Response to the April 5, 2016
University Fringe Benefits Forum

I. Background on Shared Governance and Fringe Benefits

(For descriptions of Michigan Tech's commitment to shared governance, see Addendum A.)

May 10, 2000: Senate Proposal 22-00 formalizes the "Benefits Liaison Group" (BLG); an outline of the history of and problems with the BLG is provided in Senate Proposal 34-15

2010-2012: Significant reductions in retirement benefits; for a description of these reductions, see Addendum B (this history was removed from Senate Proposal 3-16 "Proposal on Automatic Enrollment in Michigan Tech's Defined Contribution Retirement Plan")

2012: Deep cuts in health-insurance benefits; a description of these cuts is provided in the introduction of Proposal 9-16; see, for example, table 1, which shows a doubling of the deductibles, a near doubling of out-of-pocket maximums, and significant increases in copays.

Additional healthcare costs have also been shifted to the employees. For example, in 2011, Michigan Tech contributed $1,500 per contract to the Health Savings Accounts (HSAs) of employees enrolled in the HDHP. However, in 2014, Michigan Tech contributed $0 per contract to these accounts. In 2014, there were 750 HDHP contracts; hence, during this period, Michigan Tech reduced its contribution to employee healthcare expenses by $1.125 million ($1,500 x 750).

April 3, 2013: Special Meeting of the University Senate (rescheduled due to the cancellation of the February 20, 2013 meeting):

- Senate Fringe Benefits Committee Survey Report (Nancy Barr, Shane Sullivan, Michael Patterson, Don Beck, John Valet); provides significant evidence of behavioral hazard: with a 64% response rate, nearly 54 percent of respondents answered "yes" to the following question: "Have the recent increases in deductibles and co-pays in the MTU health plans caused you or someone in your family to delay health care?"

  For research on costs (human and economic) of behavioral hazard, see Addendum C.

- Administration presents "Benefit Update for CY2012 and Benefit Plans for CY2013 & Beyond" (Ellen Horsch, Renee Hiller)

Fall 2013: The Administration, through the BGL, considers dropping the Preferred Provider Organization (PPO) option and adding premiums to the High Deductible Health Plan (HDHP) option

September 25, 2013 (Senate meeting 536): Senator Gerry Caneba presents Report on 2012-2013 President and Executive Team Evaluation

Included in the summary of comments from 2011-2012: "There is the sense that the university is drifting towards an administration-driven organization." (p. 16)

October 9, 2013 (Senate meeting 537): The Fringe Benefit Committee recommends to the Senate and to the Administration that the Administration should neither drop the Preferred Provider Organization (PPO) option nor add premiums to the High Deductible Health Plan (HDHP) option

October 16, 2013 (Senate meeting 538): Sense of the Senate Resolution on Improving Shared Governance

April 23, 2014: Senate presentation on shared governance by President Mroz:

- **Claim:** Success of shared governance as a measure of the percentage of those Senate proposals that require approval by the University President that were, in fact, approved: between 2005 and 2010, 93 of 98 approved = 95% (Slide 10).

  Problem with this Claim: A high percentage of Senate proposals are "A-List" items, for example, degree proposals, on which the Senate is empowered to establish—not just recommend—policy. For example, between the 2005-2006 and 2010-11 academic years, of 170 Senate proposals, 134 (79%) were academic proposals. In addition, before the Senate even see these proposals, they have already been approved by the Administration via the Deans Council.

  Hence, a better measure of the success of shared governance might be the fate of "B-List" proposals—including fringe benefits proposals—for which the Senate only has the authority to make recommendations. Over the past three academic years, over 62% of these proposals have been vetoed (see Addendum D below).

- **Claim:** If Senate is not "highly engaged," administration must do the Senate's work (Slide 15).

  Problem with this Claim: Effective high engagement is not possible under conditions of information asymmetry; hence, Senate Proposal 32-14, which empowers the Senate to ask questions of any external, healthcare insurance consultant, such as Aon Hewitt, and includes a list of 13 questions posed in response to a survey of Senate constituents. Although approved by the Administration, this proposal has resulted in very few answers. For example, of the 13 questions provided in Proposal 32-14, only 3 were answered.

March 17, 2015: The Benefits Liaison Group (BLG) is unilaterally dismissed and restructured by the Administration; see section VI of Senate Proposal 34-15

II. Response to the April 5, 2016 University Fringe Benefits Forum

April 5, 2016: University Fringe Benefits Forum (Ellen Horsch, Rene Hiller, Ginger Sleeman)

1. Information Asymmetry: BLG is presented with data generated by Ano Hewitt based on questions framed by the Administration. Senate-generated questions have not been answered. For example, is there any evidence of the effects of either moral hazard or behavioral hazard?

2. The data that inform our decisions are biased by the questions we ask and the variables we consider, or fail to consider. Compare, for example, the problem of internalizing externalities in environmental economics. For example, coal might appear to be a good source of power until we include the costs associated with climate change.

3. Slide 21 (see also Slide 12): Projected healthcare cost increase for FY 2017 ($1.24 million higher than for FY 2016): What variables are considered? And what variables are not considered? Have past projections proven to be accurate? Or is there a consistent pattern of overestimating? If the latter, have the models been adjusted in an attempt to account for this?

4. Slides 22 & 23: Vice President for Research Dave Reed calls for models for cutting this increase by $500,000 to $1,000,000. Perhaps by cutting the PPO and adding premiums to the HDHP, as was proposed in 2013?

5. Slide 13: Our "higher cost" relative to "Higher Education" is based only on the 50-60 academic institutions that Aon Hewitt works with (HVI = Hewitt Health Value Index). For example, see Slide 14; however, Michigan Tech's average number of members per contract is 2.65.

6. Slide 10: $1.77 million drop in healthcare costs between 2012 and 2013 attributed to a change in vendors (from Aetna to Blue Cross Blue Shield), with no mention of the effects of the reductions in our health-insurance coverage. (But see Slide 17, which includes "plan design.")

7. Slide 15: Implications of Cost Share Analysis: Does the PPO option cost more because of moral hazard? Or are Michigan Tech employees smart consumers who choose the PPO when they anticipate higher-than-average healthcare costs (due, for example, to age, gender, or chronic health problems; see Slide 14)? See the effects of faculty and staff decision on Slide 13. Consider Senate questions for Aon Hewitt.

III. Addenda

Addendum A: Descriptions of Michigan Tech's Commitment to Shared Governance

- NCA Accreditation Self-Study Report: See Chapter 2 "Governance," where "shared governance" is defined as "the faculty, staff, and the administration participating cooperatively in developing policies for governance of the University." The report goes on to say, "[e]ffective governance is considered a product of trust and shared responsibility. Shared governance is also stated as an objective in the strategic plan: Involve the faculty fully in the governance of the University."

- Office of the President: "effective shared governance" is one of the 9 items for which the University President bears ultimate responsibility

- Chapter 1.4 "University Governance" in the Tenured/Tenure-Track Faculty Handbook

Addendum B: History of Michigan Tech's Retirement Plans

Formerly, Michigan Tech offered plans that allowed employees to come close to this 15% goal. As the March 14, 1997 issue of TechTopics reported,

> "MTU currently puts the equivalent of 10.55 percent of employees' salaries into their TIAA-CREF retirement accounts. Under the 2-plus-2 program, participants would be saving the equivalent of 14.55 percent of their salaries, near the magic 15 percent experts say workers should save to maintain their standard of living when they retire."

The April 13, 2001 issue of TechTopics provided the background for the 2-plus-2 program:

> "In 1997, the Board of Control began phasing out health coverage for TIAA-CREF retirees. In return, it agreed to match first 1 percent, and later 2 percent of employee contributions to their retirement accounts. The goal was to help employees accumulate enough money in their accounts to buy health insurance after their retirement. Later, the University agreed to deposit additional funds in the retirement accounts of employees making less than $50,000 per year, since they were the ones in greatest financial need."

The University's 2012 Financial Report explains what subsequently became of this plan:

> "Prior to January 1, 2010, the University would contribute 10.55% of participating employee's salary to the employee's investment account and would then match up to an additional 2% of employee's voluntary contribution. On January 1, 2010, participating employees were given a choice between a 5-5-5 plan or a 0-7.5-7.5 plan. Under the 5-5-5 plan, the University will contribute 5% of an employee's base salary and will then match up to 5% of base salary contributed by a participating employee. Employees choosing this plan also received a 2% salary increase. Employees choosing the 0-7.5-7.5 plan

> receive no base contribution from the University but receive a matching contribution of up to 7.5% of base salary along with a 4.5% increase in base salary. Employees hired after January 1, 2010 will participate in the 0-7.5-7.5 plan. This shift in compensation structure was intended to maintain both total compensation to the employee and total compensation costs of the University. The result is greater flexibility to the employee on whether compensation is received currently, or deferred for retirement." (p. 42)

Addendum C: The Cost of Behavioral Hazard

Behavioral hazard is defined as healthcare choices that are made to save money or avoid inconvenience in the short-term but that wind up costing more money in the long term.

In an August 10, 2013 *New York Times* article, "When Co-Pay Gets in the Way of Health," Sendhil Mullainathan, Robert C. Waggoner Professor of Economics at Harvard University, writes,

> "Behavioral hazard . . . is a major financial issue. The New England Healthcare Institute has estimated that solving non-adherence could save $290 billion a year, or 13 percent of total annual medical spending in the United States."

"The Impact of High-deductible Health Plans on Men and Women: An Analysis of Emergency Department Care," a study published in the August 2013 edition of *Medial Care*, found that males whose employers switched them from a traditional HMO to a high-deductible health plan reduced their use of emergency department high-severity visits by 34 percent. That is, they did not go to the emergency department when the severity of their condition clearly warranted it. That was followed a year later by a 30 percent increase in hospitalizations.

Addendum D: Disposition of University Senate Benefits Proposals, 2013-2016

2013-2014:

1. Proposal 7-14 "Proposal to Amend Senate Proposal 22-00: Recommendations on Medical and Health Insurance Benefits" (To restructure the Benefits Liaison Group [BLG])

   Approved by the Senate, but 11 of 12 provisions were rejected by the Administration. Hence, withdrawn by the Senate.

2. Proposal 32-14 "Notification Time for Changes in Fringe Benefits and Questions for Healthcare Insurance Consultants"

   Approved by the Senate; approved with amendments by the Administration. However, 75% of the Senate's questions have not been answered.

2014-2015:

3. Proposal 25-15 “Proposal to Equalize the Tuition Waiver Benefit for all Full-time Employees” (Compare Proposal 2-16 below.)

   Approved by the Senate but vetoed by the Administration.

4. Proposal 28-15 “Proposal on Opt-Out Retirement Plan” (Compare Proposal 9-16 below.)

   Approved by the Senate but vetoed by the Administration.

5. Proposal 29-15 “Proposal to Reduce Cost of Medical Care to Michigan Tech Employees” (Compare Proposal 9-16 below.)

   Approved by the Senate but vetoed by the Administration.

6. Proposal 34-15 “Proposal to Review Senate Proposal 22-00 and Restructure the Benefits Liaison Group (BLG)”

   Withdrawn by the Senate during the last meeting of the academic year due to lack of time.

2015-2016:

7. Proposal 2-16 “Proposal to Amend the Employee Education Policy” (Compare Proposal 25-15 above.)

   Approved by the Senate and approved by the Administration.

8. Proposal 3-16 “Proposal on Automatic Enrollment in Michigan Tech’s Defined Contribution Retirement Plan” (Compare Proposal 28-15 above.)

   Approved by the Senate but vetoed by the Administration.

9. Proposal 9-16 “Reducing Deductibles and Out of Pocket Maximums on Michigan Tech’s Healthcare-Insurance Plans” (Compare Proposal 29-15 above.)

   Approved by the Senate but vetoed by the Administration.

10. Proposal 23-16 “Proposal to Move to a University Parental Leave Policy”

    Pending.

Tally

Given 1 proposal (34-15) withdrawn by the Senate before a vote; and 1 proposal (23-16) pending, below is a tally of the Administration's response to the remaining 8 proposals, all of which were approved by the Senate:

- 1 (7-14) "approved" with 11 of 12 provisions vetoed and, hence, withdrawn by the Senate
- 1 (32-14) approved but essentially not implemented
- 1 (2-16, an amended version of 25-15) approved and implemented (12.5%)
- 5 vetoed (62.5%)