Minutes[*]

Senate Committee on Finance and Planning
Tuesday, October 4, 2011
2:00 – 4:00
238A Morrill Hall

Present: Russell Luepker (chair), Sarah Chambers, Will Durfee, Catherine Fitch, Lincoln Kallsen, Cody Mikl, Fred Morrison, Richard Pfutzenreuter, Gwen Rudney, Terry Roe, Ann Sather, Karen Seashore, S. Charles Schulz

Absent: Jon Binks, Kara Kersteter, Kathleen O'Brien, Michael Rollefson, Arturo Schultz, Thomas Stinson, Michael Volna, Aks Zaheer

Guests: Dann Chapman (Director, Employee Benefits)

Other: Elizabeth Eull (President's Office); J. P. Hagerty (Office of the Vice President for University Services)

[In these minutes: (1) statement on Professor Martin; (2) long-term financial planning; (3) report of the chair (AHC report); (4) the structure of salary increases; (5) benefits changes for 2012: financial issues]

Professor Luepker convened the meeting at 2:00 and welcomed Dr. Fitch to the Committee.

1. Statement on Professor Martin

Professor Luepker distributed copies of the following statement:

> The Senate Committee on Finance and Planning notes with great sadness the untimely death of one of its valued members and former chair, Professor Judith Martin. Professor Martin was deeply and actively dedicated to the welfare of the University and demonstrated that commitment in her service to us over many years and in many ways. She provided valuable insights to the Committee and brought a wealth of knowledge, experience, and wisdom that are irreplaceable. She also brought warmth, a lively wit, and charm to the Committee. She will be greatly missed.

The Committee voted unanimously in favor of the statement and observed a moment of silence in honor of Professor Martin. "We will all miss Judith," Professor Luepker concluded.

2. Long-Term Financial Planning

Professor Luepker turned now to Vice President Pfutzenreuter, who distributed copies of a handout on "long-range financial planning framework." He explained that he and Mr. Kallsen would discuss today the conceptual framework for long-term financial planning. The topic has been the subject of conversation for past two years or so, and both President Kaler and the Board of Regents have talked about it. The President is interested in long-term financial planning, and it will be the subject of an initial

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[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

discussion with the Board of Regents in October. The Board will also take up the subject in the spring, when there will be actual forecasts. The discussion today is about the framework.

Mr. Kallsen explained the handout. There are two categories of items in long-term financial planning: Principles (what the University's long-term financial plan should address) and Strategic decision elements and analysis (the data elements that must be incorporated and forecast if they are engage in planning that leads to projections). The principles and strategic decision elements are linked to each other in four groupings: institutional alignment, revenue clusters, cost drivers, and cost containment.

-- Under institutional alignment:

The principles are:

-- Align with and support the University’s strategic plan
-- Improve the long-term financial health of the University
-- Emphasize the importance of an all-funds budget strategy

The strategic decision elements are:

-- Assumptions on changes in state support for higher education
-- Overall changing mix of revenues
-- Federal and state student support trends

-- Under revenue clusters:

The principles are:

-- Reflect the institutional enrollment management plan
-- Support the ability of students and families to pay the cost of attendance
-- Drive increased research funding
-- Encourage entrepreneurial activity (endowment, patents, etc.)

The strategic decision elements are:

-- Freshman, transfer, graduate, and professional enroll targets
-- New instructional programs & collegiate enrollment mgmt.
-- Tuition rate, housing/dining, and financial aid targets
-- Federal research funding trends
-- Endowment, patent, royalty, and external sales projections

-- Under cost drivers:

The principles are:

-- Reward our faculty and staff
-- Provide competitive benefit programs
-- Prudently invest in capital and facilities
-- Implement and maintain new technologies

The strategic decision elements are:

-- Number and type of faculty & staff required for strategic plan
-- Salary plan and goals for various employee types
-- Benefit plan and fringe rate change projections
-- Six-year capital plan
-- Technology implementation and infrastructure maintenance
-- Enterprise systems

-- Under cost containment:

The principles (not quite yet "principles," Mr. Pfutzenreuter commented):

-- Manage space utilization
-- Reduce administrative costs and overhead
-- Understand industry benchmarks and best practices

The strategic decision elements are:

-- Square footage and space utilization standards
-- Define, measure, and benchmark administrative costs
-- Operational excellence

Professor Roe asked what "all-funds budget framework" means. It means they will take into account all sources of revenue and expense, Mr. Kallsen said. Professor Morrison asked if they would take into account the limitations on various kinds of funds. They will, Mr. Kallsen said, and noted the "overall changing mix of revenues" in the decision elements.

Vice President Pfutzenreuter pointed out that with respect to the decision elements related to revenue clusters, they already do the analysis for the purpose of projecting University debt capacity—they project enrollment, compensation, federal support, etc. The model is built but has not been endorsed for the purposes of long-term financial planning. Whatever comes out of the process must support the University's academic plans and goals, Mr. Kallsen added, or the process will not be working the way it is supposed to.

The focus of discussion at the regental level will be on policy, on the principles, not the financial details, Mr. Pfutzenreuter said.

Professor Durfee inquired if the "strategic plan" included in the principles related to "institutional alignment" referred to the strategic-positioning reports from four or five years ago. It does until they are told something different, Mr. Pfutzenreuter said. Professor Durfee asked if President Kaler is planning anything new. Mr. Pfutzenreuter said he has not heard that he is and said that the colleges are working with the plans that exist. Professor Seashore commented that in business, a five-year-old plan would be a dinosaur. Mr. Kallsen observed that the colleges have the more recent blue-ribbon committee reports.

Professor Roe said that much of the activity at the University is bottom-up; how will the administration mesh the strategic plan with a bottom-up process? Or is the plan a set of targets to use in comparing how the bottom-up process is doing? It is the latter, Mr. Pfutzenreuter said. He said he believed the strategic plan should be a rolling framework, with some elements coming from the top and some from the bottom. The plan can be revised each year as the institution sees how it has done. Mr.

Kallsen pointed out that graduate enrollment varies with department and college decisions and there is no institutional target.

Mr. Pfutzenreuter commented that he has not found any university that has engaged very successfully in long-term financial planning. "It's very hard," he said.

There is a third dimension to long-term financial planning, Professor Roe said: The question of what instruments the administration can manipulate versus those that it has no control over. Professor Luepker added that for the University to make plans, directions must be clear. At the same time, there are about 200 graduate programs making decisions about enrollment that depend on resources. Was there a clear regental decision to increase undergraduate enrollment by 15-20% over the last 15 years? Mr. Pfutzenreuter said he did not recall a specific regental resolution about the number of undergraduates. So decisions are made at various levels, Professor Luepker said, such as at the regental, central administrative, college, and departmental. The Regents are aware that enrollment has increased but they did not explicitly say that they wanted to see 10,000 more students, Mr. Pfutzenreuter said.

Professor Seashore commented that the framework is more than a mechanism to organize planning activities; it is also an educational document to explain what the University does. It is in part, Mr. Pfutzenreuter agreed. In the next year, Professor Seashore said, where Mr. Pfutzenreuter and the senior officers are likely to spend their energies is on the President's priorities. What will they be? Cost containment, Mr. Pfutzenreuter responded.

Professor Durfee said he was surprised to see the endowment buried in "encourage entrepreneurial activities" (in the principles) and mixed in with patents and external sales (in the decision elements). The endowment is more important than the others and is a big item. Mr. Pfutzenreuter agreed that it could be separated out. Mr. Kallsen also agreed but said that the categorization allows one to get a sense of the order of magnitude of the various elements of the University's budget and revenues. It is not possible to obtain a lot more money immediately from the endowment. But it would be possible, Mr. Pfutzenreuter said, to set a goal of 15% of revenues from the endowment, for example, rather than the current 12%. (Subsequent to the meeting, the endowment was separated from the other items in the strategic decision elements in the revenue cluster category.)

Professor Roe said that the "strategic decision elements and analysis" listed in the diagram implies a data-intensive exercise since most of the elements are measurable-quantifiable. Then there is the question about decentralization (i.e., whether the plan with University-wide goals and measurement can be translated down to units or whether units transmit upward the quantification of these measures to central administration). It's mixed, Mr. Pfutzenreuter said. Mr. Kallsen said that different colleges care more or less about different revenue streams (e.g., some rely more on tuition, others on sponsored programs). They will not include all the data elements from all of the colleges and will have to make some assumptions, he said. When they produce a spreadsheet, Mr. Pfutzenreuter explained, they will have data and a confidence band; it will really be a guide along the way for planning.

Professor Seashore repeated her point that this is an educational document, both for the Regents and for the University community. A number of the items identified as principles can be driven by decisions by central administration (only the central officers have the data), but others the administration has no control over (e.g., graduate program enrollments). The administration can make projections but in some cases it does not have levers to make change. It will be helpful for the Board of Regents to be able to understand who has the lion's share of responsibility in each area. The Board may believe that the central administration has all the levers, but that's not really true. It would help everyone to understand what levers the central administration has control over. Mr. Pfutzenreuter pointed out that in a $3-plus

billion-dollar budget, about $2 billion in salary and benefits, which the central administration does control. Those are the big drivers, not graduate enrollments.

Professor Schulz said he also appreciated the educational value of the document and offered two observations about long-term planning. First, other universities have been more specific in their goals. The Vanderbilt medical school, for example, announced it would be in the top 10 by 2010 and identified what it would need to do to get there. Professor Schulz said he was concerned that the University would adopt vague goals, such as "increase research spending," which it could even achieve—but still fall behind other institutions because they will have increased spending even more. What is the goal? The University must aim high because all institutions are improving. Second, with respect to endowments, the University of Southern California is going to try to raise $6 billion. He has spoken with his counterpart at USC and learned that they have 8-10 fund-raising offices around the country and overseas. If the University plans to increase its endowment at a faster rate, what is it doing to achieve that goal? Are the Foundation staff just visiting elsewhere or is it establishing offices elsewhere? He suggested the University look at models that other institutions are using. But it may be too expensive to copy them, he added.

Mr. Pfutzenreuter said that President Kaler has created an operational-excellence committee. One of the items he has suggested to the group—and he spoke with the officers of the University of Minnesota Foundation and the Minnesota Medical Foundation about it—is that the way the University funds fund-raising is confusing. Some things it funds, others it does not, and UMF and MMF do things slightly differently. The system doesn't seem to be efficient or clear and it may be necessary to put more money into the fund-raising effort.

Mr. Kallsen agreed with Professor Schulz's point. The Office of the Vice President for Research could aim to increase research funding by X%, but if there is no strategy around the goal, the confidence band for that item will be very wide. If the institution is to do something, one must ask if there is a strategy on the table to achieve the number.

Professor Luepker thanked Vice President Pfutzenreuter and Mr. Kallsen and said the Committee would like to hear more as the process progresses.

3. Report of the Chair

Professor Luepker reported that the Committee's statement on its review of vice presidential units will be on the docket of the October 6 University Senate meeting and he will be presenting it.

He received a message in response to the last set of minutes (he has learned that many people read the Committee's minutes, including a former dean of the Medical School). The message revisited elements of the history of the funding of the Medical School.

There are a number of discussions taking place about the review of the Academic Health Center (AHC), Professor Luepker reported. This Committee would like to hear more about the report but he has been unable to get Vice Presidents Friedman and Mulcahy (the co-chairs of the review committee) together at a meeting before the end of the comment period. So he has provided some of the information from the report at this meeting and asked for a discussion.

Professor Luepker reviewed the list of AHC administrative units and the FTE positions associated with each. In total, there are nearly 1000 people, about 180 of whom are in the vice president's office. What concerns him, Professor Luepker related, is the large amount of money and large number of staff in

the AHC without indication of trends. Some of the AHC units state they want to hire more people. This report, in the "new normal" environment, says that everything is fine and they need more money and staff. He said he would have preferred to hear from Drs. Friedman and Mulcahy and suggested that the Committee say it needs more data and more transparency about what is happening.

Mr. Pfutzenreuter cautioned that a number of the units in the list of AHC administrative units are really system or Twin Cities offices (e.g., HIPAA, OSHA), not just AHC units. The financial staff is mostly accountants who support AHC shared activities, and those activities dictate where they go. But there are still many unanswered questions about what activities or units might stay or go, he agreed. But the data in the report are an accurate reflection of current spending.

Professor Roe agreed that more budget analysis is needed. This is a useful snapshot but it says nothing about history, what the ups and downs have been, or what the trends are. Mr. Pfutzenreuter said that information can be provided, and a number of the trends are down.

Professor Morrison said that one of his questions is what he did not see in the report: Did the committee review whether there is a duplication of services. *A*are there three levels when only two are needed? The Committee should say it is unconvinced by the report unless it is provided more information. Is it necessary for Human Resources staff in AHC units to report to the AHC Human Resources office and then to the central Human Resources office. Another question is why are HIPAA and OSHA in the AHC? (On the last question, Mr. Pfutzenreuter reported that they are there because President Bruininks and Senior Vice President Cerra agreed that they should be.)

With regard to the other AHC colleges, Professor Olin said, they have communications officers, classroom managers, etc. How do they compare with other colleges? They could be a bargain but the Committee does not know. Could information technology be decentralized? The Committee needs to look at the total cost of all schools.

Professor Morrison pointed out, apropos of the list of AHC administrative and shared units and their number of employees, that one group seems to be a second level of administrative oversight while others are cross-collegiate academic units that need a dean-equivalent to whom to report (e.g., the Cancer Center). The Cancer Center has its own human resources, information technology, public relations staff, and so on, Professor Luepker commented. As does his own and other colleges.

Professor Roe noted that every X years departments are reviewed, with external reviewers, to determine if the department is doing what it should or if it should be, for example, cut back. Are these units in the AHC reviewed? Or do they exist forever once created? It is difficult to know why one unit would have a human resources staff member and another would not; it could be that there are efficiencies from specialization. The Committee does not know. One way to judge productivity and efficiency is a program review. But right now there are not enough time-series data available.

Professor Seashore said she did not see any easy way to map the information in the report to the long-term planning framework. It is possible to shift the elements of the blue-ribbon committee reports to the framework, but this report feels incomplete.

Professor Schulz asked Professor Luepker to repeat his comments at the last meeting about the strategy of the AHC. Professor Luepker said that there is no apparent vision for the AHC in the report; it's "here's what we have, it's too hard to look into the details, and we're doing fine." There is nothing like the long-term planning model and no long-term goals and how the AHC will get it there. The original organizational charge to the AHC was to make things better by bringing the colleges together. Without

that vision and goal, the report is just a review of the bureaucracy—which has good people in it—but the question is whether the AHC is getting the colleges and the University to where they need to be.

There is a lot of interesting things happening, Professor Seashore said, in part because of relationships between departments in and outside the AHC. That is where many ideas and dollars are. Her question is whether the AHC is enhancing those relationships or if the faculty find each other in spite of it. This report does not address that question. That was in the charge, Professor Luepker said, and he has learned that there are now meetings with AHC deans and other deans, but nothing in the report intimates those connections.

Professor Luepker asked Committee members to review the notes of the meeting, ask others to do so, and said the Committee remains interested in learning more.

4. Structure of Salary Increases

Last week at the meeting of the Faculty Consultative Committee, he asked President Kaler about salary increases, Professor Luepker reported. If there are funds available for salary increases, some argue that they should be distributed across the board: Because the reductions have been across the board, so should the increases. The President's response was that the increases could perhaps be across the board at the lower end of the salary scale, for those with more modest salaries, and the remainder based on merit.

That is not very different from what has usually been done, Professor Morrison commented; the civil service staff and bargaining-unit employees typically receive across-the-board increases while the P&A staff and faculty receive merit-based increases. The President articulated it in a different way but the net result is the same. It could also be that employees on the lower end of the salary scale could receive fixed-dollar amounts and the rest could be based on merit.

What about students, Professor Luepker asked? Those are typically hourly rates that are increased, Professor Morrison said. Mr. Kallsen said that there is a floor for graduate-student salaries.

Professor Morrison said that another factor to consider is that unless the strategy is pursued very aggressively, it will make the University vulnerable to raids. If there is a small amount of salary money, and much of it must be distributed to those of modest means, there will be little left to fend off raids (largely by private institutions) to pick off the University's best scholars. It is well known, Professor Roe said, that to get a salary increase, one must get an outside offer. A 2% salary increase simply maintains one's salary. The funds for faculty salary increases have always been 100% merit, Professor Seashore said, but there are younger faculty members whose salaries could be considered "modest." And they have not seen any salary increases recently.

Professor Schulz asked if the funds for salary increases in Vice President Pfutzenreuter's FY13 budget framework are recurring. Professor Morrison said that in the budget plan, the increases would be adjustments to the base and would be recurring. That does not mean, however, that colleges or departments/divisions would have to give increases out as recurring. Professor Seashore responded that in the past, departments have been prevented from giving out non-recurring increases.

Professor Seashore said that the long-term financial planning framework was useful and that the Committee should adjust its agendas to focus on where energy will be spent. If the administration is going to focus on cost-containment, the Committee should receive reports as they emerge.

The Committee discussed the timing of salary instructions and the manner in which the Committee should be consulted on them before they are sent out. Mr. Kallsen noted that the academic salary instructions typically come jointly from the Vice President from Human Resources and the Senior Vice President for Academic Affairs and Provost. It may be, he added, that there are a number of employees who are severely under-compensated—and a 2% increase won't address the problem. The question is how address those salaries. That will be difficult to do in a uniform way across units, Professor Roe said. That is why there is an art to crafting the academic salary instructions, Mr. Kallsen observed.

Professor Luepker said that the Committee should weigh in on the salary instructions. He will bring the issue back to the Committee.

5. Benefits Changes for 2012: Financial Issues

Professor Luepker now welcomed Mr. Chapman to the meeting to discuss financial issues associated with changes in benefits in 2012.

Mr. Chapman distributed copies of a set of PowerPoint slides and took the Committee through them.

Mr. Chapman began by providing highlights of plan performance and made several points.

-- UPlan continues to provide affordability and choice of plan offerings to employees
-- Pharmacy program exceeds expectations
-- Wellness program has positive ROI
-- Total program cost:
2008 -$175.2 M (+11.7%)
2009 -$197.1 M (+12.5%)
2010 -$207.1M (+5.1%)
2011 -$219.9M (+6.2%) *projected*
(2008 & 2009 had rising employee enrollment, whereas 2010 & 2011 enrolled employees are relatively stable.)

So the cost of the medical plan (including pharmacy but not dental coverage) went from $175 million to about $220 million in four years. The changes tend to bounce around with changes in the number of employees as well as changes in costs, Mr. Chapman pointed out.

Mr. Chapman noted a bar graph depicting the UPlan medical costs per employee per year from 2005 to 2012 (projected). For that period, the University's cost increased from $6,758 to $9,856. The employees' premium costs increased from $1,397 to $2,986 and employee out-of-pocket costs increased from $543 to $722. Mr. Chapman pointed out that the University's costs are projected to be flat from 2011 to 2012, increasing only from $9,844 to $9,856. The increases in costs are always higher than the CPI but the University's costs are on the low end in comparison to national and regional statistics. That they are lower is an exceptional accomplishment, Mr. Chapman said, because University employees are a more expensive group—they are older and more educated. The fact that the University's costs per employee will remain nearly flat (something that was not planned) means in essence that University employees are absorbing the plan cost increases.

Mr. Chapman provided another bar graph containing UPlan costs from inception (2002, when the University separated from the state) to 2012. The cost has gone from slightly under $100 million to a projected nearly $250 million. The graph also indicated the amount of money that had been saved as a result of University actions to reduce costs. The graph illustrates the dramatic trend in the increase in costs, Mr. Chapman noted, and the UPlan has a significant impact on the University's mission—because those are funds not available for other activities. Like a business, the University can look at the bottom line of health-care costs and evaluate its effect on business (e.g., it has been estimated that cars in the United States cost $1500 more because of the costs of providing health insurance to auto employees). The ability to carry out the University's mission is eroded because of the costs of health care.

Professor Seashore asked if the numbers were similar for dental coverage. They are not, Mr. Chapman said; the increases are smaller and the costs are more predictable. Professor Olin pointed out that dental coverage is not really insurance, it is prepaid service, and it has not changed very much. Professor Morrison interjected that the cost has increased from about $1000 to $1800.

Mr. Chapman reviewed briefly the cost reductions that President Bruininks directed the UPlan to absorb, 5% of expenses (the same reduction imposed on other administrative units). That meant a reduction of $12.7 million in 2012 and $11.4 million in future years, and savings from the RFP process that led to selection of a single plan administrator. With such large changes, it was necessary to shift some of the plan costs to employees to achieve the savings in a short period of time. Over the long term, they have tried to find efficiencies and savings in order to avoid shifting costs to employees, so this is a change. Mr. Chapman noted the savings to the University from the changes (primarily in increased employee contributions to premium costs and, to a smaller extent, increase in co-pays and out-of-network deductibles). There will also be a slight increase in expenditures for the Wellness Program, which is the reason the savings are smaller in 2013 and beyond than in 2012.

For the base plan, the cost-sharing works out as follows:

Cost share for employee-only coverage
– 2011: Employee 10% / University 90%
– 2012: Employee 13% / University 87%

Cost share for family coverage
– 2011: Employee 15% / University 85%
– 2012: Employee 19.5% / University 80.5%

Medical trend (inflation) increase: 6.5%

Premium increase due to contribution shift + trend:
– Medica Insights –25.0%
– Base Plans, National & HSA –34.6%

So, Professor Luepker said, for an employee whose cost this year is $100 will pay $134 in 2012 on average. That is correct, Mr. Chapman said. One way for some employees to save money is to move to the base plan if they are now in a higher-cost plan; that would mean they would see little or no increase in costs but it would also likely mean a change in providers, especially for those who have been HealthPartners members.

HealthPartners will be offered through Medica Insights, Mr. Chapman said. That plan has not increased as much as the others because of the influx of HealthPartners clinics. It has become clear that HealthPartners was costing the University too much, and the change for 2012 puts them at the price point where they belong—which is still not as expensive as some plans. It made sense to keep the Medica Insights premium lower to keep HealthPartners affordable, but the 25% increase he reported does NOT mean that HealthPartners members will see only a 25% increase— HealthPartners members will see increases in the mid 40% range, depending on their tier of coverage due the difference between their current HealthPartners rate and the rate for Medica Insights.

Professor Roe observed that a 2.0% salary increase might not be enough to cover the increase in costs for medical coverage. Mr. Chapman agreed. That is why they have also implemented a grant program for lower-paid employees.

Professor Roe asked if one receives the same service from Medica Insights as one would from a lower-cost plan. They do, Mr. Chapman said. Plan administrators want the entire book of University business and give the University a better price on administrative fees if they get it. In the past, it has been University practice to have more than one plan administrator. They started out with four, then moved to two, and now believe they are at a place where there should be only one. The financial situation drives a decision to get the plan administered as cost-effectively as possible but still with high quality. They are not concerned about being held hostage by the one plan administrator. Professor Morrison noted that he had presided over the RFP committee and pointed that by changing to one plan administrator they saved about $2 million per year—costs that would have had to have been paid by the employee's share of premium costs.

Mr. Chapman explained why they University is not worried about a bait-and-switch (Medica as plan administrator provides the University a good price the first year and then increases it in later years). The University has rate guarantees for the next three years and also has a long track record of paying Medica's administrative fees, which are reasonable. Moreover, Medica is motivated to keep the University happy because it has already shown that it will pull its plan from one administrator. It is a two-year contract with four one year renewals available, Professor Morrison said, and the University will know what the fees will be before a decision on renewal is to be made. If the fees were to double, the University would be on the street immediately seeking a new vendor, and there are three or four vendors who could handle the University's business. In addition, the University is a flagship account that has value on the street, Mr. Chapman said. Medica has been very trustworthy and has played fair with the University. (Professor Morrison reported that there were four major and qualified bidders to become the UPlan administrator.)

Professor Olin asked if the UPlan will be taxed under the provisions of the new federal health-care law. Professor Morrison said that should not be a problem before 2018. He said the University is reasonably set for the next six years, and they have been planning with 2018 in mind.

Ms. Sather inquired if there is any guarantee that Medica will be able to accommodate a large influx of HealthPartners members, given the change to the base plan. Mr. Chapman said he needed to draw a distinction. In terms of Medica staff, for customer service, etc., they have been staffing up for the University and have built a more robust customer-service team so they will be more responsive to faculty and staff. In terms of analysis of providers (which Medica does not own), they know that there is

capacity. That could vary from one clinic to the next, but the system can absorb any who transfer from HealthPartners.

Professor Schulz gave the example of a faculty member in the AHC making $200,000, which is not rare in the AHC). Health coverage will cost about $13,000, retirement contributions will cost about $26,000, but the total fringe benefit cost is about $66,000. Where does the difference go? Professor Morrison said that benefits are paid for through the fringe-benefit cost pool, which charges a percentage of salary and then pays out specific dollar amounts for each employee for each benefit. There are a few benefits one does not hear much about, such as unemployment compensation, but this system does mean that those with higher salaries are subsidizing those with low salaries: The system is collecting more from money from high-salaried employees than it is paying out, while for the clerical staff person the department is paying less than what the person's benefits cost. That may not even out within a department but it does even out across the University. The federal government requires institutions to collect fringe benefits as a percentage of salary.

Professor Luepker said that HealthPartners has two arms: It owned clinics and it contracted with other clinics. Is the problem for people who used the clinics HealthPartners owns? It is, Mr. Chapman said; all of them are in Medica Insights. If one's family has always gone to HealthPartners, it can continue to do so through Medica Insights, Professor Morrison agreed, but some people had HealthPartners coverage but went to Park-Nicollet or other places. Those people can change to the base Medical plan and keep the same provider. For those families where different family members use different systems, they will need Medica Insights. University clinics are covered in every plan, Mr. Chapman said.

Mr. Chapman reviewed briefly the changes in dental coverage and medical/pharmacy charges. Most importantly, the prescription co-pays for generic medicines (which accounts for more than 75% of employee prescriptions) increases from $8 to $10. Office visit co-pays, for the base plan, increase from $11 to $15, which is a big jump, but it has been at $10-11 for a long time and is still less than the cost of many other health plans.

Mr. Chapman also outlined the benefits to changing to one plan administrator and the grant-program to provide relief for lower-paid employees from premium increases (for one year, for now). The impact of increases on lower-paid employees was a significant concern of President Bruininks so they developed the grant program, which will provide $200 to $450, depending on household income.

Professor Chambers asked where the funds for the grant program would come from. Mr. Chapman said they will come from the University. They cannot identify the cost right now because they do not know employee household incomes. They best estimate they could make was to use employee incomes and make a guess about spouse/partner income, Professor Morrison said, but it is just a guess, Mr. Chapman said. Professor Morrison added that if one is single, one is less likely to receive the subsidy than if one is paying for family coverage.

Professor Luepker calculated that the average increase, for all employees, would be about $900 each. Professor Morrison said it would be about $600 for employee-only coverage and about $1200 for family coverage.

Mr. Chapman concluded by saying that he believed that as painful as the increased costs will be, the UPlan is still meeting its core goals: to offer quality, comprehensive health care coverage at an affordable price and to continue to offer choice among plan offerings. Despite increased costs to employees, the UPlan remains one of the best employer-sponsored health plans available.

Professor Luepker thanked Mr. Chapman for his report and adjourned the meeting at 4:10.

-- Gary Engstrand

University of Minnesota