BENEFITS ADVISORY COMMITTEE
MINUTES OF MEETING
APRIL 7, 2011

[In these minutes: Medical/Wellness RFP, UPlan Cost Savings Recommendation and Related Discussion]

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

PRESENT: Gavin Watt (chair), Pam Enrici, Tina Falkner, William Roberts, Dale Swanson, Sharon Binek, Jody Ebert, Sara Parcells, Jennifer Schultz, Nancy Fulton, Joseph Jameson, Karen Lovro, Michael Marotteck, Carl Anderson, Carol Carrier, Amos Deinard, George Green, Judith Garrard, Richard McGehee, Fred Morrison, Theodor Litman, Rodney Loper, Dann Chapman

REGRETS: Sandi Sherman, Michael O'Reilly

ABSENT: Aaron Friedman, Keith Dunder

OTHERS ATTENDING: Linda Blake, Karen Chapin, Betty Gilchrist, Ryan Gourde, Joe Kelly, Shirley Kuehn, Kathy Pouliot, Kelly Schrotberger, Jackie Singer, Sheri Stone, Jill Thielen, Curt Swenson, Phyllis Walker, Laurie Warner

I). Gavin Watt called the meeting to order and welcomed all those present.

II). Mr. Watt introduced the first agenda item, a report from Professor Morrison concerning the results of the most recent Medical/Wellness RFP. To put the presentation in context, Professor Morrison began with a budget update.

The University, stated Professor Morrison, faces a major budget shortfall. State appropriations for FY2012 could fall by as much as $70.9 million from FY2011 levels. He then shared the House and Senate bills that are being considered as well as Governor Dayton's proposal. In addition to the proposed cuts, the University has essential new costs it will need to cover for such items as debt service, new building operations, fuel, etc., which add $41.6 million to its costs. Keep in mind, noted Professor Morrison, these numbers do not include any provision for any form of compensation increase. Therefore, the total budget challenge, assuming no compensation increase, is $112.5 million for FY2012 (the 2011 – 2012 school year).

Funding sources to help resolve the budget challenge include:

- Increasing tuition. For example, a 4% - 5% tuition increase would generate about $37 million in revenue; however, there are practical, policy and legislative limits on tuition increases.

- Internal University reductions, e.g., departmental cuts, programmatic cuts, including cost shifts and savings on benefits. Internal reductions are anticipated to save the University $75.4 million.

The UPlan is a major cost driver for the University with the University spending more than $200 million per year on the medical portion of the UPlan alone. As a major cost driver, University purchasing policy requires that the University periodically test the market by issuing an RFP at least once every six years. As a result, an RFP was recently issued in November 2010, and vendor responses were due in January 2011. Following preliminary reviews of the RFP responses, finalist interviews were held and the RFP committee made its choices. Professor Morrison then shared the name of the individuals who served on the RFP Committee as well as the names of the Boynton Health Service and Employee Benefits staff who supported and participated in the RFP process.

The RFP was calling for the selection of a medical plan administrator and a wellness and disease management administrator. Professor Morrison explained what a medical plan administrator does:

- Contracts with providers.
- Pays claims.
- Issues membership cards and responds to coverage questions.
- Keeps payment records.

For the 2006 – 2011 contract period, the University's medical plan administrators were HealthPartners and Medica.

The University received five responses to its medical RFP and interviewed four finalists. On the basis of the proposals that were submitted, the RFP Committee unanimously chose Medica to be the sole plan administrator for the next six-year period (2012 – 2017). By selecting a single administrator, the University is able to save more than $14 million over the six-year contract period.

Professor Morrison stated that medical plan administrators are NOT providers. With that said, the University fully expects that HealthPartners' clinics will continue to be available in the UPlan. Currently, some HealthPartners' clinics are providers in some of the Medica networks. Medica has made a commitment to the University to work on making HealthPartners' clinics available through the Medica administered plans. It is the University's hope and expectation that HealthPartners' clinics will be included in one or more of the Medica plan offerings. HealthPartners clinics in the Medica administered plan will be priced on the basis of the cost of the contracts that are negotiated.

Regarding the wellness proposals, ten were received and four were chosen for finalist interviews. After review of the proposals, the RFP Committee selected StayWell to be its wellness vendor. StayWell has been the subcontractor for the University's current wellness vendor, Healthways, and has provided the wellness assessment and other on-line programs. With respect to disease management, the RFP Committee concluded that whenever possible these services should be provided by members' clinics; however, when this is not possible, StayWell will provide the services.

In response to a question about the UPlan base plan, Professor Morrison stated that the base plan will remain the same, Medica Elect & Essential in the Twin Cities and Duluth and Medica Choice Regional for members in Greater Minnesota.

Pam Enrici asked whether Essentia Health will remain in the base plan for the Duluth area. Professor Morrison stated that he is unable to answer this question because it will depend on pricing it submits to Medica. Dann Chapman noted that the University has been given every indication that Essentia Health will continue to be in the Duluth base plan.

Moving on, Dann Chapman provided information on UPlan cost reductions. He reminded members that the administration has asked the Benefits Advisory Committee (BAC) to cut the UPlan medical program expenses by about 5%, which is similar to the amounts that other units are being asked to cut. A 5% reduction in UPlan expenses translates into a $12.7 million for 2012 and $10.5 million ongoing, plus the savings from the RFP process, which is estimated to be $14 million over the next six years by having a single plan administrator. This savings will be shared between the University and employees in the same manner that other savings have been shared in the past. Any savings will be distributed according to the share of the plan cost that the University pays, which is about 81% of the cost, and 19% for UPlan participants. As mentioned previously, the cost reduction target is subject to change based on what the legislature ultimately decides.

Mr. Chapman turned members' attention to the Administrative Working Groups' (AWG) initial UPlan cost saving recommendations, which the committee has discussed at its last three meetings. He then summarized the BAC sentiments from earlier discussions pertaining to these recommendations:

- Premium increases for family coverage seem high. With that said, is it possible to reduce these premiums?
- Consider increasing dental plan premiums and use this money to offset some co-pay increases.
- Provide protection for lower-paid employees by capping the percentage of income they spend on health care by using a model based either on annual salary or household income.
- Assure that the Wellness Program operates fairly, and not disadvantage employees with health issues.

Next, Mr. Chapman walked members through the options that have been discussed:

1. Option 1 – Premium increases are the same percent for each tier of coverage (retains grandfathered status).
2. Option 2 – Premium increases are the same dollar amount for each tier of coverage (loses grandfathered status). Using this model, noted Mr. Chapman, acknowledges the fact that this is a budget problem and not a health care problem.
3. Option 3 – A combination of option 1 and option 2, which smooths out the substantial premium increases to people with individual only coverage and family

coverage (retains grandfathered status). Please note, stated Mr. Chapman, that this option uses the $1.9 million of dental savings and applies it towards the medical premiums in order to smooth out the premium increases and retain grandfathered status. Therefore, if option 3 is selected, the $1.9 million in dental savings would not be available to apply toward reducing co-pays.

Mr. Chapman then explained what is meant by grandfathered status and what it means to lose this status. In Mr. Chapman's opinion, while retaining grandfathered status has some advantages for the University, there are no huge advantages for keeping this status. Losing grandfathered status would mean:

- UPlan would be required to cover routine care for those in clinical trials (UPlan already provides this coverage).
- UPlan must cover certain preventive services (UPlan covers most preventive services now, but there may be new services added, which would add to the cost of the plan).
- UPlan would be required to comply with new financial and quality reporting requirements.
- UPlan members would be allowed to select their own primary care provider and pediatrician and there would be no prior authorizations for OB/GYN (UPlan already complies).
- New minimum requirements for internal and external appeals (UPlan has both internal and external appeals processes, but would need to changes its processes to comply).
- Higher cost sharing for out-of-network (OON) emergency services will be prohibited (UPlan would need to make some changes, which would have some cost increase to the plan).

Professor Green proposed a fourth option, which would be a blended option having slightly higher premiums in order to buy down co-pays (losses grandfathered status). Yes, stated Mr. Chapman, this could be another option. Professor Green requested Employee Benefits model this option to which Mr. Chapman agreed.

Mr. Watt clarified by stating the options 1 and 2 do not include the $1.9 million dental premium savings, but these savings are factored in to option 3 in order to reduce the medical premiums for the various coverage tiers. Mr. Chapman turned members' attention to a slide on the proposed dental premium increases, which the committee discussed at its last meeting. In an effort to avoid confusion, Mr. Chapman stated that he believes the same changes being proposed for the medical plan should also apply to the dental plan.

Jody Ebert voiced her objection to the University considering its employees departments in terms of needing to cut health care benefits by 5%. She asked whether if a large number of people dropped their dental coverage how it would impact the model? Mr. Chapman explained that the experience in dental is quite 'controlled' that if a number of people drop coverage it will not have an impact on the plan. In fact, while it is counterintuitive, if a number of people dropped their coverage it would make more money available because the University would not have to pay its portion of the premium. Ms. Ebert commented that with no salary increases, she doesn't see how lower paid employees will be able to make ends meet. Mr. Chapman stated that he understands the concern, and that is the reason the University has made the provision for protecting lower-paid employees. Ms. Ebert responded by stating that she does not believe it is right to balance the University's budget by cutting benefits. Mr. Chapman stated that he appreciates Ms. Ebert's comments, and added that the administration does not like having to bring these proposals forward; however, it is left with no choice given the reality of what is happening to the University's funding. He reminded members that without changes to the health plans that will save the University money that jobs will be lost. For example, for every $1 million the University saves, it will be able to retain approximately 17 jobs. Because the administration is intent on protecting lower-paid employees, and recognizing that not all employees will be helped by the 8% premium cap, the administration is looking at other options.

What percentage of the University population have employee only coverage versus the other coverage levels, asked Professor Garrard? Mr. Chapman stated that about half of the University population has employee only coverage, and the other half has one of the other coverage levels. Mr. Watt stated that based on the 2010 open enrollment numbers, of the 17,000 employees in the UPlan, 7,400 employees had employee only coverage, 2,800 employees had employee plus spouse/same sex domestic partner (SSDP) coverage, 1,900 employees had employee plus child/children coverage and 4,900 employees had family coverage. Professor Garrard speculated whether under option 2 if employees with employee only coverage will feel they are subsidizing more health care costs than the other employee groups. Mr. Chapman stated that option 2 would have to be represented as an alternative distribution of premiums that would reduce the cost to families given this is a budget issue and not a health care issue.

Phyllis Walker prefaced her remarks by noting that she is sitting in for Sandi Sherman who was on vacation. Ms. Walker stated that AFSCME Local 3800 has taken a position on the proposed health care benefit reductions, and read the position statement to the committee. The statement takes the position that rather than saving money by cutting health care benefits, the University should cut middle management positions, which have not decreased by the same percentage as other job categories during the course of the hiring pause. The University should not be balancing its budget on the backs of the lowest paid workers, stated Ms. Walker. With that said, Ms. Walker stated that AFSCME Local 3800 would be providing the BAC with written information following this meeting.

Mr. Watt explained the difference between option 1 and option 2. Under option 1, UPlan participants would have the same percentage premium increase. Under option 2, UPlan participants would have the same dollar amount increase. He then solicited members' thoughts. After some discussion, the consensus of the committee was that while they are strongly opposed to the proposal that the University reduce health care benefits in order to help meet its budget challenge, that option 1 would be the most equitable and more saleable.

Mr. Watt then asked members their thoughts on whether the University should strive to maintain grandfathered status for as long as possible or whether it was not that important. In response to a question about the cost differential, Mr. Chapman stated that while the University does not have an exact figure, he would estimate the cost to the University would be small if it lost its grandfathered status. Professor Morrison explained that in order to retain grandfathered status, the University cannot reduce the employer's share of the overall cost of the plan by more than 5%. The current expectation is that most employers will have to move out of grandfathered status within the next two to four years. Once out of grandfathered status, employers will be required to follow rules that dictate what plans must and cannot provide.

Ms. Enrici asked whether employees would lose a fair amount of protection if the University would lose its grandfathered status. Professor Morrison stated that there is a fair amount of reassurance that an employer can move out of grandfathered status unless there is a bargaining contract to force it to retain this status. Once an employer loses its grandfathered status, employers move into the realm of regulated employee plans under the new system. After a fair amount of discussion, the committee deferred to those most knowledgeable about grandfathered status, and, based on what they heard, losing this status will not impact the UPlan substantially.

Again, Professor Green requested Employee Benefits model a plan that would use the dental savings and thus limit/minimize the proposed office co-pay increases, and raise premiums instead. Members concurred that the dental savings should be used to reduce office co-pay increases.

As raised at the March 24, 2011 meeting, Joe Jameson voiced his opinion that the University use household income versus an employee's salary when calculating the premium cap, which is intended to protect lower paid employees from paying too much of their income for health care coverage. He then cited an example to make his point. He also stated that people who apply for the cap should be required to provide Employee Benefits with documentation about their household income. The University has an obligation to be fair to all employees when extending a hardship benefit, which means household income rather than an employee's annual salary should be used to determine eligibility. According to Mr. Jameson, basing a cap on an employee's salary incents abuse. Mr. Jameson asked for the committee's position on this issue. In response, Mr. Chapman clarified that the University is looking into using household income for calculating the cap, however, it is unclear at this time whether the University has the legal right to ask for this information. The University has attorneys who are looking into this matter. In addition, given this regulation will not take effect until 2014, the federal government has not yet decided upon the formula it will use to calculate eligibility for the cap. Therefore, it will remain unknown for quite some time whether whatever calculation the University decides to use will comply with the federal regulation. The University's formula decision will be based on two drivers, fairness and cost to the University to implement. Professor Green made the point that if the University determines it is infeasible to use household income to calculate the cap in the short-term does not mean that at some point in the future once this federal regulation is defined that the University could move to using household income in the future.

Phyllis Walker, president, AFSCME Local 3800, asked for clarification about why it would cost the University less to implement the cap using household income versus individual employee's salaries. Mr. Chapman explained that it would cost the University less because fewer people would qualify for the cap.

Professor Green asked whether the University is consulting with the Office of the General Counsel about using household income to calculate the cap or whether they are using an outside firm. Mr. Chapman stated that the University has asked the benefits experts at Gray Plant Mooty to determine whether the University has the legal standing to ask for household income in order to determine eligibility. Professor Morrison stated that the technical legal problem surrounding the cap is that plan costs must be uniform for all classes of employees.

Moving on, Jackie Singer, director, Retirement Programs, shared information about proposed changes to the Faculty Retirement Plan (FRP). She stated that the proposed changes have been vetted through the Senate Committee on Faculty Affairs (SCFA) Retirement Subcommittee as well as the parent committee, SCFA. In addition, the proposed changes are being brought to FCC this afternoon and to the Faculty Senate on April 14th. The model that is being discussed would keep the contribution rates intact for existing employees, but would change the contributions rates for employees hired in 2012. The proposal that is being discussed would reduce the University's contribution to the FRP to 10%, down from 13%, and the employee contribution rate would be either 2.5% or 5.5%. The SCFA Retirement Subcommittee endorsed a resolution that strongly recommends the employee contribution rate be 5.5% to keep the total FRP contribution rate at 15.5%.

Next, a copy of the memo that is being sent out in an email blast today to all University employees was distributed. The memo informs employees about the proposed 2012 health benefit discussions that are taking place as well as the fact that Medica has been chosen as the single UPlan administrator. In addition, a copy of the FAQ that is on the Employee Benefits website concerning Medica as the single UPlan medical plan administrator was distributed - http://www1.umn.edu/ohr/benefits/2012changes/faq/index.html#medicaselected Mr. Chapman encouraged members who have other questions that should be included to contact Betty Gilchrist or Karen Chapin in Employee Benefits.

Professor McGehee encouraged employees who want HealthPartners clinics included in the Medica network to call Mary Brainerd, president and chief executive officer, HealthPartners, and request that HealthPartners negotiate with Medica as one of its low-cost providers.

Another handout was distributed, the medical UPlan financial summary. Mr. Chapman stated that concerns have been raised about UPlan funds being used for other University expenses outside of funding the UPlan. He went on to explain that while UPlan funds are comingled with other University funds, in terms of accounting, UPlan funds are maintained separately. No UPlan funds have ever been used by the University to pay for other expenses. In fact, the University has actually had to supplement the cost of the UPlan in some years. Since the UPlan's inception, the University has supplemented UPlan costs in the amount of approximately $9 million. Mr. Chapman walked members through the handout.

III). Mr. Watt stated that the resolution that had been distributed earlier today will be put on the agenda for the April 21 meeting. In light of time, he then adjourned the meeting.

Renee Dempsey
University Senate