BENEFITS ADVISORY COMMITTEE
MINUTES OF MEETING
APRIL 24, 2003

[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), 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, Steve Chilton, Richard McGehee, Peh Ng, Marjorie Cowmeadow, Theodor Litman, Dann Chapman, Keith Dunder

REGRETS: Amos Deinard, Linda Aaker

OTHERS: Robert Bruininks, Kathy Brown, Richard Pfutzenreuter, Linda Blake, Karen Chapin, Chris Hulla, Monica DeGraff, Kathy Pouliot, Jackie Singer, Pat Yozamp, Betty Gilchrist, Joe Kelly

I). Professor Morrison called the meeting to order.

II). Professor Morrison solicited comments regarding the 'Report of the BAC On Proposals for Changes in Health Benefits Submitted by the Administration'. Hearing none, he announced that later in the meeting a vote would be taken on whether it should be submitted as is to the administration.

III). The Committee reviewed a handout outlining the impact of proposed premium changes on University employees. In addition to premium increases, Professor Morrison noted there would be co-pay increases. Average co-pays have been estimated at $50 - $75 per person per year, realizing there will be significant deviations from this average. Professor Morrison opened the floor for comments and asked Dr. Cerra if he had any opening remarks he would like to make.

Dr. Cerra acknowledged the formidable task the BAC was asked to address. As a practicing physician, he is aware of the costs of health care and understands what happens when people do not have health insurance. On the other hand, as of July 1, 2003 the University of Minnesota faces a historic budget deficit. He asked that members keep the State's timelines in mind when thinking about this issue.

A portion of the budget strategy is to determine where costs can be cut in 2004, 2005 as well as 2006 and 2007. It is impossible to close a campus or program and accomplish what is contractually required without longer timelines. Additionally, administrative cost-saving strategies are being explored such as centralizing the ordering of computers and matching the types of computers needed with the kind of work being done. Such strategies, if adopted, will lead to cost savings and eventually will be realized as cost reductions. Savings beyond this are "marbled" into the colleges, programs and university services and will be incrementally captured. In the meantime, the administration has proposed savings for 2004 are captured through:

- Salaries

- Benefits

Admittedly, Dr. Cerra noted the brunt of the cost savings in year one of the biennium are being put on the backs of University employees and students. Dr. Cerra asked members to be cognizant that if proposed savings strategies are postponed, the University will be forced to finance that money.

To conclude, Dr. Cerra stated that the Administrative Working Group and the President appreciate the BAC's input and will use it as a tool when making tough decisions with respect to the Moving Toward Benchmarks (MTB) proposal. Cost savings that cannot be accomplished through benefit reductions will ultimately need to be realized through layoffs.

IV). Associate Vice President Richard Pfutzenreuter, Office of Budget and Finance, distributed a handout to members containing background information on the University's actions in response to FY2003 State budget reductions and its plans to deal with the problem. Presentation highlights included:

- In April 2002, the Minnesota State Legislature reduced the University's appropriation by $23.6 million. The University responded to this cut by:
    - Reducing operating budgets by 2%.
    - Requiring central support units to fund 1/2 of 3% salary cost increases.
    - Increasing tuition an additional 2% above original plan.
- In September 2002, the University submits its lowest request for State funding in 10 years.
- In January 2003, the University responds to the declining State economic outlook by alerting academic and support units to constrain spending in anticipation of State budget reductions.
- Then, Governor Pawlenty reduced the University's appropriation by an additional $25 million on top of the $23.6 million reduction that occurred in April of 2002. The University responded to this additional cut by:
    - Requiring all units to share in budget reductions.
    - Instructing all units to assume reductions are recurring.
    - Ruling out further tuition increases.
- While both the House and the Senate have added additional money back into Governor Pawlenty's allotment to the University, it is unlikely, with no new taxes, that the University will receive more than the governor's recommendation of $1.084,611,000 for the biennium.
- Mr. Pfutzenreuter provided members with an overview of the current 2004 - 2005 budget model. The grand total challenge to the University over the biennium is $258.3 million. This figure, however, needs to be looked at on an annual basis because the problem for the first year is $105.6 million and $47.1 million more in the second year. Clearly, the big problem for the University is in FY2004.
- In FY2004 – 2005 the administration will be working diligently on:
    - Balancing the budget.
    - Investing in the future. Even though the budget needs to be balanced, there are important investments the University must make in order to stay competitive.
- Strategies for balancing the budget include:
    - Reducing administrative costs – 5%. Examples include streamlining the administrative structures and eliminating midlevel positions.

- Reducing operating expenses – 25%. Reducing health care costs is one of many ways the administration will use to curtail operating costs.
- Selectively reducing State support – 15%. Athletics represents an example of this type of strategy. Athletics has entered into a budget agreement to reduce their State support by approximately 30% over the next 4 – 5 years.
- Enhancing institutional revenues – 5%. Some additional ICR (Indirect Cost Recovery) revenues will be yielded as a result of increasing grant activity. This money is shared 50/50 between the academic units and central administration.
- Increasing student tuition and fee revenues – 50%. This would drive approximately a 15% increase in undergraduate tuition on the Twin Cities campus in FY2004 and an estimated 12% in FY 2005. These increases come on the heels of back-to-back tuition increases for several years in the teens.

In closing, Mr. Pfutzenreuter reminded members because health care costs operate on a calendar year, the University will not capture as great of savings in the first fiscal year as it will in the second year.

Vice President of Human Resources Carol Carrier asked Mr. Pfutzenreuter if the University receives more money from the State than anticipated how would that money be distributed? Although this is a question for the President, in general, the institution's priorities would be to lower the academic budget reductions to ensure that there are funds available for:

- Adequate student services
- Sufficient advising, course access and financial aid
- Reducing the hefty tuition increases

Committee discussion highlights included:

- What is the future of the University? Is the University on a slippery slope to mediocrity? Mr. Pfutzenreuter deferred this question to President Bruininks. He noted, however, that he would not be surprised if within a few years if the University's portion of the budget generated by tuition revenue will exceed the State appropriation. If this is true, it will have significant implications on what gets funded vis-à-vis the mission activities of the institution. Dr. Cerra concurred and predicts that State money will not come back. This biennium rescission moves the University back to 1988 in adjusted dollars. Therefore, it is time to shift mental models and the University needs to think about other means of generating revenue. Indeed, there are probably several sources of money that are more secure than State funding. There are other places to look for mission-based revenue enhancements. It is critical the University re-think how it finances education, research and clinical practice/outreach activities and how cross subsidies work. Currently, the administration has a good understanding of the overhead costs associated with research but little idea about overhead costs associated to education. The role of philanthropy is just beginning. This will require the University to define what is a core program and what is not. Eventually the State, as well as the University, will need to decide whether they want a medical, dental and pharmacy school. Dr. Cerra does not propose privatization but believes he is being realistic about the University's funding future.

- The University's compensation package is a factor that is already causing recruiting and retention problems. How will the University maintain its ranking if its compensation structure continues to decline? Dr. Cerra responded by stating it is unlikely there will be an answer to this question before July 1 and the answer resides in the University community and the expectations of the citizens of Minnesota. Based on national trends, Dr. Cerra anticipates the University may, in the not too distant future, need to consider transitioning to an entirely different benefit structure with defined contributions or a smorgasbord formula. Assuming the MTB proposal is implemented, the University is well within the national norms in terms of what employers are offering for health benefits. From another perspective, members were asked to remember that even at an 85% contribution rate for family coverage, it will cost the University $8 - $10 million more in new money to offer these benefit sets in FY2005.

  The balance of benefits and programs is real and beyond that there is the question of how much of the fiscal burden can be put on the backs of students. Again, Dr. Cerra stated there are many questions on the table regarding the University's future as a public institution but he does not believe they can be answered by July 1st. Professor Morrison asked, will the University ever answer these difficult questions or will it continue to slowly decline because every year it cannot answer the questions by July 1st? He added that with the MTB approach, the University moves closer to benchmarks in terms of benefits compared to other institutions, while at the same time faculty compensation at the University ranks 28 out of 30. What are the implications for the University in terms of attractiveness as an institution and competitiveness in the market? Dr. Cerra agreed that asking what is the compensation plan for all groups of employees is a legitimate question that deserves an answer but doubts it will happen before July. Professor Morrison stated that the "wait until next year" excuse has been exhausted.

- Assuming no pay increases for 1 – 2 years and increases in health care and parking costs, etc. employees will need a decent pay increase just to be able to stay at a level equivalent to where they are at today. Dr. Cerra agreed with this member's comment but again stated the reality is that the State has reduced its appropriation to the University by $200,000,000 and it is unlikely that this money will be recovered in the future.

- What is the University's responsibility to itself to fight for its own image? How is the administration fighting against the privatization of a public good? Dr. Cerra stated that the University continues to fight very hard on behalf of this institution. As a matter of fact, Mr. Pfutzenreuter added that higher education used to be 16% of the State's budget, now it is barely 9%.

- Does the pay freeze include the President? Yes, the pay freeze is across the board. There is one caveat, however, the Board of Regents sets the president's salary. With a fair amount of certainty, President Bruininks will encourage the Board to act like the rest of the University when it comes to his salary.

- A suggestion was made to lower the supervisor to staff ratio in order to save costs. Dr. Carrier noted that there have been 100 lay-offs so far and, unfortunately, there will be more to come. Consideration and examination of supervisor to staff ratios will be one of many factors that are taken into account as layoffs continue.

- Dr. Carrier noted there have been a lot of inquiries into the various incentive packages recently offered through Employee Benefits.

- If the State continues to reduce its support to the University, should it still have the authority to make all the Regent appointments? Maybe some Regent appointments should come from other sources that have a vested interest in this institution.

- Professor Morrison posed the question to the committee, what would the implications be of not reducing benefits but instead shifting these costs to selective reductions in State support, tuition revenue, reduction of administrative costs, etc.? The Committee has heard support for shifting these costs to a general reduction in operating costs and making across the board cuts to departments. Alternatively, another option would be targeted cuts of departments, programs, colleges, etc. in order to maintain the quality of what remains of this institution. Dr. Cerra raised the question, who decides what departments, programs and colleges are more important than others? The University needs to really think about its core mission and what needs to be preserved. Professor Morrison responded that selective reduction decisions are continually hindered by the "delegation down" philosophy of the administration. Dr. Cerra disagreed and stated that the administration is making major cuts and is holding itself accountable. Dr. Cerra suggested that Professor Morrison make recommendations on what should be cut and then work towards that end.

- Dr. Cerra referenced the BAC report and believes the Committee did an incredible job of dissecting the issues and thanked members for their work. He believes it is not in the administration's purview to determine the academic future of the University but to support whatever the faculty and staff decide this institution should be.

- Dr. Carrier stated it is likely by July 1, 2003 that 300 – 400 employees will be laid off.

- Of the employees that have started their paperwork for RIO (Retirement Incentive Option), which has only been open 8 days, it is estimated the University will save $500,000. This incentive option remains open until July 7, 2003.

- Can the University continue to support all the services it currently provides? Dr. Cerra reiterated that programmatic reductions do not happen overnight; they take time. In the meantime, the University must finance these costs until programmatic reductions are completed.

- Many members expressed concern that they were asked to make major decisions on health care benefits in a vacuum as well as in a very short amount of time. As a general principle, Dr. Cerra stated he is opposed to forcing decisions based on urgency. He added that once the BAC's report is filed, it does not mean that the dialogue should stop. Benefit issues are not going to disappear and the dialogue needs to continue.

- How can UMP be made a more efficient and effective care provider? Through the compact process and tying performance to reimbursement UMP can be made more efficient. Dr. Cerra stated that he and Dean Powell need to be more involved in setting performance criteria in working with the UMP board. There is a national movement underway on how to work with specialists and sub-specialists to change their behavior in order to reduce and improve medical performance outcomes.

- Is the proposal to remove UMP from the base plan enough of an incentive to get UMP to lower its costs? In Dr. Cerra's opinion, this is doubtful.

- Based on an informal departmental survey, a member advocated for across the board department cuts rather than having cuts impact all employees and their families. Another member stated that this approach is not equitable from department to department and instead recommended eliminating departments that are not core to the University's mission. Dr. Cerra stated that rather than shifting the cost reductions to other departments, each department needs to closely examine its internal spending practices. Mr. Pfutzenreuter commented that the institution's budget decision-making process is hampered by the decentralized nature of the University structure.

- What is the University's plan to raise unrestricted revenue? The University, according to Mr. Pfutzenreuter, has been very aggressive about pursuing external sales opportunities, conducting capital campaigns and increasing tuition. A suggestion was made for the University to charge for some of its services. The University also needs to look at its outreach activities and determine whether they are core to the University's mission and whether these activities are funded or not. Answers to these questions beg the bigger question, what is the definition of a land grant institution in the 21st century?

- Dr. Carrier stated the administration must determine what obstacles are interfering with the University's ability to make centralized cost saving decisions. Currently, departments operate independently and in their own best interest. Mr. Pfutzenreuter added that there is great disparity in the distribution of wealth at the University.

- Dann Chapman commented that benefit sets between institutions vary greatly and it is difficult to parse out the differences. While on the surface it may appear that employees at other institutions pay nothing for their and/or their family coverage, oftentimes these institutions have high initial out of pocket expenses. If the University moves forward with the administration's proposal, it still has substantial benefits compared to other employees in the marketplace. Additionally, he noted that the University's free health care coverage for its employees has been detrimental to the institution from the general public's perspective and thus a political liability for the institution.

- Which aspect(s) of the University's health coverage is that much better than what other employees receive? Mr. Chapman stated when the University is compared to the marketplace, the real issue is the total out of pocket cost an employee must pay to have coverage in its base plan. Again, the fact that University employees have free health care coverage is detrimental to the institution from the general public's perspective.

- University employees have made conscious decisions over the years and have purchased the level of health care coverage currently available at the University. While other employees in the market were receiving 5% - 10% salary increases, University employees were settling for 2% - 3% increases in order to retain a generous benefit package.

- There are two components to health care coverage: covered services and access to those services. Most employers across the State offer very similar covered services. The differences between most plans, however, are twofold: access to the benefits and the number of choices offered by an employer during open enrollment. The University has maintained four health plan choices for its employees. Within these choices employees have the option of paying for the level of access they desire. A consideration for next year is whether the University should add another plan to the mix, an ultra tight HMO that operates on best practices.

- The opinion was expressed that there should be no benefit subsidies to employees because it is impossible to know an individual's true financial situation.

- The idea of tying a severity index to the coding of an emergency room visit (in an attempt to address the question of appropriateness) should be explored. Questions that need to be asked: Can it be done? Will the administrative costs offset any cost savings? In the end, will the coding be reliable enough to administer an equitable severity index? Dr. Cerra noted that coding is a very niche profession. Hospitals will code for the maximum reimbursement within the limitations of the codes allowed for a particular service.

- What happens to tenure track faculty if they are laid off? Will the University be in the same position it was when the Waseca campus was closed? Dr. Carrier said the current read of the tenure regulations is that a tenure track faculty member cannot be laid off for budgetary reasons.

V). The Committee welcomed President Bruininks to the meeting. He was asked his thoughts on whether the University is on a slippery slope to mediocrity and what the future holds for the University?

President Bruininks does not believe the University is on a slippery slope to mediocrity and thinks that the University community has an obligation to make sure this does not happen. The University of Minnesota is a world-class, land grant research and educational institution.

The administration has been struggling with the budget deficit and has been working feverishly to try and find $106 million of reduced State support. This is not a one-year process. During the first year the administration is working to balance the budget while simultaneously looking for additional money to invest in order to enable the University to keep its margin of excellence. Both administrative and operating costs must be reduced, not just at the central administration level, but at the unit level as well. The University needs to be a lot more creative and resourceful in its cost savings approach. Additionally, choices must be made and certain areas will be cut more than others; reductions will be made, it is inevitable.

The first round of reductions was made proportionately to the units. Central administration instructed units not to make across the board decisions. Instead, each unit was asked to re-base its budget in light of the sizeable reduction in State funding. This approach was used because it was critical that every unit deal with these issues. President Bruininks expects people at every level of the institution to work on this problem.

It is inevitable that mistakes will be made along the way during the course of this process. As mistakes happen the institution will learn from them and move forward.

Targeted reductions in round one were specifically avoided and the usual suspects were spared. President Bruininks used the Crookston campus as a case study to illustrate that the numerous suggestions he received to close the campus failed to take into consideration several very important factors. Clearly, targeted reductions need to be given a lot of thought.

Point blank, President Bruininks stated that the University cannot continue to sustain 15% per year health care cost increases especially considering the budget deficit. The administration will listen to all ideas that are put forward that could potentially save the University money.

During this difficult process the administration will need to identify framing principles and core assumptions to help guide intelligent decision-making by the University. Then, thoughtful strategies need to be put forward. The president asked employees to not limit their thinking to what the University should cut but rather to brainstorm about how the institution can enhance revenues. President Bruininks is confident that the University can raise an additional $5 - $10 million in revenue enhancements for next year. Additionally, the administration has ideas on how the University can enhance its return on some of its assets.

The negative implications of the budget situation cannot be the sole focus of the University community. Collectively, the University is a very creative, entrepreneurial group and there are a lot of options to deal with the budget deficit besides cutting benefits, positions, programs, etc.

Questions/comments to the president from the committee:

Should the University assume that the State revenue it is losing will never be restored? President Bruininks believes the University should not accept this assumption. Instead, the University needs to put itself in a position where it can argue its case more forcefully. He further noted that while the governor's budget recommendation for the University is quite harsh, the governor actually believes in the University as a viable institution of higher education. President Bruininks believes that the University needs to be tenacious and fight for at least partial funding restoration.

A member highlighted the key points from the BAC's report to the administration:

- The degradation of benefits will make the University uncompetitive.
- Elimination of a zero cost employee health care option represents a significant departure from the University's previous benefit structure.
- In light of no salary increases, proposed health care cost increases represent a pay cut.

President Bruininks understands all of these factors and stated that in the ideal world the University would not be faced with such a problem. No one wants a mediocre health care package. A healthy workforce is part of the foundation for the institution to be academically excellent. This is not a slippery slope toward mediocrity or a commitment to second-class compensation strategies for the University.

Is there a push by the legislature to make the University a private institution? While there is talk of this at the legislature, the president believes it would take a long time to reach a University of Michigan level and if an attempt were made to do this precipitously the University would fail. President Bruininks would like to see the entire University community work together to rekindle the pride the citizens of the State of Minnesota have for the University. The University needs to be valued; it has a tremendous impact on the economy and the quality of life in Minnesota. President Bruininks feels strongly that the University needs to fight hard to keep State support and that the citizens of Minnesota need to value the University.

If the administration makes a mistake in its health care recommendations will these decisions be revisited in the future? President Bruininks stated if the administration develops a formula that is not workable it can be revisited. However, to be honest, to revisit a plan with greater employee contribution to health care costs is unlikely to be one of the administration's top priorities once the recession is over. This is because the University's academic and other compensation needs will need to be addressed first.

To conclude, President Bruininks thanked Professor Morrison and the committee for their hard work on such a difficult problem. If the administration does not adopt every recommendation, the president asked the committee not to think it is for lack of appreciation for their work.

VI). Professor Morrison asked the Committee if they were prepared to act on the report? The Committee unanimously adopted the report which will be forwarded on to the administration. The 'Report of the BAC On Proposals for Changes in Health Benefits Submitted by the Administration' can be found at the following URL: http://www1.umn.edu/usenate/committees/bac.html

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

Renee Dempsey
University Senate