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A Hard Bargain: The Rising Cost of Healthcare

Report of the "2N" Committee on Benefits

Allen Goodman, AAUP-AFT Vice President

Remember a decade ago, when double-digit inflation in healthcare costs was the focus of national politics and the bane of collective bargaining? By most accounts we are now headed for a reprise of that experience, just as we begin negotiations this spring and summer for a new collective bargaining agreement.

There are several reasons why healthcare costs abated in the 1990s, and why inflationary pressures are now coming to a boil again. In the 1990s, spurred by the national debate over

President Clinton's failed proposals for healthcare reforms, there was a significant turn towards "managed care" initiatives—most often in the form of Health Maintenance Organizations (HMOs)—that set limits on expenditures. With tight labor markets, employers (including Wayne State) generally absorbed the modest health care cost increases, allowing employees to keep low (or no) copayments for outpatient visits, and very inexpensive (\$1 to \$2) copayments for prescription drug coverage.

At the same time, profit-making insurers were adjusting their premiums in copayments for outpatient visits or prescription drugs.

in response to political and competitive pressures. Health insurance expert Jon Gabel has identified this as part of an "underwriting cycle," in which insurers forego some profits with lower premiums to gain market share, followed later by raises to improve profitability. We enjoyed the benefits of the "front end" of such an underwriting cycle in our 1999 negotiations, which saw only small increases in the out-of-pocket portion of health insurance and

no increases

That scenario has changed. Unemployment is now

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higher in Michigan and labor-market pressures have abated. The great shift to managed care in the 1990s (with its accompanying downward cost pressures) has ended, and managed-care costs, like all others, are rising. In addition, insurers are now on the "back end" of the underwriting cycle, and insurance rates, which had stayed low, are also increasing. The result, for 2002 and possibly longer, is a double-digit annual increase in health insurance benefits. David Hecker, President of the Michigan Federation of Teachers, projects increases in health insurance costs of 12 to 15% or more for the next

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year. Maintaining our current benefit structure into the next contract is possible, but, under these cost conditions, expensive in terms of foregone salaries.

The "2N" Report

The union has been exploring alternative ways of addressing the rising cost of healthcare as part of the "2N" process mandated in the last collective bargaining agreement. With respect to benefits, the 2N committee—made up of equal numbers of the union and the administration—has been working since early 2000 to conduct a comprehensive review of employee benefits currently provided to faculty and academic staff, as well as recommendations for changes in the level and type of benefits provided. Allen Goodman, Marc Cogan, and Naida Simon represented the AAUP-AFT; Li Way Lee [succeeded by John Oliver], Michael Herbert, and Karin Abel represented the Administration; and Gail Jensen, Institute of Gerontology professor and health insurance expert, served as an advisor.

The 2N Committee's final report was completed in December, and contains three types of recommendations. It should be stressed that these recommendations do not represent a negotiated "agreement," but are instead a menu of proposals which negotiators can draw from and amend according to the overall shape of a contract settlement.

1) Potential cost-reducing actions.

- * *Restructuring Copayment Rates for Current Coverage.* A modest restructuring of copayment rates (for managed care plans) and copayment rates and deductibles (for Blue Cross-Blue Shield) would likely reduce the costs of health insurance at WSU. These potential cost savings could be used to provide more generous coverage on other items.

- * *Implementing Pre-tax Worker Contributions Toward Health Care Premiums.* Worker contributions toward health care premiums can be charged before taxes. This would reduce the effective cost of health insurance for employees, as well as reduce employer-paid FICA taxes for WSU.

2) Potential cost-neutral actions.

- * *Enhancing Preferred Provider Organization (PPO) and Point of Service (POS) Options.* To date, health benefits at WSU have largely been comprised of either a BCBS fee-for-service (FFS) plan or traditional health maintenance organizations (HMOs). Although DMC Care is a preferred provider organization (PPO), its provider-network is more concentrated in the central city, making it less attractive to many employees who live in the suburbs.
- * *Enhancing Geographic Coverage.* There has been inadequate coverage of managed care plans in Western Wayne and Washtenaw Counties. Faculty and staff who live in these areas would welcome the opportunity to have managed care provided.
- * *Adopting a Level-Dollar Health Insurance Premium Contribution Policy.* WSU currently provides different dollar value contributions to different health plans. The contribution policy is structured so that higher-cost managed-care plans receive larger dollar contributions from WSU. This policy weakens the incentives for health plans to restrain their costs and premiums. It also penalizes subscribers in the only fee-for-service plan WSU offers (BCBS).

- * *Adopting a Cafeteria Benefit Plan.* Current benefit plans provide set packages of benefits that may not match the needs of individual employees. Employees might, for example, find it useful to increase dental care or life insurance at one point and to purchase additional health care or other items at another time.
 - * *Providing Hearing Aid Coverage.* Hearing loss is a problem for some University employees in performing their jobs.
 - * *Increasing University's Retirement Contribution from 10% to 11%.* Concerns about retirement income as well as tax advantages would make this option desirable for many faculty and staff members.
 - * *Increasing Orthodontia Benefits.* WSU's orthodontia benefits lag far behind current norms in this area of coverage. The current benefit is capped at \$500 per year, and has remained at this level for at least a decade. With cost inflation, this has led to continuing reductions in the amount of care that is covered.
- 3) Potential cost-increasing actions.**
- * *Increasing Life Insurance Benefits.* Currently, eligible employees receive \$25,000 in basic life insurance, with the option of purchasing supplemental coverage at cost in amounts of one or two times the worker's annual salary. Financial-planning guidelines indicate that higher multiples are desirable, and most large employers offer much more coverage than does WSU.
 - * *Establishing Employer-Paid Retiree Health Insurance Benefits.* Offering employer-paid retiree health insurance to early retirees would make early retirement more attractive to employees considering retiring. It would also make WSU's fringe benefit package more competitive with those of other universities. For Wayne to compete for employees, it is essential to offer such benefits.

Each potential action comes with a price tag. Like any menu, it contains items that are palatable, and others that are less so. We make it available to our members to stimulate debate and to help inform our negotiators as they seek the best contract. We urge you to think about these issues carefully, and to let us know what is most important to you.

Where We Stand

Excerpted below are two statements of principle that convey the key matters of concern to members and supporters of the AAUP-AFT. Each is excerpted from longer comments made last December by the two candidates for national AAUP President, Professors Jane Buck and Estelle Gellman. Ballots for this contest will be arriving in the mail for members in late January. Whatever the election's outcome, both candidates share the same broad vision of what we are about.

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"Higher education is under siege"

Estelle Gellman, Hofstra University

...Higher education is under siege. It's not that higher education isn't valued, but that a particular vision of higher education is under attack..., a vision of the academy as a place where research is pursued wherever it may lead, where scholarship is shared and interpretations debated, where quality assurance comes from having those with the expertise in the disciplines being taught assess the qualifications of their colleagues and determine what to teach and how to teach it, and where students are challenged to explore new - and sometimes disturbing - ideas, to re-examine their beliefs and to learn not only facts, but how to think.

That's the vision that's protected by our principles of academic freedom and tenure, due process and shared governance and that vision is being eroded by those who place greater value on expediency and who assess our institutions by the value of the bottom line rather than the value of what we do...

...When we look beyond the specific issues, we can see several persistent and pernicious trends that have to be confronted:

* The increasing corporatization of higher education, that has brought with it an alarming increase in adjunct and part-time faculty, has fostered the growth of a contingent workforce in the place of tenured faculty and has devalued the academic model of shared governance.

"Let us abandon the language of the marketplace"

Jane Buck, Delaware State University

...So many of us believe that collective bargaining provides the best mechanism for guaranteeing the traditional AAUP values of academic freedom, shared governance, and tenure. Few now question the legitimacy of collective bargaining as a means to accomplish our goals. To those who retain a conviction that it is unprofessional to be in a union, I would respond that, as long as we are subject to the arbitrary power of our governing boards, we have more in common with organized labor than with independent professionals. Even physicians and lawyers, unless they are in private practice, have only a tenuous claim to professional status and are beginning to seek the protection of collective bargaining.

American higher education is the envy of the world. Yet our critics, with great passion but no data, have succeeded to an unfortunate degree in convincing the public that we are lazy, unproductive, and overpaid. They blame us for the rapidly increasing cost of higher education, while ignoring the real causes...

If presidents of universities are recruited from the academy, as I would contend they should be, their compensation should be commensurate with that of their faculties. We must convey the message to the public and our governing bodies that the typical assistant professor earns only \$49,000, and that many faculty members work 60 to 70 hours a week.

Gellman

Buck

- * The decreased funding for higher education that has brought with it increased reliance on outside sources of support and, with that, the subtle—and, not so subtle—threats to academic freedom: pressure not to alienate the donors; pressure not to pursue interests in areas that aren't funded; pressure to accept the conditions of corporate sponsors.
- * The increased commodification of higher education - the marketing of our institutions to potential students and their parents as consumer goods and along with that, the problems that arise when the customer isn't satisfied, when they are challenged to confront issues that they find disturbing or uncomfortable.

In addressing these challenges we must ... continue to delineate our principles and we must continue to demonstrate that they are not only important for faculty but that they strengthen the academy as well, that they do not diminish the university but, rather, advance the goals of higher education and of our society. In pursuing these goals, the AAUP has earned a credibility that can't be matched.

Although attacks on tenure are more subtle now than they were just a few years ago, the growing reliance on contingent faculty, the fragmentation of faculty work, the disappearance of tenure-track positions as senior faculty retire, and the increasingly exigent requirements for promotion and tenure are effectively eroding the tenure system without the necessity for open battle...

...Let us abandon the language of the marketplace, because our choice of metaphor ultimately determines reality. We should refuse to refer to our students as customers, presidents as CEOs, bursars as CFOs, professors as content providers... If the bottom line, rather than the common good, is to be the measure of our institutions, we must convince our legislatures and governing boards that tenure is in their own best interests. Without the promise of tenure, why would any sane person invest the enormous amounts of time and money required to obtain an advanced degree only to be paid less than half the salary of a corporate employee with comparable credentials? If tenure goes, salaries will have to rise to a competitive level in order to attract competent persons to the academy.

We have accomplished a great deal in furthering our goals, given the size of our organization and of our paid staff, and we should continue those efforts and expand them...