Minutes*

Senate Committee on Faculty Affairs
Tuesday, October 28, 2008
2:30 – 4:15
238A Morrill Hall

Present: Kathryn Hanna (chair), Ben Bornsztein, Arlene Carney, Carol Carrier, Dann Chapman, Jayne Fulkerson, Holly Littlefield, Theodor Litman, Luis Ramos-Garcia, Jessica Reinitz, Joe Ritter, George Sheets, Geoffrey Sirc, Roderick Squires, James Wojtaszek

Absent: Marilyn Bruin, Vladimir Cherkassky, Tom Clayton, Anna Masellis, Elizabeth Stallman

Guests: Jackie Singer (Director, Retirement Benefits); Gavin Watt (Chair, Benefits Advisory Committee)

[In these minutes: (1) cafeteria benefit plan; (2) report from the Benefits Advisory Committee (how health plans are priced, the HealthPartners increase]

1. Cafeteria Benefit Plan

Professor Hanna convened the meeting at 2:35 and noted that there were two benefits-related items on the agenda. She turned to Vice President Carrier to lead the discussion on the first item.

Vice President Carrier related that she has been asked a number of times to talk to groups recently about cafeteria benefit plans because the idea sounds exciting. Employees ask what the way is to have the most flexible plan so that they can swap out things they are interested in for those they are not. She said she, Mr. Chapman, and Ms. Singer would talk about a true cafeteria plan (which is defined by the IRS) and a flexible plan (like that currently offered by the University).

A cafeteria plan, Ms. Singer explained, as defined by the IRS, allows participants to choose between cash and non-taxable benefits and requires a plan document detailing which benefits are included. A flexible plan (such as the University's) is a vehicle for delivering choices among benefits that may or may not qualify as a cafeteria plan.

The most important part of the difference between the two plans is the source of funding. In both cases, they include employee salary-reduction funds (contributions by employees to fringe benefit costs), a buy-down of benefits, employer subsidies, and vacation selling. The pool of funds from those sources can be used to purchase various benefits—health savings accounts, vacation buying, pretax premium payments for medical, dental, life and disability insurance, dependent care spending accounts, or cash. In the case of the flexible plan, the cash may also go either to an optional retirement plan or after-tax benefits such as long-term care, and auto, legal, or financial planning. In the cafeteria plan, the cash is generally used to purchase any pre-tax benefit.

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Mr. Chapman explained that the current flexibility offered by the University, which is considerable, is provided without using a cafeteria plan. It includes a considerable array of medical and dental benefit choices, income replacement, retirement plans, and work-life programs (e.g., leave programs, transportation, onsite child care, Regents scholarships, and so on.

Ms. Singer outlined the maximum possible credits (subsidized by the University) under the existing University plans for an employee with a $60,000 salary for medical and dental coverage, the faculty retirement plan, basic life insurance, disability, and vacation days. For an employee only, the University provides $18,638, or benefit subsidies equal to 31.1% of salary. For employee plus spouse/partner, the subsidy is 39.8% of salary, for an employee plus children, it is 36.7%, and for employee, spouse/partner, and children, it is 45.9%. This is a large amount of money from the University, but most people who have been asked do not want to touch the medical/dental coverage and the Faculty Retirement Plan contribution. That leaves only about $5500, which includes about $5000 for vacation. Since the administration wants individuals to use some of their vacation to recharge, rather than use all of it for credits, all of the $5000 would not be available, either, so there are very limited amounts available to work with for a cafeteria plan. One option to increase the funding available for a true cafeteria plan would be to reduce salaries and put the money into fringe benefits, but that appears not to be a very popular alternative, Ms. Singer said. They welcome suggestions.

It was noted that the Faculty Consultative Committee has had a very preliminary discussion about the desirability of increasing the amount of salary funds to the fringe-benefit pool, but no conclusions were reached. That is because, Professor Hanna noted, Professor Hoover and the President have talked about the issue.

What percentage of employee salaries go to the fringe benefit pool, Professor Hanna inquired? The average academic fringe benefit rate (faculty and P&S staff) is 36.4%, Ms. Singer said, and some of those contributions are mandatory (FICA, Medicare, unemployment, etc.). A cafeteria plan would be for all employees, would it not, Professor Hanna asked? It would, Dr. Carrier confirmed. How much money is in the fringe benefit pool, she then asked? Dr. Carrier said she did not have the amount at hand but it is a very large number.

Professor Sheets inquired why they were investigating a cafeteria plan. Is there a perception that something is not available in the University's current plan? It grew from an interest in benefits that people were not receiving, Dr. Carrier said, such as child care and a tuition benefit for dependents, that would better fit where people are in their lives. But there are not a lot of funds available for a cafeteria plan if there are to be no changes to medical/dental coverage and the retirement plan. Professor Fulkerson asked if they were hearing if people were willing to give up health or retirement contributions in order to receive other benefits. Dr. Carrier replied that once people understand that there would be reductions in contributions to those benefits, they do not want to change them.

The issue that bubbles up repeatedly, Professor Hanna said, is the tuition benefit for dependents because so many other institutions have it. But people are not willing to give health and retirement contributions for that benefit. The President said, in response to the Senate resolution asking for a tuition benefit, that it would be a significant cost and he believes there are other more important benefits. Dr. Carrier said they have heard from the P&A staff that they would like more vacation, and a cafeteria plan would be a way for them to buy more. One option would be to provide a lower amount of vacation

automatically and allowing people to use the extra money to spend on more vacation or on other benefits. Most were not in favor of that choice.

Professor Fulkerson asked what other institutions do in order to fund the tuition benefit. They have probably had the benefit for a long time, Dr. Carrier explained. Fringe benefit rates can vary among institutions and the University is in the top third in that category. Some institutions may offer less in retirement contributions and some may be lowering health-care subsidies. Structures vary across institutions, but the biggest variance is probably in retirement contributions.

Dr. Littlefield observed that some employees may not want medical/dental coverage because they are covered by their spouse or partner. Mr. Chapman said a University employee can opt out of coverage, but the University has not offered a benefit or cash incentive to do so, for a couple of reasons. One, there is concern (by the Benefits Advisory Committee and the administration) that there could be employees who have no coverage (because they take a cash incentive), and two, there is a trend among employers not take the funds from employees who opt out and put it in a pot and allow employee choices. The only employers doing the latter are doing it because of history and they are stuck with it; it does not prove valuable to the employer. Would it be possible to allow an employee not to select health care (because they have coverage through a spouse or partner) and to choose a tuition benefit instead, Dr. Littlefield inquired? The plan could be designed that way, Mr. Chapman said, but if there is no return to the employer to provide money to opt out of health care and provide something else, it would just cost the University more in benefit costs and provide no gain. There are very few employees who do not take health care, he added, perhaps only a few hundred, and in most of those cases the spouse/partner is also a University employee.

Professor Sirc said he liked the tenor of the FCC discussion and would support it continuing. He recalled that there was discussion of extending the Regents scholarship (currently only for employees) to dependents in order to achieve tuition remission. What happened with that option? They did look at it, Dr. Carrier said, at the President's request. An employee or dependent could use up to 190 credits, with the dependent using no more than 50% of the cost (the employee would be able to continue to use 100% of the cost). When they did the modeling, they determined that new funds would be needed. At present, she said, there is very little use of the Regents scholarship by faculty; it is mostly used by civil service and bargaining unit staff. They tried to model faculty use, however, by looking at the rate of use at other institutions. Is this proposal dead now, Professor Hanna asked? It is sitting there, Dr. Carrier said.

Professor Hanna asked how companies with cafeteria plans operate. Single employees tend not to need a lot in benefits; an employee with a family needs a lot more. If single, does an employee receive more money? In general not, Mr. Chapman said. The plans are usually tailored so that there is a bigger pot of money for employees with dependents than for single employees. There is no single amount for all employees, and the rationale is the same one that has been used all along to provide benefits: organizations are interested in the health and welfare of employees, and if the fringe benefit plan creates problems for employees with families, even if it is satisfactory for single employees, that is a problem for the organization because it is a drain on the employee that affects productivity. So the plans are nuanced. The general tendency is that if an employee takes cash, the amount is a lot less than the value of the dollars if spent on benefits. Iowa has a cafeteria plan that it is scaling back, Ms. Singer reported. There is no cash outlay; any additional credits roll into health-care flexible spending accounts (which can be a problem because leftover funds revert to the employer at the end of the year).

Professor Bornsztein referred to the maximum possible credits that Ms. Singer had reported. They cannot fund more benefits than are now in the plan; would he have to spend $23,867 to purchase the benefits subsidized by the University for an employee with a spouse/partner? He would not, Mr. Chapman responded. The University would continue to provide group benefit programs—employees would not have to buy benefits on the street. The funds in the fringe benefit pool are what the University currently spends on benefits. The difference would be, for example, an employee who has a very good health plan, which might allow the employee to spend the University's health-care subsidy on optional retirement instead.

Dr. Littlefield inquired if the University should refuse to consider changes in health benefits when employees may have excellent coverage elsewhere. The fear, Ms. Singer repeated, is that employees would opt out and take the money—but not have coverage. Mr. Chapman agreed that the University could require proof of coverage.

Professor Litman asked how the University's benefits, especially for health care, compare with Wisconsin. He recalled that Professor Kleiner, when on this Committee, repeatedly inquired about that comparison. The guests did not have that information available at the meeting; Professor Litman said he would like to see it. Mr. Chapman reported that Wisconsin has 26-28 health-care plans, a number of which are regional, and some single employees can choose coverage that carries no premium for them.

Do they periodically do comparisons with the Big Ten schools, Professor Hanna asked? They do, Ms. Singer said, and the Faculty Consultative Committee has asked to review those comparisons. Dr. Carrier noted that it is difficult to make comparisons because coverage, especially for health benefits, is "all over the place."

Some of the proposals for a cafeteria benefits plan could be implemented without adopting a cafeteria plan, Professor Ritter suggested. If a spouse or partner has health care, a University employee could obtain credit from the University and use the money elsewhere. It could be the case that one employee who opts out of coverage (because covered by a spouse or partner) would make sense to the University, Mr. Chapman said, because the savings could be shared between employee and the University. But they need to look across the program, and what the research suggests would happen is that the people most likely to leave would be those who are young, with few claims, so the University would lose money—it would lose the revenue (premiums) from people who do not need coverage but it would still have the claims from people who do, so it would not be affordable for the University.

Professor Hanna thanked Mr. Chapman and Ms. Singer for the report.

2. Report from the Benefits Advisory Committee

Professor Hanna next welcomed Mr. Watt, from the School of Public Health and chair of the Benefits Advisory Committee (BAC), to report on the activities of the BAC.

Mr. Watt reported that the BAC was established in 2001 and he has been chair for four years. The creation of the BAC followed from the report of the health plan task force, and he noted as an aside, following from the preceding discussion, that Minnesota provides benefits for same-sex domestic partners while Wisconsin does not. The University left the state health-care plan in order to obtain more flexibility in coverage, and at the time it was decided there should be a permanent committee to review all benefits

for all employees. The BAC is not strictly a Senate committee and has faculty, P&A, civil service, bargaining unit, and retired employees (but the bargaining-unit employees are not voting members in order to protect them from a charge that they are "bargaining" outside the collective bargaining process). The representation is balanced in that there are 4 faculty members, 4 P&A staff, and 4 civil service staff, as well as ex officio members. The BAC's goal is to represent ALL employees. The BAC advises the Administrative Working Group, chaired by Senior Vice President Cerra, and has two seats on that group.

BAC receives the first look at health plan rates for the next open enrollment period. Much of their agenda consists of sharing information with employees about benefits, and BAC representatives participate in any benefits related RFPs from the University. UPlan, the University's health care benefit package, has three elements: medical/dental, pharmacy, and wellness plans. Employee Benefits is attempting to change the contracts so the University issues RFPs every six years rather than every three.

In the spring, BAC solicits opinions from the entire University community about the health plans and then have one meeting per plan administrator to address any concerns heard from constituents. The administrators inform BAC how they will fix the problems and inform BAC about what is going on in coverage.

A number of ad hoc things come up, Mr. Watt reported. For instance, a few years ago the University changed the health benefit model such that employees are required to pay part of the "premium" cost. If UPlan charges a premium, they have to let people opt out of the plan, but BAC is concerned that some people may not receive the benefit even though they only pay 10% of the cost. BAC did a study and concluded that most people appear to be behaving rationally, i.e., they opt out because they have other coverage. For instance, there was concern about Rx America's customer service, so they created a standing pharmacy committee. They also help with surveys of employees and provide benefits information to employees.

Mr. Chapman said that BAC has been of extraordinary help to Employee Benefits and the administration. The group is active and meets frequently and they use it as an opportunity to explore new program aspects, how to create incentives, and so on. It is helpful to talk with the BAC and they believe they have greater success with benefits programs because they interact with BAC before rolling anything out.

One item that came up this year that is coming as a surprise to employees, Mr. Chapman reported, is the dramatic increase in premiums for HealthPartners, something of particular concern to the bargaining-unit employees. BAC has given Employee Benefits a lot of feedback. Mr. Chapman agreed that the new rates created sticker shock for employees, with increases of 20-27%, depending on the coverage tier. HealthPartners is the only provider with such a dramatic increase in costs; most were about 7%.

How do they do the pricing? The University is self-insured, Mr. Chapman explained. He provided examples. (1) Jane the Carpenter works for a small employer who can't afford to provide health care to employees. Jane is prudent so she purchases health care on the market, which is sold to her after underwriter review. She pays the premium; the health plan has the risk. She is fully insured, for everything from her annual checkup to a traumatic incident. If the latter occurs, the annual premium does not cover the cost, which is why the plan has risk. (2) Bill Gates probably does not bother to buy health insurance. Even with a horrible hospitalization, he could pay the expenses, so he is self-insured. In the

long run that can save money because one is not paying an insurance company to carry the risk and administer claims and build a network of providers. (3) The U Plan is self-insured, backed by the University's checkbook. The University does not pay HealthPartners or Medica or other providers to carry the risk; it pays them a flat fee to administer claims from providers. Each week, they bring claims to the University, which wires money to them. So the University pays for services actually used in any given week. The University is the insurer, in the place of an insurance company. It also has access to a lot of data, but chooses by policy to keep information about plan participants confidential, requires that it not be brought to the office, and limits access to it. The University uses actuaries, just like the health plans would, to look at past claims and trends going forward and applies those data to coverage and administrative costs.

The rates are claims (medical and pharmaceutical) plus administrative services. (The University does buy stop-loss insurance, so that if an employee hits $500,000 in claims in one year, the stop-loss policy picks up the additional costs.) They build the rates for each plan, and then determine what each employee pays. An employee's base plan is the key to that calculation: the employee pays 10% of the cost of the base plan for employee-only coverage, or 15% of the cost of the base plan for any family tier of coverage. The University makes the same contribution to the base plan and all other plans, including those with higher costs. So employees who choose more expensive plans pay the difference in cost between the University's base plan contribution and the actual cost of the plan they select.

They are seeing, with HealthPartners, a significantly higher level of cost in both administrative fees and in the cost to provide care. The entire increase is passed on to employees because HealthPartners is more expensive than the base plan. Professor Sirc asked how many employees use HealthPartners. Mr. Chapman said it is "a significant number." At one point in the University's history, about half the employees used HealthPartners; while the number has been tapering off, it is still about 40%. Will a number switch because of the increase, Professor Fulkerson asked? Mr. Chapman said he could not predict. HealthPartners is unique in having a core group of die-hard supporters who like their plan, the customer service they receive, and the community partnership model. He said he did not believe there would be a big drop in the number. Even without those elements, what is unique to HealthPartners is a cohort of doctors who are part of the owned medical group—they have staff physicians whom it is difficult to get to through any other health-care plan. If one likes a HealthPartners doctor, there is no other way to get to that physician (except in one case).

Professor Litman pointed out that HealthPartners agreed with the University's assessment. They did, Mr. Chapman said. The University did not reach that conclusion on its own; they met with representatives of both plan administrators and told them how the rates would be built, and all agreed with that methodology. Are there characteristics of HealthPartners such if one pays more, one gets a better outcome, Professor Hanna asked? They do not see that, Mr. Chapman said. The rates for employees are risk-adjusted—that is, they model the entire University population in each plan and determine what it would cost the University. That removes the differential outcomes piece from the equation; the number of employees is large enough that they can be confident about the outcome. So the HealthPartners increase is because of what HealthPartners is doing, not because of what plan participants are doing, Professor Ritter concluded. That is exactly right, Mr. Chapman said.

When asked what HealthPartners is doing differently that may be affecting these costs, Mr. Chapman responded that it is difficult to see from our data. He speculated that it may be partly due to the changing model of how it markets itself and what products it offers, based on the market. It was a very

tight network HMO in the past, but now has expanded across the state and increased the participant's ability to choose where to go. Does it follow, Professor Sheets asked, that in other plans that are less flexible, one must have a referral to a specialist? So that one gets more freedom for the higher premium? That is definitely the case, Mr. Chapman said: one is buying freer access. Part of the UPlan design is to provide a lot of choice; but to be able to choose any doctor you wish costs more. HealthPartners is looking more like plans that allow more choice.

This may also not be the end of the story with HealthPartners, Mr. Chapman told the Committee. The actual increase in costs was higher than what has been built into the 2008 rates for University employees; the University tried to moderate the impact of the increase, so only put in about one-third of it. If HealthPartners does not address the cost issue, employees are likely to see similar increases in HealthPartners rates each of the next two years. The good news, he said, is that he hears from HealthPartners that they are actively addressing the problems. The University has been having this discussion with HealthPartners since about 2003, especially about administrative fees, and has not met a receptive ear, but more recently University representatives met with a high-level HealthPartners executive who assured the University that the CEO is emphasizing affordability. HealthPartners has always been about quality and affordability, but insiders have only heard the word "quality." So there was a felt need for HealthPartners to be broader and have more open access. His assessment, Mr. Chapman concluded, is that HealthPartners got hurt on affordability when it went for more access, and as a result is losing market share.

Professor Sirc inquired if University employees will receive a heads-up about sitting on a ticking time bomb, beyond the distribution of these minutes. They have not been notified, Mr. Chapman said; the rate-increase information has been provided, but his office has not relayed the information that there could be two more shoes dropping—because they do not KNOW that there will be and hope that there will not be. They are not urging people to leave HealthPartners, and the University has no desire to drive HealthPartners out of the UPlan—quite the opposite is true. HealthPartners is the only plan, besides Medica Elect/Essential, that is in a position to compete for base plan status. The University prefers to have competition for its base plan and it also has no financial incentive of its own to make employees leave HealthPartners, since they bear the extra cost above the base plan rate.

There is one additional point, Mr. Chapman related. That the University moderated the HealthPartners cost increase over time means the University is picking up part of the increased cost, which in turn has an impact on the other rates. But that is not unusual in insurance, he assured the Committee, and other employees in other plans have benefitted similarly in the past. Some employers use a Premium Stabilization Reserve (PSR), by collecting a few extra dollars, to smooth the trends in rates and moderate increases. While the University does not add the extra costs of a PSR to UPlan rates, it did want to reduce the traumatic impact of the increase for HealthPartners members, and give HealthPartners a chance to respond, so it moderated the increase. He said he believes HealthPartners has the capacity to make changes to avoid future such increases.

Mr. Watt explained that HealthPartners costs the University more but only now is there enough data to see the spread. In the past, the difference between HealthPartners and Medica was the administrative charge, and HealthPartners charges more; now the difference is evident not only in the fee but also in the cost of delivering services. BAC has discussed this over several meetings. HealthPartners is not the business it was in the past, Mr. Watt said, as it has become one of the "big three." It needed to go where the market is. Some will NOT migrate from HealthPartners because cost is less important than

the doctors, but if the increases continue, even those committed to HealthPartners may begin to think about changing providers. New employees signing up tend to go to the cheapest provider, so HealthPartners will lose new business. He said he hoped the shot fired across the bow will make HealthPartners change course.

Professor Hanna thanked Mr. Watt and Mr. Chapman for the presentations and adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota