

BENEFITS ADVISORY COMMITTEE  
MINUTES OF MEETING  
APRIL 21, 2005

[In these minutes: Announcements, Indexing Health Care Rates Based on Income, 2-Tier v 4-Tier Rate Structure]

[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: Gavin Watt (chair), Linda Aaker, William Roberts, Pam Wilson, Karen Wolterstorff, Peter Benner, Jody Ebert, Ronald Enger, Rhonda Jennen for Rita McCue, Penelope Morton, Don Cavalier, Joseph Jameson, Michael Marotteck, Carla Volkman-Lien, Carol Carrier, George Green, Carl Anderson, Richard McGehee, Peh Ng, Rodney Loper, Dann Chapman, Keith Dunder

REGRETS: Fred Morrison

ABSENT: Frank Cerra, Theodor Litman

GUESTS: AFSCME Council 31 Research Director Hank Scheff

OTHERS: Kelly Ahern, Linda Blake, Ted Butler, Joyce Carlson, Karen Chapin, Jennifer Durocher, Nancy Fulton, Joe Kelly, Greg Knoblauch, Shirley Kuehn, Stefanie Levi, Gladys McKenzie, Diane Parker, Kathy Pouliot, Ruth Rounds, Curtis Swenson, Phyllis Walker

D). Gavin Watt called the meeting to order.

II). ANNOUNCEMENTS:

- Dann Chapman reported that Employee Benefits is moving ahead with the contracting process for the 2006 UPlan. Assuming this process continues to go well, vendor information will be shared at the May 12<sup>th</sup> Board of Regents<sup>1</sup> meeting.
- Beautiful U Day is today, Thursday, April 21<sup>st</sup>. Various events related to the day were shared with the committee.

III). Gavin Watt welcomed AFSCME Council 31 Research Director Hank Scheff. By way of introduction, AFSCME Local 3800 staff person Gladys McKenzie thanked the committee for their willingness to learn more about indexing health care rates based on income and for putting this item on today's agenda. She also distributed a booklet, *Voices in the Workplace: The Economics of Working at the University of Minnesota*. This booklet summarizes AFSCME and Teamster survey results on income related health care access issues.

Mr. Scheff provided members with a brief description of his background. He noted that he was invited to attend today's meeting to talk about health care cost sharing based on income. In Mr. Scheff's opinion, the current University of Minnesota health care plan is quite conventional in how it is structured.

Next, Mr. Scheff provided examples of organizations that have moved to a system where employees' health care contributions are tied to income. The four models that were shared with the committee included:

- Cook County, Illinois
- City of Chicago
- Will County Illinois – Circuit Clerk
- State of Illinois

According to Mr. Scheff, the advantages of health care cost sharing based on income include:

- Fairer.
- Well-suited to the public sector.
- Can be used to incentivize groups to choose a particular type of health plan e.g. HMO versus PPO.
- Tiered rates can be incorporated into the plan design if desired.
- Allows the employer to budget for more revenue.
- Decouples cost sharing from the full cost of the plan. This approach allows for more transparency in how plan costs are derived.

Following Mr. Scheff's presentation, the floor was opened for questions and comments:

- Were the rates for the examples shared today bargained? How do non-union represented employees participate in process and how do they feel about cost sharing plans based on income? This is a very complicated question and varies by employer. During the bargaining process, it is critical that the views of non-union represented employees are taken into consideration.
- Salary alone does not indicate that an employee has a financial need. Employees may have other financial resources that the employer is unaware of. Therefore, rather than instituting a cost sharing plan based on income, consideration should be given to a reverse funding model where employees that earn the most contribute the most back into the plan. Under this approach all employees would contribute the same percentage to the plan the same way they received their salary increases. This type of model would differentiate based on need unlike the cost-sharing model. Mr. Scheff noted that the cost-sharing model is not perfect. However, whatever approach is used would be an offset against wages. An advantage to a cost sharing model based on income is that the model is infinitely flexible and can be designed to address both employers and employees concerns.
- **How does a cost-sharing plan based on income effect low-income employees? The salary benefit especially for a self-funded plan**

- Can a cost-sharing plan based on income be designed to make employees attentive to soaring medical costs? Yes, a plan can be designed to incentivize employees to pay attention to ever-increasing medical costs through deductibles, etc.
- Do employees change their health care behavior in terms of fewer emergency room visits, etc. when a cost-sharing plan based on income is put in place? Mr. Scheff does not believe that paying a percentage of premium based on income influences an employees<sup>1</sup> health care behavior.
- As employees are being forced to contribute a higher percentage of their income toward health care premiums, this is money that is no longer available to cover other household expenses. Naturally, this affects people with the lowest family incomes the most.
- How would an employer go about instituting a cost-sharing plan based on income without unduly impacting certain groups in one fall swoop? Cost sharing plans can be implemented however the employer wishes in order to accomplish its goals. The best time to institute a cost-sharing plan is when salary increases will be given.
- How many employee groups in Illinois offer subsidized coverage for their retirees? In general, in the public sector in Illinois, the larger employers tend to offer subsidized retiree coverage whereas smaller employers are less likely to do so.
- Do people with lower incomes tend to sign up for family coverage more often than higher paid employees? Mr. Scheff has not noticed this trend. He noted that family coverage would be equally as affordable for someone with a higher income as it would for someone with a lower income because the cost for family coverage is based on a percentage of an employee's salary.
- What percentage does Cook County Illinois contribute to its employees<sup>1</sup> health care costs? Employees are paying roughly 5% - 6% of total health care costs. While employer health care comparisons can be made in isolation, it is difficult to evaluate an employer's health care benefit plan without evaluating its entire compensation plan.
- How is an employer's contribution determined under a cost-sharing model? Once an employer collects contributions from its employees, it pays the balance, and this varies from employer to employer depending how the plan is set up. Under a cost-sharing model it is easier for an employer to budget for its contribution than trying to budget for projected claim costs.
- How does the Illinois legislature view cost-sharing models? Does the legislature perceive that its public employees are receiving richer benefits than private sector employees? According to Mr. Scheff, the legislature does not discuss it much.

Dann Chapman thanked Mr. Scheff for his presentation. Mr. Scheff encouraged the University to contact any of the employers that were mentioned today to learn more about their health plan structure from a management perspective. Mr. Chapman noted that the University of Minnesota, as an employer, has an investment in the health and welfare of its workforce. As a result, the University is open to discussing potential solutions for addressing the rising cost of health care on lower paid employees.

IV). Mr. Watt asked members for their input on whether the University should consider moving from a two-tier to a four-tier health care rate structure. A handout was distributed, *Effect on Employee Rates of a 4-Tier Rate Structure*, which illustrated the impact to various employee groups should the University institute a 4-tier structure. Members expressed their opinions on both sides of the issue, with a majority opposing a 4-tier structure. It was noted that under the current plan structure there is a cross subsidy built in, which favors families with two adults and child/children.

In light of time, this discussion was carried over until the May 5<sup>th</sup> meeting. Other agenda items for the May 5<sup>th</sup> meeting include pharmacy co-pays and indexing health care costs based on income.

V). Hearing no further business, Mr. Watt adjourned the meeting.

Renee Dempsey  
University Senate