BENEFITS ADVISORY COMMITTEE
MINUTES OF MEETING
APRIL 3, 2003

[In these minutes: Call to Order, Future Meeting Dates, President Bruininks Budget Presentation, Proposals for Health Benefit Changes by Senior Vice President Frank Cerra, Vice President Carrier Outlined a New Early Retirement Option]

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

PRESENT: Fred Morrison (chair), Linda Aaker, Gavin Watt, Pam Wilson, Karen Wolterstorff, Jody Ebert, Ronald Enger, Brenda Peltzer, Don Cavalier, Joseph Jameson, Carla Volkman-Lien, Wendy Williamson, Carol Carrier, Frank Cerra, George Green, Gailon Roen, Susan Brorson, Richard McGehee, Peh Ng, Theodor Litman, Dann Chapman, Keith Dunder

REGRETS: Steve Chilton, Amos Deinard

ABSENT: Marjorie Cowmeadow

GUESTS: President Robert Bruininks, Monica DeGraff

OTHERS: Kathy Pouliot, Phyllis Walker, Linda Blake, Karen Chapin, Jackie Singer, Phyllis Walker, Pat Yozamp, Patti Dion, Joe Kelly, J. Lee Billings, Dan Rivera, Ann Freeman, Katharine Witherow, Kathryn Brown, Marilyn Severson, Nan Kalke, Sue Mauren

I). Professor Morrison called the meeting to order.

II). An announcement was made concerning future meeting dates, times and locations:

- April 10, 2003 10:00 – 1:00 238A Morrill Hall
- April 17, 2003 9:00 - 1:00 101 Walter Library

III). President Bruininks provided members with a presentation on the overall budget situation faced by the University. He noted that every employee, every academic program and every service unit must be a part of the solution or the University will not succeed in resolving its budget issues. There will need to be shared sacrifices on the part of all faculty, students and staff in terms of pay freezes, tuition increases, programmatic cuts as well as extraordinary reductions in certain areas.

To put this in perspective, if the basis of these reductions were to fall soley on lay-offs, 10% of the University's workforce would need to be reduced as of July 1, 2003. Or, if the basis of these reductions were tuition, there would need to be a 30% tuition increase in both 2004 and 2005. Even with these draconian actions, neither scenario takes into account the University's increased costs which are a separate issue from the state problem.

On a positive note, President Bruininks has the utmost confidence that the University community has the unparrelled ability to resolve this issue. Not to minimize the budget crisis before the University, President Bruininks noted that the University is fiscally stronger than many other institutions of higher education and has more creative options at its disposal as well as a more diversified funding base than many other institutions across the country.

Tools/strategies the University is using to balance the budget:

1. Reduction of administrative and operating costs.
2. Targeted eliminations, reductions and consolidations. Because there is a lot of tradition, history, culture and people built into this strategy more time will be required to implement changes in this area. As a result, many of these changes will occur in the second year. President Bruininks feels strongly that employees should not hear what is happening to their programs in the media.
3. Creatively enhance institutional revenues. Additionally, efforts will be targeted at raising more private monies.
4. Increase student tuition and fee revenue. President Bruininks noted that the tuition increase will be in the 15% range. Typically, this figure is not released until after the legislature adjourns and the figure is brought to the Board of Regent's. President Bruininks,however, felt it was only fair that the students be kept informed about the fiscal reality of the University's situation.

Additionally, President Bruininks noted that the University will be moving forward with a modest investment strategy. Although it will not be as high as the administration would like, it is necessary in order to improve the quality of life for the student body by making these academic investments. These strategies are still very much under review and need to be worked on further.

President Bruininks does not want reductions to mean a poor benefits package for University employees. The goal for the University is:

- To maintain good, quality benefits.
- To share the cost of the benefits with its employee pool because the University is not in a position to absorb the entire increase.
- To keep an eye on how the University's benefits compare to reasonable external markets, both public and private.
- To minimize the reduction of its workforce. If the University cannot save money in the health care arena it will be forced to lay-off employees. The University has no choice, it must balance its budget.

In closing, President Bruininks again thanked the committee for their hard work and commitment.

Questions and comments to President Bruininks following his presentation:

A member asked that approximate percentages be allocated to each of the four strategies the administration plans to use when balancing the budget. There was a concern on behalf of the member that there would be a disproportionate impact in the area of targeted eliminations, consolidations and reductions. President Bruininks provided the committee with the following percentage approximations:

30% reduction of administrative and operating costs
15% targeted eliminations, reductions and consolidations
5% enhanced institutional revenues
50% student tuition & fee revenue

President Bruininks noted that the targeted eliminations, reductions and consolidations will be more loaded into the second year rather than the first year. The first year represents the biggest problem with the biggest hit, over $100 million in the first year.

It was further noted, with 50% of the costs being retrieved from student tuition it is likely a red flag will be raised at the state level with concerns over class sizes impacting the quality of education a student receives at the University. Maybe other approaches need to be taken to get the same result. It was suggested that the University come to the realization that it can no longer offer all the services it has in the past. President Bruininks agreed and stated this will indeed be the case but he could not get into specifics. Again, in line with his philosophy of building a respectful community, President Bruininks wants those affected by upcoming changes to hear about these changes first and not through the grapevine.

The University cannot sustain 14 – 15% increases in health care costs without some cost sharing with its employee pool. The alternative to no cost sharing is laying off fellow University colleagues. The BAC and the University of Minnesota administration are faced with the formidable task of finding the best, balanced solution to the current budget crisis. President Bruininks is requesting the BAC look at creative options for saving money in the health care arena because for every $1 million not saved in benefits, approximately 17 - 20 University employees will need to be laid off.

Another comment was made regarding the handout distributed by President Bruininks, noting that a category should be added under the 'Investing In the Future' section. It was suggested University staff be added. President Bruininks agreed wholeheartedly and believes that this theme runs through the entire handout although it was not explicity stated.

A Crookston campus member noted, as part of the compact plan process, 'giving back to the University' will inevitability be impacted by the cuts that are going to take place. President Bruininks responded that when employees 'give back to the University' they are often giving back to themselves. President Bruininks used the CMU remodeling project as an example.

IV). FRANK CERRA: Senior Vice President Frank Cerra, on behalf of the administration, presented information on proposals for health benefit changes. Dr. Cerra's PowerPoint presentation consisted of a UPLan update and proposals for health care changes for calendar year 2004 – 2005.

Dr. Cerra emphasized that the information being provided today is a starting point for the committee to discuss, weigh the trade-offs/choices and make recommendations to the administration. The approach used in the presentation is referred to as "Move to

Benchmarks" (MTB) which is the opposite of unaltered changes. The MTB approach is being put on the table to build discussion around.

Dr. Cerra started by outlining the major challenges faced by the University:

- The rising cost of health care.
- Tailoring health benefits, with the BAC, to better meet the needs of University employees.
- Promoting wellness and improvements in the health status of University employees.
- Providing quality, cost-effective health benefits during a major budget challenge.

Guiding principles of the UPlan include:

- Providing quality, cost-effective health benefits.
- Offering a basic "basket" of benefits and consider changes in coverage and eligibility after consultation with the BAC.
- Continuing to offer several choices of health plans
- Considering a variety of mechanisms to reduce the rate of rise in premium costs.
- Giving strong consideration to affordability and to the continuity of care.
- Promoting wellness and improvements in health status for the University community.

To summarize, the University's basic covered benefits include:

- Employee Medical Coverage
- Employee Dental Coverage
- Employee Life Insurance And AD&D

Optional benefits include:

- Family Medical coverage
- Family Dental Coverage
- Optional Life and AD&D
- Disability Insurance
- Long-Term Care coverage
- Health and Dependent Care Reimbursement Accounts

Current University health insurance plans:

- HealthPartners Classic
- Patient Choice
- PreferredOne
- Definity Health

Wellness Update:

- The UPlan provided flu shots to 3,661 employees.
- Johnson & Johnson conducted a wellness assessment.
- Efforts are underway to recruit a wellness program manager.

- The long-term control of health inflation is to be found in a wellness initiative. Ultimately, through information stored in the data warehouse, the University will be able to establish a disease management program that will help the University control its inflation in premiums.

Dr. Cerra provided members with UPlan 2002 – 2005 cost projections and noted that for 2003 there was a 9.7% cost increase in benefits (the State of Minnesota had a 16.5% increase). If no action is taken to change the benefit structure for 2004 and 2005 the total cost of the program will rise to $128 million and then $148 million, respectively. The goal is to bring this trend down as low as possible to meet the budget challenge.

The following information was emphasized:

- Employer costs are rising from $97.2 million in 2003 to $129 million in 2005.
- Employer revenues are shrinking. State support is being cut $209 million recurring in fiscal year 2004 and 2005.
- The University, as a result of very thoughtful management, needs to implement cost reduction and cost sharing with its employee pool in terms of its benefits package.

Three cost reduction options are available to the University:

1. Reduce the benefits set. The University does not want to do this. Rather it wants to keep its same "basket" of covered services.
2. Change the plan design in order to achieve a behavior effect that reduces the cost effect in the marketplace. Co-payments are designed to accomplish this goal.
3. Shift more costs to the employees so together quality health benefits are available.

To summarize, the framework for cost reduction in the 'Move To Benchmarks' approach includes:

- Maintain current covered medical services.
- Implement a wellness/prevention program; expected benefit in next biennium.
- Maintain current four medical plan options.
- Make alternations in health plan design to control cost trend.
- Move health plan design toward 'Big Ten' and public sector benchmarks.

Taxonomy of the changes in plan design has two components, administrative and operational. The administrative reductions in plan design include:

- Change stop/loss insurance coverage.
- Standardize prescription dispensing amounts.
- Increase waiting period for new employees to access health insurance benefits.
- Improve benefits coordination.
- Remove the UMP Care System (Boynton, UMP, CUHCC, certain family practice clinics) from the HealthPartners Classic base plan. These entities are primary care providers in the current plans and they permit secondary access to specialist. Currently, access to UMP specialists is very easy because this care system exists. Why consider eliminating the UMP Care System? The UMP Care

System adds approximately $1.3 million in costs. Why? According to statistical data from HealthPartners, Boynton, UMP, CUHCC and certain family practice clinics cost on average $29 per member, per month more than the reference group in HealthPartners Classic. Dr. Cerra noted that this is an issue the committee needs to consider. He stated that if the UMP Care System is eliminated there is technical access to specialists in the UMP Care System but in practice it will be difficult to get that access. Professor Morrison noted that employees will still be able to access UMP through Patient Choice Tier 3, PreferredOne, and Definity, however, only in rare cases through HealthPartners.

Operational reductions in plan design include the following considerations:

- Increased co-pay amounts: prescriptions, office visits, and making co-pays geographically uniform.
- Raise maximum out-of-pocket (OOP).
- Eliminate lab co-pays.
- Change prescription coordination of benefits.
- Offer the option to opt out of coverage
- Have all employees pay a portion of their health insurance premiums.
- Dependent/family premium shares increased.

Options be considered for cost reduction purposes include the following:

- If the employee percent paid by the employer for individual and family coverage is reduced it will potentially save the University $12 million.
- By increasing the OOP co-pays and OOP maximum costs for prescriptions the University anticipates savings of $670,000.
- If office co-pays are increased the realized savings are expected to be $3.1 million.

A member expressed concern that the above proposals would position the University of Minnesota below the ‘Big Ten’ average. Dann Chapman cautioned that the numbers in the chart are skewed because while many ‘Big Ten’ schools have very high employer contributions those plans have high front-end deductibles. This means there are large OOP expenses to employees before insurance benefits kick in. Dr. Cerra added that approximately half of the ‘Big Ten’ schools have no cap on OOP expenses. While the chart represents benchmarks the committee was warned to realize the relativity in the figures.

Administrative alterations to the plans would result in the following savings or lack thereof:

- Opting out of coverage is a cost neutral scenario for the University.
- Little to no effect in savings for removing lab co-pay requirements.
- Changing the COBRA benefits equates to savings of approximately $75,000.
- Increasing specific stop loss is expected to save the University $315,000 in 2004.
- Offering uniform co-pays on optional coverage is expected save $35,000.
- Eliminate the UMP Care System in HealthPartners Classic would save the University $1.3 million.

Dental reductions are expected to save the University approximately $2 million assuming the University moves to a model that changes the OOP costs paid by the employer and the employee.

According to Dr. Cerra, if MTB is implemented:

- The total cost of health care benefits will rise to $123 million in 2004 and $139.7 million in 2005. The employer's share of these increases will be $95.1 million and $108 million respectively. It was noted the employer's share of the increase primarily occurs in year two while the employee's increase primarily occurs in the first year.

- The MTB plan will reduce the total cost of the University's current benefit set; $4.7 million in 2004 and $8.5 million in 2005. These savings are the result of utilization reduction, representing the behavioral effect of increasing co-pays and the co-pays and deductibles on the utilization of medical services. Because utilization reduction is poorly studied and poorly documented it is unknown whether there are adverse consequences.

- By implementing MTB there would be a shift of employer costs to the employees who would experience a cost increase of $12 million in 2004. Employees would experience a smaller increase in 2005 whereas the employer's costs would be realized much more in 2005 than in 2004. All total there would be a reduction of $16.4 million in employer costs.

Dr. Cerra pointed out in response to a question that based the national experience as it relates to co-pays, the trend indicates there is a small effect when co-pays are initially instituted and a larger effect when they are raised the second time. Thereafter, there are diminishing returns on increasing co-pays.

Other key considerations when reviewing the information presented today:

- The calculations in this presentation are calendar year projections versus fiscal year. Once recommendations are approved these figures will need to be converted to fiscal year calculations and put it in the context of the fringe pool to understand the actual cash savings to the University.
- Any changes to the UPlan would be effective January 2004.
- For every $1 million in cost savings the University will be able to preserve approximately 17 jobs.
- Cost savings will also help to reduce targeted programmatic reductions.

Dr. Cerra emphasized that the budget must be balanced. Key questions include:

- How much of the reductions should be across the board?
- How much needs to be targeted?
- How much should occur in 2004? 2005?

The administration proposes the BAC look into the following issues:

- What are the desirable tradeoffs related to the administrative and operational cost reductions being proposed in both the medical and dental plans?

- What are the implications of eliminating UMP as a primary care provider for HealthPartners Classic?
- What changes should be implemented in 2004? What changes should be implemented in 2005?
- How can the University community assist its lower paid employees?

Dr. Cerra noted that all proposed changes are subject to bargaining. The BAC is being asked to submit its recommendations to the administration by April 18, 2003. The committee needs to decide what information they need in order to make recommendations.

A handout was distributed to the committee summarizing the proposed changes to the UPlan. The handout did not include information on proposed changes to dental benefits which are anticipated to save the University approximately $2 million.

Questions/comments raised by members following Dr. Cerra's presentation:

A member expressed the concern that the committee will be making its recommendations in a vacuum as it relates to other compensation reductions being considered by the administration. Dr. Cerra reiterated the information that President Bruininks shared:

- Tuition will increase as a revenue source.
- The likelihood of a pay increase for 2004 is virtually nil.
- There is a likelihood of a pay increase in 2005, but no firm decision has been made.
- The IRS tax will continue.
- There will be programmatic and administrative cost reductions.

Professor Morrison stressed that an important factor in the committee's deliberations needs to be how to deal with lower paid employees. Because setting up such processes will add costs back in, saving will be reduced. The BAC will need to figure out the best way to deal with this issue. In response, a member requested market data on what other organizations have done for lower paid employees. Dann Chapman replied there is not a lot of information but noted hearing of a couple rare instances where premium costs were tied to salary.

Another member requested information on what relative savings can be expected if changes are made to the benefits plan. Professor Morrison stated that this type of information will be distributed to the committee to assist them in make these tough choices.

In response to a question on the coordination of prescription benefits, Mr. Chapman explained that the University is proposing that the UPlan will only reimburse up to its co-pay amounts. The coordination of prescription benefit proposal will primarily only affect those that have primary coverage elsewhere, for example, a spouse, but who also have University coverage. This proposal is actually a move toward industry practice.

Removing the UMP Care System from HealthPartners Classic will only affect those that are interested in seeking primary care through UMP. Access to specialists is still available through all the plans. Mr. Chapman noted that based on recent HealthPartners enrollment statistics, 2,769 members (employees plus their dependent/dependents) are enrolled in the UMP Care System for their primary care clinic. There are a total of 17,600 members enrolled in HealthPartners Classic so the 2,769 figure represents approximately 16% of all HealthPartners enrollees.

Allowing an opt-out option is tied to the fundamental principle that the University is proposing to no longer offer free health insurance coverage. Because a premium is being proposed for single coverage, the University must allow employees to choose not to pay a premium and opt out of coverage without evidence of insurance elsewhere.

A member requested that the Employee + One option be looked at.

Professor Morrison stated if members have issues they would like addressed and/or would like to receive data on particular issues they should email him at morrison@umn.edu and cc Dann Chapman at chapm036@umn.edu

V). Vice President of Human Resources, Carol Carrier, introduced a retirement proposal that is in the process of being firmed up. The University wants to offer a new, voluntary retirement opportunity for those that meet certain eligibility criteria. Vice President Carrier noted that this proposal has not yet been discussed with the University's collective bargaining units.

The proposed program would offer employees that are eligible to retire an opportunity to have 3 years of continued subsidy for their medical and dental benefits. This would not be a lay-off, a non-renewal or a termination for cause. Rather, this would be a program that an employee would voluntarily decide to participate in. Currently, the University has about 4,000 employees that would qualify for this program. This is a new program and it does not eliminate the phased retirement or any other retirement programs the University offers.

There are plans to announce this program in the near future. Vice President Carrier noted that there will be a short window of opportunity in which to sign up (approximately 4/15/03 – 7/7/03). As employees sign up for the program they would negotiate with their college or business unit and decide on a retirement date. In no case could the retirement date be later than June 2004.

A bargaining unit representative stated this program is similar to a program being offered at the State of Minnesota. The caveat to the State's program is that if the employee's position would have to be refilled the employee would not be eligible for the program. Dr. Carrier believes such a caveat is too inflexible and the University will not impose such restrictions on its program.

If the employee and unit wanted to call participation in the program a lay-off so the employee could collect Unemployment Insurance could this be arranged? Dr. Carrier said it would be up to the employee and the unit to negotiate this.

A member asked if there are any proposed reductions to retirement benefits. Although Dr. Carrier said no proposal has been brought forward to date, she reminded members that President Bruininks stated, "everything is on the table."

Professor Morrison, in closing, solicited questions and comments from members about the task before them.

A member wanted data on the proposed $3.1 million in saving from co-pays and requested a breakdown between the additional amount of revenue saved by the University because the employee's contribution would increase as compared to funds saved by non-visits. Monica DeGraff, Consultant, Buck Consultants is gathering data on the change of employee out-of-pocket expenses between 2003 – 2005.

Dann Chapman stressed the importance of working with the bargaining units on these very important issues. The administration has a lot of incentive to administer one benefits package to all employees. If an issue(s) arise during bargaining unit negotiations that action might be taken on, those issues will circle back to the BAC for further discussion.

VI). Hearing no further business, Professor Morrison, adjourned the meeting.

Renee Dempsey
University Senate