

Annual Report on Employee Benefits

Office of Human Resources
University System of New Hampshire

June 2005

Benefit Profile

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- Self-Service
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USNH Initiatives

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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 January 2005, USNH had 4245 faculty and staff members who are considered “benefits eligible.” This includes 3,035 at UNH, 532 at PSU, 496 at KSC, 94 at GSC and 88 in the System office.

The benefit plan includes three options for medical coverage, 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 4245 eligible participants, all but 333 employees are enrolled in the USNH retirement plan. Faculty and staff may also elect to contribute to supplemental retirement plans.

USNH also offers voluntary Flexible Spending accounts and 1349 employees elect to use these accounts.

The USNH employer costs of benefits 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 FY05 is expected to be approximately \$89.8 million. 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 \$89 million includes rounded costs of \$38 million for medical benefits, \$22.2 million for retirement and \$19.5 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 have been primarily focused on medical plans.

Benefit Cost Containment Initiatives

Over the past four 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. These resulted in new wellness incentives and disease management programs, and an overall reduction in the growth of employer paid benefits to a rate below 7%.
- Fall 2003 - KSCEA and AAUP faculty contracts include agreements to increased contributions and plan design reductions.
- June, 2004 - 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 almost \$4 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 points for Trustee committees.

Areas of Initiatives in Non-Medical Employee Benefits During FY05

Delivery of Benefit Services

Several initiatives were completed to 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.
- In January 2005 “WISE” (Web Information System for Employees) was implemented to provide information about benefit costs.

- 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, bypassing the need to file paper claims with individual receipts. This program was implemented on January 1, 2004.
- USNH entered a contract with "Aliquant," an online benefits information and administration system. This service is expected to go live during FY06 and will ultimately support both information needs about employer/employee benefit costs and consumer directed healthcare.

Leave for Family Needs

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 for UNH faculty. 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.

After more than eighteen months of review and consideration the employee Councils are recommending an expansion of the use of sick leave to support family needs. It is on the June agendas for Trustee consideration.

Disease Management and Wellness Initiatives

Several new initiatives have been undertaken in FY05 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 third year. Traditional efforts for management of high cholesterol, diabetes and hypertension have continued as part of the ELF program.

Compassionate Leave Pilot

At UNH, employee groups reviewed and proposed a pilot program to permit staff to contribute vacation days to those in need. The pilot has been in place for about fifteen months and the results have been very positive. UNH had 43 "donators" to this program for 10 recipients. Review will continue and it is likely that the program will be considered for long term adoption.

Retiree Services and Employee Assistance Plan

In FY05, work continued 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.

To offset the loss of some staffing time devoted to individual counseling, USNH bid its E.A.P. (Employee Assistance Program) and added to the bid process the request for a vendor to provide "retiree services." USNH changed vendors and was able to add the service. A new EAP vendor won the bid and has begun providing both EAP services and retiree services. This includes a workshop on the advantages and disadvantages of purchasing long term care insurance.

Challenges and Future Issues in Benefits

Projected Increases in Medical Costs

Despite the considerable efforts to manage and control the rising cost of medical benefits, this issue is not solved for the University System. Industry experts predict double digit inflationary increases in medical premiums for the foreseeable future, including the possibility that the cost of current medical plans could double over the next five years. Given that USNH revenue is not expected to rise by double digit numbers, it will be necessary either to divert money from other properties to benefits or to continue further cost containment.

Rising Use of "Temporary" Employees

The University System has a "two sizes fit all" benefits structure. One size is for full-time, status, continuing employees. This includes a full array of benefits coverage. The other size is for temporary (less than a year) and/or part-time employees. These employees are typically covered by only Social Security, Unemployment, and Workers Compensation benefits. Of USNH's 10,000 plus employees (excluding student employees), about 4500 fit into the category of the full-benefits description and about 4500 fit into the temporary description. However, there are approximately 1000 employees system-wide whose employment conditions do not neatly fit either description. Work is needed to determine a best approach for this group of employees.

Changes Due to Federal Regulation

As always, there are proposals under consideration at the federal level which would impact USNH benefit plans. Those include the potential to change Social Security income. Proposals include the potential to lower future benefits, to increase the retirement age, to privatize income accounts and to increase employer-to-employee FICA contributions. Each of these could impact USNH employment and retirement policy.

Medicare Part “D,” a federal plan to introduce an option for prescription drug coverage for retirees has already been signed into law and will be effective on January 1, 2006. USNH is in the process of reviewing its current Retiree Medical plan (referred to as “MCP or the Medicare Complementary Plan) to determine if any changes are needed in order to conform to federal changes. It is expected that USNH will be eligible to receive a federal subsidy for the retirees who remain in the MCP rather than opt for Medicare Part D.

Tax law changes are also of continuing interest to USNH. Changes to the IRS laws governing tax deferred contributions to retirement plans have improved the administration of such options and have provided employees greater access to such savings plans. Existing and proposed changes to health savings accounts could facilitate the planning for medical costs into retirement.

FY06 Benefit Initiatives

As noted earlier, there are two major areas of attention for FY06. These include the continuation and development of a four year strategy to manage the rising cost of medical benefits. Trustees will consider “part one” of this strategy at June meetings. Subsequent actions will continue to be developed taking advantage of survey information from comparators about costs and opportunities. This effort will also include work to develop a Consumer Directed Healthcare Plan and to continue competitive bid processes to seek lower cost options.

The other main area of attention will be the development of online access to benefit enrollment and information. This will be developed through the use of WISE, and through the implementation of Aliquant. USNH hopes to reintroduce “Annual Benefit Statements” as a means to further education about benefit costs and coverage.

USNH will also be engaged in the implementation and completion of several FY05 projects including the beginning of audit efforts by USNH Internal Audit, the implementation of changes in family leave policy, the development of Retiree Services through USNH’s new EAP provider, PacifiCare, and the continuing development of wellness incentives and disease management and prevention.

USNH’s “market” position for Total Compensation will also be a major concern as various cost containment and benefit improvement options are considered.