



**MISSOURI HIGHWAYS AND TRANSPORTATION
COMMISSION**

Official Minutes

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**MINUTES OF THE SPECIAL HIGHWAYS AND
TRANSPORTATION COMMISSION MEETING HELD
IN JEFFERSON CITY, MISSOURI, FRIDAY, DECEMBER 27, 2013**

A special meeting of the Missouri Highways and Transportation Commission was held by teleconference on Friday, December 27, 2013, at the Missouri Department of Transportation Building, 105 West Capitol Avenue, Jefferson City, Missouri. Lloyd J. Carmichael, Chairman, was present and called the meeting to order at 9:00 a.m. The following Commissioners were present by teleconference: Stephen R. Miller, Kenneth H. Suelthaus, Kelley M. Martin, Gregg C. Smith, and Bryan T. Scott.

The meeting was called pursuant to Section 226.120 of the Revised Statutes of Missouri, as amended. The Secretary verified that notice of the meeting was posted in keeping with Section 610.020 of the Revised Statutes of Missouri, as amended.

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Dave Nichols, Director of the Missouri Department of Transportation; Rich Tiemeyer, Chief Counsel for the Commission; and Pamela J. Harlan, Secretary to the Commission, were present on Friday, December 27, 2013.

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*“Department” or “MoDOT” herein refers to Missouri Department of Transportation.
“Commission” or “MHTC” herein refers to Missouri Highways and Transportation Commission.*

-- OPEN MEETING --

COMMISSION WORKSHOP – MODOT / MSHP MEDICAL AND LIFE INSURANCE PLAN

The financial realities of stagnant state revenues, uncertain federal funding, rising fixed costs and a reduced construction program required the Commission to adopt the Bolder Five-Year Direction. The Bolder Five-Year Direction reduced staff, facilities, and equipment and put the savings from those reductions into the transportation system. In an effort to continue to find ways to reduce costs, the Commission requested, staff analyze the issues that influence both the current cost and unfunded liabilities for the MoDOT and Missouri State Highway Patrol retirement and medical plans. Changes in the medical and life insurance plan contribution strategy were determined to be necessary, and the Commission directed staff to develop a recommendation that would provide a sufficient benefit that was both affordable and sustainable.

On September 14, 2011, the Commission approved the medical plan premiums and benefits for calendar year 2012. This included changes to the contribution strategy for new retirees beginning January 1, 2014. The strategy tied the employer contribution to retiree health care to years of service rather than a uniform percentage regardless of years of service. The strategy provided for the employer contribution being either \$12 per year of service per month with no survivor contribution, or \$10 per year of service per month with a 50 percent survivor contribution, both capped at 35 years of service, with increases in the employer’s contribution based on the consumer price index. In addition, the changes approved by the Commission adjusted the employer contributions for active employee rate categories to be 80 percent employer share and 20 percent employee share, and increased the non-Medicare and Medicare retiree contributions by approximately 3 percent annually, not to exceed 60

percent in any category, until a 40 percent employer share and a 60 percent retiree share of the premium was achieved in all retiree rate categories.

Following this action by the Commission, many concerns were raised by MoDOT and Missouri State Highway Patrol (MSHP) employees and retirees. The Missouri State Troopers Association (MOSTA) presented a counter proposal by letter on February 23, 2012, and again in a presentation to the Commission on April 3, 2012. In light of the concerns that had been raised, the Commission decided to study health care benefits changes further and adopted a resolution on May 2, 2012, to maintain employer/employee contribution shares at the 2012 levels, and rescinded their September 14, 2011, action to change the funding strategy for the medical plan. The resolution also created the Special MHTC Committee to review the medical plan's sustainability, affordability, and sufficiency, and ensured the membership of the Committee included the Commission, MoDOT, and MSHP representatives.

The Special MHTC Committee met on July 16, 2012; September 10, 2012; October 26, 2012; and November 14, 2012. During these meetings, various proposals were presented, considered, and each committee member was allowed to present their constituencies responses to the proposals. The special committee was unable to reach consensus on a proposal that employee and retiree representatives agreed provided a sufficient employer contribution, but also significantly reduced the plan cost and unfunded liability to meet the goals of affordability and sustainability. However, the Committee did reach consensus on two important issues. The first is that the employers' contribution amount to retiree health care should be based on the retiree's years of service. The second is that each rate category should be self-sustaining, meaning some rate categories should not subsidize others. Currently, the non-Medicare retiree categories are subsidized by the active and Medicare retiree categories.

Following the November 14, 2012 meeting, Chairman Farber shared the details of the meetings with the Commission and sought their input on a health care proposal that would best address the

feedback obtained from the Special Benefits Committee. The Commissioners provided their thoughts and directed staff to develop a new proposal that encompassed as many of the committee suggestions as feasible. The proposal should provide a good benefit for employees and retirees, but share premiums in such a way that the plan would remain affordable for employees, retirees and employers. And the proposal should reduce the future unfunded liability of the plan so that the plan would be sustainable into the future. Additionally, the proposal should consider the establishment of an Other Post-Employment Benefits (OPEB) trust to begin addressing and offset the liability.

In order to be prepared to respond to future inquiries regarding proposed legislation to combine the MoDOT/MSHP plan with Missouri Consolidated Health Care Plan (MCHCP), the Commission and the MCHCP agreed to conduct a joint actuarial study. The purpose of the study was to draw comparisons, as closely as possible, between the two plans, and determine whether there are advantages to merging, or otherwise collaborating, with the MCHCP to offer health care benefits to employees and retirees. The actuary, Towers Watson, conducted the study which generally indicates consolidation of benefits with MCHCP is more costly to MoDOT and the MSHP. The observations in the actuarial study show combining the plans would cause employee dissatisfaction due to increased cost for coverage, and the forecasted financial impact might not be worth the dissatisfaction level. Also, a perceived penalty would appear to apply to the MoDOT and MSHP employees with higher premiums for spouses and family. Additionally, the OPEB numbers increase if the plans were combined. Chairman Carmichael inquired if MoDOT staff recommended against combining or merging the plans and staff indicated consensus with that statement. The Chairman also inquired of Colonel Ron Replogle, MSHP Superintendent who was present, and he indicated the patrol would not recommend combining the MoDOT/MSHP plan with MCHCP.

The Chairman stated the Commission desires to reduce the unfunded OPEB liability to meet the goals of affordability and sustainability. Most government entities have not pre-funded Other Post-

Employment Benefits (OPEB) obligations, most are pay-as-you-go, including the MoDOT/MSHP medical plan. The Governmental Accounting Standards Board (GASB) currently requires recognition of the OPEB obligation in the financial statements, which is a significant increase from the current pay-as-you-go recognition in the financial statements. The Actuarial Present Value (APV) is the amount that, if set aside today, would fully fund the medical plan. The APV is the amount, allowing for future investment earnings, which will be sufficient to pay for the state share of medical premiums for all current employees and retirees.

Chairman Carmichael reviewed three possible strategies that would help reduce the OPEB liability. One option is a 45/55 employer/retiree contribution share. Employees retiring on or after January 1, 2015, will receive an employer health care contribution of 1.8 percent per year of service, capped at 45 percent. That percentage will be applied to the premium applicable to the rate category in which the retiree is enrolled. The maximum contribution is earned at 25 years of service. This option reduces the APV of the plan's unfunded OPEB liability from \$1.317 billion to \$1.066 billion, a reduction of \$251 million. This option was also discussed with Linda Luebbering, Office of Administration Budget Director.

Another option is a 50/50 employer/retiree contribution share. Employees retiring on or after January 1, 2015, will receive an employer health care contribution of 2 percent per year of service, capped at 50 percent. That percentage will be applied to the premium applicable to the rate category in which the retiree is enrolled. The maximum contribution is earned at 25 years of service. This option reduces the APV of the plan's unfunded OPEB liability from \$1.317 billion to \$1.191 billion, a reduction of \$126 million.

A third option considered is a 55/45 employer/retiree contribution share. Employees retiring on or after January 1, 2015, will receive an employer health care contribution of 1.83 percent per year of service, capped at 55 percent. That percentage will be applied to the premium applicable to the rate

category in which the retiree is enrolled. The maximum contribution is earned at 30 years of service. This option reduces the APV of the plan's unfunded OPEB liability from \$1.317 billion to \$1.230 billion, a reduction of \$87 million.

Following careful consideration and discussion of the history of the issue and the various options, the Commission did not take any action in adopting a proposal, however, the Commission requested staff present the 50/50 contribution strategy at the January 8, 2014, Commission meeting as a non-action item to allow public comment on the topic. The final consideration of the 50/50 contribution strategy for the medical and life insurance plan will be presented to the Commission on February 11, 2014, as an action item.

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By unanimous consensus of all members present, the meeting of the Commission adjourned.

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The Mission of the Missouri Highways and Transportation Commission is to:

- Represent the citizens of Missouri pursuant to the Constitution by providing independent and nonpartisan governance of the Missouri Department of Transportation; and
- Establish policies, exercise oversight, and ensure accountability in developing and maintaining a world class transportation system in Missouri which fosters safety and economic development.

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