Minutes*

Senate Committee on Finance and Planning
February 18, 1992

Present: Burton Shapiro (chair), Avner Ben-Ner, David Biesboer, Karen Geronime, Virginia Gray, Michael Hoey, Thomas Hoffmann, Fred Morrison, Jeff von Munkwitz-Smith, Irwin Rubenstein, Mary Sue Simmons, Charles Speaks

Guests: Ken Janzen (Regents' Office), Garrett Weber (Daily)

1. Report on Steam Negotiations

Professor Shapiro convened the meeting at 3:15 and asked Ms. Simmons, chair of the Subcommittee on Physical Plant and Space Allocation, to provide the Committee an update on the steam negotiations.

Ms. Simmons first told the Committee that the subcommittee has requested a name change, inasmuch as most of its work is with the re-named Facilities Management, and then inquired of the Committee what should be included in its charge beyond physical plant and physical planning issues. One question is whether or not they should continue to consider space allocation issues or the capital request. The Committee appeared to agree that the capital request was given consideration in sufficient places that the subcommittee need not deal with it but that space allocation policy issues had no other venue for discussion in the governance system and that the subcommittee should continue to attend to them.

On the steam negotiations, Ms. Simmons told the Committee that the subcommittee has its own subcommittee, the Steam Advisory Committee (SAC), which includes faculty members with expertise in the economic, mechanical, and environmental issues associated with generation of heat and power. The SAC has worked closely with the administration--as closely as it can, that is, given that the contract negotiations with the three vendors are all closed. Three contracts will be negotiated and presented to the Board of Regents for information in March, along with the administration's recommendation; the subcommittee will review the documents and will make a report to the Committee. There will be time for comment during March, including an open forum at which the SAC has been provided time.

Ms. Simmons said that the subcommittee and SAC have been concerned primarily about environmental issues and with co-generation (of heat and power). The cost to the University for the project, in the first 4 - 5 years, will be about $350 million, and could be about $1 billion for the life of the project. The University is also exploring the possibility of two contracts, one with a vendor to build and operate the steam plant and a second with a fuel provider. Although the project has been delayed somewhat, it appears that the costs will be lower than originally expected and that the environmental concerns have been given much greater attention than previously, so the delay may have been beneficial.

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

It was agreed that when this issue comes before the Committee, it will be important to have present the faculty experts on the SAC in order to inform the discussion.

2. Resolution on Health Care

Professor Shapiro next turned to the draft motion sent out with the agenda; it was moved and seconded that the University not separate from the state health plan. [The Committee did eventually adopt two resolutions; the texts are appended to these minutes.]

Professor Shapiro asked Professor Ben-Ner to outline the advantages that some see to the University separating from the state's health plans. Professor Ben-Ner began by first commenting that he wished the administration had taken the job of analysis more seriously, rather than simply presenting numbers, and said he believed such analysis should occur routinely when major issues arise. He would have preferred a written analysis that included careful examination of the pros and cons of the plan and a reply to the criticisms offered by members of the task force and by others.

In the best of all worlds, Professor Ben-Ner said, a separate plan would have given the University the opportunity to tailor the plan to its own needs--for example, it would have given some on the staff the opportunity to buy a Cadillac if they wanted to pay for it and it would have given the University the ability to cover faculty members on leave. In addition, it would have given the University the chance to get at outcomes analysis; current thinking in the field is that large employers should be informed buyers of health care--which means not only obtaining a good price and informing employees about options but also including measures of outcomes by hospital, practice, or individual physician. Such a plan would have also allowed the establishment of a quasi-indemnity plan and allow full access to all University facilities. The separate plan would also have allowed the institution and employees to make trade-offs between everything they want--for example, salary increases versus health care.

Asked why many, primarily central administrators, appear to believe it is a good idea for the University to separate from the state's plan now, Professor Ben-Ner said he did not know; there has been insufficient analysis to make a judgment on the merits. It is true, he said, that the Choice Plan [which would be created if the University separated from the state plan] does provide some advantages to certain employees: those who are heavier out-of-network users; those who can obtain coverage through their spouses (although this latter group is shrinking rapidly); and mental health and chemical dependency benefits would also increase, although not in every dimension. One problem is that it is not clear that the assumptions underlying the Choice Plan--predicated on 17,000 employees--will still obtain if the number is reduced to 10,000 (because the 7,000 unionized clerical employees have opted to stay with the state plan).

Asked about the language in the resolution noting that the information "deals primarily with only one aspect of the proposed alternative plan," Professor Morrison said that there are four aspects to the proposed plan (maybe): the HMO provider (probably Group Health), the Choice Plan, the catastrophic coverage, and a possible fourth option along the lines of Aware Gold. The central administration and the consultants, it was noted, "apparently had to be dragged kicking and screaming" to even include language about the possibility of a fourth option. The opt-out option may fall apart because of the reduction in spousal coverage by other employers, and the fourth option is not definite, so the result may be only two choices, Group Health and a poor "choice" plan.

One Committee member inquired, apropos the Choice Plan, who it was that decided there should be a gatekeeper. Professor Ben-Ner said he did not recall that there had been explicit discussion or that the task force was ever asked to vote on the issue; it was included in the "managed care" alternative presented by the consultant. Asked if gatekeepers help keep costs down, Professor Ben-Ner said they do, although there is some debate about how cost-effective they are. IBM, for example, has rejected the gatekeeper function in favor of advice to employees about providers without excluding anyone. If the consultative process had been properly used, it was tartly concluded, it should have been relied upon when the elements of the choice option were being considered. It was recalled by another Committee member that most faculty, when the gatekeeper concept was discussed a year ago, rejected it.

One should not oppose the Choice Plan simply because it includes a gatekeeper, it was noted; it would depend on how evenly managed the gatekeeper function was. Those details have been ironed out, Professor Ben-Ner said, although he was not acquainted with such details as how many times an employee could see a specialist to whom he or she was referred by a primary care physician without having to return to the primary care physician for further referral.

The results of this effort are appalling, said one member of the Committee. After two years of work, what has been presented promote agendas other than those of the University. The reason for appointing the health care task force was to respond to the sense that faculty and staff had been left with no acceptable "choice plan" after the change to the state's plan and that this omission needed to be addressed. It is appalling that up until December of last year, no serious thought had been given to providing an option along the lines of Aware Gold.

Another failing of the report is that the proposed health plan makes no provision for the coordinate campuses.

A third problem is that the task force had been expected to do something about costs--although that, in his opinion, was never a legitimate agenda item. Inasmuch as the University's commitment is capped at the Group Health cost, this report basically tells faculty members that they may use their money for scotch or race cars but may NOT use it for the purchase of what they believe to be better health care. The cost-control mechanisms of the plan protect the pocketbooks of people who do not want them protected and who are willing to spend the money!

The fourth failing of the report is that quality of health care was to be considered; it does nothing on that score.

Further, it was argued, while intended to open University Hospitals and Clinics to more employees--because some plans do not include them--instead the plan eliminates access to others in the Twin Cities through use of a narrow set of gatekeepers. Opening the University Hospitals and Clinics was achieved at a high price. And who is it that wanted the University Hospitals made available--the employees or the providers? It is on this point that the membership of the health care task force made a difference, it was suggested; provider interests were put before those of the employees.

The gatekeeper concept is unlikely to be cost-effective in the University environment; University employees will not be fooled by it and will force their way around the system. They will also spend a lot of time away from their jobs on needless visits to the gatekeeper one day and to the specialist the next.

All of this raises serious questions of trust about the process, it was said. This is the first time in many years that in a joint faculty-administration committee, the faculty members on it were so upset by how they were treated that they felt it necessary to write letters to Senate committees. That, it was maintained, says something about who will administer the Choice Plan in the future and who the consultants will be. It is for this reason that one must disagree with Professor Hexter, it was said, who argued that the University should just go back and do it the right way. But those in charge will NOT do it right and they will pursue hidden agendas; the consultant wanted a managed care system and the Hospital wanted more patients. This leads one to conclude that the University should stay with the state plan, which is at least independently monitored. If a secure plan could be developed, along the lines of Aware Gold, it could be supported--but those who are in charge now cannot be trusted so the state plan is to be preferred. On the basis of what has been seen thus far, no one can believe that the fourth option will ever materialize.

Another Committee member argued that one question that has been overlooked is how the gatekeeper function can help contain costs. It is possible that one need NOT see a specialist, many times, and the specialist can have an ulterior motive in that he or she makes much more money than the gatekeeper. The gatekeeper, however, recognizes that motive and, by declining to refer when it is not necessary, saves money for the entire group. There are good reasons why Group Health is the lowest cost option; while it has been said they provide lower quality care, that is doubtful if one looks at broad outcomes. That notwithstanding, no one should object if individuals want the option of more expensive care and are willing to pay for it.

The incentives for the gatekeeper vary, it was noted; the gatekeeper in the Choice Plan has a more negative incentive than a gatekeeper at Group Health. In the Choice Plan, the gatekeeper will have to bear some of the cost of sending a patient to see a specialist.

Discussion turned to the question of whether or not the University could obtain a larger voice in the development of the state plan. Even if the University cannot participate directly in the decision-making, it could make its views known--and if they were ignored, it could go to higher levels, such as the Governor and legislature. If it presented an articulate and logical position, and appealed for assistance above the level of the Commissioner of Administration, why would it not be heard? And it should be able to make the case in favor of adding a plan that would cover its own costs and create no obligation for the state plan.

Another development that may help is that Group Health is developing a plan whereby one can obtain out-of-network care and still be covered; the task force consultant, however, did not want to examine that alternative. This option should be available next year, and may solve many of the problems that presently exist in the state plan. It is to be hoped that the state looks at it.

The question of use of the University Hospitals and Clinics arose; it is now available under both the state's plan and Group Health. An additional problem, that of being able to use the University Hospitals but not Boynton (and vice-versa) is yet to be resolved.

One Committee member inquired what the risk to the University is if it separates from the state plan. The Choice Plan will be self-insured, so the estimates of its costs are exactly that--estimates--and the University will have to pay the actual costs. Senior Vice President Erickson has noted that the University can buy stop-loss insurance, which is true, but typically such insurance only covers bracketed amounts--if the losses exceed the bracket, the University would again have to pick up the costs. And the insurance itself costs money. The risks are, first, that the stop-loss insurance would not cover all the losses, and second, that the lower loss limit of the bracket would not be set right at the expected costs, but would provide some room for fluctuation, so there could be costs above those projected but before the stop-loss insurance coverage were invoked. In the current budget situation, the numbers involved are frightening; the University needs to be in an insured situation where these losses will not occur.

There is no guarantee that the state will not charge the University for losses, it was pointed out, as it did several years ago. The charges, however, could be paid over 2 - 3 years; if the University were self-insured, it would have to pay on a day-by-day basis.

Another disadvantage to self-insurance, it was noted, is that the University could change the plan at any time. Group Health (and the state plan) are regulated and cannot make unilateral changes; the University could do so.

The Committee voted 10 - 0 in favor of the resolution opposing separation from the state's health plan. One Committee member, noting she had been elected to the Group Health Board of Directors, concluded that propriety required she abstain from the vote.

The Committee also voted 11 - 0 in favor of a resolution calling on the President to insist on better representation for the University in state health plans negotiations.

Professor Shapiro noted that there will be an open forum on this issue the hour and a quarter before the Senate meeting on February 20 in Room 25 Law. He also opined, in closing the discussion, that no matter how great the virtues of separating from the state plan might be--and there may be some--votes such as the one just taken, in addition to the 12 - 0 vote by the Senate Committee on Faculty Affairs to oppose separation and the closely divided vote on the health care task force itself, make it VERY unwise for the University to make a decision to separate.

3. Discussion of the "Waldorf" Plan

Professor Shapiro drew the attention of Committee members to a hand-out prepared by Management Planning and Information Services about the "Waldorf" plan, the proposal by Gene Waldorf to increase the percentage of instructional costs paid by students from 1/3 to 2/3 and to increase the amount of financial aid available to students. Four of those at this meeting, he noted, were at the Provost's Council earlier in the day when Mr. Berg presented the information.

Senator Waldorf is a very good friend of the University, Professor Shapiro told the Committee, and has been frustrated by the inability of the State to provide more funding for it. This plan calls for students to pay more, and sets aside money for aid for those who qualify, in an attempt to end the entitlement that now exists. This is a direction, he noted, that many states are taking. The Senate is somewhat in favor of the plan, and the House is somewhat opposed, but it may be adopted in some form. The plan has implications for the University's relationship with the private colleges in the State, who all favor it; it would also have a considerable impact on existing reciprocity agreements. It now appears, he also said, that the plan would only apply to undergraduate education. The initial version also included graduate and professional students, but the University expressed such vehement opposition, primarily on competitive grounds, that no one is any longer discussing including post-baccalaureate education.

One Committee member expressed reservations about the plan; it is a sudden jolt to the system and it is difficult to perceive what the long-term effects might be. It could start the University in a downward quality spiral because it will have decreasing numbers of students due to cost. To make changes of this magnitude without being able to predict the implications is worrisome. But it is true that Senator Waldorf's intentions are good.

This effort, it was noted by one Committee member, is not unlike the efforts to privatize the economy in the Soviet Union; it is an attempt to severely reduce subsidies and the formula and capitation processes. All institutions would be expected to live or die by their tuition and fees, more or less, although the legislature could still appropriate funds for research or through State Specials, and there would continue to be some subsidy of undergraduate education. Market forces, however, would play a much larger role, and changes would be forced on the University. Something like this is inevitable, it was argued, in the next 4 - 5 years.

Other states that are moving in this direction are also reconsidering their relationships to the institutions, it was said. Colleges and universities become state-assisted institutions. The question is whether or not the institutions remain subject to the same number of state regulations and mandates--do the remaining dollars buy the same amount of control? It isn't clear how a different routine is achieved, and this is an issue which requires discussion.

Even though this is a finance committee, one individual observed, it is bothersome that only the financial implications of the plan are being considered; there are a lot of other assumptions which underlie it and which need to be discussed as well.

Committee members, in discussion of the plan, also touched on the fact that over 40% of University students do not receive parental support, the possible impact on middle income families (students from which might not be able to attend the University), and current application data (apparently down more than projected). The State is looking for ways to deal with the budget deficit; the House and Senate may HAVE to come to some agreement on this issue.

The Committee was cognizant that the University has been asked to testify on the Waldorf plan on February 26 and that if it were to have any impact on that testimony, it had to take action today or at a special meeting. No resolution was offered. Professor Shapiro said he doubted there was any division of opinion between the Committee and the central administration: there are considerable reservations about the plan.

The Committee adjourned at 4:50.

-- Gary Engstrand

University of Minnesota

RESOLUTION

RESOLVED, the Senate Committee on Finance and Planning opposes the separation of the University from the state health system.

Our opposition is based, among other things, on the following reasons:

Financial Considerations

1. While the plan is designed to be "expenditure neutral," it will shift certain risks from the state to the University. In our present financial situation, the University should not voluntarily choose to accept additional risks.

2. Operation of an independent University employee benefits plan will necessarily require the University to operate a planning and evaluation staff, employ health consultants and auditors, etc., in a way which will duplicate the provision of those services by the employee benefits department of the state. However more efficiently we can operate that system, there will still be some level of duplication of cost for general administration of the plan, which is inappropriate at a time of tight budgets.

Process Considerations

3. We are concerned that any health care plan adopted by the University should be administered in the interest of the employees, rather than in the interest of health care providers. To do so would require a separation of administration and independent operation of the plan. Creation of such an independent planning and administrative apparatus would be expensive and is undesirable at the present time.

Coverage Concerns

4. We are concerned that the list of participant physicians in the proposed network of "gatekeepers" is unreasonably small. We are even more concerned that the list of proposed specialists is even smaller. We are concerned about indications that there is an unhappiness among physicians who are in the proposed group about their participation in the group.

5. We are concerned that, despite a year's opportunity for development of a broader option, that option is still indicated as a "possible" fourth option, without adequate details to make an informed decision.

6. We are concerned that there are inadequate provisions made or information supplied about options available outside of the Twin Cities area.

7. While we agree that University Hospitals and Clinics ought to be available to all employees of the University under their plans, we believe that there is a fine line between making those options available to faculty members and restricting other options so that faculty members and employees feel themselves "trapped" into using University medical facilities.

FURTHER RESOLVED, that there is inadequate information presently available upon which to make an informed decision to separate from the state plan. The information made available to us deals primarily with only one aspect of the proposed alternative plan. Separation should not be made on the basis of that aspect alone.

FURTHER RESOLVED, that consideration should be given to separation if there is further deterioration in the quality of the state health plan.

Adopted 10 - 0, with 1 abstention, February 18, 1992

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RESOLUTION

RESOLVED, the University should actively pursue more substantial participation in the decision-making of the state health plan.

Adopted 11 - 0, February 18, 1992