Minutes*

Senate Committee on Faculty Affairs
Tuesday, May 8, 2001
3:00 – 5:00
238A Morrill Hall

Present: Richard Goldstein (chair), Avner Ben-Ner, Judy Berning, Carole Bland, Robert Fahnhorst, Daniel Feeney, John Fossum, William Garrard, Darwin Hendel, Cleon Melsa, James Perry, Wade Savage, Carol Wells

Regrets: Carol Carrier, Dwight Purdy, Lisa Wersal

Absent: Josef Altholz, Joan Howland, Robert Jones, Larry Miller, Theodore Oegema, George Seltzer, Tom Walsh, Sheila Warness

Guests: Professor Fred Morrison (Interim Health Benefits Advisory Committee)

[In these minutes: (1) long discussion of progress, plans, and options for health care; (2) report on the several issues taken up and being taken up by the Tenure Subcommittee; (3) statement on tenure-track faculty and the retirement plan (eliminating the waiting period)]

1. Report from the Interim Health Benefits Advisory Committee

Professor Goldstein convened the meeting at 3:00 and welcomed Professor Fred Morrison for a report on the health care issue.

Professor Morrison recalled that the health benefits issue had been triggered by two factors: costs and plan design. The two issues have recently come together. Costs have been increasing by about 18% per year for some time; the University's costs are about $80 million, so the increases will be about $15 million the first year of the biennium and $30 million the second. The administration has an interest in dealing with costs. There have also been discussions over a number of years about plan design and what could be done to improve coverage.

Activities are following two tracks. First, the University is talking with the state to see if there can be an improvement in the state plan to meet University needs. This has been an ongoing discussion and there is no answer yet. Second, the University issued a Request for Proposals (RFP) to health insurance companies in mid-February, received responses, and a selection committee has been interviewing potential carriers. Because of restrictions in the RFP process and state bidding law, Professor Morrison said, there is much he cannot share at this point. He could, however, provide a thumbnail sketch of the kinds of plans that might be offered if the University would separate from the state; he handed out a one-page summary of the possible options.

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

The four plans range from the traditional HMO (similar to HealthPartners Classic) to a broader HMO to a general access model to a new option with a low premium and high deductible (for those who are more risk-tolerant).

The University received a "robust response" to the RFP and has some very interesting proposals. In two weeks, when the proposals are presented to the Board of Regents, the information will be public.

The University must, by the June 7 Regents' meeting at the latest, make a decision to either stay with the state or implement its own plan. The Regents have scheduled an extra meeting on May 23 to discuss health benefits. Even at that point not all the necessary information will be available because the legislature does not adjourn until May 22 so full financial information will not be available for some time. There will be a need for rapid consultation just before the decision must be made; Professor Morrison said the Interim HBAC will want to talk with the benefits committees for civil service, P&A staff, and this Committee as well as the full Civil Service Committee, the Academic Staff Advisory Committee, and the Faculty Consultative Committee.

Committee members asked a number of questions about the various plan options. Several points were made in the discussion.

-- Professor Morrison pointed out that co-pays are being added, a practice common in the private sector. The amounts vary from $5 to $10 to $15 for an office visit. There is also a proposed $200 inpatient co-pay and $75 outpatient co-pay for hospital visits but they may be eliminated. Professor Morrison noted dryly that no one goes to the hospital for a vacation. There is, however, broad sentiment favoring the office visit co-pay.

-- Will there be a range of plans? What must be decided by June 7? Professor Morrison said the decision is whether to have the type of plans he has outlined, administered by the University, or to continue to use the state-operated system. If the latter, the matter is finished; the University might have some influence on the plans. If the University is to separate from the state, it must decide on the carriers for each plan; there would be four plan choices.

-- What about the retirees? There would be something like the existing plan for retirees, Professor Morrison said. Bids on such a plan have been sought.

-- What is the cost estimate for a University-administered plan, compared to the $80 million the University now pays? That depends, Professor Morrison said. The state has issued a caution that rates will go up about 18%, as they have the last couple of years. The increase in cost for the University could be substantially less (although it will not go down). Some of the increase will be borne by employees, through co-pays; part of the smaller increase will reflect savings.

-- Is it anticipated that the cost to employees will be less than under the state plan? Professor Morrison said he anticipates that the cost in 2002 will be lower than the state plan cost, but it will NOT be lower than the 2001 state plan cost to employees. There is about 15% inflation in health care costs; the University's plan would reduce that number, but not to zero.

-- How will the price be reduced? By better bargaining power? Primarily, Professor Morrison said. It will not be because of different plan design; the plans offered would essentially replicate the existing offerings except for the addition of co-pays. Very few individuals would need to change doctors.

-- Senior Vice President Cerra has been quoted as saying that private sector health care costs are half that in the public sector. Why is that? Professor Morrison said that the INCREASE in private sector health care costs is about half that in the public sector, not half of the total costs.

Professor Morrison apologized for having to leave for another meeting but urged that the Committee plan on meeting in two weeks to discuss the health plan proposals.

The Committee continued to discuss the health benefits issue for some time.

-- Professor Perry said that faced with a decision by June 7 to state with the state plan or not, he has not heard many arguments in favor of staying with the state plan. The unions will argue for doing so, Professor Goldstein said; they do not want co-pays. The state is also working on a plan to increase choice, Mr. Fahnhorst said.

-- Have there been simulations of the effect on typical families and individuals under the current and proposed plans, Professor Ben-Ner inquired? There have, Mr. Fahnhorst said. There IS some cost-shifting to employees with the co-pays, he observed. Is this exercise really about that, Professor Ben-Ner asked? Leaving the state so the University can shift costs to employees? And will this end up costing employees more than the alternative? Mr. Fahnhorst expressed doubt that a University-administered plan would cost employees more because the state could add deductibles and co-pays as well. He said he would guess that that is being negotiated with the unions but that nothing would be known until the plan is final. These are moving targets, he added.

-- Will any of this be clear by May 23, Professor Perry asked? Mr. Fahnhorst reported that Senior Vice President Cerra has told the Commissioner that the University needs the information by that date.

-- How can the University decide if it does not have all the information, Professor Savage asked? Mr. Fahnhorst said it will have to decide based on what it thinks the state will do and based on the premium numbers that came in from the RFP proposals. The University will have a very good idea about the latter numbers but will not be close to receiving final numbers from the state.

-- One possible wild card is that the University would not pay the full cost for employees for the low-cost provider, Professor Feeney said. It is not required that the University pay the full cost of the low-cost provider. Mr. Fahnhorst said that provision is in union contracts, which covers 30% of the University's employees, and would have to be renegotiated if a change were to be sought.

-- This is about the third time this issue has come up, Professor Feeney said, and he has the sense that people are tired of being in the position of having no influence on the state's decision about health care plans and the lack of ability by the state to customize the plans. There were more options proposed in the early 1990s but they never materialized.

-- These plans, with deductibles and co-pays, will make people unhappy when the health care reimbursement account funds do not carry over into the next year, Professor Goldstein said. Right now it is a crap-shoot for people, trying to guess what their non-covered health care costs will be. The guidelines for these costs are set by federal law, Mr. Fahnhorst pointed out, and employees are not permitted to change their contributions unless there is a change in family status. The personal care account, in which the employer sets aside money for the employee, would be different. In the case of the low premium/high deductible plan, Professor Fossum observed, the costs are completely predictable.

-- To what extent has the Interim HBAC looked at the long-term political effects of the University leaving the state plan, Professor Hendel asked? Mr. Fahnhorst said they have looked at the effects. His perception is that the state is working hard to keep the University in the state plan and there are a lot of politics going on.

-- What proportion of the state plan is made up of University employees, Professor Bland asked? (About 25-30%) Would the University's departure have an effect on their ability to compete for plans? Mr. Fahnhorst said the state would still be a large group but that it attaches value to being a "mega-purchaser." They do not obtain much of a reduction in administrative costs but they believe they have more clout with the plans.

-- Most statistics show that as people have more education their health care costs are lower, Professor Hendel said; is there an argument that University employees have lower risks vis-à-vis other groups of employees? One can also argue that more educated people are higher users of health care, for prevention. The two groups (University and other state employees) use health care at about the same rate, he said.

-- What is the role of the Committee if a special meeting is held, Professor Savage asked? It cannot offer advice if it does not know what the state is offering. The University will know what its options are and will have to guess at what the state will offer, Professor Goldstein said.

-- Is there a plan to communicate the issues to the faculty more generally, Professor Hendel asked? Many will be getting ready to leave for the summer. Mr. Fahnhorst said University Relations will prepare mailings for employees; they will probably be sent to home addresses. His office is working on communicating the changes through newsletters and so on. If the University separates from the state, there will be a lot of work to be done; 17,000 people must be enrolled in the new plans. His office will have to increase staff by 7-11 people; those costs are built into the plans. At the same time, the University pays the state $331,000 for plan administration, on top of premium costs, so that money would be saved.

-- Professor Fossum said the University should get an opinion from the IRS on carrying over health care balances. Mr. Fahnhorst said some employers in the Twin Cities do offer personal care accounts and they have talked with outside legal counsel about the possibility.

-- If the University offers the options, will they still change from year to year, Professor Hendel asked? Mr. Fahnhorst said the plans would be monitored closely every year; if something goes haywire there would be changes. Professor Morrison has said that the plans offered may work for a few years and then the University might have to issue another RFP.

-- Professor Hendel observed that the $5 office visit co-pay may cost that much to process. It is the psychological value, Mr. Fahnhorst said, and they also want to have a plan that is affordable for all so there is one with a $5 option. Some cannot afford the $10 co-pay.

-- There is no guarantee that the state will provide the information requested, Professor Feeney said. It has not done so in the past, which is why the University has been left dangling with no control over the plans and without plans that address the University's special needs. The University can write its own RFP and obtain something important to an ACADEMIC institution. The University is hearing a different tune from the one ten years ago, at which time it was told that the state did not care whether the University stayed or left. Now they want the University to stay, but what does that mean, Professor Feeney inquired? That the state would "play ball" with the University? Many do not believe that. There was, earlier, a good discussion with the state and some thought things could be different; others noted that the PROCESS is still the same and the University could be right back where it started. The decision is about whether the University will have control. This is, he added, a big employee pool and the University will not be at a disadvantage if it decides to separate.

-- Professor Melsa asked what options there would be if the University plan were more expensive than the state's after four or five years? Would the University get back into the state plan? Or once it is out, is it out permanently? It could also be very difficult for the coordinate campuses to get low-cost coverage. Professor Fossum recalled that Professor Morrison said the University would pick up the cost of the low plan for each campus.

-- Will the Committee be asked to agree with the plan, Professor Wells asked? It apparently will be asked to take it or leave it, Professor Goldstein responded. So someone else is making the decision, Professor Wells observed. The Committee will know the choices available through a University plan, Professor Goldstein said; otherwise it can wait to see what the state decides to offer.

-- One tries to look at the big picture, Professor Savage said, but one also looks at the issue in terms of "how it will affect me." He said he wants the low-cost plan and will want to know if he will be left no worse off if the University leaves the state. He said there are no data to help with the decision.

-- The Committee will not have the data it would like when the decision needs to be made, Professor Bland said. Still, the Interim HBAC has to make a decision. So, the Committee should listen and if it agrees with the HBAC decision given the available data, acknowledge they are doing the best job they can--and not leave THEM hanging there making this important decision alone.

-- If the University leaves the state and is thus able to craft plans that meet faculty and staff needs, Professor Hendel said, then the immediate short-term costs are less important than the ability of the University to better meet the needs of its employees. Unless it could do so through the state, Mr. Fahnhorst said--which it has not been able to do.

-- Right now University employees benefit from what the state is doing, Professor Bland observed. But does the University, Professor Goldstein asked? The plan from the state costs a great deal of money. The tradeoff is about what kind of plan one wants, Professor Feeney said. Right now employees have first-dollar coverage and a high premium and the University has no control over plan structure. If the University decided it wanted a $10 co-pay option and lower rates, it cannot accomplish that alternative through the state, even if it says it does not want first-dollar coverage.

-- Professor Fossum made two points. First, Professor Morrison said that in 2002 the University would have a new plan with a smaller increase in cost; even if the University faced the same inflation rate as other organizations in the future, it would still have foregone the increase that one year so have lower total costs. Second, given the magnitude of the cost increases on the amount the University already spends, the cost of health care increases will be greater than the merit salary increases.

-- Right now the University is forced to cover the cost of health care because of the state plan; if it separates, it could diminish the benefit package or shift more costs to employees (because the University may face draconian budget cuts), Professor Bland said. And there is also direct charges for fringe benefits looming, Professor Feeney added; instead of a fringe pool, where all salaries are charged a flat percentage for fringes, departments would pay only their actual costs. So the contribution from highly-paid employees would drop (because the premium cost for health care paid by the University is the same no matter the salary). This change would be controversial and lead to even greater focus on health care costs.

-- Professor Wells recalled that Professor McGehee had said that providers might offer good deals to the University, if it splits with the state, in order to get the University in--and then change the plans afterwards. What guarantee does the University have that the plans would not go away? The same thing happens to the state, which is a large group, Professor Goldstein observed.

2. Report from the Tenure Subcommittee

Professor Goldstein turned now to Professor Garrard for a report from the Tenure Subcommittee.

Professor Garrard reported that the Subcommittee had had one meeting and looked at a number of items, one of which requires action by this Committee. He reviewed the items for the Committee.

-- It has been suggested that there be language in the letter to newly-tenured faculty about the obligations and responsibilities of tenure as well as the privileges; the Subcommittee reviewed a letter used at the University of Illinois. Professor Garrard provided suggested language that might be added to the letter the faculty already receives from the Provost, which would include sending copies of two AAUP documents. Should the language be added or should the idea be dropped, he asked?

What is the purpose, Professor Wells asked? To inform individuals that they have obligations and responsibilities as a tenured faculty member, Professor Goldstein said, as well as privileges. The language says something people already believe and feel strongly, Professor Hendel said; this might only annoy them.

Professor Goldstein said he would talk with Vice Provost Craig Swan, who originally suggested the change, to learn if he could attend the next meeting of the Committee.

-- The Subcommittee will be provided a report in the fall about post-tenure review and will report to the Committee on what it learns. This is a vitally important issue, Professor Goldstein said; it is something the Board of Regents is very interested in. It is what got the University into the tenure wars in the first place, Professor Savage pointed out; it is subject to great abuse and could spread over the entire institution. That is why the Subcommittee should review it carefully, Professor Goldstein responded.

A topic related to post-tenure review is that faculty were supposed to be able to link the review to compensation. The faculty were never aware that they had this discretion, Professor Wells said, and in many cases the two processes are separate.

Professor Feeney reported that the AHC Faculty Affairs Committee is looking at post-tenure review in the Academic Health Center; it should make available to the Tenure Subcommittee what it learns, he said.

-- There has been concern about misconduct allegations dragging on too long; the Office of the General Counsel will speak with the Subcommittee about this.

-- There was a question about whether the process of promotion from associate to full professor should be as burdensome as the process for promoting from assistant to associate professor with tenure. The Subcommittee felt that it should be; it is an important decision and should not be pro forma. It is burdensome but full professor is the highest academic rank that a department can award and the process should be similar.

-- There is a concern that a candidate for promotion and tenure has too much control over the process and that department chairs seem to have an obligation to advocate for them. The Subcommittee will review the tenure code language and may issue an interpretation. The Subcommittee does not believe the head or chair is obligated to be an advocate; there should be an advocate, but not the head or chair.

-- The possibility of a shared appointment has been raised. The problem is that one must have a 67% time appointment to be tenured; what is to be done if two people want to share an appointment on a 50/50 basis? It may be that a "special case" basis can be established, rather than revising the entire tenure code.

-- There has been concern about hiring faculty on long-term contracts rather than on tenure track; the Subcommittee will review college plans for the use of non-tenure-track faculty. There is worry that these appointments will subvert tenure. The college plans have the potential to abuse the system, Professor Bland pointed out, and dilute the tenured core of the University.

-- The Subcommittee will review the procedures that accompany the tenure code.

There is nothing in the procedures about joint appointments, Professor Bland said; can faculty with tenure in one department but a joint appointment in another vote on promotion or on both promotion and tenure?

3. Tenure-Track Faculty and the Retirement Plan

Professor Fossum now brought back to the Committee an item that had been discussed previously. He moved that "the University extend Faculty Retirement Plan participation to all tenure-track faculty as of the date of hire" and distributed a handout with pertinent information:

* * *

FACULTY RETIREMENT PLAN PARTICIPATION

FOR CURRENTLY INELIGIBLE JUNIOR FACULTY

The University of Minnesota treats newly-hired untenured faculty members differently from other faculty members in terms of entitlement to participate in the faculty retirement plan. Assistant Professors can not participate during their first two years of employment. This requirement should be eliminated for the following reasons:

1. If the retirement program were covered by ERISA, participation would be *required*.

2. It has a potential negative effect on recruiting, particularly when competitive offers are being considered.

3. It reduces a sense of shared interests and community among faculty members of varying ranks and seniority.

4. No other major university surveyed differentiates between probationary and non-probationary faculty in eligibility to participate in their retirement plan.

5. The ongoing cost of eliminating this discrimination is quite small–about $500,000 annually (.07% addition to the fringe pool).

Competitive Analysis

Wisconsin - participation immediate and mandatory, defined benefit plan.
Ohio State University - participation immediate (plan options available, DB and DC available), vesting requirements vary.
Indiana - immediate participation and vesting, DC plan
Michigan - participation and vesting immediate, DC plan.
Michigan State University - participation and vesting immediate, DC plan.

Potential Loss for New Faculty

Assume a new faculty member has a salary of $60,000 that according to university policy would be the base from which contributions are made, will have a 35 year career, and will have an annual rate of return of 8% on retirement contributions. Foregoing the first two years of contributions reduces retirement assets by $245,000 at the end of the 35 year career.

* * *

Professor Fossum said he had no idea why the University decided to exclude the first two years for tenure-track faculty. No other institution that he can find does so.

Professor Goldstein said that he had received a letter on this subject from a faculty member; they have lost faculty candidates because of this rule.

If approved, the change would be effective this fall. It needs to go to the Faculty Senate for action.

Professor Feeney said one result of the current rule is that smart department heads are offering candidates the choice of taking a P&A position (which, if minimum salary requirements are met, which most faculty meet, means they participate immediately in the retirement plan) or a tenure-track faculty position (which does not qualify for immediate participation), the candidates take the P&A position. Professor Bland said her department routinely hires people as P&A and then later switches them to tenure-track, for this very reason.

The Committee unanimously approved the motion by Professor Fossum.

Professor Goldstein extended thanks to Professor Fossum for all his work, said the Committee had had a productive year, and adjourned the meeting at 4:45.

-- Gary Engstrand

University of Minnesota