Annual Report on Employee Benefits

Office of Human Resources
University System of New Hampshire

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Background

The Board of Trustees has a policy which delegates the design and administration of an employee benefits plan to the Chancellor within overall philosophical and conceptual parameters established by the Committees of Programs and Services and Financial Affairs. In delegating that authority, the policy stipulates that the Chancellor will make annual reports on the status of benefits to the Programs and Services Committee. This report is one in a series of reports intended to meet that obligation.

USNH Benefits Profile

The University System of New Hampshire has a comprehensive and competitive benefits program for its regularly budgeted, status personnel. With a few documented exceptions, the plan is the same for all employees. As of April, 2004, USNH had 4298 faculty and staff members who are considered "benefits eligible." This includes 3,078 at UNH, 527 at PSU, 507 at KSC, 98 at CLL and 88 in the System office.

The benefit plan includes three options for medical coverage (plus an incentive payment to select no coverage, which is taken by 488 eligible employees), two for dental coverage, four levels of life insurance coverage and three levels of long term disability coverage. A profile of selection options is included in the appendix.

The retirement plan for USNH is a voluntary "403(b)" plan with a "high" and "low" option contribution plan as well as a 1% ARC (Additional Retirement Contribution) plan for all new enrollees since 1993, and all previous enrollees who opted to drop eligibility for the USNH retiree medical plan. Of the 4298 eligible participants, all but 288 employees are enrolled in the USNH retirement plan. Faculty and staff may also elect to contribute to supplemental retirement plans and 948 currently do so.

USNH also offers voluntary Flexible Spending accounts and 1340 employees elect to use these accounts.

The USNH employer costs of benefits also includes various other plans including tuition benefits, workers compensation, FICA, Employee Assistance plans, vacation time and unemployment coverage. The total employer expenditure for benefits in FY 04 is expected to be approximately $82,000,000. While this total includes some benefit costs for temporary and adjunct personnel, it means that the average cost per person for benefits is almost $19,000 (inclusive of vacation pay-out and FICA payments).

A profile of the breakdown of that $82 million includes rounded costs of $33 million for medical benefits, $21 million for retirement and $18 million for social security (employer FICA payments). The remaining $10 million in employer benefit cost is spread out in smaller amounts to cover payments for workers compensation, unemployment compensation, dental and life insurance, long term disability insurance, tuition benefits and vacation payouts.

The costs of the retirement plan and social security are largely fixed to the increase in the salary rates and thus are also reasonably moderated to USNH's income. However, this is not true of the cost of medical benefits which have increased dramatically in excess of salary, revenue and external consumer prices. It is for that reason that efforts to slow the growth in benefit costs has been primarily focused on medical plans.

Benefit Cost Containment Initiatives

Over the past three years, the issue of management of the cost of employer provided benefits has been the subject of numerous reports, recommendations and Trustee actions. A brief chronology of these activities includes:

- May, 2001 - BOT adopted management of benefit costs growth as a Strategic goal.

- December, 2001 - BOT approved a model approach to growth reduction featuring goals to:

  - slow the rate of growth in benefits costs from 11% to a rate of 7% by FY05
  - increase the internal benefit rate to close the gap between "income" and "outgo" by the beginning of FY05
  - reduce the growth of benefit expenses by increased employee contributions, reductions in benefits and more aggressive bid and administrative processes.

- June, 2002 - BOT approves cost shifting and reductions in benefit plan coverage or design equivalent to $5.6 million in annualized costs. Employee contributions more than double.

- March, 2003 - Adopts "Phase II" goals for further reduction of medical costs as well as endorsing research into systemic changes.

- Fall 2003 - KSCEA and AAUP faculty contracts include agreements to increased contributions and plan design reductions.

- June, 2004 - Proposal for benefit plan design reduction equaling approximately $1.1 million in annualized savings.

As a result of these extensive efforts, the originally projected gap of $16 million dollars annually has been eliminated. Approximately half of that total has come from increases in employee contributions (from approximately $800,000 annually to a current total of more than $3 million annually), and from plan coverage reductions in medical, retirement and long term disability plans. Reports and data on cost containment have been and will continue to be the focus of materials and discussion point for Trustee committees.

Areas of initiatives in non-medical employee benefits during FY04

Police Retirement Benefits

The issue of appropriate benefits for USNH's police officers has been a topic of review, initiative, investigation and analysis for several years including FY04. The details of this topic are covered in a separate presentation. However, it is worth note in any report of this year's efforts towards establishing and managing an effective and competitive benefit program. This initiative has included work on the part of Trustees, including former Board Chairman John Lynch, Chancellor Reno, and President Hart. PSU Chief of Police John Clark and UNH Chief Nick Halias have devoted many hours to the review and development of a benefit proposal considering the many interests which needed to be accommodated in order to make a comprehensive proposal.

Delivery of Benefit Services

Several initiatives are underway to reorganize and alter the way in which USNH responds to employee information needs. Most of the changes are related to the growing complexity of benefits detail and choices, and the concurrent growth in access to electronic data to assist in the delivery of information. The changes underway include:

- Banner HR. A new information operating system went live on July 1, 2003. Part of this new system has included improved reporting capacity for campus administrators on HR information. It will soon include individual employee access to "WISE" (Web Information System for Employees) which will provide information about benefit selections and payroll deductions.

- Both Fidelity Investments and TIAA/CREF have greatly enhanced websites with password protected employee account information. Employees can obtain individualized information about their account balance, asset allocation, and fund performance through these on-line services. USNH's medical carrier, CIGNA, also has greatly enhanced web access to individual claim information, wellness program options, and general health information.

- Wage Works. USNH engaged a new vendor to administer its Flexible Spending Accounts. Approximately 1,200 USNH employees opt to establish these voluntary accounts. USNH's new vendor issues a MasterCard, which operates as a debit card to withdraw funds for eligible services from an employee's FSA account, by-passing the need to file paper claims with individual receipts. This program was implemented on January 1, 2004.

- There are other areas with change in services. The USNH HR website offers links to benefit vendors and information that was once only accessible via annual open enrollment newsletters. Enrollment and change forms are also available on-line.

Part-time Employee Benefit Plan

USNH introduced a limited medical plan for temporary and part-time employees in March of 2003. This program did not (and does not) meet the expressed needs of the faculty and staff who are not eligible for USNH's full benefit program, but it did provide some option for medical coverage. As of April 2004 there were 85 participants.

Following a discussion of the limitations of this program, USNH re-entered the medical insurance market to determine if there were any better options available. Because of the potential for "adverse selection" and therefore a dramatically different risk pool for insurers, there are few program alternatives. The market leaders in the field of limited programs for part-timers are "Strategic Resources Company" and "Starbridge." Both of these companies offer only variations on the program USNH currently has with SRC. The major commercial health care providers (CIGNA, Anthem) would not provide a bid for an insured product. They probably would be willing to administer a self-insured program but following the advice of our benefit consultants, USNH has not pursued this approach because of the potential cost.

Finally, there are some medical plans available to individuals through local insurance agencies and through internet-based providers such as ehealthinsurance.com and "Golden Rule" (owned by United Healthcare). USNH is exploring the possibility of establishing some communication links to these options.

Also of note, USNH's 403(b) plan is available to employees who are otherwise not eligible for USNH benefits. This gives faculty and staff the opportunity to invest in TIAA/CREF funds or Fidelity funds on a tax deferred basis through payroll deduction. At present, 85 part-time and temporary employees participate in this option.

Paid Leave for Adoption and Family Illness

In the fall of 2003, the Trustees approved a provision for paid parental leave for the birth of a child or adoption of a child. In doing so, the Board asked that such consideration be made on a system-wide basis. The Programs and Services Committee further asked (in June of 2003) that the Chancellor give consideration to a proposal that would adopt "family friendly" approaches to supporting employees in having appropriate work and family balance. Studies indicate that middle aged people, sometimes referred to as the "sandwich generation," are continuing to spend time in child care tasks and support of extracurricular activities while at the same time increasing the time spent in elder care support. According to a study published in "Workspan" magazine (February 2004) the eldercare activities compromise an average of 11.4 hours per week for the "sandwich generation."

Proposals to establish some paid leave for family care and the birth/adoption of a child were considered during the past year by various employee governance groups. The UNH PAT Council collected data on practices of UNH comparator institutions and found that ALL others have some paid family illness leave. Some, but not all, have paid parental leave.

Nevertheless, the Councils asked to have the full consideration of this proposal deferred until the fall so that they could put their energy into the benefit cost containment considerations. The current plan anticipates that a paid leave proposal, with similar cost parameters as the UNH faculty benefit, will be developed in the fall of 2004.

Disease Management and Wellness Initiatives

Several new initiatives have been undertaken in FY04 for disease management and incentives for wellness. These include work sponsored by the Robert Wood Johnson Foundation to increase data collection on employee illness that could be moderated by information and behavior, incentive programs to participate in health risk appraisals, and new offerings for illness and disease prevention. A new program of "Steps" is very popular as is the "Lifeline" screening program in its second year. Traditional efforts for management of high cholesterol, diabetes and hypertension have continued as part of the ELF program.

HIPAA training and implementation

A little over a year ago, amendments to the federal legislation, HIPAA (Health Insurance Portability and Accountability Act) were promulgated. The regulations contained in these amendments were aimed at protecting the confidentiality of an individual's medical information. While most of the burden of implementation of this legislation falls on healthcare providers, the law did require new policies and procedures for Human Resource offices. With the help of the General Counsel's office, USNH developed new policy and practice and implemented training so that those handling confidential information are aware of the obligations around it. While still a "work-in-progress" in terms of every day practice, the training and implementation has been very successful.

Areas of Benefit Initiatives in the next and following years

On-line Benefit Open Enrollment

In July of 2003 the University System launched a new Human Resource Information System, Banner HR. The establishment of this system has required rebuilding and reconsidering hundreds of business practice and process methodologies. These are still underway and consume a great deal of resources. The end result, however, will mean that more and better information will be available to administrators and to individual employees. This is important to the day-to-day decisions about management of benefits, as well as recruiting and overall decisions about total compensation. The more managers and employees know about the coverage and cost of employee benefits, the more likely it is that the organization can make good decisions about its benefit priorities.

At present, USNH offers an "open enrollment" period every fall. This enables employees to review their current benefit selections and to change plan selections. This process is largely a "paper" process. USNH would like to move to an electronic and web-based open enrollment that would not only facilitate the administration of the open enrollment process but would provide easier access to inform about plan choices and costs. In addition, USNH would like to re-establish "annual benefit statements" through the use of an on-line benefits enrollment process.

Family Leave

Staff governance groups, including the SPPC (System Personnel Policy Council) anticipate setting up a special meeting in August or September to reconsider the adoption and family leave proposals. As noted earlier in this report, the issue was deferred in order to put time into the cost containment recommendations. During the past year, governance groups considered three alternatives to the program approved for the UNH faculty. None of the three was exactly right, but all contained the ideas that will form the future proposal. The goal is to bring this proposal to the Trustees by January to March of 2005.

Retiree Services

In FY04, work was done to follow-up on the Trustees' goal to review the appropriateness of those Chancellor's office services which are consolidated and performed in a central office for the sake of efficiency rather than for the sake of implementing Trustee fiduciary responsibilities. Services to employees who are no longer in active service (including those who are early retired, on long term disability, on workers compensation or fully retired) is one such staffing activity. There are approximately 1500 such employees. Questions about their employment or benefit status are primarily handled by an employee in the Chancellor's office.

As a part of the staffing review, the Presidents Council endorsed the recommendation of HRPAC (Human Resource Professional Advisory Council) that this service continue to be performed in the Chancellor's office, but that it undergo some systemic change. As a result, the position description has been revised to focus on developing and implementing the systemic operations and information to provide services to this group of employees. In other words, staffing would expend less one-on-one question handling, more on-line information, and communication vehicles, as well as greater emphasis on the systemic processing of benefit changes and cost containment efforts. It is hoped that this will provide more people with more information and will help USNH save benefit dollars by more timely transaction handling.

To offset the loss of some staffing time devoted to individual counseling, USNH is pursuing an outsourced entity or resource for retiree advice and referrals. Such a service is expected to be provided by an EAP or insurance vendor or perhaps by a Financial Service provider. As choices for retirement income planning, long term care and medical coverage become increasingly complex; the pressure will increase on the

employer to provide some means for retirees to deal with these questions. USNH will use an RFP (Request for Proposals) and RFI (Request for Information) to seek options from vendors.

Retiree Medical plans and the changes in the Medicare

Legislation at the federal level is bringing significant change to the issues that will need updating and review for retiree medical plans. While USNH closed its retiree medical plan in 1993, there are approximately 1200 current participants in the MCP (Medicare Complimentary Plan) with another 800 or so expected to join it over the next 10 years. The changes in prescription drug options that will be in effect in 2006 may offer USNH the opportunity to coordinate benefits for our retirees and/or gain some savings from the federal program. In addition, new concepts such as Health Savings Accounts are being developed at the federal level to offer vehicles to save for retiree medical costs. Study of the options will be part of the coming year's goals.

Medical Plan Cost Containment and Related Initiatives

There are no studies or predictions that can reliably predict the growth in medical costs as far out as two or three years. Some predictions do exist, indicating average costs as moderated as 8% or 9% growth. Many more predict growth in the range of 12% to 15% a year for the next three to five years. The US population in general is aging and USNH's employment profile is older than CIGNA's general insured population. These as well as other factors are reasons to believe that the University System's finances and budget models will continue to be dramatically affected by the cost of maintaining employer provided healthcare plans. If salary grows at a rate less than benefits, and this seems to be a near certainty, USNH will face an increasingly growing "benefits rate" and thus an increasingly skewed relationship between the cost of salary and the cost of benefits.

As such, USNH expects to continue its aggressive efforts to find systemic means to lower the growth rate in employer costs of benefits. Through the efforts of CIGNA and UNH's Public Health Policy office, data about the particular claim experience of USNH is becoming increasingly available. This data indicates that USNH has standard to better than normal routine claim experience in many areas of claims that can be influenced by lifestyle and behavioral decisions. However, the data mining effort also shows USNH experience to be significantly greater than the norm in the number of catastrophic claimants (claims in excess of $50,000) and in use of relatively higher cost providers. For example, CIGNA's client norm for high dollar claims is under 5% of an organization's insured population for a POS and under 4% for an HMO. USNH's experience is 19.6% in the Point of Service Plan and 7.4% in the HMO.

In cooperation with Ned Helms from UNH's Health Policy Institute and CIGNA, USNH will focus on disease management initiatives aimed at managing this high cost source of claims. This has been an area of some past success and appears to be the right place for intensified future efforts.

At the same time, USNH will defer for January 2005 the efforts to implement a CDHP (Consumer Directed Healthcare Plan). This should be a good vehicle to get at the second area of high claim experience for USNH, i.e. our high use of high cost providers. The relationship between cost and quality is not a direct one in health. In other words, lower cost does not necessarily mean lower quality. USNH would continue to enable employee choice and employee information through a CDHP. However this effort will be aimed more for 2006 or 2007 as a practical manner of using our resources at the priorities most likely to produce results.

Along with these two efforts, USNH expects to explore other cost reduction and "cost shifting" efforts including increased employee contributions to medical plans and other plan design changes to encourage informed decision making. Incentives for wellness have always been an important priority for USNH and will continue to be in the coming years.

Total Compensation and USNH Market Position

USNH has a long history of positioning itself to have somewhat better than "market" benefit coverage and somewhat less than "market" salary levels. This position worked for many years in attracting highly qualified employees who valued stability and some of the intangibles that higher education can offer as an employer. Over the last decade USNH has found this paradigm to be increasingly difficult to maintain because of the extraordinary growth in medical coverage costs just to maintain status quo. And over this same time period, Trustee policy has moved to manage the shifting paradigm by improving the overall salary position but concurrently increasing the employee contributions to benefits. In FY01 (2000 and 2001) average staff salaries were approximately 9% below the market for comparable positions. As of the beginning of FY05, staff salaries are approximately -3.7% below the comparable market. Conversely, employee contributions to medical plans averaged just over 4% of the total cost in FY01 compared to just over 10% at the beginning of FY05. Other cost containment measures in benefits account for another 4% to 7% of costs shifted to employees.

An important part of the decision making process in setting the biennial budget model for FY06 and FY07 will be surveying and monitoring USNH's total compensation market position. Other higher education and private industry employers have undertaken similar cost shifts to manage the growth in benefit costs, and thus USNH's initiatives should not erode its competitive position. However, non-public employers tend to have more options to move salary levels quickly, where USNH typically does not. Thus the overall market tends will need to be monitored in order to inform USNH compensation decisions.