SENATE COMMITTEE ON FINANCE & PLANNING (SCFP)
MINUTES OF MEETING
APRIL 22, 2014

[In these minutes: UPlan Update, Mandatory Salary Increases and Gender Equity Adjustments, Merit Pay, Fringe Simplification, FY15 Annual Operating Budget]

[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 represent the views of, nor are they binding on, the Senate, the Administration or the Board of Regents.]

PRESENT: Russell Luepker (chair), Kara Kersteter, Ann Sather, Lincoln Kallsen, Paul Olin, Richard Pfutzenreuter, Pamela Wheelock, Gary Cohen, Daniel Feeney, Jennifer Gunn, Karen Ho, Michael Korth, Fred Morrison, Erik van Kuijk, Aks Zaheer, Samantha Jensen

REGRETS: Jill Merriam, Arturo Schultz, Terry Roe

ABSENT: David Fisher, Catherine Fitch, Laura Kalambokidis, Michael Volna

GUESTS: Kathryn Brown, vice president, Office of Human Resources; Dann Chapman, director of Employee Benefits, Office of Human Resources; Patti Dion, director, Employee Relations & Staff Compensation, Office of Human Resources

I). Professor Luepker convened the meeting, welcomed those present and called for a round of introductions.

II). Professor Luepker welcomed Vice President for Human Resources Kathryn Brown who was invited to provide information about the UPlan. To frame the discussion, Professor Luepker explained that the committee is on the record as being concerned about the impact of UPlan cost shifts from the employer to employees, and the impact this has had/is having on lower paid employees.

Vice President Brown reported that the employer cost shifts to employees in 2014, which are driven by our need to comply with the Affordable Care Act, were approximately $1.8 million. In order to help families who may be struggling financially due to rising medical costs, the University established a new, one-year Medical Cost Relief Program for 2014 - http://www1.umn.edu/ohr/benefits/openenroll/premiumrelief/. She then asked Dann Chapman, director, Employee Benefits, to speak further about the UPlan cost shift from the University to its employees. Mr. Chapman stated that $2 million has been earmarked to be returned back to employees in 2014 by three different mechanisms, one of which is the Medical Cost Relief Program. That program provides assistance to lower paid employees. Vice President Brown clarified that the $1.8 million in question is not a real dollar savings for the University but rather a cost avoidance for the institution. Mr. Chapman provided details about the program, which takes into account not only the employee's income but rather the entire family income. This is a need-based program, which employees must apply for by providing evidence of the family

income (Federal Tax Form). Mr. Chapman noted that to date, 358 employees are enrolled in this program.

In response to a question from Vice President Wheelock about the length of the program, Vice President Brown stated that the program is for the 2014 benefits year. Currently, no decision has been made about whether the program will be extended beyond 2014 or not.

Professor Ho asked about what Human Resources is doing to communicate information about the program. Mr. Chapman stated that the program was well publicized during open enrollment last fall. He added that union representatives also communicated with their membership information about the program. Professor Ho suggested Human Resources do more to publicize the program. Mr. Chapman stated that he does not believe doing additional advertising at this point would be particularly helpful. He added that employees hired in 2014 are not eligible for the program and that only employees who were employed last year can apply.

Vice President Wheelock commented that it is her understanding that the institution's goal is to offer a competitive compensation package (salary and benefits). In terms of benefits, the University does not want to be perceived as an outlier, e.g., offering too generous of a benefits package. The University needs to strategically think about its compensation package as whole. Vice President Brown stated that 2014 is a transition year with the introduction of a deductible and increased copays. The Medical Cost Relief Program was established to help people mitigate the financial impact. Moving forward, people will receive pay increases and, as a result, will be in a better position to plan for increased health care costs. The $1.8 million cost shift was not a random act, but was done to avoid an approximately $48 million excise tax over five years as a result of the Affordable Care Act (ACA). The University's benefits are extremely competitive in the marketplace and continue to be competitive despite the modest plan changes that were made.

Mr. Chapman then shared information about other tools that are available to employees to help manage increased health care and other expenses:

- Health Care Flexible Spending Account - http://www1.umn.edu/ohr/benefits/fsa/index.html.
- A new benefit made available this year is a financial counseling (not financial advice) service offered to employees. The provider for this service is Lutheran Social Service.

Of the 358 people enrolled in the Medical Cost Relief Program, asked Professor Luepker, how many more people applied but did not qualify for the program? Mr. Chapman stated that there were only one or two people who applied but did not meet the eligibility requirements. Professor Luepker agreed with Professor Ho's earlier suggestion about doing more to advertise the program because there are probably a number of people who would qualify for the program if they were aware of it. Vice President Brown stated that there is no intention to hide the program, but open enrollment was when Employee Benefits communicated and interacted with employees about their benefits.

How much of the $2 million earmarked for the Medical Cost Relief Program that 358 employees have qualified for thus far is expected to be spent, asked Professor Zaheer? The projection is that the entire $2 million will be spent on the program, but there is no way to know at this time.

Professor Ho reiterated her earlier suggestion that given that two thirds of the calendar year remain, more should be done to advertise the program. Vice President Brown thanked her for the suggestion.

Given his participation on the Benefits Advisory Committee and Administrative Working Group, Professor Luepker called on Professor Morrison to share his thoughts on this matter. Professor Morrison stated that the deductible and copay would have had a significant impact on the UPlan beginning in 2018 because of the ACA if the University had not gotten out ahead of the curve and maneuvered the plan in such a way as to cause less harm to employees and the institution. Regarding Professor Zaheer's earlier question, Professor Morrison requested Mr. Chapman get back to the committee with an estimate on how much of the $2 million set aside for the Medical Cost Relief Program will be spent on the 358 employees who are receiving the benefit. Mr. Chapman agreed to get this information and report back to the committee. Professor Morrison stated that he is not an opponent of the ACA, but shifting costs from the employer to the employee was one of the unfortunate fallouts of the law.

Professor Cohen suggested the committee hear about the costs associated with the various parental leave policies for faculty and staff. He stated that at a future meeting he would like to hear about the policies, whether they are working and whether they are competitive. Vice President Brown stated that the University's parental leave policies are uniform across all employee groups (faculty and staff). Women who give birth are allowed up to six weeks of paid leave, and fathers/partners and adopting parents are allowed up to two weeks of paid leave. In all these cases, individuals can request additional leave, which is at the discretion of the supervisor. The University's Family Medical Leave Act allows for up to 12 weeks of coverage under which employment is fully protected. This is not, however, necessarily paid leave, but varies by situation. Some other institutions are extending leave for faculty for up to a semester, but the University has not decided to do this at this point in time. Provost Hanson is aware of this policy change at some institutions and is taking it under advisement. Mr. Kallsen added that he does not believe such a policy change should be confined to only faculty.

Professor Luepker thanked the guests and members for a good discussion.

III). Professor Luepker introduced the next agenda item regarding mandatory salary increases and gender equity adjustments. Anecdotally, Professor Luepker reported hearing that some departments are talking about 0% salary increases. Where will the money for salary increases and gender equity adjustments come from?

Vice President Brown introduced Patti Dion, director, Employee Relations & Staff Compensation. Copies of the FY15 Compensation Instructions for Faculty, P&A, and Civil Service were distributed to members. This year's increases are set on a 2.5% salary pool, and, to be clear, this does not necessarily translate into each employee getting a 2.5% increase. Again, this is a salary pool, and not an across the board increase.

In response to this question, Vice President Brown read an excerpt from the FY15 compensation instructions, "For FY15 only, there may be an academic unit (college or campus) that cannot

meet the expectations of delivering a recurring increase in the overall compensation pool of 2.5 percent due to significant financial stress." For purposes of this provision, explained Vice President Brown, any college or campus experiencing financial stress needed to submit an alternative compensation plan, and, to date, only two have been received. Individual departments, however, were not eligible to submit an alternative compensation plan because this was a collegiate matter. With respect to any merit increases above and beyond the 2.5% pool, this is a local responsibility as are any equity adjustments, which includes gender equity adjustments.

Professor Feeney clarified that the 2.5% is O&M so other things like practice plans, for example, will need to be covered by departments. Yes, stated Vice President Brown, this is correct.

Professor Luepker asked whether central administration would be giving colleges 2.5% more on the compensation piece of their O&M budget over last year. Vice President Brown reported that central administration will be approving a 2.5% increase in the compensation pool for each college. Mr. Kallsen added that the increased cost in compensation, like increased costs for research equipment, software licenses, or cost pools, are all taken into account in the budget process. All these additional costs are paid through a combination of O&M allocations, tuition revenues, other revenue sources, and reallocations within units. Because additional costs of all types are funded through a variety of means, units should not expect an automatic additional 2.5% O&M allocation related to compensation.

Are equity adjustments part of a broader equity issue or strictly a gender equity issue, asked Professor Luepker? Vice President Brown stated Human Resources, generally speaking, looks broadly at equity across all types of employees. The goal is to have similar pay for similar work, with some variations for years of experience, performance, etc. The Job Family Study is reclassifying over 10,000 non-faculty employees and establishing salary bands defining compensation levels for various jobs.

The Job Family Study that is currently underway, noted Professor Luepker, has created a great deal of anxiety among a number of employees. As a result of the Job Family Study, could a P&A employee be reclassified as a Civil Service employee? Ms. Dion reported that in the job families that have been completed thus far there have been only a handful of employees that have been moved from P&A to Civil Service. These are cases when the P&A job is found to be non-exempt, requiring overtime pay. Vice President Brown added that the reclassification of a job is a Fair Labor Standards Act compliance issue. According to this act, employees who are doing more routine types of work are considered non-exempt and are eligible for overtime pay, and employees doing more professional/discretionary work are considered exempt and are not eligible for overtime. The Office of Human Resources is working to mitigate the impact a job reclassification would have on employees. The Job Family Study is a big project and in the end will give employees more information about the nature of their work and empower them to make better decisions about their employment. It will also empower supervisors, managers and academic leadership to better understand their employees and what they are doing.

Please point out the major changes in the FY15 compensation instructions, requested Professor Zaheer, aside from the possible structured promotional increases. Ms. Dion stated that the other

main difference is that the pay ranges for P&A and Civil Service employees will remain static given that the Job Family Study is underway. Vice President Wheelock requested additional information, e.g., timing of data, timing of the process and a rationale, be distributed to make this more clear. A number of employees who participated in the Job Family Study had a different understanding about whether the range would move as of July 1, 2014.

Professor Korth asked whether the Job Family Study and pay equity issues only impact employees on the Twin Cities campus or whether they are systemwide. Vice President Brown noted that both these projects are systemwide endeavors. Professor Korth asked if the intent is for there to be pay equity between campuses or just within campuses. The salary ranges, noted Vice President Brown, are intended to be broad enough so that the campus can determine where they want to be in that range, which would be based, in part, on the job market in that area.

Professor Morrison asked whether some of the 2.5% salary pool money will be eaten up by the changing fringe benefit rates. There are a number of things that are going to nibble away at the 2.5% salary pool, e.g., structured promotional salary increases, fringe rate. This means that the average increase will be less than 2.5% that is being publicized. Mr. Kallsen suggested asking this question of Julie Tonneson, associate vice president for Budget and Finance, who would be joining the committee later today. Vice President Brown stated that it has been Human Resources experience that the average salary increases across all employee groups and colleges and campuses is always above whatever has been set in the compensation instructions. Last year, for example, the salary pool was 2.5% and the average salary increase was above that amount because units added local dollars and compensated employees as they saw fit.

What is the rationale behind the simplification of the fringe benefit rates down to five categories, asked Professor Cohen? Vice President Brown explained that the fringe simplification was a joint effort on the part of Office of Human Resources and the Office of Budget and Finance. In light of the Enterprise System Upgrade Project (ESUP), it only made sense to simplify the fringe rates.

A lot of academic work depends on hiring visitors, adjunct employees and part-time employees who will never be eligible for retirement benefits, noted Professor Cohen. The new fringe structure will now charge every unit that hires these types of employees for retirement benefits that they will never receive. Small units, small centers, etc. will be severely impacted by this change. Vice President Brown deferred to Ms. Tonneson to speak to this issue. At the end of the day, from a Human Resources perspective, the goal is all about simplification and making the process easier to administer.

In response to a question from Professor Luepker about moving Civil Service employees to merit pay, Ms. Dion reported that President Kaler made the decision awhile ago to move all non-represented employees to a merit pay system. Human Resources has been working with collegiate and administrative units to put together their merit pay programs, which will be communicated by the fall of 2014. Starting in June of 2015, all non-labor represented employees will have their pay increases delivered based on their performance.

Professor Luepker thanked Vice President Brown and Ms. Dion for their time.

IV). Professor Luepker welcomed Vice President Richard Pfutzenreuter and Associate Vice President Julie Tonneson from the Office for Budget and Finance to the meeting. He asked Ms. Tonneson to start by providing information about the changing fringe benefit rates. She began by explaining that the new fringe classifications are based on like-benefits and like-costs for the institution. Or, stated differently, the revamped fringe benefit categories were created by combining groups of employees who have like sets of costs for the institution.

In response to a question from Professor Luepker about the internal administrative rate, a fringe component, Ms. Tonneson explained the rate is .5% on each employee group. She added that this is not a new charge. Prior to this year, the internal administrative fringe charge had been buried in the other fringe rate components. The bulk of this money is used to support Employee Benefits in the Office of Human Resources.

Because of the new fringe structure, asked Professor Olin, will part-time or adjunct faculty, for example, be eligible to receive retirement benefits. Benefits to employees will not be changing under the new fringe structure, noted Ms. Tonneson; however, the charge to the department will change under the new structure. She added that for FY15 all units' O&M state specials are being rebased, which means if a unit's costs are going up overall, they will receive more O&M and if their costs are going down they will receive less O&M. It is important to keep in mind that in other parts of the budget, non-academic rates will be going down significantly, which will result in savings. Fringe only impacts the salary expense codes.

Professor Cohen stated that while he appreciates the fringe rate simplification, units that use special hires will be significantly impacted because they will now be required to pay the full 33% fringe for these employees. In the past, units making special hires did not have to pay the full retirement benefits because these employees would never receive them. Are there going to be any mechanisms put in place to help small units that use grant money, endowment funds, or gift monies for special hires that cannot afford the full 33% fringe? No, not outside the college, stated Vice President Pfutzenreuter; these units will need to work something out with their dean. Professor Cohen stated that he is extremely disappointed that under the new fringe structure there is no category for special hires. There is a significant equity issue for making units pay the full 33% fringe rate, which includes approximately 11% is earmarked for retirement benefits that special hires will never be eligible to receive. A number of small units do not have a lot of non-academic employees to help to offset these increased costs. Vice President Pfutzenreuter stated that the new fringe structure was vetted, and President Kaler raised a number of these questions, but at the end of the day the new fringe structure was approved. Because all the O&M and state special money has been made revenue neutral, at the college level there is sufficient money to make this transition. Ms. Tonneson added that if there are issues outside of O&M and state special money at the collegiate level, these need to be brought forward to the administration. Professor Cohen asked about employees who were already hired on Federal grant money under the assumption that the fringe rate was going to be lower than under the new structure. On the Federal grant side, stated Ms. Tonneson, if re-budgeting is not an option and net costs are going up, these instances are supposed to be brought to the attention of the college and the college will bring it to central administration.

Professor van Kuijk proposed that units consider hiring contract labor and issue a 1099 instead of a W2 because employers are not required to provide contract labor with benefits. Professor Cohen stated that the University has a policy for doing this (http://www.policy.umn.edu/Policies/Finance/Procurement/PURCHASING.html), but, in his opinion, it is a cumbersome process and sometimes involves going through the Office of the General Counsel.

Professor Gunn asked the difference between the Enterprise tax and the internal administrative charge. The Enterprise assessment is 1.75% charged on all salary dollars, noted Vice President Pfutzenreuter, and is used to pay down the upfront expense that the institution has for major enterprise-wide technology replacement projects.

V). Professor Luepker introduced the next agenda item, the FY15 annual operating budget. Copies of the FY15 recurring budget including the incremental changes from FY14 were distributed to members. Vice President Pfutzenreuter then called on Ms. Tonneson to walk members through the document line-by-line. Following the line-by-line review of the FY15 recurring budget, Ms. Tonneson solicited members' questions and comments, which included:

- How is the Ziagen royalty income being replaced? Was some of this money earmarked for student scholarships? Ms. Tonneson stated that the University is replacing the portion of the Ziagen royalies that was funding the Office of Technology Commercialization. Mr. Kallsen added that an endowment had been set up for the Ziagen royalty money that was earmarked for Graduate School fellowship match funds. The money in this endowment will continue to be used to for matching money. As the match requirement grows, and the endowment isn't enough to cover it, the additional cost will make its way into the budget via the cost pools, added Ms. Tonneson.
- Where does the 2.5% salary increase pool come from? While this varies by unit, stated Ms. Tonneson, diverse resources (tuition, O&M appropriation increases, reallocation and/or other revenues), are used to pay for expenses, which includes compensation.
- At a future meeting, please share information on how O&M money is allocated, e.g., how much State of Minnesota money is given to each unit. Vice President Pfutzenreuter stated that this information is in the budget document that goes to the Board of Regents every year. He added that he and Ms. Tonneson would be happy to provide this information at a future meeting.
- Is it true that discretionary decisions are being made by the administration every year about how O&M money is being allocated to various units? Today, stated Vice Pfutzenreuter, the Budget 5 (Provost Hanson, Vice President Jackson, Vice President Herman, Vice President Pfutzenreuter and Ms. Tonneson) facilitate the allocation decisions that are made. Ms. Tonneson affirmed that the changes in the O&M allocations that are made every year are discretionary and are not subject to a strict formula.
- Have the cost pool charges impacted by hiring adjunct faculty, such as technology and library costs, changed significantly for FY15? Ms. Tonneson stated that it depends on the statistics for a unit, and, for example, whether a unit's headcount is up or down relative to other units. However, even without a change in headcount, the headcount driven cost pools, e.g., technology, library, did go up a bit (all else being equal). Vice President Pfutzenreuter voiced his concern about the technology cost pool increasing substantially in the near future.

- The committee should receive an ESUP update and also hear about the long-term budgetary projections as it relates to needed technology upgrades. Vice President Pfutzenreuter stated that ESUP is going well in terms of being on time and on budget. The anticipated go live date for this project is February 2015. He added that he has been working with Vice President Studham on a technology upgrade plan, and he and Vice President Studham would be happy to come and share the plan and talk about priorities and how the projects will be paid for. Professor Luepker reported that an ESUP update has been scheduled for the May 27 SCFP meeting.

Hearing no further questions, Professor Luepker thanked Vice President Pfutzenreuter and Ms. Tonneson for their time.

VI). Before adjourning, Professor Luepker reported that he has been asked to present the salient Finance and Planning issues/topics to the Board of Regents at their May 9 meeting. With that said, he asked for members' ideas for topics he should bring to their attention. Suggested ideas included:

- Sustainability of how budgetary decisions are made at the University and whether they are viable in the long-run.
- Draw attention to the fact that state support for the University continues to decrease and that the institution is becoming increasingly dependent on grant-writing and other revenue sources to fund its mission.
- Raise the issue of the need for long-term planning for technology infrastructure upgrades and the costs associated with doing these upgrades.
- Institutional support (O&M budget) and tuition are challenged, and, therefore, it will be necessary going forward to find other avenues for either making money or not spending it.
- Given all the financial challenges, the University needs to be competitive at the highest level in order to recruit and retain star faculty.

Professor Luepker thanked members for their ideas.

VII). Hearing no further business, Professor Luepker adjourned the meeting.

Renee Dempsey
University Senate