



**BALL STATE
UNIVERSITY**

POSSIBLE CHANGES TO RETIREE BENEFITS FOR PROSPECTIVE EMPLOYEES

Board of Trustees
February 8, 2019



Overview

Ball State offers a collection of benefits to employees that are designed to both provide economic stability and improve the quality of life of our employees as well as to offer competitive compensation packages in the marketplace for talented employees.

The University spent \$118M on employee benefits in FY 2018.



Benefits Package

Ball State Offers a Variety of Competitive Employee Benefits Including:

Health & Wellness Benefits

- Medical and Rx Plans
 - active and retirees
 - HSA/FSA accounts
- Dental Plans
 - active and retirees
- Disability Plans
- Life Insurance
 - active and retirees
- Vision Plan
- Wellness Benefits
 - exercise & nutrition
 - recreation facilities
- Employee Assistance Program
- Quick Clinic on campus



Benefits Package

Ball State Offers a Variety of Competitive Employee Benefits Including:

Retirement Plans: Contributions Made by the University

- University Owned Defined Contribution Plan
 - For faculty & professional employees only
- State Managed Defined Benefit Plans
 - Public Employees Retirement Plan (PERF)
 - For staff and service employees
 - Teacher's Retirement Fund (TRF)
 - Optional for faculty or professional employees



Benefits Package

Retirement Plans – Voluntary Benefits

- Employees may voluntarily make contributions to Tax Deferred Defined Contribution Plans under:
 - 403(b) Tax Deferred Plan
 - 457(b) Deferred Compensation Plan
 - 401(a) Deferred Compensation Plan
- Open to all Employees
- Voluntary Phased Retirement Plan, Available Only to Faculty

Benefits Package

Ball State Offers a Variety of Competitive Employee Benefits Including:

Paid Time Off

- Vacation Days (varies by employee classification)
- Sick Days (varies by employee classification)
- Holidays (9 per year)
- Paid Parental Leave
- Other Leaves (e.g., military, funeral, study, special assigned, personal, etc.)

Benefits Package

Ball State Offers a Variety of Competitive Employee Benefits Including:

Tuition Remission

- For Employees
 - Undergraduate programs
 - Graduate programs
- For Employee Spouses and Dependents
- For Indiana Residents Over 60 Years of Age

Benefits Package

Ball State Offers a Variety of Competitive Employee Benefits Including:

Many Miscellaneous Benefits

- Free or Discounted Tickets for Entertainment and Athletic Events
- Access to Educational Programs (e.g., lectures, Brown Planetarium, musical performances)
- Virtually unlimited access to information (e.g., University Libraries)
- Free or discounted software and Bookstore discounts
- Emeriti and Retiree benefits



Recent Enhancements to Benefits

- Added Paid Parental Leave Up to Six Weeks for Either or Both Parents
- Increased Ability to Utilize Sick Leave to Care for Family Member or Care for Adoption or Foster Care Placement (60 days for full time employee)
- Enhanced Employee Assistance Program to Allow for More Free Counseling for Employees
- Increased University Subsidized Life Insurance Limit From \$75,000 to \$125,000
- Enhanced UG Tuition Remission Program by Expanding Eligibility



Recent Enhancements to Benefits

- Increased Tuition Remission from 50% to 80% for on-line programs
- Enhanced Funeral/Bereavement Leave Policy to Add Step-siblings as Covered Family Members
- Increased PTO Earnings for New Service Employees and Those With More Than 10 years of Service and Added an Additional Earnings Tier After 8 Years of Service
- Increased Unscheduled PTO Usage for Service Employees (for illness reasons) From 40 Hours to 56 Hours



Benefits Benchmarking Analysis

- Sibson Consulting Benchmarked BSU’s Employee Benefits Against 26 Public “Comparator Institutions”
- Key Findings Included:
 - BSU’s employee benefits were mostly “aligned” with peer institutions, with a few exceptions:
 - BSU offered lower life insurance limits
 - BSU offered a richer retiree life insurance and disability plans
 - BSU is in the minority in offering a subsidized retiree health care plan
 - The State’s defined benefit plan was a lower benefit than peers



Potential Changes to Retiree Benefits for Prospective Employees

1. Close the Retiree Health Care Plan to New Employees
 - Assumes no changes to any existing retiree or current BSU employee (hired before a date certain)
2. Enroll All New Employees into a University Owned Defined Contribution Retirement Plan and no Longer into PERF or TRF
 - Assumes no changes to any existing retiree or current BSU employee (hired before a certain date)

Potentially Closing Retiree Health Care Plan

- Background Information:
 - No other Indiana public university or college offers subsidized retiree health care for new employees
 - Only 40% of benchmarked Universities offered a subsidized retiree health care in 2013 and CUPA-HR reports that those institutions that still do is waning
 - A formal survey of BSU employees in 2013 showed only 6% of respondents cited retiree health and life insurance benefits as a reason to chose to work at BSU
 - In more recent informal surveys of new employees as to why they chose BSU no one reports retiree health care as a reason



Potentially Closing Retiree Health Care Plan

- BSU administers self-funded health care plans (medical, pharmacy and dental) for over age 65 (Medicare eligible) retirees who have met the eligibility requirements
- For hires after 6/30/99 eligibility requires 62 years of age and 15 years service in the University's health care plan
- In CY 2018 there were 1,800 retirees on BSU's Retiree Health Care Plan
- The University paid \$10.2M in premiums toward all Retiree Health Care benefits in FY 2018
- In addition to the annual cost, there is a substantial long-term liability associated with the Plan and a current impact on the University's financial position



Potentially Closing Retiree Health Care Plan

- An Actuarial Study of the Plan is Completed Each Year – 2017 Plan Study by GRS Retirement Consulting
 - As of 6/30/17 the Retiree Health Care plan was 94.4% actuarially funded
 - The Unfunded Actuarial Liability was \$15.8M*
 - As of 6/30/17 the Actuarial Liability in the Plan was \$281.7 million
 - By 2046 the liability in the Plan is projected to grow to nearly \$1 billion (or higher under current inflation)

***Beginning with FY 2018, public universities had to begin including the unfunded liability of OPEB plans in annual financial reports – the impact on the FY 2018 BSU Financial Report was (\$21.8M)**

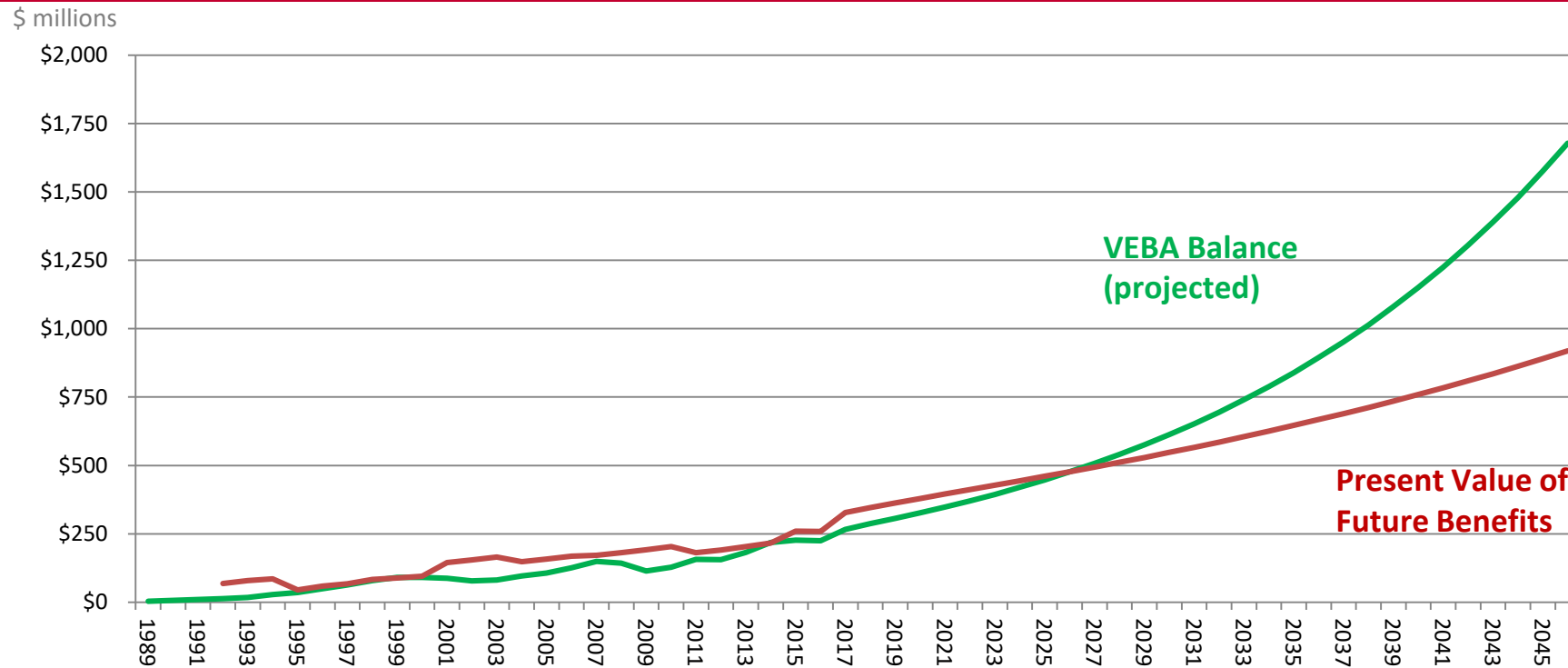


Voluntary Employee Beneficiary Association Trust (VEBA)

- VEBA Trust was Established in 1988 to act as a funding source or asset to offset the liability of retiree health care
- The VEBA is funded through investment returns and contributions from health care plan premiums
- Value of the VEBA Trust as of 6/30/17 was \$265.9 million
- The VEBA assets partially offset the liability in the Retiree Health Care plan, but have not been sufficiently funded to offset annual expenses
- To date, no funds have been withdrawn from the VEBA Trust to pay ongoing expenses and long term projections suggest that may not be possible for many years without substantial increases in premiums or reduced benefits



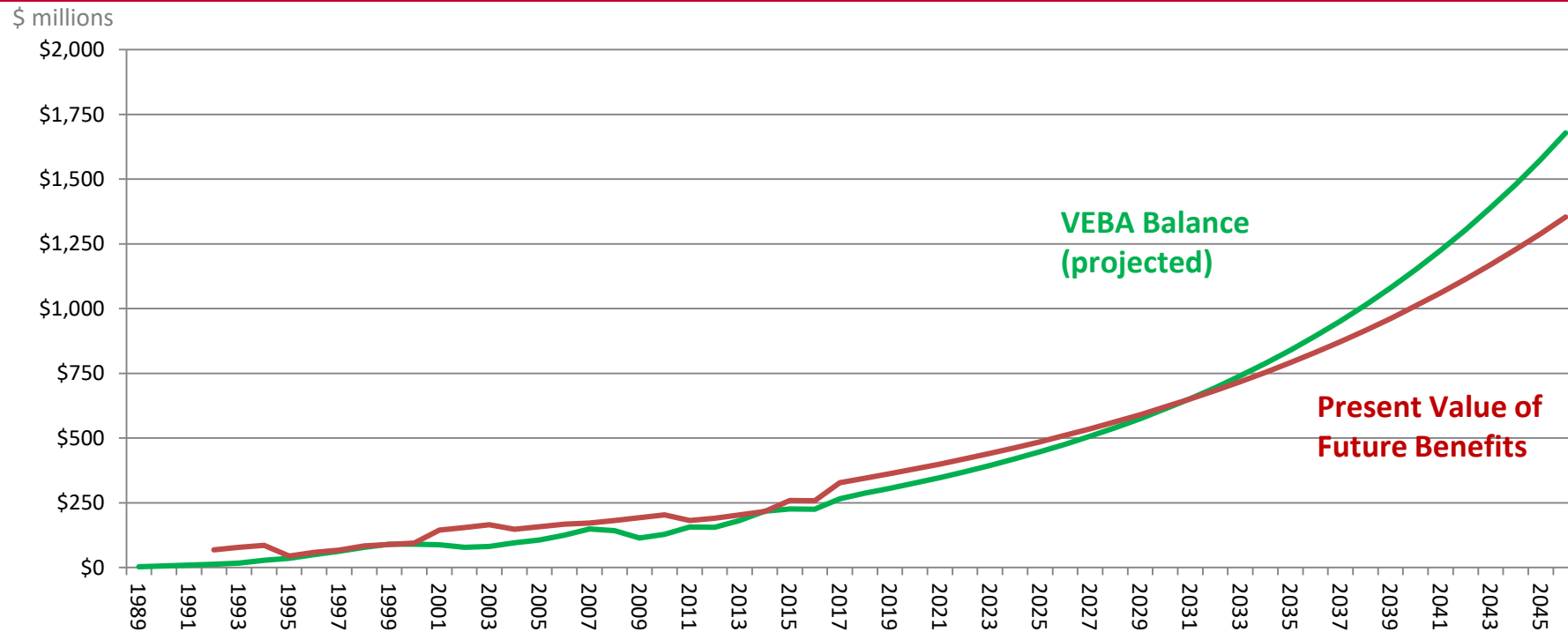
Actuarial Projections of Retiree Health Care Liability & Assets (VEBA)



- Projects net unfunded liability through 2027
- Assumes VEBA investment returns at historical rate (6.5%)
- Assumes significant decline in health care inflation 2022-2046
 - 5% → 3%



Actuarial Projections of Retiree Health Care Liability & Assets (VEBA)



- Projects net unfunded liability through 2030
- Assumes VEBA investment returns at historical rate (6.5%)
- Assumes health care inflation remains at current rate (5%)



Why Close the Retiree Health Care Plan to New Employees?

- Would have no impact on current employees or retirees
- Would align BSU retirement benefits with other Indiana public universities and colleges, and most other colleges and universities
- Would not adversely impact recruitment of employees
- A robust private marketplace exists for Medicare supplement plans
- Not expected to generate short-term budget savings, but savings would be generated over time
- Would remove an enormous long-term liability on BSU's finances and create a path to utilizing some of the VEBA assets for annual expenses
- Would add some stability and predictability to BSU's future benefits costs



Retirement Plans

University Defined Contribution Plan

- The Plan is 100% controlled by the University
- Faculty and Professional Employees may choose this plan or enter TRF
- University makes a contribution to the employees' retirement accounts based on a percentage of compensation
- Contribution rate depends on date of hire
 - Prior to 10/1/2010 rate 12.27%
 - On or after 10/1/2010
 - 5% for first 3 years of service
 - 10.5% thereafter



Retirement Plans

University Defined Contribution Plan

- Employees are immediately vested in the plans
- No required employee match, but employees may invest in voluntary retirement plans regardless of which university-funded retirement plan they choose
- As a DC Plan, the benefit amount is based on the amount contributed and investment returns and the investments are directed by the employee
- Portable plan
- Approximately 2,500 employees in the plan
- FY 2018 University expenditures: \$13.1M



Retirement Plans

State Administered Defined Benefit Plans: PERF

- The Plan is 100% controlled by State of Indiana through Indiana Public Retirement System (INPRS)
- Eligible Staff and Service Employees enroll (no choice)
- University makes a contribution to PERF **as decided by INPRS** and may change annually
- Current rate paid to INPRS 14.2% of compensation
- Includes a 3% Annuity Savings Account (hybrid plan model)



Retirement Plans

State Administered Defined Benefit Plans: PERF

- 10 year vesting requirement in the PERF Defined Benefit plan
- Immediately vested in the Annuity Savings Account (ASA)
- Employees may make voluntary contributions to the ASA
- DB benefit payout is based on salary and years of service and is wholly owned and controlled by INPRS
- DB portion of the plan is not portable, the ASA is
- Approximately 1,300 employees in the plan
- FY 2018 University expenditures: \$7.4M



Retirement Plans

State Administered Defined Benefit Plans: TRF

- The Plan is 100% controlled by State of Indiana through Indiana Public Retirement System (INPRS)
- There are two TRF funds, a “pre-96” fund and a current fund, the pre-96 fund is closed
- Eligible Faculty and Professional employees may choose TRF – but once the choice is made it cannot be changed
- University makes a contribution to TRF **as decided by INPRS** and may change annually
- Current rate 10.5% of salary
- Includes a 3% Annuity Savings Account (hybrid plan)



Retirement Plans

State Administered Defined Benefit Plans: TRF

- 10 year vesting requirement in the TRF Defined Benefit plan
- Immediately vested in the Annuity Savings Account (ASA)
- Employees may make voluntary contributions to the ASA
- DB benefit payout is based on salary and years of service
- DB portion of the plan is not portable, the ASA is
- Approximately 400 employees in the plan
- FY 2018 University expenditures: \$2.7M



Indiana Public Institutions of Higher Education (IHE) and PERF/TRF

- In 2012 all 7 Indiana IHE were fully participating in PERF/TRF
- In 2013 the following IHE closed the PERF/TRF Plans to new employees:
 - Indiana University
 - Purdue University
- In 2014 the following IHE closed the PERF/TRF plans to new employees:
 - Ivy Tech Community College of Indiana
 - University of Southern Indiana

Indiana Public Institutions of Higher Education and PERF/TRF

- In 2014 Vincennes University totally withdrew from PERF/TRF (not just closed the plan to new employees, but withdrew all active employees as well)
- Each IHE utilized their own defined contribution plans to replace PERF/TRF retirement benefits
- Currently only BSU and Indiana State University allow new employees into PERF/TRF

Beginning with FY 2017, public universities had to begin including the unfunded liability of pension plans in annual financial report – the impact on the FY 2018 BSU Financial Report was (\$35.1M) in FY 2017 (\$31.3M)



Why Close the PERF/TRF Plans to New Employees?

- Would have no impact on current employees or retirees
- Would align BSU retirement benefits with other Indiana public universities and colleges, and most other colleges and universities
- Would not adversely impact recruitment of employees as the University would offer an alternative plan
- Not expected to generate short-term budget savings, but savings would grow over time
- Would allow BSU to control the expense and offerings of all retirement plans
- Would add some stability and predictability to BSU's future benefits costs



What Steps Would Have to be Taken to Close PERF/TRF to New Employees?

- State statutes control how a university may close PERF/TRF to new employees
- Because INPRS is currently not fully actuarially funded, universities seeking to close the PERF/TRF plan to new employees must pay a one-time fee to INPRS of the amount of unfunded liability in PERF/TRF attributed to that university
- INPRS calculates the fee and presents that to the university for review, which the university may accept or attempt to negotiate
- The fee may be paid in lump sum, either in a cash payment or borrowed through a bond issue, or repay INPRS over a period of time not to exceed 30 years



What Steps Would Have to be Taken to Close PERF/TRF to New Employees?

- Should the University close the PERF/TRF plans, we would offer a retirement plan for new employees
- A new plan would be a University owned defined contribution plan
- The University has requested the pay-out number from INPRS, but has gone no further at this time
- University Trustees must pass a resolution to end participation in PERF/TRF by new employees
- Certain legal notice may be required for employees of a plan change



Next Steps

- Continue to analyze options, costs and benefits
- Work with INPRS to determine a pay-out cost to close PERF/TRF to new employees
- Engage some expert assistance
- Communicate and educate the campus on options and potential changes to retiree benefits
- As with all changes to employee benefits impacting employees in the bargaining unit, such potential changes would be negotiated through the Equal Representation Committee
- Return to the Board of Trustees with recommendations on both potential changes later this year

