

Minutes*

Senate Committee on Faculty Affairs
Tuesday, December 7, 2004
2:30 – 4:15
238A Morrill Hall

Present: Morris Kleiner (chair), F. R. P. Akehurst, Matthew Bribitzer-Stull, Bruce Brorson, Dann Chapman, A. Saari Csallany, Jesse Daniels, Janet Ericksen, John Fossum, Richard Goldstein, Darwin Hendel, Robert Jones, Steven McLoon, Kelly Risbey, Kathleen Sellev, Larry Wallace, Timothy Wiedmann

Absent: Carol Carrier, Patricia Frazier, Elizabeth Hjelman, Theodor Litman, Wade Savage, Oriol Valls, Aks Zaheer

Guests: Jackie Singer (Director of Retirement Benefits); Executive Associate Vice President Alfred Sullivan (Office of Planning and Academic Affairs)

[In these minutes: (1) UPlan rate structure (possibly changing from two rates (employee or family) to four rates; (2) health coverage for retirees, with comparison Big Ten information; (3) impact of strategic planning on faculty work]

1. UPlan Rate Structure

Professor Kleiner convened the meeting at 2:30 and turned to Mr. Chapman to lead a discussion about possible changes in the rates charged to employees for UPlan health coverage.

Mr. Chapman recalled that at the last meeting he was asked about the potential effect of changing the way UPlan premiums are charged to employees. At present there are only two choices: employee only or family coverage. The Benefits Advisory Committee (BAC) has been discussing a four-tier rate structure; this Committee could advise the BAC of its views, if it wished.

The four tiers would be employee only, employee plus spouse/partner, employee plus child(ren), and employee plus spouse/partner plus child(ren). Mr. Chapman distributed a handout with estimated rates for the four tiers for next year, were there to be four tiers (which there will not be for 2005 in any event). As an example, for HealthPartners Classic, the current and projected rates for the four tiers are as follows. The calculations were done in his office but were based on actuarial factors provided about a year ago on how the costs would break down if there were four tiers. The changes are cost-neutral for the University and would only shift costs among categories of employees based on their associated level of risk.

1. Employee only

-- Current: 15.70 per pay period

* 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 represents the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

-- Projected: 15.70
Total annual change: none

2. Employee plus spouse/partner (about 2,600 employees)

-- Current: 58.90 per pay period
-- Projected: 47.40
Total annual change: (299.00)

3. Employee plus one or more children (about 1,200 employees)

-- Current: 58.90 per pay period
-- Projected: 42.00
Total annual change: (439.40)

4. Employee plus spouse/partner plus one or more children (about 4,600 employees)

-- Current: 58.90
-- Projected: 70.00
Total annual change: 288.60

If this change were to go into effect, some would pay more and in some cases working spouses might choose to rely on their employer's health coverage, Professor McLoon speculated. That could happen, Mr. Chapman agreed. That has not been the motivating factor for those who are interested in the change, however; the interest comes from employees who are only covering a spouse/partner or children, who believe they are paying more than their fair share of costs.

If people leave category 4, would that lead to an increase in the rates for categories 2 and 3, Professor McLoon inquired? It would not, Mr. Chapman said; the numbers are pretty firmly fixed.

What would happen when two adults (spouses/partners) both work at the University, Ms. Sellew inquired? Could one go on the other's coverage? They would recognize the additional cost, Mr. Chapman said. Each could be on their own (employee only). They can choose whatever works to their advantage. Four tiers could work to their benefit, Ms. Singer added; one could carry employee-only coverage and the other could carry employee plus children, if there were children involved. The net cost to the two employees would then be less.

What number of employees would be unaffected by the change, people who now choose employee-only coverage, Professor Hendel asked? About half of the employees, Mr. Chapman said; the University is split fairly evenly between those who take employee-only and those who take family coverage. Employee-only coverage will be about \$15.70 per pay period next year.

Why is the University on a two-tier system, Professor Britzner-Stull asked? It inherited that structure from the state, when it was part of the State of Minnesota plan.

Has there been any thought given to cafeteria benefits, Professor Kleiner asked? There has been discussion on and off for a number of years but they have not gone far, Mr. Chapman said. The University has a modified cafeteria plan now; a full cafeteria plan assumes the University would give employees a certain amount of money and allow them to spend it where they wished on fringe benefits. He said he believed there would be resistance to such a plan among employee groups because they enjoy protection from medical inflation—because the University pays a percentage of the cost of health care, something that would likely be lost in a cafeteria plan.

Professor Akehurst said that for employees at the University for a career (perhaps 40 years), who have children for whom they are responsible (for perhaps 20 years), when the children move out and when the employees have a higher salary, they would receive a break on health insurance as well as losing the cost of the children. This rate break would come at a time when they could most afford to pay a little more. Are older employees now subsidizing younger employees? They are, Mr. Chapman said, but there are a lot of subsidies in the plan. Those in higher age brackets also cost more than younger employees with children. If one did an age rating for premiums, the rates could change dramatically. He said they do not want to get into discriminating on the basis of age or medical condition. He said he understood the point, however, but the administration has no position on the issue; it is a subject for discussion with employees.

Mr. Chapman said he would highlight two points. First, it would be a plus to change to this structure because "family" means many things, more than the traditional household of two parents and children; the four-tier structure would recognize that diversity. Second, the proposed plan would be a plus in that those who probably most need the help would be helped the most: the single-parent families. In a household with two working adults, which is many couples, some can go with the other's insurance.

Professor McLoon said, contra Professor Akehurst, that older employees typically have much greater drug expenses. He said he believed the four-tier system was a good idea in that it moved toward greater fairness.

What is the possibility the University will move to the four-tier system, Professor Csallany asked? There is a reasonable chance, Mr. Chapman said. There has been a lot of discussion and a lot of interest; some firmly favor it, some do not. He said he did not know which way the University would go. The BAC came close to recommending it for 2005 but then backed away because there will already be an added burden on families because the University is reducing its contribution from 90% to 85% of family coverage costs. The BAC felt the double impact on families made the change to a four-tier system more dramatic than seemed wise.

Professor Fossum said he was relatively indifferent to a change. The administration is indifferent. As he reads the data, however, if people vote their self-interest, there would be no change, because there are 4,600 who opt for family coverage and 3,800 who would benefit from lower rates if there were a four-tier structure. One of two things needs to happen. One, enough employees would move from the family category into one of the other two. Two, a convincing case can be made on fairness grounds to the 4,600 that they agree the change should be made. There could be a significant number among the 4,600 for whom the four-tier system would be less expensive, Mr. Chapman said, if the University employee were to pick up coverage for children and the spouse/partner were to move to their own employer coverage. That would also work to the University's advantage, Professor Fossum observed.

Professor Hendel asked about the prevalence of two-tier versus four-tier systems at comparable institutions. Mr. Chapman said the use of four-tier systems has been growing. Their consultants have been looking into the question; the four-tier systems are less common in Minnesota but more frequent nationally. They have not asked specifically about universities. One reason employers have an incentive to move to a four-tier system is to avoid claims. The only way to save money is to avoid claims, which is why the University is promoting wellness for employees. But the simplest way to save money is not to cover people. If the University rate structure encourages some of the 4,600 employees to get their coverage elsewhere, it will save money. That is why employers like the four-tier plan. Some employers are saying they will NOT cover a spouse or partner if that individual has other plans available (e.g., through a different employer).

Professor Bribitzer-Stull said he could understand why the change would not be made for 2005, but he said he has heard no cogent argument against the change in general. The issue is mostly one of fairness to those currently in tier 4, Mr. Chapman said; some believe it is not right to charge them more. Fairness is hard to identify, Professor Wiedmann said; this is playing in shifting sand, so unless there is a strong reason to make the change, it should not be made. Professor Bribitzer-Stull said the benefit for the single-parent family is a strong argument; those families are now subsidizing two-adult families.

Who will make the decision, Professor McLoon asked? Can this Committee have any influence over it? The BAC will have the most influence, Mr. Chapman said, and it would make the recommendation to the administration. Because the current structure is in union contracts, it would need to be bargained. He said he believed the administration would be reluctant to make the change for bargaining-unit employees and not the others; it does not want to differentiate between the two groups.

Several years ago the rule was that if both members of a couple worked at the University, both had to have coverage, and then it was changed, Professor McLoon recalled. He asked Mr. Chapman how many people switched coverage when the rule was changed. All of those people will go back to employee-only coverage, he surmised. Mr. Chapman did not have the specific number but he said it was about 300.

What is the date by which a decision must be made, Professor Hendel asked. To implement the four-tier structure for 2006, they would need a decision before the end of the current academic year, Mr. Chapman said. The next round of negotiations with the unions starts in the spring; if those are concluded, would the University make the change for 2006, Professor Fossum asked? If the contracts were completed early enough, they could, Mr. Chapman said; if the decision did not come until the end of the negotiations, that would be too late.

The Committee decided there is no strong feeling one way or the other on the issue and that the issue is best left in the hands of the benefits committee.

Professor Kleiner thanked Mr. Chapman for his report.

2. Health Coverage for Retirees

Ms. Singer next reported on the results of her survey of the other Big Ten schools with respect to provision of health care coverage for retirees.

For under-65 retirees:

- Of the Big 10, 6 subsidize employee-only retiree medical for under-65 retirees.
 - Illinois subsidizes 5% for each year of service, with full subsidy after 20 years of service.
 - Iowa, Michigan State and Ohio State subsidize 100%.
 - Michigan subsidizes 95%.
 - Penn State subsidizes 83%.

- Only 4 in the Big 10 subsidize family retiree medical for under-65 retirees.
 - Michigan State subsidizes 100%.
 - Michigan subsidizes 95%.
 - Ohio State subsidizes 94%.
 - Penn State subsidizes 80%.

- Wisconsin does not subsidize, but does convert some sick leave at retirement to a defined contribution account to pay premiums. Sick leave is set at 22 days at hire, plus 12 days per year, unlike U of M with a more liberal policy.

- Of the Big 10, only Minnesota, Illinois, Northwestern and Penn State offer plans with no deductible. In addition, 5 of the Big 10 offer an indemnity-like co-pay of between 10% and 20% of charges.

For over-65 retirees

- Of the Big 10, 5 subsidize employee-only retiree medical for over-65 retirees.
 - Illinois subsidizes 5% for each year of service, with full subsidy after 20 years of service.
 - Iowa, Michigan State and Ohio State subsidize 100%.
 - Michigan subsidizes 95%.
 - Penn State is unknown at this time.

- Only 3 in the Big 10 subsidize family retiree medical for over-65 retirees.
 - Michigan State subsidizes 100%.
 - Michigan subsidizes 95%.
 - Ohio State subsidizes 93%.
 - Penn State is unknown.

- Wisconsin does not subsidize, but does convert some sick leave at retirement to a defined contribution account to pay premiums. Sick leave is set at 22 days at hire, plus 12 days per year, unlike U of M with a more liberal policy.

- Of the Big 10, only Minnesota, Illinois and Northwestern ate offer plans with no deductible. (Penn State and Purdue are unknown.) In addition, 3 of the Big 10 offer an indemnity-like co-pay of between 10% and 20% of charges. (Penn State and Purdue are unknown.)

What they are seeing, she said, is that if institutions are adding anything, they are adding to a defined benefit account, not a percentage of premium or other cost.

Where does the University rank in providing retiree health coverage, Professor Kleiner asked? She would have a hard time answering that question, Ms. Singer said because there are so many criteria. The University does not subsidize retiree health coverage at all, so it would not rank high on cost to employee, but it provides very comprehensive benefits (e.g., pharmacy, co-pays) which retirees can buy at the group rate, so it would rank high on quality.

Other institutions may have lower costs for employees but the plan may not be as good, Professor Goldstein affirmed. But the University provides zero subsidy, so it would be tied with the bottom. Ms. Singer said that under-65 employees would see a significant benefit with the four-tier system.

What is the cost to a retiree for Blue Cross/Blue Shield, Professor Goldstein asked? About \$760 per month for two people, Ms. Singer said; UCare is about \$5300 per year for family coverage and about \$2700 for employee-only coverage. Do most retirees go on the University plan or rely only on Medicare, Professor Kleiner asked? It is Ms. Singer's impression that many retirees keep University retiree coverage for the pharmacy benefit, if for no other reason. The Retirees' Association has indicated to Ms. Singer that, in general, retirees do not especially value the Medicare pharmacy benefit and are very interested in protecting the pharmacy benefit in the University plan.

Professor Fossum inquired about the actuarial value of the subsidized health care to employees at the six institutions that subsidize retiree health care. He explained how one would calculate the value. After a discussion of methodology, it appeared that the approximate value of the coverage is about \$100,000. This calculation, however, is rough, as it does not assume an inflation factor in the cost of health care.

The faculty at Wisconsin receive sick leave, Professor Goldstein asked? They do, Ms. Singer said; 22 days at time of appointment and 12 days per year. The days can accumulate and there is no cap. It is a more restrictive plan than the University offers, which is two weeks of informal leave, three months of formal medical leave, and then coverage by the long-term disability policy. But there is no accumulation of time at Minnesota, Professor Kleiner observed.

Senior Vice President Jones asked if there is any evidence of a shift among Big Ten schools in providing retiree health care. He recalled being in a meeting three or four years ago and heard that institutions were trying to find a way to change their policies because of the costs. Are they moving away from retiree health coverage? Ms. Singer said she has not seen a shift in the Big Ten, and Michigan still subsidizes retiree health care at 95%, which is a huge cost. Universities generally are not making changes, but most private sector organizations are moving away from providing retiree health coverage. If they keep retiree health coverage, it is through a defined benefit program. Hennepin County provides nothing for retirees over 65—no group purchasing option and no subsidy. She said she would have thought the County would at least provide group purchasing power to retirees.

Professor Wiedmann inquired if anything being said by Governor Pawlenty about health care would make a difference to the University. Mr. Chapman said it was hard to tell and they are keeping an eye on developments. He said he was not hopeful; the University did better by breaking away from the state health plan. He told the Committee that an organization gains health care purchasing power for awhile, but if it has (for example) 10,000 employees, it will not help on price to add another 10,000. The University has 30,000 covered individuals and it would be no benefit to be part of a larger pool.

Professor McLoon asked if there were anything the Committee could say to the administration about retiree health care. There are huge numbers of faculty who are getting older; it could come to the point where some do not retire because of health costs and the University "could be stuck with a bunch of doddering faculty it does not want." That is the difference between defined benefit and defined contribution, Professor Kleiner said; wealth is accumulated in a defined contribution plan until retirement, but that does not happen in a defined benefit plan.

Ms. Risbey reported that she had participated in a project that surveyed faculty at Minnesota and other universities; for the 50-80-year-old faculty, the MAJOR reason they did not retire was because of health-care costs. Professor Kleiner suggested it would be useful to find out more about the Wisconsin option, where there is an incentive to retire because there is a defined benefit plan plus outstanding health care benefits for long serving faculty. Anecdotally, he said, he knew of several faculty at Wisconsin who retired at 65 because of the health care coverage provided and the pension plan. Most faculty at the University retire in their 60s, Professor Goldstein said; not many stay beyond.

Professor Kleiner thanked Ms. Singer for her report.

3. The Impact of Strategic Planning on Faculty Work

Professor Kleiner next welcomed Executive Associate Vice President Sullivan to the meeting to discuss the strategic planning process and its potential impact on faculty work.

Dr. Sullivan began by commenting that with strategic planning the University is on a journey and has not reached a destination. They are doing a lot of consulting so it is timely that he hears from this Committee. He said he is very excited about the work they are doing; it is the most effective process to chart the course for the University he has seen since he has been here (12 years). His history at Minnesota does not go beyond 12 years ago, he said, but he remembered reading about Commitment to Focus years before he came here; he said he suspects that not a lot changed as a result of Commitment to Focus. In the mid-1990s, President Hasselmo asked him to participate in a planning process, and again he did not now believe there was much to show for the effort.

Dr. Sullivan said he was excited by the process being led by Provost Sullivan and Senior Vice Presidents Cerra and Jones and he believes it will get somewhere. The process is being done in an organized way with a lot of publicity and consultation. There is a strategic direction working group composed of central administrators, deans, and faculty leaders that has been meeting regularly on an intense schedule with good staff support. That group has produced two documents that are on the web—vision & goals and criteria for priority-setting—which will be the bases for decisions in the future. The Provost has also participated in three town-hall meetings and took questions with no holds barred.

Next in the process is the environmental scan, which will soon be on the web in draft form. It takes the two previous documents and identifies where the University is.

The first meeting of the group that will decide where to go, the President's Strategic Planning Task Force, was held last week. That group includes three senior vice presidents, Dean Benveniste, Vice Chancellor Magnuson from UMD, himself, and three faculty (FCC Chair Marvin Marshak and Regents' Professors Patricia Hampl and David Tilman). That group will focus on the academic side of the house; there will be a parallel group that will focus on the administrative side.

The times present opportunities that are exciting, Dr. Sullivan said. There are financial issues that must be dealt with, but those are not what motivate the interest in the process. He said he believes the University has the opportunity to achieve greatness beyond what it has already accomplished; he acknowledges that there will be those who are skeptical about being in the top three public institutions in the world, but the people and resources are present. The process must identify what has held the University back in the past.

It is difficult to be specific about the question the Committee posed, the impact of strategic planning on faculty work. The basic notion is that the future of the University requires that faculty work in the best possible environment and in the best alignment. Are there ways to combine and recombine activities so they are more relevant to the future than the structure that has been in place (some parts of which date back more than 100 years)? He has heard business people say that all business is international; that was not true 154 years ago, when the University was founded. He said he did not want to waste the opportunity, in dealing with the financial problems, of how to become great(er).

Professor McLoon said he had been at the University for 20 years and it is his experience that it has been engaged in strategic planning non-stop—but he has not seen much change from the process. Before this process started, did they look at previous initiatives to try to determine why they failed? They have not done a lot of historical research, Dr. Sullivan said, but those participating in the process provide an institutional memory so the results (or lack thereof) of past efforts are embedded in the process. That history informs the conversations.

One of the documents on the web looks EXACTLY like one of the documents that was prepared for Commitment to Focus in the 1980s, Professor McLoon commented, and he can almost recall President Keller's words. It is a pretty standard list, Dr. Sullivan agreed; it was tweaked for this effort. Senior Vice President Jones said the similarity was intentional; they looked at the framing principles from the previous planning efforts and the current one does resemble what has been developed in the past. They are not looking at what was done wrong in the past, he said, but instead see this as a time when forces are aligning so the University can make changes.

One part of Commitment to Focus called for eliminating and combining units, which created quite a stir, Professor Kleiner recalled; is that envisioned here as well? There have been no decisions made, Dr. Sullivan said, but they are thinking about ways to reorganize the work. If one could start with a clean sheet of paper and design the University anew, it probably would not look like the University that currently exists. His twelve years at the University were spent in part in a small college, as Dean of the College of Natural Resources; some believe one can solve problems by attacking small colleges. That is not true, because there is not enough money involved (he recalled the quip from Willie Sutton about why he robbed banks). Eliminating Natural Resources, for example, would save some state dollars but would mean giving up federal funds and tuition revenue; this must be thought about more from an INTELLECTUAL standpoint, not only from the viewpoint of efficiency. Simply eliminating leadership and staff positions won't do much for the University.

Professor McLoon said he disagreed with the last statement. To do some things, the University needs money. There will be no new funds, so to obtain money other things must be cut. Dr. Sullivan agreed but said that is not the whole solution.

Professor Wiedmann said he had been at the University for 17 years and also seen efforts fail. The budget cuts last year, however, were the first time he has seen a reduction in funding; this gives the University freedom to act. He said he has been disappointed with across-the-board taxes but is excited about the strategic planning process. The presentation to the Senate last week included a lot of talk about global issues; his question is how the process will unfold and when will it be done with? That is part of the process, Dr. Sullivan said, and it has not been decided. "How fast we get there depends on the progress we make as we go." There will be phases; the first will be identification of necessary changes and second will be implementation. This entire process will not happen in six months.

When does he expect there will be an idea about where the University wants to be, Professor Wiedmann then asked? Dr. Sullivan said there should be increased clarity about the big picture by the end of the current academic year. Dr. Jones agreed, but pointed out that it will be an ongoing process that will take perhaps two to three years before it is completed.

Professor Kleiner asked Dr. Sullivan if he expected to see a change in the allocation of work for faculty across teaching, research, and service. Dr. Sullivan said he has not been privy to any conversation that included such thinking. This is not something that would be driven from the top down, but there will be conversations in units about better ways to do the work. Shifts of effort would be made inside colleges in consultation with the faculty. There will be no wholesale shifts but there could be changes made through consultation over the next few years.

Professor Akehurst said that when he became a department chair, he learned about fund-raising. Will faculty responsibilities in the future be teaching, research, service, and fund-raising? And when will the University become private? Dr. Sullivan said his personal opinion is that fund-raising should be kept off the backs of faculty members unless they WANT to do it. With respect to public support, the University will continue to make the case as strongly as it can. In 1978 Minnesota was 6th in the nation in the percentage of the state budget that was directed to higher education; in 2004, it was 26th. He said he does not understand how that happened. He said he came to Minnesota because an opportunity presented itself, and has learned since that this is a great place because of the investments in the past for the future. He said he is perplexed by the change. At the same time, if one wishes to be pragmatic and not just wishful, one must deal with the situation. Within two years, the University will receive more money from tuition than from the state. The University must recognize that change and ask how it affects the delivery of its mission. The University is clearly becoming more dependent on revenues other than state funding, although the \$575 million from the state is still a lot of money.

Professor Wallace said that the process must also look at what should be preserved as part of the University's heritage. He said he was concerned that the institution would lose its viewpoint as a land-grant university, the base on which it was founded. Will that mission be dropped as it tries to become a top-notch research university? Dr. Sullivan said the land-grant role was deeply important to him. Everyone in a leadership position is concerned about the question and trying to confront the reality of the University—what does the land-grant mission mean in the 21st Century in a different funding environment? At its core, the University is about helping people to be all they can be, and it must continue to do that, but it will not have the largesse of state and federal funds that it has had in the past.

Professor Fossum spoke about the crossing lines of tuition and state funds. He said he thinks in terms of demand: an increase in demand on the part of students (because of their willingness to pay increased tuition) and a reduction in demand by the state (because state funds are declining). The

University must be careful about it responds to these shifts; as students contribute more, the University must be more attentive to what it does from a teaching standpoint. He noted that Dr. Sullivan had talked about strategy and looking at the institution from the vantage point of a clean sheet of paper. There are some attractive things about that approach but there is also the permanence and security of the faculty, a presence that does not exist in other organizations. The faculty are secure to try something new or to resist change. How does one combine the current state of the University with the presence of its faculty? Dr. Sullivan said he could not respond fully to that question. There is a continuum between doing nothing and starting with a clean slate, and the University will no doubt come down somewhere between the two. He said, however, he hoped that the institution does not cave in too quickly on bold dreams—it may need eventually to step back, but it should start with a dream. Yes, faculty can resist, but so can political constituents, which is what happened with Commitment to Focus. The process will need the support of the faculty leadership; one message has been that the University should not make any more across-the-board cuts. The administration will not get faculty support unless it works with the faculty. He has been hearing faculty say that if the University goes down the road of strategic planning, it must bring the faculty along or it will be a dead end. He said he would like to explore the options and explore them together with the faculty. If people want to preserve what exists at all costs, the University will be in trouble.

Ms. Risbey asked if there had been any thought given to expanding the most recent task force so that there was more diverse experience, such as from graduate students. Dr. Sullivan noted that he had only been appointed to the group, he did not appoint it, and the point is to have a small group generate ideas that can be submitted for the widest possible public review. He said he doubted the group would be expanded beyond the nine members already appointed.

Professor Kleiner thanked Dr. Sullivan for joining the Committee. He wished everyone a good holiday season and adjourned the meeting at 4:05.

-- Gary Engstrand

University of Minnesota