

## **Report from the 2N Committee on Employee Benefits – Executive Summary**

Pursuant to a letter of agreement dated August 24, 1999, it was agreed that a 2N committee would be formed to do a comprehensive review of employee benefits currently provided to faculty and academic staff and to make recommendations for changes in the level and type of benefits provided. The goal of the committee was to recommend a package of employee benefits that is fair, cost effective and competitive with plans offered at other major universities in Michigan and elsewhere. The Committee has met regularly since early 2000.

The Committee has addressed the following issues, arranged as to whether they are cost decreasing, cost neutral, or cost increasing to the University. The Committee recognizes that reduced costs to the University in certain categories may be offset by increased costs to some or all employees.

The following items were addressed as 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.
- Implementing Pre-tax Parking - An employee's cost for parking privileges can be charged before taxes. This would effectively reduce the cost of parking for employees, as well as reduce employer-paid FICA taxes for WSU.

The following items were addressed as 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 current 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 benefits 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.

The following items were addressed as 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.
- 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.

## Report from the 2N Committee on Employee Benefits

### *Meetings*

The first committee meeting was in early 2000. Committee members met on a regular monthly basis thereafter.

### *Participants*

Karin Abel, University  
Marc Cogan, AAUP-AFT  
Allen Goodman, AAUP-AFT  
Michael Herbert, University  
Gail Jensen, Institute of Gerontology  
and Department of Economics

John Oliver, University  
Li Way Lee, University  
Naida Simon, AAUP-AFT

### *Charge*

Pursuant to a letter of agreement dated August 24, 1999,

It is agreed that a 2N committee shall be formed to do a comprehensive review of employee benefits currently provided to faculty and academic staff and to make recommendations for changes in the level and type of benefits provided. The goal of the committee is to recommend a package of employee benefits that is fair, cost effective and competitive with plans offered at other major universities in Michigan and elsewhere. Because of the possible implications for other University employees of changes in benefits provided to bargaining-unit members, representatives of other employees shall be invited to serve as members of the committee by mutual consent of the Association and the University Administration. The committee shall be formed no later than April 1, 2000, and shall complete its work and make recommendations to the Association and the University Administration no later than October 1, 2001. By agreement of the Association and the University Administration, some or all of the changes in the benefit package recommended by the committee may take effect within the lifetime of this contract.

## *Procedures*

At the first meeting Li Way Lee was elected committee chair. It was determined that the committee would meet on a regular basis with the goal of meeting the October 1, 2001 deadline. Dr. Lee left the committee in July 2001 and Prof. Goodman took over as chair. Associate Provost John Oliver replaced Dr. Lee on the committee.

For a number of issues, Karin Abel, Benefits Manager, was asked to approach current insurance carriers and providers for premium quotes. We also approached carriers available through the AFT for premium quotes.

In late 2000, Prof. Gail Jensen, from the Institute of Gerontology and the Department of Economics, was asked to meet with the committee, to provide advice on health insurance benefits. Prof. Jensen joined the committee.

All cost figures are costs chargeable to all funds. It is estimated that approximately two-thirds of compensation costs are attributable to the General Fund.

In October 2001, Committee members decided to arrange the topics in this report into three broad categories, based on potential cost implications to the University, in terms of contractual payments, of implementing the recommendations:

1. Cost Decreasing
2. Cost Neutral
3. Cost Increasing

It is recognized that reduced costs to the University in certain categories may be offset by increased costs to some or all employees.

### *Cost Decreasing*

#### 1. Restructuring Copayment Rates for Current Coverage

*Rationale:* 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.

*Potential Action:* Restructure copayment rates for prescription drugs, office visits, and emergency care visits.

*Economic Considerations:* Recent actuarial data from Milliman and Robertson show that 40 percent of the increase in medical claims expenses between 1998 and 1999 is attributable to higher prescription drug expenditures. Among the factors driving this increase in spending are higher drug utilization, the development of promising but more expensive new drugs for many common ailments, price increases by manufacturers, and the direct advertising of drugs to consumers.

In recent years, most employer plans have moved to tiered formulas for prescription drug coverage. Currently, 80 percent of all insured workers in the U.S. face a tiered structure, with more generous coverage for generic drugs and less generous coverage for brand name drugs (Gabel et al. 2000). Tiered copayments provide employees with financial incentives to choose lower cost drugs. Copayments now average \$7 to 8 for generic drugs, \$12 to 14 for brand name drugs with no generic substitute, and \$15 to \$20 for brand name drugs with generic substitutes (HRET 2000).

Copayments for physician visits plans have also become near universal in HMO plans. Only 6 percent of all HMO enrollees in the U.S. now face no copayment for a physician visit (HRET 2000); WSU's HMO enrollees are in this group. Visit copayments help contain health care costs by providing subscribers a financial incentive to avoid making unnecessary visits to the doctor. The most common copayments are currently \$10 or \$15 per visit (HRET 2000).

Preliminary quotes indicate that raising drug, office visits, and emergency room copayments might provide potential premium reductions of 4 percent (\$1.5 million, if applied to all AAUP-AFT represented employees) to 10 percent (\$3.4 million, if applied to all University employees), from projected rates for current coverage. See Charts 1 and 2 for details.

Out-of-pocket costs to individuals would, however, inevitably increase. In establishing a new copayment structure for prescription drugs, office visits, and emergency room usage, care must be taken to minimize the burden on lower-paid employees, and especially to make certain that the new copayments do not discourage employees from making medically necessary office visits. Finally, since a new copayment structure will provide savings to the university while shifting costs to the employees, any change in the structure can be considered only in the context of an overall compensation package which provides equivalent financial benefits to the employees.

Increased out-of-pocket costs may be offset to some degree by increased participation in flexible spending accounts (FSAs).

## 2. Pre-tax Worker Contributions toward Health Care Premiums

*Rationale:* 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.

*Potential Action:* Change accounting system to institute this practice

*Economic Considerations:* Section 125 of the Internal Revenue Code provides that employee premium contributions toward health insurance can be characterized as “employer-paid” for tax purposes through the vehicle of “salary reduction.” Counting worker contributions as employer-paid would reduce workers’ taxable income, thereby increasing their after-tax income. Combining federal, state, and City of Detroit income taxes, many WSU faculty and academic staff are in a 35 to 40 percent tax bracket. Thus, for each \$100 dollars sheltered from taxation, a worker could save \$35 to \$40 in taxes under this change in policy. The policy change would also lower the base on which WSU’s employer FICA taxes are calculated, thereby also lowering WSU’s payroll taxes.

### 3. Pre-tax Parking

*Rationale:* An employee’s cost for parking privileges can be charged before taxes. This would effectively reduce the cost of parking for employees, as well as reduce employer-paid FICA taxes for WSU.

*Potential Action:* Change accounting system to institute this practice.

*Economic Considerations:* For an employee in a 40 percent tax bracket (combined federal, state, and City of Detroit tax rates), instituting this change would effectively lower the annual cost of on-campus parking from \$220 currently (\$160 school year plus \$60 summer) to \$144, because \$96 in taxes would be eliminated. The policy change would also lower the base on which WSU’s employer FICA taxes are calculated, thereby also lowering WSU’s payroll taxes.

The change would provide a differential benefit to those who drive to work.

*Cost Neutral*

### 4. Enhancing Preferred Provider Organization (PPO) and Point of Service (POS) Options

*Rationale:* WSU’s menu of health plans does not include some popular types of health plans. 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.

Currently, WSU does not offer even one point-of-service (POS) plan option. POS plans, the fastest growing type of plan during the 1990s (Jensen et al. 1997), combine elements of both HMOs and PPOs by permitting enrollees to use nonnetwork providers while still using HMO-like management techniques. Many workers would welcome the opportunity to enroll in a PPO or POS plan with providers near their home residence.

*Potential Action:* Expand insurance options to include PPO and POS plans.

*Economic Considerations:* Two-thirds of workers nationwide with employer-sponsored coverage can now choose a PPO plan, and 44 percent can choose a POS plan (Gabel et al. 2000, HRET 2000). These types of plans give workers a greater choice of physicians when they need care. Workers can seek care outside the plan's network of physicians and have the services covered (albeit less generously) by the plan. When they are offered, they are often very popular with workers. Currently, 41 percent of all insured workers in the U.S. are covered by a PPO (versus 24 percent at WSU), and 22 percent are covered by a POS plan (Gabel et al. 2000).

Adding a PPO and POS plan with good geographic coverage to WSU's menu of plans would enhance employees' satisfaction with their health coverage. It would also not add to the cost of health benefits, assuming WSU's contribution remained fixed.

## 5. Enhancing Geographic Coverage

*Rationale:* 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.

*Potential Action:* Ask managed care groups serving Western Wayne and Washtenaw Counties to submit bids to provide health care benefits.

*Economic Considerations:* Managed care plans for employees who live in these counties could substantially lower their out-of-pocket costs for medical care, since the premium copayments at WSU are much lower for managed care plans, and because these plans typically involve much lower cost-sharing at the point of service provision.

## 6. Adopt a Level-Dollar Health Insurance Premium Contribution Policy

*Rationale:* WSU current 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).

*Potential Action:* Adopt a level-dollar contribution policy for each category (single, couple, family) of health insurance offered.

*Economic Considerations:* Research has shown that, among firms that offer multiple health plans, premiums were significantly lower among employers with level-dollar contribution policies (Jensen et al. 1984). The lower premiums were not due to less generous benefit provisions under these employers' plans, but rather from greater price competition among the plans that occurred under a level-dollar policy. Premium

increases over time have also been shown to be significantly lower among firms with a level-dollar contribution policy (Hunt et al. 1997).

In establishing the level-dollar contribution, care must be taken to minimize increases in out-of-pocket premium payments by employees.

## 7. Cafeteria Benefit Plan

*Rationale:* Current benefits 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.

*Potential Action:* A flexible benefit plan would allow employees to customize their benefit packages as their needs and circumstances change. Various plans might be considered, based on flexibility of choice and generosity of benefits.

*Economic Considerations:* Section 125 of the Internal Revenue Code allows employer contributions toward flexible benefit plans to be tax-exempt, provided such contributions are made through a salary reduction agreement, and the plan meets certain Section 125 requirements related to nondiscrimination, election, and enrollment. The most recent estimate is that 20 percent of all professional and technical employees in mid-to-large size U.S. firms are offered flexible benefit plans (BLS 1999). By their very nature, such plans may be cost neutral, cost increasing or cost decreasing, depending on the packages of benefits provided. Administrative costs of implementing the plans would also have to be studied.

### *Cost Increasing*

## 8. Increasing Life Insurance Benefits

*Rationale:* 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.

*Potential Action:* Provide basic life insurance coverage equal to one times the worker's annual salary and provide the option to buy supplemental coverage at cost in multiples of one, two, or three times the worker's annual salary.

*Economic Considerations:* WSU's life insurance benefit is far less than what most medium-to-large size employers offer to their workers. In 1997, for example, 75 percent of all mid-to-large size employers in the U.S. offered basic life insurance with a benefit equal to a fixed multiple of the employee's earnings, most often, one or two times the worker's annual salary. In addition, 73 percent of mid-to-large employers allowed workers to purchase supplemental life insurance coverage, usually at cost (BLS 1999).

## 9. Establishing Employer-Paid Retiree Health Insurance Benefits

*Rationale:* 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.

*Potential Action:* Provide health insurance benefits for retirees.

*Economic Considerations:* Half of all professional and technical employees in mid-to-large size U.S. firms are offered health insurance if they retire before age 65 (BLS 1997). Among these workers, the vast majority (84 percent) are offered retiree coverage that is at least partly paid by their employer (BLS 1997).

Researchers have found that retiree health benefits are an important consideration in the decision to retiree early. Rogowski and Karoly (1994) found (holding age and many other characteristics constant), that in a sample of both men and women, the presence of employer-paid early retiree health insurance (*rhi*) increases the rate of early retirement by 50%. Thus, if without *rhi* 12% of workers age 60 retire at that age, then with *rhi* the percentage should increase to 18%.,

Rogowski and Karoly (2000) re-examine the issue, but using a sample of men only (as opposed to men and women). They found that the presence of *rhi* increased the rate of early-retirement by 68%, controlling for age and other characteristics.

A recent survey conducted by the national office of the American Association of University Professors confirms these findings.

Thus the literature suggests that workers are much more likely to retiree before age 65 if they have access to employer sponsored health benefits. This is because retiree coverage can bridge the gap between active worker health insurance and Medicare that normally begins at age 65. Offering this benefit may encourage more faculty and academic staff who are close to normal retirement to retiree before they reach age 65.

## 10. Hearing Aids

*Rationale:* Hearing loss is a problem for some University employees in performing their jobs. There is no potential moral hazard (i.e., people typically do not purchase hearing aids only because they are insured).

*Potential Action:* Provide coverage for hearing aids.

*Economic Considerations:* Estimated costs are \$550,000 in total payments over 6,600 University employees.

### 11. Increasing University's Retirement Contribution from 10% to 11%.

*Rationale:* Concerns about retirement income as well as tax advantages would make this option desirable for many faculty and staff members.

*Potential Action:* Increase the University's contribution from 10% to 11%.

*Economic Considerations:* This action would increase the compensation costs to the University by \$1.094 million/year for the AAUP-AFT represented faculty and staff, and by \$2.180 million/year if extended to all University employees.

### 12. Increasing Orthodontia Benefits

*Rationale:* 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.

*Potential Action:* Increase the cap to \$1,500.

*Economic Considerations:* Nationwide, the average lifetime maximum for orthodontic care benefits was \$1,144 in 1995 (BLS 1997). Since coverage maximums normally increase with inflation (the data, although six years old, are the most recent available), the current average is probably closer to \$1,500.

Wayne State is self-insured for its dental coverage. Consequently increased costs have been the result of increased usage, not increased premiums. Estimated cost is \$44,000 per year or a 1.48% increase.

#### *Implementation*

### 13. Timeline for Reasonable Implementation of Changes

*Rationale:* Institutional constraints including the timing of "open enrollment" periods, the implementation of new computer systems, and the staggered nature of the various collective bargaining agreements may influence the timing of changes.

*Potential Action:* Provide timeline at the time of contract negotiations, and update regularly to the ongoing issue-based committee.

*Economic Considerations:* NA

Received by the representatives of Wayne State University, and the Wayne State University AAUP-AFT.

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Date

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Date

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Chart 1: Comparison Between Current Total Medical Plan Premiums for 2001/2002 to Premiums Resulting From Changes in the Prescription Drug Benefit

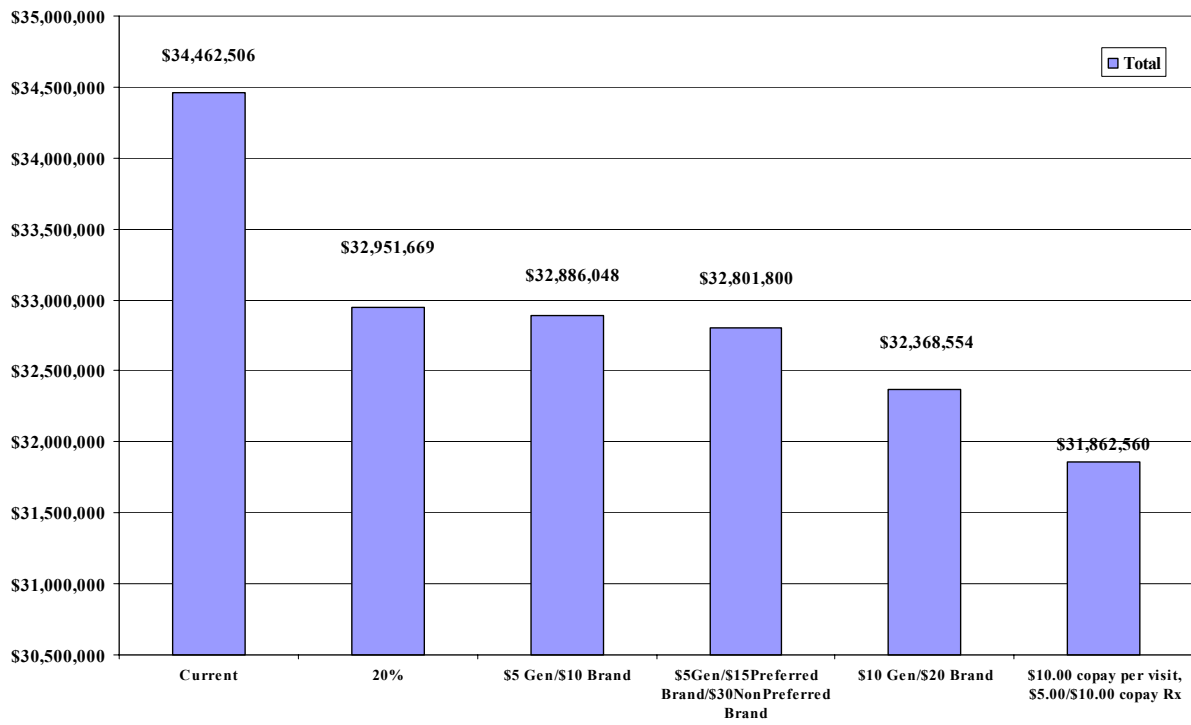


Chart 2: Comparison of Current Plan to Different Prescription Drug Benefits

