Minutes*

Senate Committee on Finance and Planning
Wednesday, July 17, 2013
2:00 – 4:00
238A Morrill Hall

Present:	Russell Luepker (chair), Gary Cohen, Dan Feeney, David Fisher, Catherine Fitch, Jennifer Gunn, Karen Ho, Kara Kersteter, Fred Morrison, Paul Olin, Ann Sather, Michael Volna, Pamela Wheelock
Absent:	none counted for a summer meeting
Guests:	Deans Aaron Friedman, David Wippman, Sri Zaheer, Kris Wright (Office of Student Finance); Tim Bray (Director of Purchasing Services), Mark Teragawa (Director, U Market Services); Vice President Kathryn Brown, Dann Chapman (Employee Benefits), Professor Rebecca Ropers-Huilman (Faculty Consultative Committee), William Hellriegel, Cynthia Murdoch, Susanne Vandergon (all P&A Consultative Committee), William O'Neill (Civil Service Consultative Committee)
Other:	Emily Lawrence (Office of the President); Associate Vice President Laurie Scheich (Auxiliary Services)

[In these minutes: (1) financing health sciences and professional education; (2) e-procurement; (3) UPlan changes]

1. Financing Health Sciences & Professional Education

Professor Luepker convened the meeting at 2:00 and welcomed Deans Friedman, Wippman, and Zaheer and Ms. Wright to a discussion of the tuition and loan burden on health sciences and professional students. The Committee has heard concerns about professional school tuition and would like to hear ideas about what might done to respond to the problem. He noted, from data provided by Ms. Wright, that for a student with loans of $250,000, an income of about $360,000 is required to make payments of $2805 per month for 10 years (assuming a 6.8% interest rate on the loan and an 8% maximum of income for loan repayment).

Ms. Wright commented that she had provided data on the sticker price for tuition, fees, and books for resident and non-resident students. The net price a student pays can depend on the field and personal circumstances. She also provided data on median indebtedness for students (with debt) in MBA (day), Law, Medicine, Dentistry, and Vet Medicine programs for 2007-08 to 2011-12. Professor Luepker later clarified that the indebtedness data are only for those programs; if a student came into any of them with indebtedness from his or her undergraduate degree, that amount is not included. The median indebtedness for students with debt for 2011-12 were as follows:

MBA Day	$64,163

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

Law	$97,097
Medicine	$173,157
Dentistry	$224,588
Vet Medicine	$178,872

Professor Luepker asked Dean Wippman (Law) to discuss the situation for law graduates.

Dean Wippman observed that the trends in both resident and non-resident tuition for the Law School were steeply upward. But he agreed with Ms. Wright that it is important to look at the numbers as the student does, which is to ask what the net price is. Because of scholarships, the net price has increased less rapidly than the tuition rates. In the last five years, the average net cost per law student rose from about $19,000 to about $21,000, so an increase of about 3% per year. There is, however, a large variation across students in terms of what they pay. Some graduate with no debt; others have debt, about $100,000 (the $97,097 identified above), which is about the national average.

Professor Luepker noted, from data from Ms. Wright, that the Law School has had success in raising money and granting scholarships; the amount increased from about $3.5 million in 2007-08 to about $9.8 million in 2011-12. So while tuition may have increased significantly, so did the amount of gift aid and waivers.

Dean Wippman agreed and said that phenomenon is true for almost all top law schools. The increase in aid is the result of being a top law school in competition with other top law schools; the money is used to shape the class and to attract top students.

Where does the University's Law School stand vis-à-vis other Twin Cities law schools, Professor Luepker asked?

The tuition is about the same for Minnesota residents, Dean Wippman said, but the other schools are having greater difficulty attracting students. The University's law school does not benchmark against the local schools, it does so against the top 20-25 (Minnesota is currently ranked #19). Among the top 20 law schools, Minnesota has the second-lowest resident tuition and the lowest non-resident tuition. So among the top law schools, it is less expensive than most.

Professor Cohen said he had been told by another local law professor that the University's law school is taking more transfer students; Dean Wippman said that is true. Does that have an impact on indebtedness of law students when they graduate, Professor Cohen asked? It has little effect, Dean Wippman said. They do not typically provide scholarships to transfer students (of which there are about 40-50 per year). They also lose about 10-15 students per year, who go to higher-ranked law schools in order to increase their chances of getting a job.

Professor Cohen asked if the Law School is keeping a targeted graduating class size the same or has it decreased? There is a serious moral dilemma involved in that decision. Dean Wippman said that Minnesota, along with many other law schools, shrank the size of the entering classes. It had been 240-270 students; last year it was 205, but they lost 10 students, so were at 195, which is not sufficient to sustain the Law School financially. They now aim for 240 students but may not reach that goal. Many law schools are shrinking in order to preserve quality. Students can plug in numbers into various web sites and obtain a calculation of the percentage of a law school's graduates who obtain particular kinds of jobs—and they do so, often choosing a school on the basis of employment probability. Minnesota suffers on that comparison relative to some peer schools because of the number of law schools in the Twin Cities.

Professor Gunn asked if law students also borrow for living expenses or if they work to earn them. Do the jobs pay back the loans that law students take out? Dean Wippman said that students who borrow tend to do so for living expenses as well as tuition. It is difficult to work when one is a law student, and while some work during the summers, they do not earn enough to pay for law school.

Is there any loan payback from their jobs, Professor Gunn asked? There is not, Dean Wippman said, but there are some income-based repayment schedules that are attractive for some students (e.g., those who take public defender positions or who go to small, rural law firms).

Professor Ho said the increase in gifts and scholarships is impressive; will that continue if the Law School is shrinking? Dean Wippman said they are trying to adjust the amount they spend with the size of the class. They want to attract students that will keep the Law School in the top 20—but they must also generate tuition revenue. They do significantly discount tuition, and they receive significant contributions from donors and the Foundation, but not enough to cover the discounts.

Professor Feeney asked if the Law School receives a small amount, if any, state funding. They receive some, Dean Wippman said, although the amount has been reduced quite a bit. It is now only a small percentage of total revenue and it is not allocated specifically for scholarships.

Dean Zaheer next noted tuition rates and increases since 2003-04 for the MBA program in the Carlson School of Management. In 2013-14 tuition, fees, and books were $37,462 for a full-time resident MBA student; for a non-resident they were $48,232—and the difference between the resident and non-resident tuition has grown rapidly over the last ten years. Ten years ago the difference was about $4,000; now it is about $7,000. That gap is too wide, she said, and they have started holding the non-resident tuition to lower rate increases to reduce the gap. They need to appeal to a national audience because that brings in national recruiters and national rankings.

There is a small number of full-time MBA students, Dean Zaheer said, and the bigger part of the enrollment is in the part-time MBA program. Part-time students pay per credit, a charge that has increased at a lower rate than that for the full-time program. There are about 1,400 part-time MBA students who come to Minnesota because of the prestige of the full-time program; ten years ago there were about 2,100 part-time students who took about six years to graduate whereas now they graduate in about 3.5 years. Part-time students receive no financial aid, and while the bad economy affected the students, the impact was not as bad as it was for law students.

Dean Zaheer provided data on the top 30 programs and noted that Minnesota is ranked #23. Based on their peers, the tuition is about where it should be. The total cost of the program is about the same for full-time and part-time students, spread out over more years for the part-time students.

The median debt for the MBA students varies. For the part-time students, it is about $51,000, while for the full-time students it is about $64,000. However, the average starting salary for the full-time MBA students is about $122,000, so they are able to repay their loans without great burden. Most part-time students are working full-time and earning an income to repay loans.

For the full-time students they have many scholarships, Dean Zaheer reported, and they pay about one-third of the tuition. Some of the money comes from the endowment and the remainder is discounting to attract top students (including women and minorities). This year they have been successful in aggressive recruitment of returning veterans and they are raising money to support them. But that does affect the gender balance, she observed, because only 2 of the 15 students from the military were women.

Vice President Wheelock asked Dean Zaheer if she had data on the number of part-time MBA students who are University employees. Not very many, Dean Zaheer said, and anyone would have to meet entrance requirements.

Professor Luepker asked what percentage of the overall budget of the Carlson School comes from tuition. Dean Zaheer reported it was about 75%. Dean Wippman said it was about 65% for the Law School. So the tuition discounting reduces the revenues, Professor Luepker observed. The Carlson School budget is about $103 million, with about $76 million from tuition and $5 million from the O&M (University) funds—and they pay back to the University about $21 million in cost-pool charges, Dean Zaheer reported. They have about 103 FTE tenured and tenure-track faculty and 32 full-time clinical faculty. About 25% of their student credit hours are taught by adjuncts.

Vice President and Dean Friedman said he would talk about three schools—Medicine, Dentistry, and Veterinary Medicine—whose stories are quite different. Both resident and non-resident tuition in the programs have increased by 34-50% over the last 10 years; the Medical School increased by 10% and 12% in one two-year period. The same has been true of Dentistry but not Vet Medicine. Recent tuition increases have been more modest, in the range of 2-5%.

Dentistry has by far the highest tuition and fees, Dean Friedman reported, at $56,111 for residents in 2013-14, and the percentage of dentistry students who leave with debt is very high; the median debt for dentistry graduates is $224,588. About one-third of Medical School students (2013-14 resident tuition of $44,332) are in debt when they graduate with their undergraduate degree; the median Medical School indebtedness (for students with debt, over 90% of them) is $173,157.

The Medical School has the fifth-highest tuition among public medical schools, Dean Friedman said, although they do not raise tuition for five years for a student who enters. The Medical School is ranked 53rd overall among public and private medical schools, putting it in the top one-third to one-half. Dentistry tuition is low in comparison with peers: 18th lowest out of 58 schools nationally. Veterinary Medicine is 125% of the national average.

Professor Cohen asked why Dentistry tuition is higher than that of the Medical School. Because Dentistry relies more on tuition revenue, Dean Friedman said. In the Medical School, tuition is about 10% of its revenue; in Dentistry it is closer to a third, and Dentistry also has fee structures that are much higher than in medicine or veterinary medicine. Professor Olin added that the first two years of dental school are very labor intensive.

Dean Friedman said that indebtedness of medical students is up about 5% since 2008, the same as the national average. Indebtedness for dental students is up 16% and for veterinary students is up 22%. These increases, however, have had no negative impact on applications. The converse was true during the recession: the number of applications increased. The Medical School (Duluth plus the Twin Cities) has about 5,000 applications, 3,800 from U.S. students, for an entering class of about 230 students. They make offers to about 350 students, so there is approximately 1 offer for every 12 applications. In Dentistry, there are about 1,200 applications for 98 positions; in Vet Medicine they have about 940 applications for 100 positions.

If any of these three schools has an issue with jobs for its graduates, it is probably Vet Medicine, Dean Friedman commented. It is not an issue for the Medical School or Dentistry.

In the Medical School, 80-85% of the students are from Minnesota; in Dentistry and Vet Med about 60-65% are from Minnesota.

Dean Friedman addressed trends on the cost-side of professional education in the health sciences and said that the biggest impact on infrastructure costs for them have been state cuts; also a problem are mandated salary increases, which are greater than cost-pool increases.

They do not have many scholarships, and those they do have serve the goal of diversity, Dean Friedman related, because minority students can often get full rides at private medical schools. Gender, however, is not an issue in medicine or veterinary medicine. Nor in Dentistry, Professor Olin added. Does this mean that the diversity of the students looks like the general population? It does not, Dean Friedman concluded.

Professor Feeney asked Dean Friedman if they are seeing any effects of the Affordable Care Act on the Medical School or Dentistry, such as in terms of reimbursement rates or referrals. Right now the situation is a toss up, Dean Friedman said; he said he did not know the extent to which Dentistry will be affected. For the Medical School, the Affordable Care Act is less an issue than is Medicare reimbursement rates. The application rate has not changed; the biggest issue in medicine is the requirement that one must do a residency to obtain a license. The approved number of residencies is fixed at about 25,000 per year—but there will be more than 25,000 U.S. students graduating from medical schools by the end of the decade, so some students will be unable to get residencies. Congress is aware of this problem but has not changed the number the federal government will support because it does not want to pay for it.

Professor Cohen asked Dean Friedman what the experts say about the sustainability of the system when the median indebtedness numbers are so high. Dr. Friedman pointed out that the starting salary for dentists is $150,000 to $160,000. What about physicians, Professor Cohen inquired? Dentists do not need to do a residency, Dr. Friedman observed, while medical students are paid about $50,000 during residency and an average starting salary thereafter of about $250,000 (although lower in primary care).

Ms. Wright pointed out that there is loan forgiveness in law and medicine if the graduate works for the government or for a 501(c)(3) organization. Students are counseled carefully about these options, and the forgiveness is not taxable (which it is with income-based loan repayment).

Dean Friedman said the biggest sustainability problem is in Vet Medicine because graduates receive lower salaries than in medicine or dentistry. Most dentistry students do not use income-based repayment plans, so the system in those fields is sustainable for a long time. But it is not sustainable if one cares about diversity; minority students often cannot take on loans of this size or risk burdening their family with the costs of their education. And they become discouraged, Ms. Wright added. Dr. Friedman said that the starting age for most medical students is 24-25, and slightly lower in Dentistry. In medicine, it takes about 9 years to get to the position where someone begins to receive a full salary, so if students come with debt, there is a longer delay to the start of repayment.

Professor Ho commented that it looks like, from the chart, that the starting salaries a student must make in order to pay back their loans are almost unattainable. Ms. Wright said not, they are based on how much one wants to pay. If one expects to make $150,000, one must temper enthusiasm about the projected income with the understanding that they will be paying back loans for 10 years. The numbers also do not take into account spousal income, etc., Dean Friedman pointed out; the default rate for health sciences students is very low, if that is any indication of sustainability. Is there a lag time on defaults, Dr. Fitch asked? That is why they use lifetime default rates, Ms. Wright responded; they are not seeing an increase in the default rates yet.

Professor Luepker said that Professor Schulz, were he present, would ask how Medical School debt affects specialty selections by graduates, such as in pediatrics, psychiatry, geriatrics, and family medicine. Thus far there has been no effect, Dean Friedman said. The percentage of students graduating from Medical School who choose pediatrics or psychiatry—the lowest paid specialties—is 11%, the same percentage it was 25 years ago. The number choosing psychiatry is too low and has been for generations. There are certain specialties that are not tracked 20 years ago; family medicine saw a drop but then a rebound to 45-50%, which has been the same for a long time.

Does debt influence a decision whether to become a faculty member, Professor Luepker asked? It changes the applicant pool, Dean Friedman said. They do not have positions that go unfilled but they do not know who doesn't apply because of $175,000 in debt that must be repaid.

Professor Ho commented that it appears that everyone agrees that the biggest problem with high tuition and loan indebtedness is the effect on diversity. Dean Friedman said there was no question in his mind about the effect. He said they know that they lose students because of their inability to provide scholarship funding. That is not quite as true in the Law School, Dean Wippman said, because they have a significant scholarship budget that can be used to help increase the diversity of the student body. It is not the debt, Dean Zaheer said, because if their students get the job, they can repay the loans. The problem is the pipeline of minority students; they need to get to the high schools.

Professor Luepker thanked Deans Friedman, Wippman, and Zaheer and Ms. Wright and said the Committee would return to the topic at a future meeting.

2. E-Procurement

Professor Luepker now welcomed Mr. Volna and two of his colleagues, Tim Bray, Director of Purchasing Services, and Mark Teragawa, Director, U Market Services, to provide an update on purchasing and e-procurement.

Mr. Volna provided a brief background to the project, an effort charged by then-President Bruininks to explore ways to save money on procurement. He noted the various categories in which the University spends money (e.g., construction, subcontracts, scientific supplies and equipment, professional services, utilities, etc.) and that the total expenditure through purchasing in FY12 was nearly $1.2 billion (which amount does not include salaries and benefits but does include both sponsored and non-sponsored accounts). Following internal work with teams and advisory groups, and with help from Huron

Consulting in analyzing expenditures and on how to save money, and from Greybeard Advisors (experts in higher education supply chains and materials management), they have taken a number of approaches that are helping colleges and departments save money (he emphasized that the savings all accrue to the academic or administrative units).

U Market, the culmination of the effort, was implemented on July 1 of this year. U Market is an "E-shopping environment for vendor supplied and University stocked materials," with 35-40 online supplier catalogs; it represents 5% of total spending, 22% of purchasing transactions, includes electronic invoice processing, and provides easy access for all staff and faculty. Mr. Volna said it is an expanded menu from U Stores and right now geared to lab supplies, office supplies, chemicals, technology equipment, and Facilities Management. They will continue to add suppliers and at this point the University is considerably ahead of its peers in the number of vendors available through the system.

Mr. Volna explained why U Market is being implemented and the advantages it provides. The reasons:

We have multiple different paths people use to acquire supplies and equipment
Existing tools do not provide robust search and detailed item specifications
Users have limited access dependent on training that has been completed
U Market would provide significant process improvement for all shoppers
Provide a comprehensive and efficient procure to pay process
The advantages:

Consolidate purchasing around the most advantageous methods
Intuitive, easy to use tool / technology
Reduced training requirements
Streamlined electronic orders and invoices
University-wide contract pricing

Mr. Volna commented that anyone who has used Amazon.com will find U Market intuitive and will not need training

Mr. Volna also outlined current operations and future service expansion of U Market in terms of central logistics.

Current Operations:
Consolidate and deliver over 100,000 eProcurement orders annually
Consolidate supplies, mail, equipment, furniture and chemicals into fewer deliveries
Provide delivery for many Internal Service departments

Future Service Expansion:
Consolidate more inbound shipments
Further reduce commercial vehicle traffic on campus
Increase safety and security
Reduce receiving for customers - saving time

One benefit, he explained, would be fewer trucks on campus, which helps address a number of problems.

Professor Cohen commended Mr. Volna and his colleagues for the new system but said that some of the staff in his department have expressed an interest in more robust training. They struggle with the issue of too much training versus not enough training, Mr. Teragawa said. They had heard that there was too much required for the old system, but hope they can better provide what is needed for the new system.

Professor Luepker also commended Mr. Volna and his colleagues for their good work and thanked them for presenting the information to the Committee.

3. Changes to the UPlan

Professor Luepker now welcomed to the meeting Vice President Brown and Mr. Chapman and also Mr. Hellriegel and Msses. Murdoch and Vandergon from the P&A Consultative Committee and Mr. O'Neill from the Civil Service Consultative Committee. He said that everyone present knows about the issues that have arisen with respect to the "Cadillac tax" of the Affordable Care Act and Committee members were provided the minutes of the discussions last spring about proposed changes to the UPlan. Professor Luepker turned first to Professor Morrison to begin the continued discussion about proposed changes to the UPlan.

Professor Morrison began with a summary of what has occurred. The proposal is to shift UPlan costs to employee out-of-pocket costs in order to avoid the Cadillac tax in 2018. The University must get a head start on the process in order to make adjustments necessary before 2018. The proposals put more costs on employees; they reduce compensation by reducing the value of the health plan. He said he believes these changes are necessary in order to avoid the tax.

The issue, Professor Morrison maintained, is how the savings that accrue from the cost shifts from the joint University/employee UPlan accounts will be dealt with. He believes they should be delivered to employees so that they remain part of compensation. He said he has been told that that option is still being considered. He said he strongly believes it must remain part of compensation—and that there are a number of ways of accomplishing that objective. One way would be to provide a flat dollar amount to every employee (it would be about $100) that would help cover increased out-of-pocket costs. Another way would be to shift the percentage of the premium costs paid by the employee and the University. He said he has heard that there might be a "premium holiday" next year; that would be a one-year fix and the $1.9 million would go back into the University's general operating budget in 2015. It would be unfortunate to use the Affordable Care Act as an excuse to take money from employees for the institutional budget.

Professor Morrison made two additional points. One, there should, if possible, be elements of the plan changes targeted at low-income employees because they are the ones who will be hurt most by the changes. Two, he is concerned about whether the University remains interested in providing competitive compensation if it intends to pull money from the compensation pool at a time when faculty salaries are significantly below those of the University's peers and total compensation is somewhat below that of peers. In order to remain competitive, the University must retain excellent fringe benefits or must transfer funds to direct compensation. So these are matters of both fairness and excellence, he concluded.

Vice President Brown said she wished to offer points of clarification in response to Professor Morrison's comments. After additional work, they have determined that the amount involved is $1.8

million, not $1.9, but Professor Morrison is correct that it amounts to about $100 per employee. She disagreed with Professor Morrison's contention that the proposal was compromising the University's commitment to total compensation and said that $100 is not a significant amount. She agreed that the University should look at planning in the future to ensure that there is an appropriate balance between benefits and compensation, but not everything can be accomplished next year. The president has asked that these issues be examined going forward and that will happen.

Vice President Brown agreed with Professor Morrison that the goals are choice, high quality, and affordability in health care and that there is no intent to have an adverse impact on low-income employees or those who have a chronic illness. Even with the proposed changes, however, the University will continue to offer employees a very solid and high-quality health-care plan.

Mitigations of the impact on employees are being considered; those that are being considered, Vice President Brown related, are a premium holiday for all employees currently in the UPlan, the impact of the elimination of the employee/spouse or domestic partner tier spread over two years, and provision of an employee-relief fund for those who are adversely affected by increased copays and deductibles. Fortunately, the changes to be made come in a year when premium charges are nearly flat, and employees can actually reduce their costs by participating in the Wellness Program. Vice President Brown said they would be willing to consider extending the relief fund in order to allow employees to adjust to higher costs or for those with higher health-care needs. The deductibles have been kept very modest (in the employee-only base plan, $100 for employee only, $200 for employee plus); many plans in organizations comparable to the University have much higher deductibles.

Vice President Brown concluded by saying that these steps are ways they hope to bridge the changes and that they will simultaneously begin to engage in long-term total compensation planning. One difference she and Professor Morrison have is that in her view there is no real money that would go into the University's general budget; these are prospective savings. She also noted that she sent an email to all employees about the Affordable Care Act and assured everyone that options are still being discussed and ideas being explored. She said she is open to suggestions but cautioned that they do need to get matters settled soon for next year so that they can determine the options that will be available during open enrollment this fall.

Professor Feeney recalled that the changes in the number of tiers adversely affects the couple-only tier (which is being merged with the family tier) and asked about mitigation of the impact. Vice President Brown said the increase in cost for the employees who have couple-only coverage will be spread over two years. Some employees may determine that their spouse/partner can obtain coverage from his/her (non-University) employer. If those two tiers are not merged, the deductibles would have to be $500 and $1000 rather than $100 and $200.

Professor Cohen said he agreed with Professor Morrison about the one-time premium holiday. He asked if the University has any prior history with a relief fund for those who are most affected by the changes. They do and have offered them twice before, Mr. Chapman said, and most recently as last year. Vice President Brown said the University has had success with such programs and that they have met people's needs. They can anticipate what will happen and believe they have models to effectively deliver the relief. Dr. Fitch asked what had occasioned the relief plans in the past; Vice President Brown said they had been adopted when the state was reducing funding for the University and it was forced to shift some UPlan costs to employees. Professor Morrison asked if the relief plan would only address premium costs or also include higher out-of-pocket costs. It would address both, Vice President Brown said. Professor Morrison said that the University can help with out-of-pocket costs—but not after 2018, under the terms of the Affordable Care Act, so that is only a temporary solution. Vice President Brown agreed but said the relief for out-of-pocket costs can bridge to allow time for long-term planning. They are trying to get the big pieces in place and then later mold them to make them most effective.

Professor Morrison observed that the increase in out-of-pocket costs will be considerably more than $100 for many employees; he agreed that the premium costs are likely to be flat for most employee groups, but not for people in the "couples" (employee plus spouse or partner) tier. His point, he said, is that the money should kept somewhere in the compensation system; how that might be accomplished is now vague. He suggested the Committee put this item back on its agenda in April, 2014, and ask what happened with the changes and to make sure that the funds remain available for employee compensation or benefits in future years.

Vice President Wheelock commented that she has been involved in a number of conversations about the UPlan changes and said she wished to emphasize the point that these changes—whatever they turn out to be—will be very confusing for employees. She suggested that Vice President Brown communicate regularly about them and put resources into the communication. In terms of the Affordable Care Act, at this point there is more unknown than known as coverage moves into the market; there will be turmoil in households. The University needs to invest time with employees in ways that work for them—that will be critically important. Vice President Brown agreed that communication will be critical and said her office will invest a lot of time communicating with employees—the process started today and will continue into the open enrollment period. There will also be counselors available at that time. They may add counselors, may put the information into different languages (e.g., Spanish, Somali, Hmong), and will have individuals available to talk to groups of employees.

Vice President Brown added that she appreciated Professor Morrison's suggestion that the issue return to the Committee in the spring, at which time they can lay out how the changes worked and what the long-term plans might be. She noted again that the University does not have the savings in its budget; these are prospective costs and savings, and to put money into the compensation plan to make up for the transfer of expenses to employees will require finding money in the budget.

Mr. O'Neill concurred with Vice President Wheelock: communication will be the biggest challenge as the UPlan changes are phased in. Vice President Brown said there are P&A and Civil Service teams working on a number of issues and said she believes her office has good communication with them. In the case of bargaining-unit employees, these issues must be settled at the bargaining table.

Dr. Fitch inquired what the target plan value is and whether the University would achieve it. Or will it be calculated after the fact? Vice President Brown said that the law provides descriptions of various categories of health plans; the University's is of the highest quality. The law says that if a plan value is not below a certain threshold, the employer is subject to a tax; the University is aiming to stay below that threshold. Dr. Fitch suggested including that information in communications and asked if plan value is different from the premium.

Mr. Chapman said the plan value is indeed different from the premium; the plan value equals what the employee and the employer contribute plus the value of the flexible spending accounts (and there are no clear regulations on the flexible spending accounts yet). It is very complex, he said, and is not just one calculation. There are many components to the UPlan that are counted and measured; each of the tiers is treated as a separate plan, which is why two of them are being merged (in order that none of them cross the threshold that would invoke the tax). There are a number of elements of the UPlan that could hit the threshold so the proposals are to combine them in ways to avoid it. The aim is to ensure that the University's excise tax liability is zero plus build in a small safety margin, Mr. Chapman said.

Dr. Fitch observed that there seem to be many numbers involved in considering the threshold; she suggested making them publicly available so that employees can be reassured the University will not be making cuts in benefits that bring the plan value significantly below the threshold. Mr. Chapman said they can do that but that it will take time. For 2014, for example, it will take the entire year plus part of 2015 to have all the claims, so two years from now the University will see if it made the goal of avoiding the excise tax. That is why the changes need to be made now, so that the University will have the information it needs to determine if tweaks are necessary for 2016, in order to be sure that only very small changes will be required in 2018. They want to avoid draconian changes.

If the concern is whether the University is doing the best it can by employees, Vice President Brown said, it is—it is doing nothing to save money, it is only trying to avoid the excise tax threshold. Professor Morrison agreed that the University is not trying to save money but said that the EFFECT is to save money. He said the administration, the Benefits Advisory Committee, and the Administrative Working Group (responsible for the UPlan) have done a great job in putting numbers together for Committee consideration. There is NO DOUBT that the University must redesign the plan; what he is troubled by is the unfortunate side effect of pulling money from the compensation system.

Professor Luepker agreed with Professor Morrison that there are savings occurring somewhere, but net of all of this, benefits are decreasing, copays are increasing, couples will pay more, and deductions will increase. Vice President Brown responded that the quality of care will not be reduced but she agreed there will be more deductibles and copays. She noted as well that the law imposes a number of additional requirements on the University, requirements that cost about $5 million and that the institution is absorbing. She said she does not want to turn this into a University-versus-employee, but the law does impose requirements on the University and employees and they must work toward solutions.

Mr. Hellriegel said he believes the University is not trying to benefit at the expense of employees but agreed with Professor Morrison that there should be a permanent way to ameliorate the burden. What have been proposed so far are temporary adjustments. Vice President Brown agreed that the difference is in the recurring nature of the plans. Now the University will provide $1.8 million back to employees through the premium holiday and the other steps she outlined. Those are short-term plans. She heard Professor Morrison suggest that they come back in April with a long-term plan that does not have disproportionate effects on any particular group of employees. She reiterated the point that the University is in negotiations with bargaining-unit employees and it must find an even-handed plan for everyone, which will take time. She also noted again that these are not funds the University now has; the president will have to find the funding.

Professor Feeney recalled that the University separated from the state's health plan a number of years ago. He asked if anyone knows what the state is doing now. The University separated from the state in order to gain more control over its health plan and costs. Do those gains remain valid? He said he was not advocating a return to the state plan but wondered if the University would be better off in a larger pool with state employees? Mr. Chapman answered flatly "no." Vice President Brown said that through work at the University, its health costs trend line has been well below the national average; it has kept premiums down while retaining quality. That was a very good decision and the University's plans are well-managed and provide a good set of options for employees.

Professor Luepker recalled an article in the newspaper the morning of the meeting reporting on a study by the School of Public Health showing that when copays and deductibles are raised, people (more men than women) do not obtain the health care they should. The changes to the plan may mean the University will save more than it wishes to. Vice President Brown observed that the University has an active Wellness Program that can help employees save money and improve their health. There is also a program for employees with chronic illnesses; they are trying to do as much as possible to meet the health-care needs of employees at all stages in their lives.

Mr. Chapman said he is aware of the concern that when a certain line is crossed in increased out-of-pocket expenses, people not only defer optional care but also put off needed care. He said he shares that concern. The University has had very slow increases in out-of-pocket expenses in the last dozen years, since it has controlled its medical plan. A few years ago there were some significant increases in employee costs because of actions by the legislature and benchmarks, but they have not seen an increase in sickness or in the number of hospital visits—which is what would be expected if people are deferring care. The trend is in the opposite direction, Mr. Chapman related: employees appear to have better health because there are fewer hospital visits. There probably are individual cases where the increase in out-of-pocket costs affects health-care decision, but they are not seeing that effect across the entire population of employees. They can watch for the behavior but he expressed doubt they would see it—and if deferral of health care does occur, there will be an increase in UPlan costs.

Professor Cohen said, apropos of information provided to the general University community, that it should include an explanation of why the University needs to avoid the excise tax. The members of this Committee understand the need to not only avoid the cost but also the potential political damage to the University if it incurs the tax.

Vice President Brown said she wished to thank Professor Morrison for his service as a long-standing member of the Administrative Working Group and said his participation has been an asset to the robust discussions that have taken place. They want to do what is in the best interest of employees, she reassured the Committee, and want to hear the conversations about what matters.

Professor Luepker thanked Vice President Brown, Mr. Chapman, Professor Morrison, and the others who have participated in the discussions; this is an issue important to all employees and the Committee appreciates the administration moving toward solutions that respond to the Committee's concerns and the administration's sensitivity to the issues raised. He added that the University must, as in this case, respond to external forces. He adjourned the meeting at 4:35.

-- Gary Engstrand

University of Minnesota