THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee Special Meeting
September 18, 2013 – Meeting Minutes

Members Present: Chairman J.E. "Gene" Gallegos, Vice Chair Lt. Gen. Bradley Hosmer (via telephone), Regent James Koch (Quorum).

Other Attendees: Jewel Washington, Liz Metzger, Mike Duran, Mallory Reviere, Carol Stephens, Leslie Jones Easom, Gloria Carol, Karen Mann, Hans Barsun, Cindy Mason, Joanne Kuesmer, Jason Wilby, Leslie Boni, Richard Holder, Bernadette Jaramillo-Peck, John Hatz and John Albrecht (Gallagher Services), Elaine Phelps, Eileen Sanchez, Steve McLaughlin, Dorrie Murray, Manu Patel, Chien-chih Yeh, Amy O'Donnell.

Chairman Gallegos called the special meeting to order at 10:30 AM in ROBERTS ROOM, Scholes Hall, UNM. There was only one agenda item.

INFORMATION ITEMS:

- Jewel Washington, Interim Vice President of UNM Human Resources, Mike Duran, Chief Operations Officer, UNM Human Resources, Elaine Phelps, Director, UNM Employee Benefits and Services, John Hatz, Client Consultant, Gallagher Benefit Services, and John Albrecht, Consulting Actuary, Healthcare Analytics, a division of Gallagher Benefit Services, addressed the Committee and audience regarding the Gallagher Services Governmental Accounting Standards Board (GASB) 45 actuarial report dated September 4, 2013.

  Gallagher Services performed a valuation on the UNM retiree health care benefits in July 2011 and again in July 2012. The liability went from $152 million to $94 million. The $64 million difference was due to the establishment of the VEBA and the change in the discount rate, the subsidy decrease, and interest. This does not count any change in the benefit plan. There was another decrease due to tightening of the eligibility. The New Mexico Educational Retirement Board (NMERB) implemented a minimum retirement age. In addition, retirees must participate in VEBA for 5 years prior to retirement. On the other side, the participation rate increased and added $4 million in liability. The claims' trend rate added another $6 million. There was in total a $74 million decrease and a $10 million increase, resulting in the net $64 million decrease in liability.

  The VEBA went into effect on July 1, 2013. VEBA contributions will total approximately $5 million in 2014 and $8 million in 2015. This is with UNM contributing half, and employees contributing half. In 2016, contributions will be $11 million. In 2017, the VEBA fund estimated at approximately $36 million can start paying a portion of the annual required contribution under the GASB guidelines.

  The Chairman noted that this is a plan where you do not want to lose any principle and the plan should be very conservatively invested – how did they come up with a 7% investment rate? A 5% rate would be aggressive. Gallagher Services replied that the 7% is a typical number used as the market rate. The Regents would like to see the numbers using a range of rates – 4%, 5%, 6% and 7%. Regent Hosmer asked about the discount rate analysis. Is it the same as the assumed earning rate? Chairman Gallegos responded they are two entirely different concepts. He feels they would like to see a scenario with 4.5% - or aggressively 5%. Regent Hosmer noted he is not sure if the difference in these numbers is significant. Chairman Gallegos replied that it makes a big difference on the balance sheet for unfunded liability. That is how all of this started. It was the change in the accounting rule that requires that UNM show the liability on the balance sheet.

  Chairman Gallegos asked how this process is not trading one liability for another, since each year UNM has obligated itself to contribute to the VEBA. Liz Metzger, University Controller, stated that it is an obligation. It is cash out the door for the University, but is not a liability on the financial statements. It is an annual operating expense. In 2017, the VEBA will start to reduce the premium subsidy UNM has to pay. Chairman Gallegos doubts that it will start as soon as 2017. It will probably be more like 10 years. Per Mike Duran, it has reduced the Other Post-Employment Benefits (OPEB) expense by $5.5 million this year over last year.

Chairman Gallegos inquired about retiree claims we are paying on an annual basis right now. What was the University's cost for health benefits in FY13? Ms. Phelps responded that early retirees' claims costs were $7.1 million. Other retirees' costs run about $2 million per year. Chairman Gallegos asked about that $9 million in claims plus an additional $2.5 million in VEBA contributions for 2014. Mr. Duran responded the $9 million amount will begin to come down because of the first year of a shift in expense for pre-65 and post-65 retirees. Last year, employees paid 6% less. Chairman Gallegos stated if you start taking VEBA earnings too early, your only build up is on the contributions, not returning earnings. The Regents would like to see the scenarios in order to make decisions.

Chairman Gallegos asked if Gallagher Services has analyzed the present plans and how there might be savings by making it a less generous plan. The plans now are very rich. As he understands it, an overly rich plan can expose you to taxes under the Affordable Health Care Act. Mr. Hatz responded that with a high-level overview of a high-deductible plan at $1500 and at $2500, the savings for $1500 is about 13%. For the $2500 high-deductible plan, savings is about 18%. This analysis is only for the pre-65 retirees. It includes premiums, claims, and administrative expenses. It is a premium cost decrease and does not include an implicit subsidy – the difference of what the active employees pay and the retirees pay. The subsidy would be younger employees paying for what is assumed to be a less healthy older population.

Regent Koch asked about what might happen if employees opt out and go to the federal exchange. Mr. Albrecht replied that retirees could do that and the University could provide a stipend to go purchase insurance elsewhere. Chairman Gallegos stated that is what most large companies have done. Regent Koch further inquired about life insurance and if the University pays part of it, is the employee taxed on it? He would like to see a scenario for modifications on the benefits retirees get, not existing employees. In addition, what would happen if UNM picks one company to provide the retiree insurance, as well as only one plan? He would like to see if we could get a better deal. Ms. Phelps noted that pre-65 health care is self-funded and managed by third party administrators (TPAs). For post-65, they have true insurance companies. Mr. Albrecht asked Regent Koch if he is looking for benefits scenarios for the two different high deductible plans as well as for the cost of one sole source self-funded TPA plan. Regent Koch agreed that is what he wants. He also asked if there is any information on what the federal exchange plan is going to look like for retirees. Gallagher Services has only seen a preliminary rate sheet but can forward that information. Regent Koch also said that the University is in the process of looking at costs of gap insurance. Chairman Gallegos would like to see a target cost reduction of 25%. Deductibles can reduce the cost, but co-pays can as well. Gallagher Services agreed to look at the exchange coverage and let the Regents know if there is enough information available now to make a reasonable comparison.

Ms. Phelps asked if the scenario would include retiree ability to use the UNM doctors as it does now. Regent Koch would still like one network, but he is willing to look at that. Chairman Gallegos asked what standard State of New Mexico retired employees receive for health care. Leslie Jones Easom, a UNM pre-65 employee and health care provider, stated that the premium is the same for State retirees in her bracket. They have Blue Cross/Blue Shield as their provider, but she is not sure what the deductible or co-pay situation is.

To sum up, Chairman Gallegos noted that John Hatz has an assignment to look at plan design. John Albrecht will look the VEBA investment rates and a projection on the trust buildups and at what point it would be a significant contributor. Additionally, what will the change in weighting of allocation mean in terms of the University's expected obligation on claims?

Ms. Washington asked what the Regents expect for tomorrow's meeting and what they expect for October. Chairman Gallegos replied that for the meeting tomorrow, there will just be a review of the discussion here and a summary of what Gallagher Services has been requested to do. Regent Koch stated there are no changes until July 1 of next year. The Committee needs this additional requested information at least 72 hours prior to the October 25, 2013 meeting. Chairman Gallegos stated that the Gallagher Services team does not need to be present at the October 8, 2013 full Board meeting.

Chairman Gallegos addressed the audience, as there are audience members with a vested interest. He asked for any comment or questions. Leslie Boni, Chair, VEBA Trust Advisory Board, introduced herself to the Committee, as the newly elected chair of that board.

Leslie Jones Easom addressed the Committee. She is also a member of the VEBA Trust Advisory Board, a pharmacist, and a pre-65 retiree. Ms. Easom stated that she feels this train is moving way too fast. She believes UNM needs to see what the health care providers in this state can actually provide. If UNM goes to one plan, the plan is not going to be able to provide coverage for everyone. We have no idea if the exchange can provide coverage. Many physicians leave this University and this state. Regent Koch's plan will be detrimental to the University from the standpoint of hiring, integrity, longevity, etc. People in this room have expressed to her that they are scared to death, but they are employees and cannot say anything. She thinks there are things that can be done, but people have not been given enough time to save money to do what Regent Koch is presenting. Regent Koch replied that he is not saying this is what will be done. He believes Ms. Easom is not familiar with the gap coverage. He has clients who pay $23 per month and eliminate all deductibles. He agrees some options are way out on the far end, but the Regents need the information to be able to make educated decisions.

Ms. Easom stated she is on the family plan with Presbyterian. Her premiums went up 28%, or about $223 per month. She now pays more than $10,000 per year on insurance. Depending on which of the four groups a person is in (retiree, retiree + spouse, retiree + children, family) the premium cost increased 28%-54%. People had no time to save money or plan for this. Six to eight months is not long enough. People need 3-5 years. We have no idea how the Affordable Care Act is going to affect things. We have a huge provider issue in this state. Some of these ideas may be workable in the future but there needs to be very careful consideration. Regent Koch stated every business and every person out there is dealing with the same thing. Nobody knows what the exchange is going to cost or what the benefits are. Ms. Easom noted she went to UNM, got a job right out of college, worked 25 years, and retired young. She played the game and did everything she was supposed to. She has it in writing that the University would provide retirees with insurance at the same rate as an active employee and with the same insurance product as an active employee. She stayed at UNM, making 30% less as a pharmacist working here because of the benefits. She is concerned about what any decisions will say about the values and integrity of the University and how that will effect hiring for UNM. The University needs to be careful, and based on what she has heard here today, she is not sure if they are being careful. Chairman Gallegos asked why her argument does not say we need to have a less expensive plan. Ms. Easom stated that the pre-65 employees should be included with the active employees. She paid additional money to pay for the older folks the whole time she was working. Pulling out the pre-65 retirees is a big philosophical mistake. She stated she feels UNM could keep everyone in the same pool but allow people to choose if they want a high deductible plan. She thanked the Committee for their time.

Hans Barsun, co-chair of the Faculty/Staff Benefits Committee reminded the Committee that in the best interest of the people of the University, they are available and charged with review of benefits changes for the University. Mr. Barsun is also a member of the VEBA Trust committee.

Motion to adjourn (Motion: Regent Koch, Second: Chairman Gallegos). There being no further business, the Chairman declared the meeting adjourned at 11:45 a.m.

Approved:

J E Galley

Audit Committee Chairman