Minutes*

Senate Committee on Finance and Planning
Tuesday, December 16, 2008
2:00 – 3:45
238A Morrill Hall

Present: Judith Martin (chair), Joao Boavida, David Chapman, [Steen Erikson,] Zachary Gunderson,] Lincoln Kallsen, [Kara Kersteter,] Lyndel King, Thomas Klein, [Mikael Moseley,] Paul Olin, Gwen Rudney, Terry Roe, Michael Rollefson, Karen Seashore, Warren Warwick

Absent: Jon Binks, V. V. Chari, Steve Fitzgerald, Joseph Konstan, Russell Luepker, Kathleen O'Brien, Richard Pfutzenreuter, Justin Revenaugh, Thomas Stinson, Michael Volna, Aks Zaheer

Guests: President Robert Bruininks; Provost E. Thomas Sullivan, Senior Vice President Frank Cerra; members of the Senate Committee on Faculty Affairs: Ben Bornsztein, Vice President Carol Carrier, Randy Croce, Kathryn Hanna, Joseph Ritter; Jackie Singer (Director, Retirement Benefits)

Other: Kathryn Stuckert (Office of the President)

[In these minutes: (1) health-care savings plan; (2) budget issues (with the President); (3) budget issues (with the Provost and the Senior Vice President for Health Sciences)]

Professor Martin convened the meeting at 2:00, welcomed the members of the Senate Committee on Faculty Affairs, who had been invited to join the meeting, and asked for a motion to close the meeting (but not take it entirely off the record). The motion passed unanimously.

1. Health-Care Savings Plan

Professor Martin welcomed the President, Vice President Carrier, and Ms. Singer to discuss the proposal for a Health-Care Savings Plan (HCSP). Vice President Carrier began by noting that the Faculty Senate already passed a proposal, last year, asking the administration to divert the .5% of the 2.5% faculty contribution to the Faculty Retirement Plan to an HSCP. Ms. Singer reviewed briefly how the HSCP works and noted that it is one of the few benefits available that is tax-exempt at time of contribution and when withdrawn. She pointed out that the annual premium for health insurance for a couple over age 65 is now about $9200 per year. If a retiree withdraws $50,000 from retirement funds (no HCSP), after taxes (at $10,242) and payment of health-care premiums (at $9008), the individual has $30,750 remaining. If an individual withdraws $41,000 from retirement funds (taxes would be $8,258) and $9008 from an HCSP, the individual has $32,742, or a net increase of about $2,000. Funds in an HCSP can be used for pretty much the same expenses as funds in the existing flexible-spending accounts can be used, including health-care insurance premiums, out-of-pocket medical costs, long-term care insurance, and so on. If there is a balance in the HCSP at the time someone dies, spouse/dependents can draw on it (tax-free) for health-care expenses; if there is no spouse or dependents, the beneficiary receives a life-insurance benefit based on the amount in the account.

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* 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.

The President reported that he had discussed the HCSP with the faculty leadership and they agreed to withdraw a proposal that was to have appeared on the December 4 Faculty Senate docket in order to have additional discussion. There are three ways an organization can address retiree health care, he said: (1) pay for it, but virtually no organizations are taking on that expense now (and those that have it are facing enormous costs); (2) do nothing, which leaves people worrying about their post-retirement health care, or (3) take advantage of the HCSP option. He said that in his view the Faculty-Senate-proposed .5% contribution was too conservative and that he does not want people making their retirement decisions based on anxiety about their health care. There are other considerations that come into play, which the President explained.

The President suggested consideration of alternatives. At present the University contributes 13% and the employee contributes 2.5% of salary to the Faculty Retirement Plan. One possibility would be to change the contributions so that (1) the University contributes 12% and the employee contributes 2% of salary to the Faculty Retirement Plan, and (2) the University contributes 1% and the employee contributes .5% of salary to an HCSP.

Ms. Singer provided a table with some examples of how the HCSP would work. For someone with a salary of $80,000 and a 2% annual contribution to an HCSP, with an assumption of 3% annual salary increases and a 3% annual return on the investments, after 10 years the individual would have $24,300, after 20 years $63,200, and after 30 years $126,000 in the HCSP. Amounts increase correspondingly with higher salaries and increased investment returns; someone with a $100,000 salary and a 5% annual return would have, after 30 years, $214,000 in his or her HCSP.

The President observed that if at some point some kind of universal health care were to be adopted, he felt that Congress would certainly amend the law to allow a rollover of HCSP funds (e.g., into retirement funds).

The Committee and the President discussed alternatives, with several speaking strongly in favor of a larger contribution to an HCSP. Professor Martin said that this Committee and the Committee on Faculty Affairs would try to draft a recommendation for the February 5 Faculty Senate meeting. The President said that the administration would not impose a change and that any proposal must come from the Faculty Senate. But the HCSP is, he said, a better investment option than the Faculty Retirement Plan because the withdrawals are tax exempt.

2. Budget Issues

The President turned briefly to budget issues, which he described as "very, very serious," more serious than five years ago. In 2003 the University saw a 15% cut in its state funding base (which, as far as he could ascertain, was the largest percentage cut in the country). The current state deficit is larger than it was in 2003—and it could get worse. There will be two challenges to deal with: one, a rescission of one-time (versus a recurring, permanent reduction in state funds this year, probably in January.

The harder decisions will come in the next biennium because the reductions will be larger and represent a recurring base adjustment in state funding. The President did some of the potential arithmetic for the Committee. The University accounts for about 4% of the state budget; if state funding were cut by 4% for the 2010-2011 biennium, the cut would be about $122 million in the base. If the entire cut were front-loaded in the first year, it would be extremely difficult for the University to deal with it. If higher education were to receive a disproportionately larger cut than its share of the state budget, the cut could be larger.

Ways of dealing with the cuts that were available to the University in 2003 are not available in 2008 (the University increased tuition by 14% two years in a row and increased employee co-pays and contributions to health-care premiums). In the face of looming cuts and fewer ways to deal with them, the President said, he imposed a salary freeze on executive salaries and the hiring pause. But it will be necessary to achieve larger reductions in the next two years.

While the University will do all it can to resist deep cuts, it must also do things that will put it in a stronger and more competitive position later. To do that, everyone's help will be needed. He said he would like to be as thoughtful and creative as possible in dealing with potential cuts; the University needs to take steps that reduce costs but must try to reduce expenditures in a way that does not compromise academic quality. Tuition may increase some, but at the same time financial aid will have to increase as well.

Professor Martin thanked the President, Vice President Carrier, and Ms. Singer for joining the meeting.

3. Budget Issues

Professor Martin welcomed Provost Sullivan and Senior Vice President Cerra to the meeting to discuss what had been titled "financial strategy for faculty positions and salaries." She noted wryly that this agenda item was scheduled many months ago, when the world was a different place. The Provost concurred and said his answer now is quite different from what it would have been last summer.

The University's top priorities have been salaries and student support—and that is the message that was sent to the legislature with the biennial request. The state budget will not allow the support needed; indeed, the University faces a probably rescission this year and potential and sizeable budget cuts for the 2010-2011 biennium. In all likelihood it will not be possible to deliver salary increases for 2009-10 but the administration does want to plan for increases the following year.

The Provost explained that the hiring pause had been imposed in light of the financial situation. All hiring is now reviewed by the dean and by his and Dr. Cerra's office, and there must be a compelling case made. Hiring is occurring (e.g., in departments that have lost faculty and cannot function, or in cases where the faculty member teaches courses required for degrees). Requests are being denied if the positions are not central to a unit's mission or if there is no definite source of funding.

Dr. Cerra noted that the biennial request included about $80 million that the University needs just to stay even, so in addition to the likely rescission and potential biennial budget cuts, it is improbable that those stay-even funds will be available. There are also fixed increases over which the University has no discretion, Provost Sullivan added, such as fringe benefit costs and the 27th pay period; there are also scholarship and fellowship obligations that must be honored.

Professor Martin asked if the economic situation would slow down the plans for the Academic Health Center building projects. They are part of the conversation, Dr. Cerra said. They have funds for a significant percentage of the 180 faculty who would occupy the new facilities, and the question is whether they can set priorities in light of the possible budget cuts so that most of the lines are preserved. He declared that the University cannot cut, cut, cut, cut, cut or it will simply be a smaller place with the same problems, so it must make strategic investments. The University has decided the biomedical sciences are a priority so they are moving ahead. They are, however, delaying the new clinics for a year.

A point that was discussed with the Board of Regents should not be lost, Provost Sullivan said. The University is the economic engine of the state, and if public works can help stimulate the state's economy, no organization can move more quickly and efficiently than the University. The State Economist, Professor Stinson, has advised the state if projects are ready, they should move forward. That could result in some low-priority projects being completed by state agencies because they happen to be ready, Professor Martin observed; Dr. Cerra agreed that the decisions about projects need to be strategic.

There are a few positives, Dr. Cerra said. The University's research portfolio is going up when many others' appear to be going down, and many major research universities are in the same bind, so are freezing or cutting salaries. Provost Sullivan observed that with the decline in the value of endowments, the private institutions are facing the same problems as the public institutions and are freezing salaries and hiring and stopping construction projects. The situation may slow the arms race for faculty and may give the University cover for a period, and he expressed hope the institution would have sufficient resources to make target-of-opportunity hires. It must continue to make investments and hire the best faculty when opportunities arise.

Asked how the budget situation would affect facilities and other projects, Provost Sullivan said they have no numbers now and will not have until the Governor announces his budget recommendations in January. As soon as they learn the numbers they will provide them to the deans.

Professor Seashore asked how potential cuts would affect graduate education. Students will not come without support; have they given any thought to what will happen to doctoral programs? The Provost said that as far as he was concerned, scholarship and fellowship obligations were among the last items that should be touched in any budget cuts. Dr. Cerra agreed but said that one area that may need to be examined is postdocs. They tend to be grant-funded, but grants are getting cut, so it is not clear how postdocs will play into any potential cuts. Their numbers are large but they are also very productive. As for TA budgets, Provost Sullivan said those are decided by colleges; the local communities better understand the needs and can make the decisions. Professor Seashore agreed but said there may need to be some "strategic jawboning" in the compact discussions to emphasize the importance of graduate students as part of strategic priorities.

Professor Roe observed that some research activities are more human-capital-intensive while others are more physical-capital-intensive. If the decisions are not made carefully, they could disproportionately penalize one or the other kinds of research. Provost Sullivan noted that about 75% of the total budget is people and that percentage probably holds for most units, so there are constraints. He agreed, however, that there needed to be a cost-benefit analysis for each college so that everyone understands the impact and consequences of decisions. Dr. Cerra added that one thing they learned is that one-time money for salaries is a bad thing and should not be repeated.

Professor Roe said that how all the information is communicated to the faculty will be important and they need to do the best they can. The Provost agreed and said he is urging deans to call meetings of department heads, and department heads to meet with faculty, to convey the information. Mr. Klein said that is often the perception (as was the case with the budget model) that decisions are externally-imposed (by NIH or the central administration) and that someone changed the rules. It will be important to clarify what was decided where so that people can deal with reality rather than try to avoid the decisions or appeal for relief. Dr. Cerra agreed and recalled that there were instances where local interpretations of the budget model were blamed on the model and there had to be clarifications. They will need help in ensuring that communication is sufficient and reaching people down the line. Professor Seashore cautioned that they should be careful in chaotic circumstances about relying on a trickle-down communications system. It is like the old game of Telephone, she said: by the time the information reaches the faculty it can be distorted. Routine central-administration communications are "click and delete," she commented, so there will need to be more targeted communications around the key decisions that are aimed at the faculty in order to prevent distortion.

Professor Martin thanked Dr. Cerra and Provost Sullivan for joining the meeting, thanked the SCFA members who attended, and adjourned it at 3:50.

-- Gary Engstrand

University of Minnesota