BENEFITS ADVISORY COMMITTEE
MINUTES OF MEETING
APRIL 17, 2003

[In these minutes: Call to Order, Review of Plan Proposals and Discussion, Review of Draft Report to the Administration]

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

PRESENT: Fred Morrison (chair), Gavin Watt, Karen Wolterstorff, Jody Ebert, Ronald Enger, Brenda Peltzer, Don Cavalier, Carla Volkman-Lien, Wendy Williamson, George Green, Gailon Roen, Susan Brorson, Steve Chilton, Amos Deinard, Richard McGehee, Peh Ng, Marjorie Cowmeadow, Theodor Litman, Dann Chapman, Keith Dunder

REGRETS: Pam Wilson, Joseph Jameson

ABSENT: Linda Aaker, Carol Carrier, Frank Cerra

GUESTS: Chris Hulla, Monica DeGraff

OTHERS: Linda Blake, Karen Chapin, Katharine Witherow, Kathy Pouliot, Pat Yozamp

I). Professor Morrison called the meeting to order and welcomed all present.

II). Professor Morrison outlined the agenda for today's meeting and noted that the committee will discuss the various plan issues and craft a response to the administration.

A member stated that arguments could be made either way on several of the issues before the committee. However, the overriding theme of the administration's proposal is its brutality in terms of the financial impact it will have on many faculty and staff. A suggestion was made that any changes to the current benefits structure be phased in gradually over the next few years, and, in the interim, the administration consider across the board cuts to departments.

The committee reviewed the following plan proposals. Discussion highlights included:

1. **UNIVERSITY OF MINNESOTA PHYSICIANS (UMP):** At the April 10th meeting the committee agreed to offer UMP but only through the optional plans and not as part of the base plan. By removing UMP from the base plan

the University expects to save an estimated $1.3 million. Professor Morrison asked for discussion on this issue.

- A member calculated what it would cost employees to make a plan change in order to retain UMP services and stated the figures are quite substantial. The feedback chart was also referenced noting that numerous employees had written in their opposition to removing UMP from the base plan.

- It was also noted that this scenario is similar to the situation that occurred in Duluth a couple years ago when the Duluth Clinic refused to submit a premium that could be included in the base plan. Unlike Duluth, the Twin Cities has a myriad of clinics and doctors in its base plan. If UMP is interested in participating in the base plan they should be instructed to bring their premiums down.

- Dann Chapman stated that Patient Choice sets its tiers on a risk-adjusted basis. Based on this, both the Duluth Clinic and UMP fall at the high end of Patient Choice tier 3 in terms of cost. While it is likely that adverse selection plays a role in UMP's pricing, in spite of this, UMP remains extraordinarily expensive.

- A concern was noted that HealthPartners has failed to provide UMP with any care system utilization reports since the inception of the UPlan. Dann Chapman acknowledged this concern and agreed that this type of utilization data should be available to the care systems.

- University of Minnesota Physician Options: Either UMP prices down its premiums in order to be included in the base plan or there remains the possibility that UMP be included in the base plan but at an upgraded cost (Base Plan + UMP differential).

- The $1.3 million in estimated savings is the result of approximately 50% in direct savings by removing UMP from the base plan and the remaining 50% results from the University being able to lower the price of the plan.

- A member reminded the committee that at the last meeting there had been discussion concerning the possibility of carving out Boynton and CUHCC from UMP so these care systems could remain part of the base plan. It was noted that this option is still being pursued but that there is no new information to report at this time.

- Professor Morrison stated that most components of the committee's recommendation to the administration would be malleable until early July in light of the fact that issues are being researched and examined for possible alternatives.

2. **OFFICE VISIT CO-PAYS:** At the April 10th BAC meeting the University's actuarial consulting service, Buck Consultants, was asked to calculate the budget impact of three office co-pay options: $10/$20/$30, $10/$15/$20 and $5/$20/$30. This information was provided to the committee in a handout. Professor Morrison solicited comments, questions, motions on this issue.

    - The savings to the University would not be as significant with the $5/$20/$30 proposed co-pay option primarily because half of the University's employees are enrolled in the base plan. Therefore, less money would be collected in co-pays and there would also be no impact on utilization.

    - Originally the University expected to save approximately $3.1 million by instituting a $10/$20/$30 co-pay structure, however, that has now changed to $2.14 million. The reason is that the initial estimates were based on experience data from December 2002 and since then more data has been accumulated and the estimate has been honed to reflect this new information.

The committee appeared to agree with the proposal to increase co-pays to $10/$20/$30.

3. **EMERGENCY ROOM CO-PAYS:** At the April 10th meeting, it was noted that the proposed co-pay for an office visit under PreferredOne National ($30) was only slightly less than the emergency room co-pay of $50. The committee was asked whether emergency room co-pays for PreferredOne National and/or Patient Choice should be increased to $75.

    - Monica DeGraff of Buck Consultants stated that the average emergency room co-pay is between $75 and $100 depending on the overall structure of the plan.

    - There would be no changes to the plan in terms of the co-pay being dismissed if an individual is admitted into the hospital.

    - The purpose of setting the emergency room co-pay higher is to dissuade individuals who tend to go to the emergency room in lieu of going to their doctor the next day for primary care issues. The ultimate goal is an attempt to affect utilization.

    - Because utilization is an unknown commodity in this instance the potential cost savings is unknown at this point. Savings from imposing higher emergency room co-pays are not anticipated to be significant because there are not that many ER visits.

- The committee voted to raise the PreferredOne National and Patient Choice ER co-pays to $75. The base plan ER co-pay will remain the same at $50.

- A member suggested that an analysis be conducted based on episode coding and/or chart analysis to determine situations where individuals should go to the ER, do not get hospitalized, yet should not be forced to incur the full ER co-pay.

- It was noted that the higher UMP per patient/per month costs may in part be attributable to the fact this care system has no urgent care center affiliations. As a result, patients must go to the ER if they need care after clinic hours.

- A member mentioned in certain situations, hospitals are classifying patients who are hospitalized for less than 48 hours as outpatients. Professor Morrison stated that this is an issue the committee needs to come back and look at further.

The Committee appeared to agree with the recommendation to increase the emergency room co-pay to $75, but only for the two optional plans, and not for the base plans.

4. **Rx OUT OF POCKET MAXIMUMS:** Since the last BAC meeting, Buck Consultants calculated the impact on benefit costs based on alternative out-of-pocket (OOP) maximums for pharmacy benefits. The administration has proposed doubling the pharmacy OOP maximums. Discussion highlights included:

   - A member suggested the OOP maximums be phased in over two years, $750 the first year and $1,000 the second year.

   - Another member recommended that the OOP maximum for 2004 be held at $500 in light of no salary increases for the first year of the biennium and then raised to $750 the following year.

   - The committee's attention was directed to a handout that provided information on the significant number of people that reached the OOP maximum in 2002.

   - Because the committee recommended at its last meeting to standardize dispensing amounts to 30 pills, there will be an increase in the number of prescriptions that need to be refilled during the course of a year.

   - The University's current OOP maximums are very low compared to industry averages noted Ms. DeGraff of Buck Consultants.

- Prescriptions for the most part are not optional. Therefore, this is an issue of cost shifting to employees and cost savings for the University. The cost shifts are being imposed on those that are the sickest.

- Recent empirical data indicates that by increasing co-pays for prescription drugs there is an unwarranted reduction in the use of these medications. This is particularly true of seniors but is true for others as well. In turn, this leads to increased numbers of hospitalizations and worsening of medical conditions.

- Members asked Professor Morrison the likelihood that the administration will take the committee's recommendations as given. In Professor Morrison's opinion, it is likely if the committee does not come up with reductions of the magnitude suggested by the administration then either the administration will be forced to impose the reductions (with the exception of bargaining units) or additional lay-offs will be inevitable. Professor Morrison noted that the BAC was allocated the formidable task of reducing the University's budget by approximately 12%. If the BAC does not make up this 12% of the overall shortfall then cuts will be taken elsewhere and more than likely this will mean more lay-offs. Professor Morrison stated that the administration is asking the BAC for its recommendations and it is looking for benefit reductions equating to approximately 12% of the shortfall. He added that the committee may need to prioritize its recommendations to the administration in light of the very difficult choices the committee is faced with.

- A member stated that the administration insinuated that if the BAC made up 12% of the budget shortfall with its recommendations then there would be no lay-offs. This is not true because there are already lay-offs occurring. A clarification was made the administration never said there would be no lay-offs but instead said that there would be additional lay-offs.

- An observation was made that if changes are made to the benefits plan, these changes will be permanent. Lay-offs, on the other hand, are not necessarily permanent because when the economy improves hires will be made and programs will be created.

- Professor Morrison entertained a motion on this proposal. A motion was made to have OOP maximums stay at $500 for 2004 and then raised to $750 in 2005. The motion passed.

- Dann Chapman verified that the University is seriously considering working with a single pharmacy benefit manager (PBM) to reduce pharmacy costs.

5. **FLEXIBLE SPENDING ACCOUNT – HEALTH CARE REIMBURSEMENT ACCOUNT:** Due to anticipated increases in benefit expenses, Professor Morrison asked the committee their opinion on increasing the Health Care Reimbursement Account maximum contribution amount. Currently, the Health Care Reimbursement Account allows you to set aside up to $3,000 on a pre-tax basis for out-of-pocket health care expenses that you and your dependents incur. The Health Care Reimbursement Account is an optional.

   - Mr. Chapman believes under the circumstances it is reasonable that the committee propose an increase to the Health Care Reimbursement Account maximum.

   - A member stated that the University makes a profit by offering the FSAs through the forfeitures it collects every year. Mr. Chapman clarified that while the University does realize some revenue from forfeitures every year, this money is applied to offset the cost of administering the program. The forfeiture revenue never entirely pays for administering the program and the University does not make a profit on its FSAs.

The Committee agreed to recommend that the maximum contribution to an FSA account be $5,000.

6. **FURTHER INCREASES FOR BRAND NAME DRUGS:** At the April 10th BAC meeting the committee discussed limiting the pharmacy co-pay for prescriptions to $10.00. Because the committee has raised the co-pay to $15, Professor Morrison does not believe it is feasible to raise the increase in brand name drugs above $30.00. Professor Morrison asked members if they want to reconsider this issue. Hearing no comments, the committee moved on to the next issue.

7. **MISCELLANEOUS ISSUES:** The issues below were not identified for a separate discussion. Professor Morrison, however, asked members if there were comments or questions regarding these issues.

   - Elimination of lab co-pays (previously agreed).
   - Option for “two-employee” University families to enroll under one policy (previously agreed).
   - Administrative changes in stop/loss insurance.

   Hearing no further discussion on these issues, Professor Morrison went on to the next issue.

8. **DENTAL PREMIUMS:** The University currently pays 100% of the base plan for individual employees (all plans are base plans except the University Choice plan). For families, the University pays 100% of the employee portion

and 50% of the dependent portion (average current contribution is 64% - averaging the individual portion and the dependent portion). The administration has proposed that the University pay 90% of the base plan for individual employees and pay a flat 50% for dependent coverage (not averaging). The administration's proposition is expected to save the University approximately $1.92 million. Professor Morrison calculated a 90%/60% alternative to the administration's proposal resulting in an impact of $901,000. Committee discussion highlights included:

- A member noted that on average approximately 40% of the population carries dental insurance as compared to 90% with medical coverage. What would the savings be if the University did not offer dental coverage? Mr. Chapman indicated the savings would be roughly $10 million. Additionally, he stated if there were no employer contribution to dental insurance but the program was retained as strictly optional, it may lead to a "death spiral" of the dental program. Only the individuals that knew they would need the coverage would apply, the rest would self-insure and the program, therefore, would become unsustainable.

- Another member stated that this raises the issue of premium sharing. If the committee gives up the principle that the University pays 100% of dental coverage for its employees, this will never be recovered. Additionally, this is a hidden expense and another way for employees to take a pay cut. Should the University be putting on a façade to the legislature that everything is ok, when, in fact, regressive taxes are being imposed on University employees. To conclude, this member would like to have the committee recommend to the administration that it will not support such a proposal. Professor Morrison stated that this is definitely an issue that needs to be raised and discussed by the committee.

- Once a benefit has a premium associated with it, as in the case of medical insurance, coverage becomes optional. This becomes an issue for the dental insurance program.

- Another design option of the dental plan would be to provide "x" number of cleanings per year plus 50% of other expenses up to "x" dollar amount. Such a plan design provides participants with preventive coverage at no cost, plus coverage equivalent to one other major service.

- A member expressed a concern over making major benefit decisions over the course of a few weeks discussion.

- Professor Morrison suggestion that this discussion be incorporated into the overall premium issue.

9. **DENTAL PLANS TO MIMIC MEDICAL PLAN:** In the medical plans, that University identifies a base plan for each zone. Those choosing an optional plan must pay all of the additional cost. In the dental plans, the University uses 4 of the 5 plans as "base" on a statewide basis. Assuming the University mimics the medical plan, only one or two plans would be identified as the base plan for each zone. A UPlan member that chooses a plan other than the base plan would pay the difference in cost. Discussion highlights follow:

    - Are there a sufficient number of dentists available to impose such a restriction to the plan? If there are enough dentists, it would make sense to mimic the medical plan design.

    - Professor Morrison requested statistics on the availability of dentists statewide. Until such figures are available it is impossible to associate a cost savings to such a proposal. It is assumed that in the greater Minnesota area the availability is not conducive to such a proposal. However, in the Twin Cities, this may be a feasible option.

    - A member noted that legislation is currently moving through the legislature to expand the authority of dental hygienists to practice more like nurse practitioners thus creating more access.

10. **SELF INSURANCE OF DENTAL PLAN:** Buck Consultants indicated that the University could potentially save money if it self-insured its dental plans. If the University would self-insure, all present plans would be maintained but would be operated under University risk rather than at the risk of the respective plan administrators. Professor Morrison asked members their opinions on self-insuring the dental plans.

    - A member believes this is a business decision for the University to make. Therefore, the University needs to conduct a risk-benefit analysis to decide if this is a risk it wants to absorb.

    - The anticipated savings on this proposal are pure speculation because the University does not know how many employees will opt- out of dental coverage.

    - Dann Chapman recommended waiting 1 – 2 years after the University allows an opt-out on dental coverage before it self insures. He believes it is important to evaluate the University's risk over the first year or two after an opt-out option is offered.

    - Committee consensus was that this issue was an administrative decision as long as benefits are held constant.

11. **PREMIUMS:** At present, the University pays 100% of the base plan premium for individuals. For families, the University pays 100% of the employee portion and 90% of the dependent portion (averages approximately 94% of the total premium). Starting in 2004, the administration has proposed paying 90% of the base plan premium for individuals and 85% for families. Members referred to actuarial data compiled since its last meeting on cost savings to the University based on various employer percentage contributions to the premium for individuals and families. Members debated this issue; highlights included:

    - A member stated that the University's benefits are sufficiently out of line to hurt the institution politically. This undercuts the University's funding appeals when it goes to the legislature asking for money for new programs, salaries, etc.

    - Another member agreed that the University does have generous benefits but that the health benefits need to be examined as part of the total compensation package. Other institutions have higher salaries, allow free tuition for dependents, etc. Rather than calling the administration's proposal "Move to Benchmarks", the plan should be renamed, "Move to Mediocrity".

    - The suggestion was made to impose across the board cuts to departments rather than have employees absorb compensation hits.

    - A bargaining unit survey conducted earlier this legislative session concluded that no progress would be made by "Pawlenty bashing". Sufficient numbers of people support Governor Pawlenty. However, there was consensus that no changes should be made to health care benefits. Many times over the years bargaining units accepted less in terms of pay increases in order to protect health care benefits. Thus, trade-offs were made and there was a cost to protecting the University's health care benefits. While companies in the private sector may not offer as rich of health care benefits as the University, they have other benefits such as stock options, etc.

    - The administration's proposal to reduce its contribution to family premiums to 85% equates to a 2.9% pay cut for bargaining unit employees with family coverage.

    - Many employees choose to work at the University for the benefits.

    - Concern was expressed over the possible "death spiral" implications the opt-out option could have on the overall plan.

- The University needs to think about the impact of reducing its health care benefits in terms of recruitment and retention of faculty and staff.

12. **EMPLOYEE OPT-OUT OPTION:** Under Minnesota law, once a premium is charged for a service, employees have the right to opt out of coverage. If the University does not charge a premium, it should still allow an opt-out option.

13. **MULTIPLE TIER SYSTEM:** By implementing a multiple tier system, costs would shift. Members reviewed the ratios based on two, three and four-tier systems. Discussion highlights included the following comments:

    - In response to the email that was sent out to all employees, a fair number of respondents suggested that the University should offer a per employee contribution to health care. Under this recommendation, the University would offer family coverage but it would pay no portion of this coverage, thus, saving the University a lot of money.

    - A member expressed support for a four-tier system. It would seem to benefit single parent households with one or more children by reducing health care costs.

    - It is likely if a four-tier system is introduced that the number of employee plus family policies would be reduced.

    - The national pattern in the private sector is to move to a multi-tier system. Based on data collected, Minnesota seems to have a greater dependence on a two-tier system than anywhere else in the country. If the University would implement a four-tier system it would be bucking the local trend and piggybacking on the national trend.

    - A member suggested this issue be looked at in a lifecycle perspective. Not everyone is in the same tier their entire life. Although it may seem fair that employees with families pay more, the reality is that couples, whose children have grown up and moved out of the house, actually cost more to insure because of their age and the need for more expensive medical procedures. The result is that older employees are getting a bargain at the expense of those paying for family coverage.

    - This is an issue that needs much more discussion before a recommendation can be put forward either way.

14. **ACCOMMODATION AND TRANSITIONAL PROVISIONS:** Members attention was directed to a chart that depicted two substantial impacts of the administration's proposal. First, the lowest paid employees will be impacted the hardest, and, second, there will be a serious impact on all employees during the period from January 1 to June 30, 2004, when employees will be

working under a wage freeze, and the new premium structure will be in place. The issue before the committee is whether premium increases can be cushioned for certain groups of employees or phased in over time. Professor Morrison noted the gray handout drafted by a committee member opposing any type of buffer or assistance to lower paid employees. Committee discussion highlights of this issue included:

- A suggestion was made to push back some of the heaviest increases into the second year when it is likely there will a wage increase to help off-set the increased health care costs. Professor Morrison responded to this by reiterating the administration's predicament of needing the money in the first year.

- Professor Morrison alternatively suggested cushioning the impact of health care cost increases for the first 6 months of 2004 when there will be no salary increases by having the University pay for all health care increases to employees above 2%.

Having had a chance to discuss each of the options above, Professor Morrison circled the committee back to issues where decisions still needed to be made.

Premiums: Once again the committees' comments/suggestions were solicited.

- A member suggested a compromise to the administration's proposal of 90%/85% employer paid subsidy for single and family health care coverage by recommending a 90%/90% subsidy.
- Another member favored a phased in approach to the administrations 90%/85% subsidy.
- Yet another member was livid about the fact that profound decisions on how the University subsidizes its family health coverage, etc. were being made after relatively minimal discussion. Questions concerning benefit subsidies should warrant as much discussion as how much subsidy should be given to the athletics department.
- Members were reminded that the University is not viewed as being family unfriendly. After all, the University is an educational institution.
- Civil Service feedback from its constituents was originally centered on individual employees best interests but after the initial shock of the proposal wore off the feedback became more community-based.
- Professor Morrison asked the actuary's, Chris Hulla and Monica DeGraff, for data on the likelihood of employee's opting-out of coverage and choosing not to carry any insurance at all. Although the proposed contribution level for premiums at the University has not yet been finalized, Chris Hulla believes that the percentage of employees that would opt-out and go without any coverage would be less than one percent.
- A motion was put forward that the BAC recommend a 90%/90% employer paid premium subsidy in conjunction with cushioning the impact of health

care cost increases for the first 6 months of 2004 by having the University pay for all increases to employees above 2%. The motion unanimously passed.
- The committee felt it could support the base plan concept for dental insurance if there are adequate numbers of accessible/available dentists in each of the zones. Additionally, the committee agreed it would be reasonable for the University should pay 90% of the base plan for individual employees and 60% for dependent coverage.

Proof of Health Insurance as a Condition of Employment: Risks the University could face as a result of imposing such a policy include:

- A risk of "adverse selection" as employees sign up to participate in the UPlan only after they become ill.
- There would be a cost to the University as employees take off more time for illnesses.

Dann Chapman noted that it would be unlikely that the University would actively audit this information. He, therefore, questioned whether the University would pick up risk by putting employees in the position of affirmatively stating they have coverage when the University has no intention of enforcing this policy.

Professor Morrison will verify with Keith Dunder, Academic Health Center General Counsel, whether the University would incur any legal risk by instituting such a policy.

A member favoring the proof of insurance policy stated that although the University would not be enforcing the policy, it might effectively discourage employees from opting-out of coverage.

Alternatively, should the University at a rate of 90% of the low cost plan offer a high deductible, major medical policy? A member cautioned such a move to guard against the University using a major medical plan as its basis in the future to negotiate benefits.

In a straw vote, only three members of the committee were willing to take any position on this issue, so the discussion was ended without recommendation.

Multi-Tiered System: The committee agreed to study this option over the next couple of months.

III). The next item on the agenda was a review of the committee's draft report to the administration based on discussions up to this point. Professor Morrison asked members for their feedback on whether this document expressed the committees' overall sentiment? The committee spent a fair amount of time wordsmithing the document and making additional suggestions to be incorporated into the draft. Once the draft is revised, Professor Morrison will redistribute it to members via email for further comments.

IV). Professor Morrison reminded members of the next BAC meeting on April 24th from 2:30 – 4:30 in room 385 Mondale Hall. Vice Presidents Frank Cerra and Carol Carrier will be in attendance.

Discussion of the four-tier system will continue over the course of the next few meetings. Professor Morrison requested that Monica DeGraff provide the committee with a premium chart on the four-tier system at the employer paid 90%/90% subsidy. A member requested that information on who would be affected by this type of system be made available as well.

Hearing no further business, Professor Morrison adjourned the meeting.

Renee Dempsey
University Senate