sick leave, those with shorter service have little protection from an illness lasting more than a few days.
- Faculty members do not currently receive formal leave benefits, and may be at the same risk as staff with respect to protection from an illness lasting more than a few days.
- The University's current policies focus on the rules of managing leave rather than the valuable renewal and reward aspects of leave.
- The separation of sick days from other time-off (personal days and vacation) may encourage some to access the benefit when not really ill, increasing unscheduled absences.

### **Employee communication findings**

Employees indicate that they often do not understand the benefits currently available to them.<sup>16</sup> The array of offerings, plan designs and choices are numerous and complex. While on occasion the University may have been successful in marketing differences in benefits plan designs (primarily the University DB retirement plan) to recruit or retain employees, in most instances none of the parties involved in the process were sufficiently well-versed in the financial differences to effectively utilize them to advantage.

In 2011, the University's Total Rewards department developed a strategic communication plan designed to more effectively communicate and educate employees regarding their Total Rewards package. This plan includes defined objectives, consistent graphic design, and tailored communication. Even with these efforts, nearly 70% of employees may not be making active choices regarding their benefits as evidenced by participation in the recent changes to the voluntary retirement plans. In addition, centralized and campus websites and programs are not coordinated in a way that makes it easy for employees to find and access data.

---

<sup>16</sup> Hewitt 2010 Pay and Benefits Preference Study



## Recommendations

The Task Force was asked to develop directional recommendations that are purposefully broad in scope but intended to meet its charge consistent with the guiding principles. The Task Force understands and expects that these broad recommendations will be further vetted with stakeholders, including faculty, staff, and retiree groups as well as campus leadership. In addition, these broad recommendations will be further developed and analyzed by the UM Retirement and Staff Benefits Committee, aided by professional experts for feasibility, reasonableness, and their “goodness of fit” with the UM Total Rewards Program.

During the Task Force discussions and throughout the development of its recommendations, the following key themes emerged:

1. Total Rewards must be flexible to address diverse needs of both employees and campuses.
2. The University and employees share responsibility for future success.
3. New efficiencies are required to sustain an effective Total Rewards Program.
4. Strategic competitiveness is necessary for University success.
5. Education and communication are critical to improving outcomes.
6. Interplay between pay and benefits must be understood, and decisions made on that basis.

Keeping these themes in mind, the Task Force recommends the following actions.

### **1. Treat pay and benefits as interrelated parts of the overall Total Rewards strategy.**

This recommendation supports the themes of:

- Interplay between pay and benefits
- Strategic competitiveness

We recommend that the University:

- *Identify new funding sources and reallocate from lower priorities to improve pay:* Historically, pay and benefits have been considered separately both by University administration and employees. This has led to an imbalance in the position of benefits relative to pay in the University’s Total Rewards package, and an inadequate overall competitive position. An inadvertent focus on benefits (due to escalating costs and desire to maintain historical programs with minimal changes) has limited the University’s ability to focus more strategically on how the Total Rewards package affects employee recruitment and retention. Maximizing the effectiveness of the Total Rewards package can ensure the University supports the campuses’ strategic goals, particularly as they relate to employees.
- *Update traditional practices and committees:* To support this recommendation, a number of traditional practices and committees may need adjustment. For example, the Retirement and Staff Benefits Committee (RSBC) was established as part of the retirement plan to advise administration regarding the retirement plan, including interpretation and construction of the document. While in recent years the RSBC has also been asked to advise administration regarding other

benefits, this is not part of their formal scope of responsibility. More importantly, this committee has only been asked to advise on benefits issues, and has not been charged with considering benefits within the overall structure of Total Rewards.

- *Direct any funds reallocated from benefits to pay:* This recommendation does not assume that one area of the Total Rewards package should reduce so that another can improve. Certainly, to achieve some immediate gains in competitive pay, funds may need to be reallocated. This alone, however, will not be enough to achieve competitive pay. The University must also continue to identify new funding sources and reallocate funds from lower University priorities to ensure the ability to recruit and retain the most qualified and productive employees.
- *Include all employee-perceived benefits in the marketing of Total Rewards:* Employees' definition of benefits includes many things that are not funded by the benefits rate. The University is missing an opportunity to recognize and communicate non-traditional benefits such as parking, tuition assistance, access to recreational facilities, flexible work schedule/place, daycare, and group rates on other voluntary insurances and programs (e.g., discounted legal services, home/car insurance, etc.), which are considered valuable by employees and relatively low-cost. Thus, where possible, the University should maximize the value of all benefits and pay by including them in communication and education regarding the Total Rewards package. Further, employees receive a wide variety of communications regarding their pay, benefits, and other work/life resources in varying forms and from a variety of sources. Sometimes these communications conflict in purpose and timing. The University should develop a comprehensive communication strategy to improve the alignment of these communications.

We anticipate the key outcomes of this recommendation to be:

- *Competitiveness:* Strategically improve faculty and staff pay relative to peers.
- *Recruiting/retention:* Maximize the value of the Total Rewards package to attract and retain faculty and staff.
- *Employee motivation:* Stimulate high engagement and performance.

For the long term, the University needs an in-depth review of pay and benefits followed by the development of a strategy for how to maximize the effectiveness of the amount spent on Total Rewards, regardless of whether the total remains relatively stable or increases. One element of such a strategy is to evaluate, select, and offer those programs that would benefit employees with lower cost and increased access while not increasing the overall University benefits cost. Other recommendations below provide ways to control benefit costs, maintain value, and thus, ultimately focus more of Total Rewards resources (or spending) on pay. The reality is that without this approach, the required increases to benefits (to maintain current value) will absorb an increasing share of Total Rewards funding.

## **2. Establish a benefits rate cap.**

This recommendation supports the themes of:

- Shared responsibility

- Efficiency/sustainability

We recommend that the University establish a benefits rate cap. The University contribution rate for benefits should be a fixed percentage of pay that can be supported by the campuses. Ideally, a target benefits contribution rate will be set below the cap. This recommendation is intended to encourage budget predictability and shift the primary focus to achieving market-competitive pay.

Maintaining a benefits rate cap does not necessarily reduce the monies available for benefits over time. As the University moves toward the goal of competitive pay, the amount spent on benefits will also increase. This allows the University to achieve a competitive Total Rewards package for employees.

To ensure an appropriate cap, the University should benchmark benefits offerings, plan designs, and salaries on a systematic basis.

We anticipate the key outcomes of this recommendation to be:

- *Competitiveness*: Improve the University's positioning relative to its peers.
- *Cost management*: Provide greater budget predictability to campuses.

### **3. Increase flexibility within the Total Rewards programs.**

This recommendation supports the themes of:

- Strategic competitiveness
- Flexibility to address diverse needs

We recommend that the University increase flexibility within its Total Rewards programs so that reward program elements can be tailored to support campus strategic priorities and meet employees' needs and values.

This recommendation addresses the increasing need for flexibility for individual employees:

- It recognizes that our employee population is becoming more diverse, and what is valued differs generationally, culturally, by life stage, and by life-style.
- It acknowledges that for employee benefits "one size does not fit all," which has become increasingly apparent as our workforce has become more diverse. This diversity applies not only across the employee population, but also over individuals' lifetimes.

Increasing the flexibility within our Total Rewards programs also benefits the institution. The University's approach to Total Rewards should closely align with campus strategic priorities. Total Rewards should:

- Facilitate the retention of key individuals and the achievement of competitive pay.
- Promote targeted recruitment and retention needs by campus.
- Assist the MU Health Care System with its part-time staffing needs.

We anticipate the key outcomes of this recommendation to be:

- *Employee satisfaction:* Provide a range of programs to meet diverse needs.
- *Strategic realignment:* Support recruitment/retention of a high-performing workforce.

**4. Utilize medical plan options to encourage healthy behavior and efficient use of healthcare services.**

This recommendation supports the themes of:

- Efficiency/sustainability
- Shared responsibility

We recommend that the University:

- Reduce the continually rising trend in medical plan costs, thereby reducing the financial burden on the institution and the employees. Controlling or reducing medical plan costs may also help the University avoid the 2018 excise tax under the PPACA. The Task Force acknowledges that this cannot be achieved using current practices and will require effective cost management and new approaches to medical benefits.
- Reward healthy behaviors with lower medical plan premiums and out-of-pocket expenses. Research indicates that appropriate incentives to promote and encourage wellness can be effective in reducing health costs and improving employee health. Thus, the University should invest short-term resources for long-term gains in population health.

Changes to the medical plan should achieve the following goals.

*To lower the medical plan cost trend:*

- Improve access to primary care, preventive health services, and health management support through onsite clinics, and other supportive health and wellness resources.
- Provide tools and information about health service costs and quality to support and promote informed, active decision-making about the use of healthcare services.
- Emphasize vendor partnerships and performance to promote delivery of efficient healthcare services.
- Take advantage of new care delivery and pricing models, such as value-based purchasing and “pay for performance” reimbursement programs. Consider medical home models for employees/dependents with chronic illnesses or conditions.

*To encourage healthy behavior:*

- Link employee health behaviors to their medical plan premiums.
- Hold leaders accountable for supporting and addressing wellness in a highly visible manner.

- Engage line managers in creating a supportive environment for health and well-being by integrating accountability through performance management and other vehicles.
- Include health considerations in our infrastructure planning process (e.g., building design and work area layout).
- Embed healthy practices across the campuses, such as healthy food options at University-sponsored events, dining halls, vending machines and appropriate health breaks during meetings and long work sessions.

The Task Force recognizes some faculty and staff may choose not to participate, effectively agreeing to pay more for their medical plan and/or more of their medical costs. We respect individual freedoms and individual accountability. This recommendation is consistent with best practices for organizations that maximize their Total Rewards package by controlling medical plan costs. The Task Force expects these types of models to be widely accepted among most organizations in the not-so-distant future.

We anticipate the key outcomes from this recommendation to be:

- *Engagement*: Employee involvement in health improvement.
- *Cost management*: Increase healthcare provider and employee use of efficient, high-value health services.

## **5. Leverage marketplace opportunities for retiree medical benefits.**

This recommendation supports the themes of:

- Education/communication
- Flexibility to address diverse needs

We recommend that the University:

- Evaluate and make changes to the approach to retiree medical benefits to better reflect the positive changes to publicly available retiree medical insurance and to better serve retirees. This approach should reinforce the University's goal to ensure the availability of accessible and affordable medical coverage while providing retirees with education and support.
- Developing this approach may require several years and should take advantage of the significant developments in an accessible health insurance marketplace, and Medicare prescription drug coverage improvements by 2020. Special consideration should be given to current retirees and employees nearing retirement when considering available medical options.

We anticipate the key outcomes from this recommendation to be:

- *Flexibility*: Offer customizable health plan options for retirees.
- *Predictability*: Increase predictability of costs.
- *Cost reduction*: Reduce or eliminate the University's unfunded retiree medical liability.

## **6. Evaluate additional retirement plan options.**

This recommendation supports the themes of:

- Shared responsibility
- Efficiency/sustainability

We recommend that the University:

- Evaluate additional retirement plan options to better meet recruitment needs, address employee preferences, and reduce institutional liability. Consideration should be given to simplifying the retirement plan for future employees and allowing current employees to convert to ERIP or any new retirement plan that may be created.
- Retirement plan benefits for current employees and retirees in the RDD plan and the ERIP must not be reduced, and the viability and commitment to funding of the retirement trust fund must be maintained.
- The new ERIP, which has both defined benefit and defined contribution components, is complicated to explain to new employees and difficult to compare to other employer retirement plans. The University has been successful in structuring the defined contribution component of the ERIP with an approximately 95% voluntary contribution rate (and maximum match) through the use of best practice design concepts such as automatically enrolling (with voluntary opt-out provisions) employees at the highest contribution match levels. These design features encourage adequate savings rates and age-appropriate investment decisions. Further consideration should be given to simplifying the plan; however, adequate information must be provided to help employees make decisions that are best suited to their individual situations.
- Significant changes were made to the retirement plans in 2012 as a result of study and recommendations by the Ad Hoc Retirement Advisory Committee. While the Task Force recognizes that it may be considered unusual to make another change to retirement plan options so soon after the changes made in 2012, the experience with the new plan and the requests from employees for other plan options, led to the recommendation to begin that evaluation at this time.

We anticipate the key outcomes from this recommendation to be:

- *Value:* Align perceived and actual value of benefits.
- *Retirement readiness:* Assure employees are financially prepared.

## **7. Evaluate staff time-off plans.**

This recommendation supports the themes of:

- Flexibility to address diverse needs
- Strategic competitiveness

We recommend that the University reconfigure its staff time-off plans by taking these actions:

- Align the leave benefits with the Total Rewards strategy and healthy campus initiatives.
- Simplify leave policies as much as possible.
- Provide short-term disability income replacement.
- Emphasize value and flexibility through an integrated time-off benefit program.
- Encourage appropriate use of time-off benefits.

Combining staff vacation, sick leave, and perhaps some holidays into one time-off “bank” presents an opportunity to simplify our leave benefits and communicate them as benefits rather than a personnel policy. It also reinforces the notion of personal responsibility for health and wellness. Paid time-off benefits are effective at reducing unscheduled absenteeism and overtime, resulting in efficiencies and cost savings.

We anticipate the key outcomes of this recommendation to be:

- *Value:* Emphasize the total value of time-off benefits.
- *Flexibility:* Allow staff to use time to meet their needs.
- *Efficiency:* Simplify administration and increase reliability.
- *Fairness:* Reduce inequities among staff.
- *Cost reduction:* Reduce overtime and backfill costs; reduce liabilities.

## **8. Invest in communication and education about Total Rewards that promotes informed decision-making.**

This recommendation supports the themes of:

- Shared responsibility
- Education/communication

We recommend that the University:

- Take steps to ensure that employees fully appreciate and understand the value of the overall Total Rewards package. Communication and education should support employees in understanding how to effectively choose benefits to best meet their individual needs and enable them to accurately calculate the value of the University’s benefits and pay when comparing them with other benefits packages. This will require an investment in resources and commitment from campuses to ensure that Total Rewards are fully explained and considered as part of their hiring and retention strategies.

Future communication and education should include:

- An emphasis on both compensation and benefits to assist employees in understanding and valuing the University’s Total Rewards offering.
- Information, tools, and resources that enable employees to make optimal choices at key decision points.
- An integrated approach addressing all elements that employees consider to be included in their Total Rewards package.

- Targeted and segmented messaging that addresses the diverse needs of University employees and retirees.
- Manager training to support effective communications about the University's Total Rewards package.

We anticipate the key outcomes from this recommendation to be:

- *Healthier population:* Reduce health risks and disease.
- *Increased engagement:* Active and informed decision making.
- *Leadership involvement:* Knowledgeable and supportive resources.

## **Next Steps**

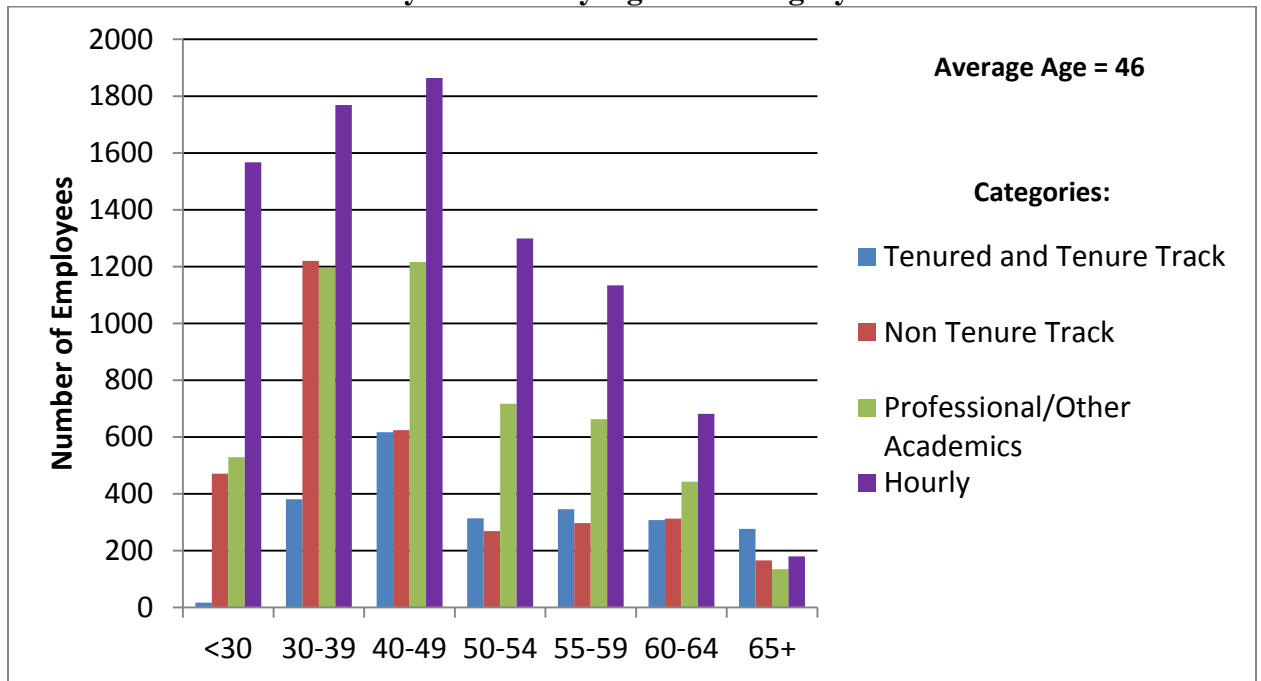
Following the presentation of these recommendations to the Board of Curators, the Task Force has requested that the findings and recommendations be vetted with employee and retiree groups, standing committees (such as the Retirement and Staff Benefits Committee), and campus leadership. Discussions with these constituent groups will be held throughout April and May 2014. In addition, these broad recommendations will be further developed and analyzed by Total Rewards staff and the Retirement and Staff Benefits Committee. Development of initiatives with faculty, staff, and retiree input will begin in 2014 and implementation will be ongoing.



## APPENDIX A

### Benefits-Eligible Employee Data

**Chart 1**  
**Faculty and Staff by Age and Category**

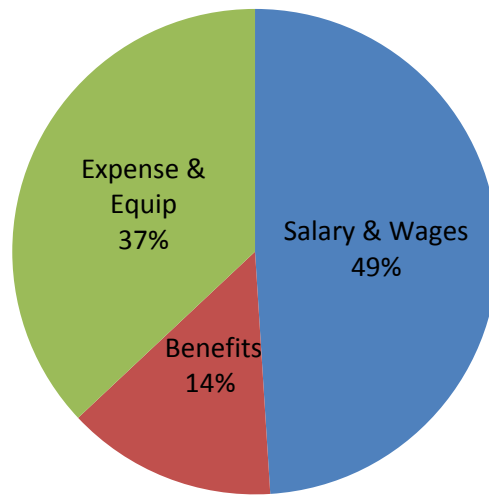


As of July 1, 2013

**Chart 2**  
**UM Total Compensation Spend FY13**  
**Total Spend = \$1.3 Billion**

	<b>FY 13 Total Compensation</b>
Employee Pay	\$1,119,552,000
Non-Benefits Eligible Employee Pay	\$224,337,000
<b>Total Pay</b>	<b>\$1,343,889,000</b>

**Chart 3**  
**FY 2013 Operating Expenses**  
**Total = \$2.7 Billion**



**Chart 4**  
**Average Pay Compared to Campus-Specific Peers**  
**for Tenured and Tenure-Track Faculty by Campus**

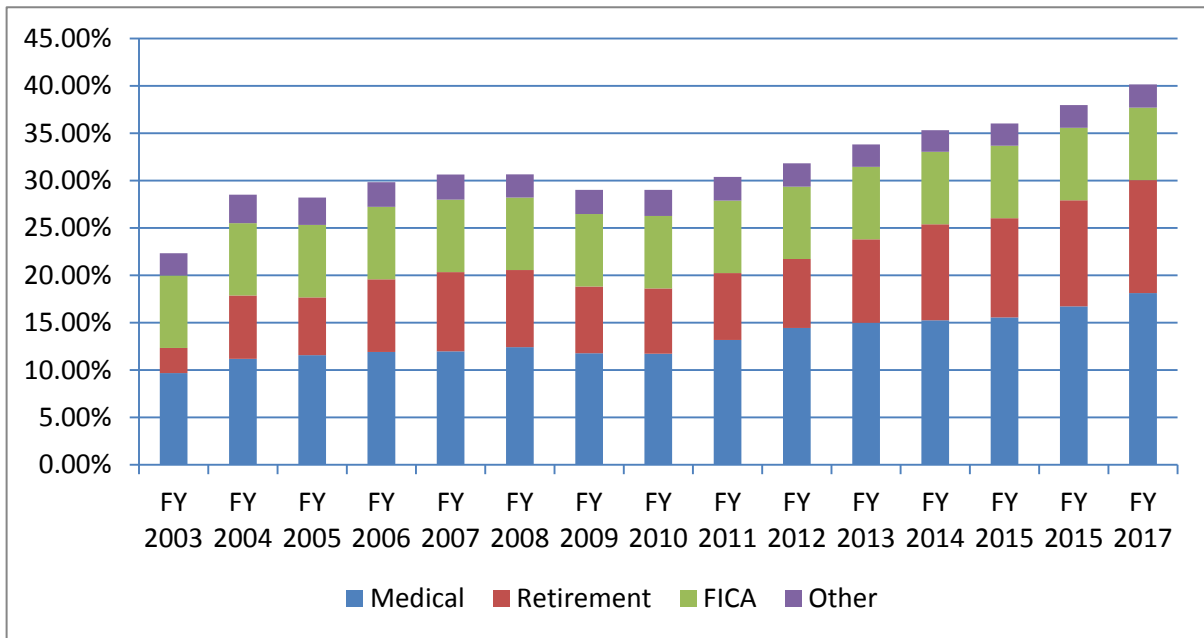
Rank	Peers	MU	Peers	UMKC	Peers	UMSL	Peers	S&T
Professor	\$135,900	\$117,200	\$111,300	\$106,000	\$108,100	\$96,700	\$133,300	\$117,300
Associate Professor	\$91,500	\$78,000	\$80,600	\$77,400	\$79,900	\$69,700	\$94,000	\$81,500
Assistant Professor	\$80,400	\$63,800	\$69,800	\$64,000	\$69,000	\$57,100	\$88,150	\$71,900

**Chart 5**  
**Average Staff Pay and Cost to Minimum of Staff Pay Structure\***

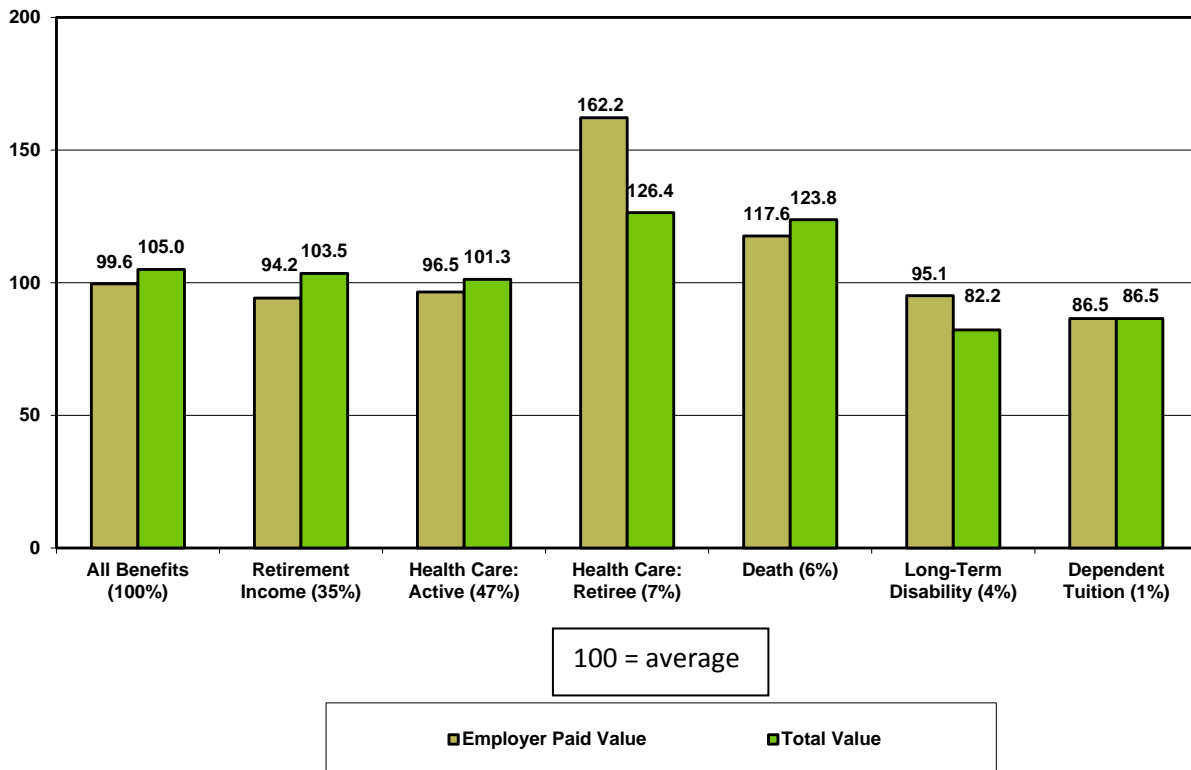
	MU	UMKC	UMSL	S&T	UMSYS	HOSPT
Staff Count	5,219	1,295	1,021	702	459	260
Average Staff Salary	\$46,007	\$48,926	\$48,400	\$45,574	\$66,396	\$36,211
Total Salary	\$240,110,623	\$63,359,088	\$49,416,075	\$31,992,847	\$30,475,564	\$9,414,847
Projected Cost to Grade Minimum	\$1,011,853	\$288,890	\$49,055	\$195,499	\$61,607	\$17,767

\*The cost represented does not constitute market competitive pay; rather, it indicates the amount needed to place all staff within the pay structure.

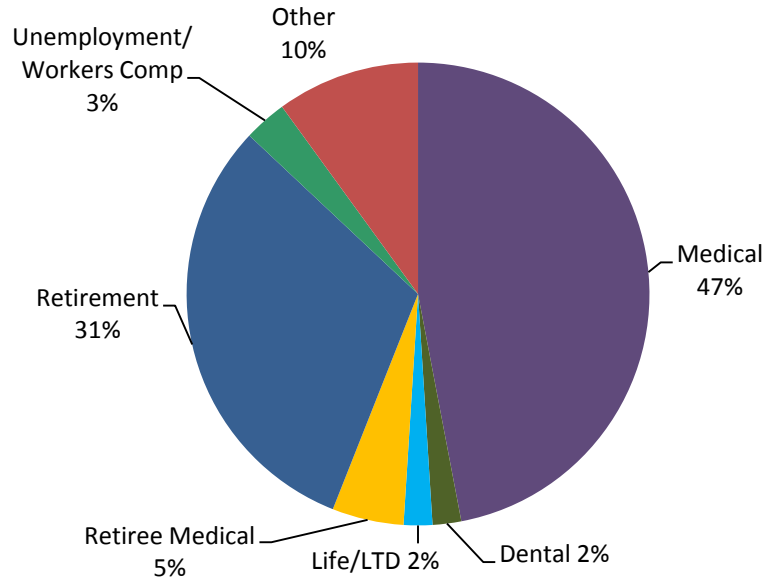
**Chart 6**  
**Benefits Rate History as % of Salaries**  
 (Actual rates for FY03-FY14 and estimated rates for FY15-FY17)



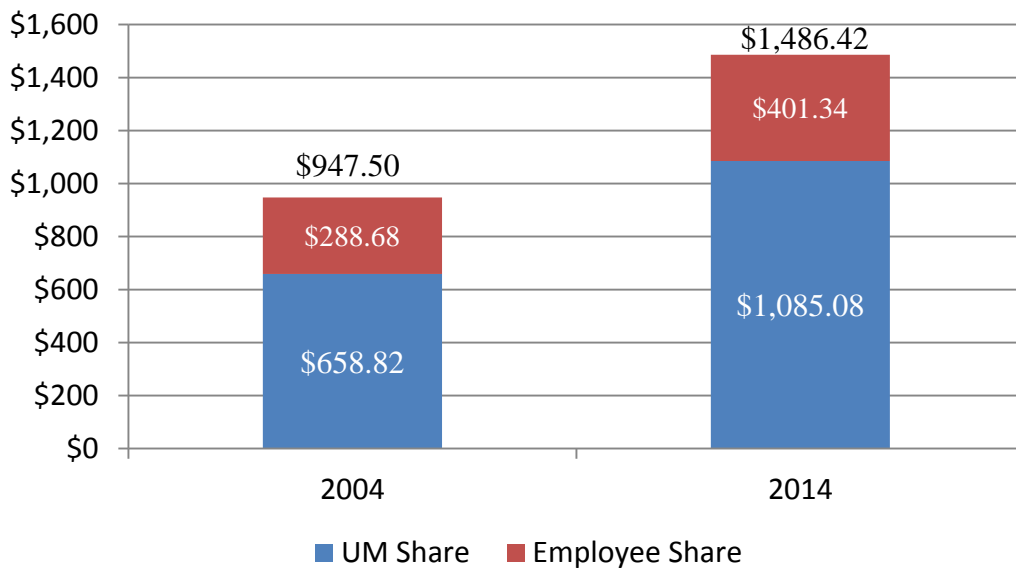
**Chart 7**  
**Aon Hewitt 2013 Benefit Index**  
**University's Benefits Plan Values Compared to Other Institutions**



**Chart 8**  
**Components of Benefit Spend FY14**  
**Total Spend = \$303,603,777**



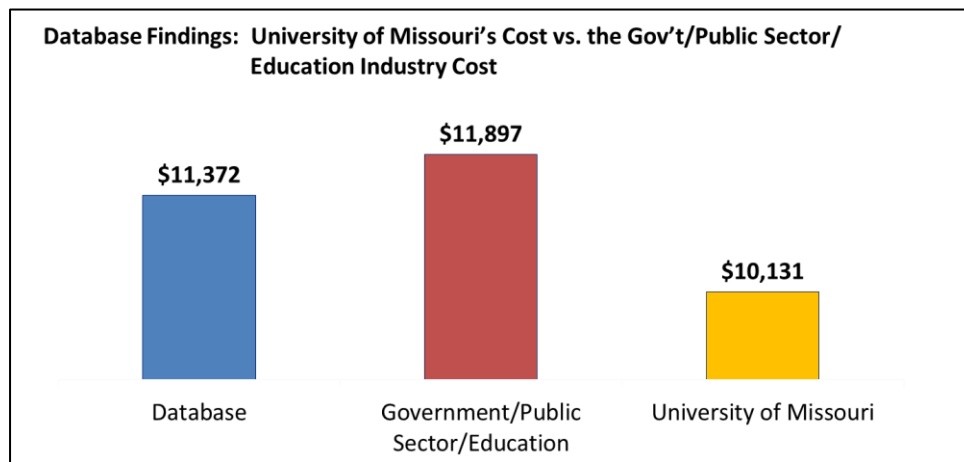
**Chart 9**  
**History of *myChoice* (PPO) Medical Plan Monthly Premiums (Family)**



**Chart 10**  
**Employee Medical Premium Contributions as a Percentage of Pay**

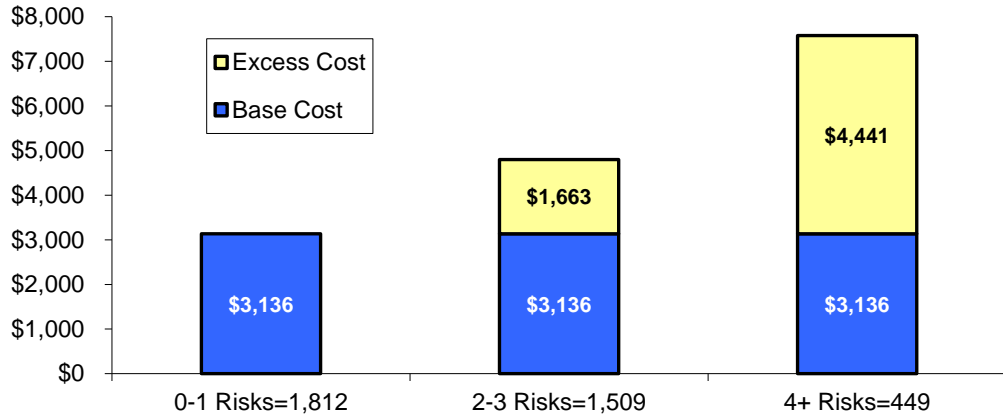
Coverage Type	Annual Pay			
	2004 Premium as % of Pay		2014 Premium as % of Pay	
	\$25,000	\$50,000	\$25,000	\$50,000
Self	2.9%	1.7%	7.0%	3.0%
Family	12.0%	6.0%	19.0%	10.0%

**Chart 11**  
**Towers Watson 2013 Health Care 360 Performance Study**  
**Medical Cost Benchmarks-Industry Breakouts**

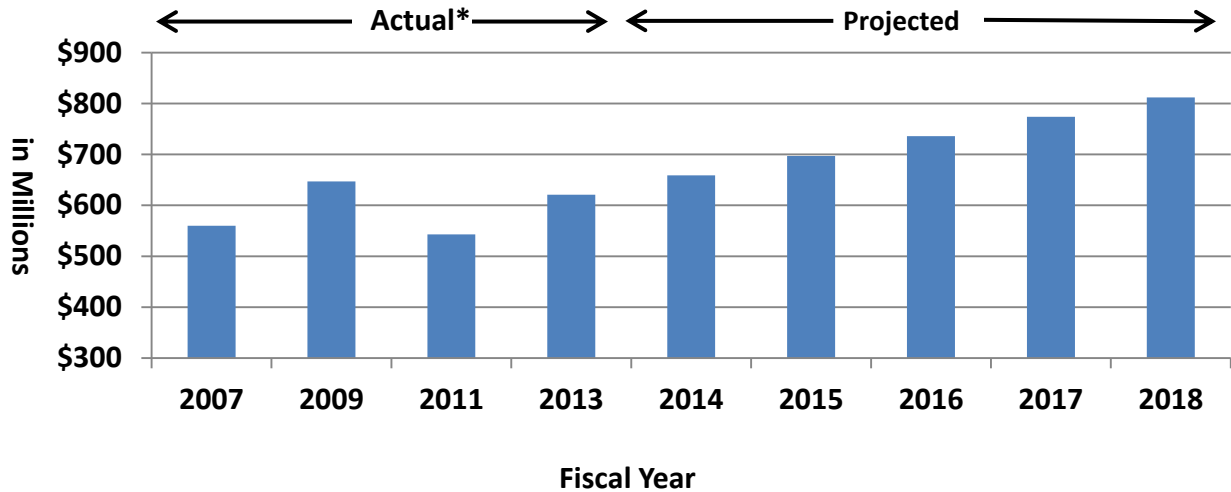


**UM has 15% lower costs than the Gov't/Public Sector/Education industry.**

**Chart 12**  
**Costs Due to Excess Risks: Comparison by Risk Status**  
**for Faculty and Staff**



**Chart 13**  
**Other Post-Employment Benefits Unfunded Liability Growth**



\*The actual unfunded liability is only measured every two years as of October 1

## **APPENDIX B**

### **Task Force Membership**

#### **CHAIR**

Betsy Rodriguez  
Vice President, UM System-Human Resources  
[RodriguezEA@umsystem.edu](mailto:RodriguezEA@umsystem.edu)

#### **MU APPOINTEES**

John David  
Associate Professor, Biological Sciences  
[DavidJ@missouri.edu](mailto:DavidJ@missouri.edu)

Kristofer Hagglund  
Dean, Health Professions  
[HagglundK@health.missouri.edu](mailto:HagglundK@health.missouri.edu)

Leona Rubin  
Associate Vice Chancellor for Graduate Studies  
[RubinL@missouri.edu](mailto:RubinL@missouri.edu)

Lisa Wimmenauer  
Associate Director, Business Services  
[WimmenauerL@missouri.edu](mailto:WimmenauerL@missouri.edu)

#### **UMKC APPOINTEES**

Peggy Ward-Smith  
Associate Professor, Nursing  
[WardsmithP@umkc.edu](mailto:WardsmithP@umkc.edu)

Kevin Sansberry  
Senior Human Resource Specialist, Human Resources  
[SansberryK@umkc.edu](mailto:SansberryK@umkc.edu)

#### **MISSOURI S&T APPOINTEES**

Shannon Fogg  
Associate Professor, History & Political Science  
[SFogg@mst.edu](mailto:SFogg@mst.edu)

Sara Lewis  
Manager, Student Financial Assistance  
[LewisSar@mst.edu](mailto:LewisSar@mst.edu)

**UMSL APPOINTEE**

Joe Martinich

Founders Professor, Logistics and Operations Management

[Joseph.Martinich@umsl.edu](mailto:Joseph.Martinich@umsl.edu)

**MUHC APPOINTEE**

Ginger Gibson

Staff Nurse, Cardiac Intensive Care

[GibsonG@health.missouri.edu](mailto:GibsonG@health.missouri.edu)

**RETIREE APPOINTEE**

Rose Porter

Associate Professor Emerita and Dean Emerita, Nursing

Four Campus Retiree Association

[PorterR@health.missouri.edu](mailto:PorterR@health.missouri.edu)

**EXTERNAL APPOINTEE**

Mike Heckman

Vice President and General Manager, Population Health Services

Cerner

[Mike.Heckman@cerner.com](mailto:Mike.Heckman@cerner.com)

**FACILITATOR**

Jill Wood

Director, Talent Management

[WoodJH@umsystem.edu](mailto:WoodJH@umsystem.edu)

**UM SYSTEM ADVISORS**

Kelley Stuck

Associate Vice President, Total Rewards

[StuckK@umsystem.edu](mailto:StuckK@umsystem.edu)

Tom Richards

Interim Vice President, Finance and Treasurer

[RichardstF@umsystem.edu](mailto:RichardstF@umsystem.edu)

Phil Hoskins

Deputy General Counsel, General Counsel Office

[HoskinsP@umsystem.edu](mailto:HoskinsP@umsystem.edu)



## GLOSSARY

<b>Academic</b>	An employee designated as having an employment position that is teaching and research in nature, but not tenure track.
<b>Ancillary Insurance Benefits</b>	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.
<b>Benefits Rate</b>	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.
<b>Core Retirement Plan</b>	The base retirement plan for each employee who meets the service required for vesting and to which both the University and the employee contribute.
<b>Defined Benefit Plan</b>	A retirement plan in which an employer pays to employees who vest, a specified monthly benefit upon retirement. The benefit is predetermined by a formula based on the employee's earnings history, tenure of service, and age, rather than depending directly on individual investment returns.
<b>Defined Contribution Plan</b>	A retirement plan in which the employer, employee, or both make contributions on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employer contributions and, if applicable, employee contributions) plus any investment earnings on the money in the account. The amount of the benefit at retirement is based on contributions plus investment earnings.
<b>Donut Hole</b>	The Medicare Part D prescription drug deductible gap (informally known as the Medicare donut hole), which is the amount the retiree pays between the initial coverage limit and the catastrophic-coverage threshold.
<b>Employee Medical Plan</b>	Medical and prescription drug coverage provided to benefits-eligible employees.
<b>Employee Retirement Investment Plan (ERIP)</b>	The University of Missouri core retirement plan provided to employees hired on or after October 1, 2012. The ERIP has two parts: (1) a defined benefit component based on years of service and the average of the highest five consecutive years of salary and (2) a defined contribution component where the University makes a mandatory contribution of 2% of eligible pay and matches up to 3% of employee voluntary contributions.
<b>Excise Tax</b>	To begin in 2018, the 40% Health Care Reform non-deductible tax charged for every dollar exceeding the maximum value of health insurance benefits. The value calculation includes self-insured dental, wellness, on-site healthcare clinics, and medical premiums. The maximums will be indexed each year.

<b>Faculty</b>	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 or tenure track position.
<b>GASB</b>	Governmental Accounting Standards Board is the independent organization that established standards of accounting and financial reporting for governmental entities. GASB Statement 45 is an accounting and financial reporting provision requiring government employers to measure and report the liabilities associated with other (than pension) post-employment benefits (or OPEB).
<b>Health Care Reform</b>	See Patient Protection and Affordable Care Act.
<b>Health Savings Account</b>	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.
<b>Health Status</b>	The health outcomes of a group of individuals, including the distribution of such outcomes within the group.
<b>Health Care System</b>	The organization of people, institutions, and resources to deliver healthcare services to meet the health needs of target populations. The University of Missouri Health Care System consists of six hospitals and numerous clinics.
<b>Human Resource Council</b>	Human Resource leadership from each of the four campuses, hospital, and System who meet regularly to establish HR policy and direction.
<b>Leave Benefits</b>	Time allowed for employees to take off work, paid or unpaid, for various reasons including vacation time, sick leave, personal leave, family medical leave, jury duty, military leave, and paid holidays.
<b>Long Term Disability</b>	An insurance that provides income replacement if an employee experiences a severe injury or illness lasting longer than 149 days. The University of Missouri's plan pays a 60% benefit once approved at no premium cost to the employee and offers an employee buy-up option.
<b>Medical Premium</b>	The cost of health insurance shared by the employee and the University.
<b>Medicare Advantage Plans</b>	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.
<b>Medicare Part A</b>	Medicare hospital insurance that pays for inpatient hospital stays, care in a skilled nursing facility, hospice care, and some home health care.
<b>Medicare Part B</b>	Medicare coverage helps pay for physician services, medical supplies, and other outpatient services not paid for by Medicare Part A
<b>Medicare Part C</b>	See Medicare Advantage Plans.

<b>Medicare Supplement</b>	<p>Also referred to as Medigap insurance, sold by private insurance companies that can help pay some or all of the healthcare costs that original Medicare does not cover, like co-payments, co-insurance, and deductibles.</p> <p>Some Medigap policies also offer coverage for services that original Medicare does not cover, such as medical care for travel outside the U.S. If a member has original Medicare and buys a Medigap policy, Medicare will pay its share of the Medicare-approved amount for covered healthcare costs then the Medigap policy pays its share.</p>
<b>Other Post-Employment Benefits (OPEB)</b>	The future liability for medical benefits that an employer offers to retirees. The cost of these benefits is financed by an employer on a “pay-as-you-go” basis, rather than being advance-funded. At the University, OPEB represents the future liability for retiree medical insurance.
<b>Patient Protection and Affordable Care Act (PPACA)</b>	Patient Protection and Affordable Care Act commonly called the Affordable Care Act or Health Care Reform is a federal law as of 2010. The PPACA has a stated goal of increasing the quality and affordability of health insurance, lowering the uninsured rate by expanding public and private insurance coverage, and reducing costs of health care for individuals. PPACA includes both an individual mandate to purchase healthcare coverage and an employer mandate to provide coverage to employees who work on average 30 hours or more per week over a designated measurement period.
<b>Preferred Provider Organization (PPO)</b>	A type of health plan that contracts with medical providers, such as hospitals and doctors, to create a network of participating providers. Members share in the cost of services but pay less because these providers have discounts.
<b>Premium Cost Sharing</b>	The term used to describe the employer and employee contributions to insurance plans.
<b>Retiree Medical Plan</b>	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 <i>myChoice</i> Health Plan or <i>myOptions</i> Health Plan. 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 <i>myOptions</i> Health Plan or <i>myRetiree</i> Health Plan with or without Prescription Drug Coverage.
<b>Retirement Staff Benefits Committee (RSBC)</b>	Committee established as part of the Retirement Plan to interpret and advise administration on the plan, and hear appeals. Also reviews and recommends other benefits.
<b>Retirement, Disability and Death Plan</b>	The University of Missouri core retirement plan provided to employees who were hired prior to October 1, 2012. This plan is a defined benefit “pension plan” that provides a benefit to qualified retirees based on years of service, average of highest five consecutive years salary based on a multiplier of 2.2%
<b>Staff</b>	Non-teaching/academic employees that range from hourly to salary.

<b>Subsidy</b>	Money that is paid, usually by a government or organization, to lower the price of a product or service.
<b>Total Rewards</b>	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 <i>myTotal Rewards</i> as the branded name of the division that oversees the Benefits, Retirement, Wellness, and Compensation Programs.
<b>Tuition Assistance</b>	Program supporting employees who choose to continue their education through the Educational Assistance program. Eligible employees may receive a 75% reduction in tuition and educational fees for up to six credit hours per semester (three credit hours during summer session). In addition, the University provides a 50% reduction in tuition and educational fees for eligible spouses and dependents of vested employees.
<b>Unfunded Liability</b>	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.