

President's Committee for Benefits Review
2004-2005

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Preface

Benefits are offered to employees as a recruitment and retention tool and have become fundamental in employment. There is no law that requires employers to offer most benefits, but many employees are so accustomed to having benefits, they tend to view benefits with an entitlement mentality. Once offered, it becomes difficult for employers to change benefits.

Health coverage is a national crisis. ISU is not the only employer that is struggling to find a balance of desired benefits against available budget. Inflation for medical items has been double digit for five years in a row with no relief in sight with an expected trend of over 13 percent for the next five years. Employers are scrambling to find ways in which to afford health coverage, and employees are concerned that they will not be able to afford their share of the costs. The ultimate goal for the health coverage is to provide the best coverage possible within an affordable cost. To date, this goal has been extremely difficult to achieve.

ISU's health coverage dilemma is compounded by the post retirement health coverage benefits that currently services 1,100 retirees with another 1,600+/- active employees working toward retirement. University employees are no different from employees of any other industry—they view the post retirement health coverage as an entitlement. Changes in coverage create emotional responses and are construed to be negative. However, this review may provide an excellent opportunity to suggest changes for 2006 that will financially assist ISU well into the future.

There is not one single change that could be made that would provide relief to the health coverage crisis. To have a profound impact, a series of changes are recommended that, if utilized, could provide some relief. However, it must be realized that changes may provide temporary relief with the uncertainty of the future in the ever changing and challenging insurance industry.

The Committee had a difficult task in making recommendations without cost estimates. The outcome of these suggestions is somewhat unknown. In order for health coverage vendors to provide quotes and cost estimates for 2006, at least eight months of 2005 claims data must be analyzed before vendors would be comfortable quoting prices. Therefore, the Committee recognizes that some of the suggestions may not be feasible once cost projections are received. It is further recognized that these recommendations, if implemented, may be over time and some may not be implemented at all.

Some of these recommendations require further study and review. Some were implemented in 2006 and 2008. However, constant review and recommendations may be necessary in order to provide the benefits desired at affordable costs.

Health Coverage – Active Employees (1,700 plus dependents – 3,500 total lives):

Health coverage consists of three distinct coverages; medical, dental and prescription drugs. This benefit is the most expensive of all University benefits, receives consistent usage from employees and retirees, and seems to be the one benefit that receives the most criticism.

The ISU health coverage is self insured and has been since 1986. Being self insured has provided the health coverage with built-in cost savings in the form of:

- No State insurance taxes to pay.
- No state mandated coverages, i.e., infertility, obesity treatment, etc.
- No profits to pay to insurance companies.
- **No higher premiums to the insurance company to set up a reserve against inflation.**
- Plan is not subject to Indiana Insurance Commissioner regulations.

In addition to cost savings, ISU has also had flexibility in plan design and other benefits by being self insured, such as the ability to:

- design our own plan rather than pick from a few pre-designed by an insurance company.
- build and maintain a reserve account in house (money to pay run-off claims incurred before the plan ends; but paid after the plan ends) should ISU change plans, become fully insured, etc, and.
- maintain complete control over the plan.

In 1990 during a time of escalating medical costs, former President Landini authorized the development of the Health Benefits Review Committee to analyze and design the ISU health coverage. Over the years, membership of the Committee changed many times due to changes in faculty and support staff governance, annual membership, retirements, resignations, etc. The committee made many recommendations to the coverage that created the plan in force today. The committee was suspended in 2002 due to lack of member attendance at meetings and a change in the benefits office reporting structure.

Before the committee meetings were suspended, the group made a list of approximately twenty items pertaining to the coverage that were cause for discontent to employees. Out of the original list, the following items have since been added to the coverage:

- step children became eligible for coverage that were previously eliminated (2003)
- services of a nurse practitioner were approved for coverage (2003)
- services of a Certified Registered Nurse Anesthetist were approved for coverage (2003)
- an annual open enrollment was established that was previously eliminated (2005)
- same sex domestic partners became eligible for coverage (2005)
- immunizations for children over 13 were added to the wellness benefits (2003)
- **increased the wellness payment from \$200 to \$600 per person per year (2006)**
- **added a tier of prescription drugs that are not covered but discounted with use of the prescription drug care (2006)**
- **eliminated the pre-existing condition clause (new hires or enrollees will not have claims limited unless they were uninsured prior to coming on to the ISU plan**
- **offered flexible spending accounts (medical and dependent care)**

- Prescription drug enhancements including:
 - Oral contraceptives,
 - Erectile Dysfunction,
 - Smoking Cessation,
 - Weight Loss for Morbid Obesity, and
 - Self-injectable drugs.

In 1998, ISU recognized the importance of funding for future retiree health coverage liability and developed a Voluntary Employee Benefits Trust Fund (VEBA). Each year for a period of four years, five (5) percent per year of the total rate (both University and employee share) was set aside to fund the VEBA trust. At the end of the fourth year, 20 percent each year (\$2,040,000) of the total rate was set aside and transferred to the trust fund. Although an eight (8) percent growth was expected, the decline of the stock market held the growth to an overall four (4) percent return. Also, medical trend (inflation) outpaced the earnings of the fund each year.

With the upcoming requirement of the Governmental Accounting Standards Board (GASB), ISU must begin to recognize the unfunded liability of post retirement health coverage on the annual financial statements in 2006 (now 2008). The liability was projected at \$144 million in 2003. Along with requirement of recognition of the future liability, the standard also requires the University to begin to fund that liability.

For 2004, nearly \$15 million was spent on health coverage for employees, dependents and retirees which was 11.06 percent higher than the claims of 2003. The medical trend (inflation factor) for 2005 is expected to be 13+ percent for both medical and prescription drug expenses and 8 percent for dental expenditures. This is an alarming trend which will more than double the cost of health coverage claims in nine years; quadruple claims in twelve years. This enormous rate of increase is detrimental to the University's operating budget which pays approximately 75 percent of the total cost of the health coverage contribution rates (\$10+ million annually) plus the budgets of approximately \$1.25 million from Auxiliary and Grant funds). Nearly 75 percent of the entire University operating budget is spent on total compensation (employee salaries plus benefits).

The ultimate goal for the health coverage is to provide the best coverage possible within an affordable cost. In the past, this goal has been extremely difficult to achieve. Many employees and retirees view this benefit emotionally and with an entitlement mentality. There is not one single change that could be made that would provide relief to the health coverage crisis. To have a profound impact, there are a series of recommendations for changes that, if utilized, could provide some relief. However, it must be realized that changes may provide temporary relief with uncertainty of this ever changing and challenging national crisis.

Medical Coverage:

Medical expenses primarily include hospitalization, physician charges, X-rays and lab testing and office visits. Of the total spent on health coverage; approximately 70 percent (\$10 million) is spent on the above mentioned items. As this has the largest price, this coverage was the first focus for cost savings.

Network Participation:

The ISU plan is a Preferred Provider Organization (PPO) that utilizes the Sagamore Plus network of physicians and hospitals primarily in Indiana that provide discounts for services rendered. For services rendered outside of Indiana, ISU utilizes the PHCS Healthy Directions network. Employees/retirees may choose any provider; however, when employees utilize in-network providers, the plan receives a pre-

determined discount on the charges. In-network co pays are set at 80/20 with ISU paying 80 percent of the charge and the employee paying 20 percent. When out-of-network providers are utilized, there is no discount and the plan is essentially a 50/50 plan.

In order to accommodate both local hospitals for the convenience of employees/retirees, ISU has utilized a very liberal PPO network for many years. However, there are other networks available with an expanded provider listing that could provide deeper discounts (i.e., CIGNA, United Health Care, and Anthem). However, participation in these networks may require some employees/retirees to change physicians or hospital of choice. However, if ISU had utilized one of these networks during 2004, it has been estimated that a savings of nearly 10 percent of the total medical claims could have been realized that may have resulted in maintenance of the 2004 contribution rates for 2005. (Rates were increased by 7.5 percent for 2005.)

Recommendation #1: Through a request for proposal process, ISU should solicit proposals from high performing networks that can maximize savings for 2006.

During 2005, ISU pursued a higher performing network for 2006, Anthem/Blue Cross-Blue Shield. It was determined that Anthem's software capabilities would not be able to process the University's current benefit structure as previously thought. Anthem required ISU to change their benefits in order for Anthem to perform processing. The anticipated \$1,000,000 in savings would have been depleted by ISU's plan paying more toward claims that the current plan pays. Therefore, a last minute decision to delay this decision was made.

In the interim, Principal negotiated with the two local hospitals to provide deeper discounts to the University rather than change to Anthem. Therefore, it was estimated that this arrangement would save the University approximately \$600,000 per year.

Disease Management:

There are several chronic illnesses that, if left unmanaged, consume a considerable amount of claims dollars. If these diseases are managed properly, several million dollars per year could be saved. At ISU, there are nearly 400 individuals (12 percent of the total ISU population) who have one or more chronic illnesses (cardiac, COPD, lung, diabetes) that amounted to more than \$3 million dollars in claims (30 percent of the total medical costs).

A Disease Management Program can provide assistance in disease management to these individuals on a voluntary basis. Participation in this program could benefit both the employee and the University's health coverage budget for a relatively small price. Benefits received would be higher quality of life for the employee, increased production at home and work for employees, reduced costs for treatment for both the employee (in co-pays and contributions) as well as the University.

The cost is approximately \$300 per person per year for employees who participate in the program. It is not expected that all employees with chronic illnesses would volunteer to participate. Annually, the cost could be less than \$200,000. During the first year, the cost of the program versus savings in fewer claims is expected to be dollar for dollar. The savings will be greater in subsequent years.

Recommendation #2: Beginning in 2006, a Disease Management Program should be offered on a voluntary basis. Further, in order to maximize health benefits and savings, the program should be offered for a minimum of three years.

The disease management program did not materialize for 2006 or 2007. This program is scheduled to be implemented in spring 2008.

Demand Management:

Demand Management is a 24-hour a day hot line (800-number) that employees could use for information and suggestions about medical issues. The intent of this program is not to replace necessary visits to a physician or other providers, but to avoid unnecessary visits in expensive care facilities, i.e., prompt care centers and the emergency room.

The cost of this program is approximately \$1 per month per employee (for all benefits-eligible employees) that may result in a positive return on the investment. This may also provide employees with some peace of mind and assistance with medical issues.

Recommendation #3: For 2006, it is recommended that proposals solicit quotes for a demand management programs.

Demand management was included in the RFP for a higher performing network in 2005 for 2006. This program is scheduled to be implemented in spring 2008.

Flexible Spending Accounts:

Flexible Spending Accounts (FSA's) have been in existence for a number of years. These accounts provide an opportunity for employees to pay for items that are not covered by the health plan with pre-tax dollars. Examples of these items include deductibles, co pays, non-covered items and other eligible charges.

Each calendar year, the employee must determine how much of their annual medical expenses he/she feels will not be covered by the health plan during the coming year. This amount would be divided by the number of paychecks per calendar year. Each pay check, the amount is deducted from the check *before* taxes. As services for the non-covered items have been incurred, a receipt for payment of the services is sent to the FSA administrator who reimburses the employee. The employee saves federal, state, local and FICA taxes on the amount deducted per check.

The plan is not for everyone. It requires a significant amount of education. If the employee overestimates the annual need and does not spend the money, the money is lost and reverts to the University. ISU is not permitted by federal statute to return the money to the employee. Therefore, a decision must be made as to the disposition of unused funds.

On the reverse, it is possible for employees to have services rendered for the total annual FSA amount during the first few months – before the entire amount has been deducted from paychecks. For example, an EAP employee who estimates the total non-covered items to be \$2,400 per year, \$200 is deducted from each check beginning in January. Should that employee have a non-covered service that totals \$2,400 on January 15, the FSA administrator would be required to reimburse the employee the entire \$2,400 even though the total deduction from the employee's check to date has been \$200. If that employee then resigns from the University, the ISU plan will have lost \$2,200. ISU cannot recover these funds. Therefore, a plan to use recaptured deductions to pay for such situations would be prudent.

The taxes saved by employees are state, local, federal and FICA (Social Security). Since the University matches the FICA taxes, ISU will also save money in the form of less FICA taxes for the participants in the plan. This normally offsets the nominal charge of the FSA administrator for the plan. The cost of the plan is approximately \$4.50 per participant per month.

FSA accounts are normally well regarded by employees in assisting with payment for non-covered health plan charges. This benefit is widely used; 95 percent of employers responding to the 2004 College and University Personnel Association's (CUPA) benefits survey provide this benefit for employees. An additional consideration could be a Dependent Care FSA which would assist employees with child/adult care expenses.

Recommendation #4: It is recommended that ISU provide its employees with an opportunity to participate in a Medical Flexible Spending Account for 2006.

Flexible spending accounts were implemented in 2006 and continued in 2007. The maximum allowed for a Medical FSA is \$3,000; \$5,000 for a Dependent care FSA. For calendar year 2006, there were 157 participants in the FSA accounts with \$217,008 pledged. For calendar year 2007, there are 189 participants with 302,448 pledged. The maximum allowed for a Medical FSA for 2008 is \$5,000; for a Dependent Care FSA is \$5,000. For 2008, there are a total of 224 participants pledging \$387,0243.

Alternative Arrangements for Health Care:

Consumer Driven Plans:

Many years ago, receipts for all medical charges incurred were manually collected by the employee and submitted for payment to the plan. Most of the charges required the employee to pay the charges up front and wait for several weeks to be reimbursed by the plan.

The current ISU plan has been designed for easy employee/retiree access with little pre-payment of medical expenses. For example, office calls to physicians cost employees \$15 while ISU pays the balance of the approved charge which can be in excess of \$100. The employee seldom sees the total charge of the bill. Some employees feel that the total charge is only \$15. Therefore, employees have easy access to their benefits, but have a general lack of understanding of the magnitude of costs associated with health care.

There are alternative plans to the PPO plan offered by ISU. These plans are Consumer Driven Health plans that force the employee to make decisions on when to access coverage, where to seek coverage and require employees to pay the first primary costs of health care expenses per year. These plans tend to change employees behavior when they feel they are using their own money to pay for medical expenses. These plans generate positive behavior changes including:

- Increased use of generic drugs
- Decreased use of emergency room
- Increased use of health information lines (demand management)
- More selective use of physician and ancillary services
- Use of web based tools (like, Web MD)

There are many factors of design that determine the savings realized by use of consumer driven plans. Although these plans are somewhat new to the market and extremely new in concept to ISU, it may be feasible to offer as an alternative to the traditional PPO plans offered in 2006 and work toward having all employees participating within a three-year time frame.

Types of Consumer Driven Plans:

Health Reimbursement Arrangements:

Health Reimbursement Arrangements (HRA's) are employer established funds whereby the employer provides the first dollar amount of coverage – possibly \$1,000 for single; \$2,000 for family per year. The employee decides how to use this initial amount. Once it has been exhausted, there is a deductible-based, coinsurance (traditional type) medical plan and an optional pharmacy and dental benefit plans. Flexible Spending Accounts should also be offered along with an HRA.

To utilize the plan, employees would access the Flexible Spending Account first spending their pre-tax dollars; then the Health Reimbursement Account, then pay a deductible and access traditional health coverage. Any unused funds remaining in the HRA at the end of the year can roll over from one year to the next. However, these funds are not reimbursable; if the employee resigns, these funds remain unspent and revert to the employer.

These plans are difficult to understand and must be supported with an extensive, professional communication/education program to ensure that the employees fully understand how to use the plan. Employees must be provided with consumer information programs and decision-making tools to successfully utilize this program.

Health Savings Accounts:

The employer actually puts money into a Health Savings Account (HSA) account that can be utilized by the employee. Employees may add money to these accounts. The fund is owned by the employee and is portable should the employee leave employment. Once the funds are exhausted, the employee has a high deductible (\$1,000 employee only; \$2,000 for family minimum allowed by law) health plan. The employees can add contributions to this fund and the fund can be integrated with a prescription drug plan.

Unused funds are not forfeited; they are portable for the employee or retiree. Again, decision support tools and consumer information programs should accompany this program. Since employees who leave the employer have access to these funds, it may not be the best arrangement for ISU.

2006 Health Coverage Options:

The employees have indicated that they would like a choice in medical plans. The one-size-fits-all plan currently offered by ISU does not satisfy the wants and needs of the majority of ISU employees. Therefore, ISU could offer several plans from which employees could choose in 2006. The plans could be:

1. A newly developed “core” or basic plan (catastrophic benefits).
2. The core plan with buy up coverages
3. The current PPO plan with some enhancements
4. A consumer driven plan, i.e., Health Reimbursement Arrangement (HRA) which may be slightly utilized, at first, with a plan to build enrollment over a few years.

Recommendation #5: It is recommended that ISU offer a range of plans from which employees may choose the plan that best suits their health coverage needs along with a consumer driven plan be initiated for ISU with a long-range strategy to have all employees participating by 2007.

This recommendation has not yet been considered. A Medical Task Force to consider individual recommendations was suggested.

Cafeteria Benefits:

The University could offer a flat amount of benefits dollars that each individual could use to choose benefits from a variety of options; i.e., one of many medical plans, dental, disability, etc. This may be beneficial to some, but lower paid individuals may choose to not elect benefits in order to have additional salary and harm themselves with a lack of medical coverage for illness or accidents, financial difficulties with medical bills and no coverage, etc.

Should cafeteria benefits be offered at ISU, careful study, educational and communication programs and decision making assistance must be offered.

Health Plan Funding:

Five Year Committed Health Plan Budget:

In order to develop recommended health coverage plans, the University would need to determine the amount of funding that would be committed to the plan annually with predetermined annual increases to funding. The plans can be built around that committed funding with additional/buy up coverages, etc. The amount of funding would be locked in and not altered for a period of five years. Once these funds are committed; if the plan saves money, the fund would retain that savings; if the costs of the plan increased, savings could be used to assist the plan. If there were consistent increased costs, deductibles, co-pays or covered items could be changed and/or contribution rates could be increased to sustain the plan for the five year period. The allocated funds, plus annual percents of increase, are recommended to be committed for a period of no less than five years.

Recommendation #6: It is recommended that the budget for health care coverage be committed for a period of five years.

A committed budget has not yet been considered.

Defined Contribution versus a Defined Benefit Plan:

Currently, ISU has adopted a defined benefit approach in health care funding. The contribution rates are based upon a defined formula; ISU pays approximately 75 percent of the total contribution; employees pay approximately 25 percent of the total cost.

If the costs of the plan continue to escalate to an amount that ISU can no longer sustain, it may be wise for the University to adopt a defined contribution approach to control the amount that is expended from the ISU budget. A defined contribution would be a defined dollar amount that ISU would provide toward coverage, with or without an annual increase. Costs above that amount would need to be absorbed by the employee through increased contributions or by decreases in coverage. This may seem radical with the extensive ISU history with the defined benefit, but this alternative may be a method of containing escalating future costs.

Recommendation #7: It is recommended that a defined contribution approach be considered as a means in controlling the amount of University budget expended on health coverage expenses.

A defined contribution approach has been discussed but not yet considered. The Medical Task Force should carefully review before implementation.

Other Health Coverage Aspects:

Reinsurance Coverage:

ISU currently has a reinsurance policy that covers individual claims over \$225,000 per year. This means that ISU is responsible for the first \$225,000 of claims per person each calendar year. The reinsurance coverage would not be affected by plan design and should be continued into the future. Currently, there are half a dozen individuals who annually meet at least half of the stop loss deductible (\$225,000) which leaves ISU with the potential of paying several high claims each year. Although there have been no claims that have exceeded the stop loss deductible for several years, but during 1999-2000, ISU received \$155,000 in refunds of claims paid in excess of the stop loss deductible for that year (\$215,000). The total cost of reinsurance annually is \$186,000.

Recommendation #8: Reinsurance coverage should be maintained to protect ISU from large claims over \$225,000 per person per year.

Reinsurance was purchased for 2006, 2007 and 2008 at the same level of coverage.

Third Party Administrator:

Self insured medical coverage plans utilize the services of Third Party Administrators (TPA's) to process claims and provide other related services for a per head count fee each month. Fees for TPA's are normally approximately 3.2 percent of total claims which is consistent with the experience at ISU.

The current ISU TPA's are as follows:

- J.F. Molloy/Principal for medical coverage
- Delta Dental for dental coverage
- Anthem for prescription drug coverage

Along with claims processing and handling services, many TPA's also manage Flexible Spending Accounts, provide Disease Management and Demand Management programs. One vendor providing all such services will likely provide the best cost for such services. To separate these services to different vendors would cost ISU more in administration fees.

Recommendation #9: In order to obtain the best cost for these services, it is recommended that a request for proposal process (RFP) be used listing all desired services to be provided by the same vendor.

This has not been considered at this point.

Retiree Coverage (Medicare Primary – 805 true retirees plus 250 spouses – total 1,100+ members):

Retirees of ISU are required to have both Part A (Hospital) and Part B (Medical) coverage in order to retain the ISU retiree health coverage plan with ISU. Medicare Part A is normally free with enough work credits. Part B costs \$93.50 per month in 2007. Retirees are also required to pay a fee to ISU for the ISU retiree health and prescription drug coverage plan. Currently, this fee is \$42.00 per month per retiree. Thus, the current total cost to retirees is \$135.50 per month per retiree.

The ISU retiree coverage has been designed to be similar to that of active employees. Therefore, the retiree coverage has many unusual features unlike that of standard Medicare supplements. This plan is more difficult for ISU retirees to find participating providers in some areas outside of Indiana and requires the retiree to pay a larger portion of the residual amount (after Medicare's payment) than standard supplements.

Most retiree Medicare primary coverages follow one of several standard plans. In many cases, residual amounts are miniscule. As the ISU plan has evolved over the years, a larger portion of the claims has been shifted to the employee and retiree. For many charges, ISU retirees are paying a larger portion of the residual amount due to the plan design. If retirees were provided with an insured plan that would be closer to standard coverage offered to retirees across the nation, there are several advantages that could be afforded as follows:

- Retirees would enjoy a standard, easier to understand Medicare supplement.
- The plan would provide some better benefits than current ISU plan.
- ISU would continue to pay a portion of the cost of the supplement.
- The vendor would provide a 1-800 number claims assistance and handle all billing issues which would save ISU staff time and money.
- The fully insured status should assist in the calculation of future liability and financial reporting requirements.

A Medicare Part D prescription drug program could be integrated with this fully insured plan that would be expected by current retirees and soon to be retirees. However, dental coverage may be optional. Dental coverage is not provided by Medicare. Dental services will not be included with the insured Medicare supplement plan. Alternative dental services need to be considered. Retirees are normally not a good risk for insured dental coverage because of additional restorative treatment costs due to age. The potential of maintaining the retirees in the current Delta plan may be an option. Terminating dental coverage for retirees may be another.

Retirees comprised nearly half of the audience during the open forums held in March 2005. There was a good deal of anxiety surrounding the potential of change in the retiree coverage stemming around the fear that the coverage is to be completely terminated. Although the recommended change will be met with great opposition, the Committee feels that every effort should be made to investigate and communicate this alternative for the sake of the retirees and the University.

Recommendation #10: For the nature and quality of coverage, it is recommended that the Medicare Primary Retirees be carved out of the ISU self-insured plan and a national vendor be solicited to insure the group. This plan could also integrate with prescription drugs. Dental services should be evaluated for inclusion with the plan.

For 2006, 2007 and 2008, this was reviewed. However, in order to solicit input from campus constituencies, the plan was not adopted. A Medical Task Force is planned for late spring 2007 to review the post retirement health coverage plan at ISU.

Retiree Contributions (Medicare Primary Group):

This group currently pays approximately 11 percent of the total ISU cost of the program. Active employees pay an average of 25 percent (from 22 to 30 percent) of the total charge. ISU pays \$340 per month per retiree with the retiree paying \$42 for a total of \$382 per month. **These rates are manufactured and are not meaningful for planning purposes.**

There is a desire and need for more consistent application of costs across all covered groups. If retirees were to pay 25 percent of the total charge, the contribution rate would increase the retiree share from \$39 to \$89 per month. A \$50 increase in one year may be traumatic for many of the retirees. Therefore, a transition plan from 11 percent to 25 percent could be accomplished over several years which could be more agreeable to the group. Having the retirees pay a larger portion of the total cost will also provide assistance in the calculation of the total liability for future health coverage.

Recommendation #11: For parity with the employed group, it is recommended that retirees be required to pay the same percentage of the total cost as active employees.

The Post Retirement Medical Task Force should discuss this issue.

Medicare Part D Prescription Drug Coverage for 2006:

Although the final regulations are not yet complete, prescription drug coverage for Medicare participants (Medicare Part D) may become a reality in 2006. The cost of Part D coverage is expected to be \$37 per month per eligible retiree **for 2007**. The benefits are not as rich as the plan currently provided by ISU. Including the premium, the retiree is expected to pay \$4,000 of the first \$5,100 in prescription drugs per year. Along with the \$93.50 for Medicare Part B coverage **in 2007**, the total paid to the Social Security Administration for Medicare by retirees would be \$130.50 per month PLUS the \$42 charged by ISU for a total of \$172.50 using **2007** rates. The total would be over \$200 per month using recommended increased retiree rates (Recommendation #10). Some retirees may not be able to afford this coverage. Therefore, when final regulations are issued, it is recommended that further study be done to make determinations on the following issues:

1. Determine what type of prescription coverage retirees should have
2. Whether or how to coordinate the Medicare prescription program with that of ISU
3. Whether to require the retiree to enroll in Part D
4. Whether ISU should pay the \$35 monthly premium for Part D for the retiree

In 2005, Medicare introduced a prescription drug plan (Part D). Employers could either enroll retirees in a Part D plan or accept a subsidy if the employer's plan was as good as or better than basic Part D coverage. For 2006, 2007 and 2008, ISU had an actuary evaluation formed that determined the ISU plan was as good or better than Medicare Part D in order to accept the Medicare prescription drug subsidy.

Early Retirees (Approximately 150 retirees not yet eligible for Medicare):

This small group of retirees currently pays the same amount for coverage as active employees in the salary tier from which they retired. As this is such a small group, it would be difficult to find an insurance company to underwrite the liability. Therefore, it is recommended that this group of retirees be included in with the health coverage plan provided for active employees until eligible for Medicare. Once enrolled in Medicare, these retirees should be transferred to the fully insured plan.

Retiree Coverage Summary:

For many years, the Benefits Booklets for active employees and retirees has contained a statement indicating that ISU reserves the right to amend, modify or terminate this coverage at any time. Making changes in the retiree coverage will be difficult and cause for concern for both retirees and employees planning on retiring in the future. Already, the Committee has been inundated with concerns that ISU is dropping the ISU health coverage altogether. The Committee discussions and deliberations assumed that retiree coverage for health benefits will be maintained. Employees and retirees feel they are entitled to this benefit for the many years of service provided to the University. This perception would be difficult to overcome.

Paying a larger percentage of the cost of the new Medicare insured plan may be difficult to impossible for some retirees to afford. However, having a quality program with less required residual payments may make up for the difference. It is believed that this plan may be a win/win situation for both retirees as well as the University. This may be a good time to make changes in the retiree coverage.

Prescription Drug Coverage:

Currently, Indiana State University is mandated by the State of Indiana to participate in the state-wide prescription drug pool. For 2005 thru 2008, ISU has complete control over the plan design. For the future, should ISU continue to have plan design control, it may be wise to institute some of Anthem's cost savings measures which would limit choice for employees/retirees, but have the potential of saving money. These initiatives could include:

- A closed formulary (only certain drugs covered)
- Physician verification for certain drugs (requires MD certification)
- Limits on certain drugs or classifications of drugs (According to FDA recommendations)
- Step therapy for drugs, i.e., antibiotics, so that less expensive drugs are administered first

Oral Contraceptives:

The ISU plan currently does not cover all prescription drug classifications. One classification not covered that is a source of employee discontent is oral contraceptives. It has been estimated that the cost of covering oral contraceptives could add an additional \$125- \$200,000 of cost per year. However, saving the cost of several accidental pregnancies or a pre-mature birth could easily offset the price of covering these drugs.

Oral contraceptives primarily are intended for prevention of conception. However, it is noted that there are several medical conditions that can be positively affected by these drugs. Prevention of breast cancer is another potential cost savings of covering oral contraceptives.

The current price of these drugs in generic form is approximately \$20 per month; brands could cost as much as \$35 per month. ISU could add these drugs and cover only generics and cover brands only with a medical diagnosis to be verified by a physician (allergy, etc.)

Recommendation #12: Is recommended that oral contraceptives be added to the prescription drug list as covered items for 2006.

Oral contraceptives were added for 2008.

Impotency Medications:

The ISU plan currently does not cover impotency or **Erectile Dysfunction (ED)** medications. These medications are directly marketed by ads on television and in magazines/newspapers. The cost of these medications is approximately \$300 to \$350 per month per person. Surveys done by the manufacturers of these drugs indicate that older men with medical causes for impotency are not the high utilizers of these drugs. Younger men without functional issues utilize these drugs for enhancement purposes. As this cost is significant, we could offer the drugs with:

- Limits on quantity (sometimes easier not to cover at all than to limit coverage)
- Set up on the drug plan as 100 percent paid by the employee who would pay the entire price, but have the benefit of the University's discounts at the pharmacy.
- Establish a Flexible Spending Account to cover this with pre-tax dollars.

Recommendation #13: After a careful review, it is recommended that ISU not cover these drugs; but offer either the drug card discount, Flexible Spending Account plan or both.

This classification of drugs were added for 2008.

Infertility Treatment:

Infertility treatments are costly. Currently, ISU covers only charges up to the diagnosis. Fertility treatments are utilized by a relatively small percentage of the total population for quite a large cost. Additionally, if the treatment is successful, there is a high probability of multiple births with an increased chance of premature births at an enormous cost per baby.

Recommendation #14: As the costs for this treatment can be exorbitant, it is not recommended that ISU cover infertility treatment.

Further review on this classification of drugs has not been performed.

Dental Coverage:

The current Delta Dental plan is the most liberal plan offered by Delta. The dental coverage is the smallest benefit amounting to only six (6) percent of the total claims costs during 2006. However, there are other plans that could save a small amount on dental charges, but may cause discontent with employees/retirees and may not be worth the savings. The University could separate the dental coverage from the medical package and offer as an independent, stand alone optional coverage which would drive the price of the coverage up due to less individuals in the plan.

Obesity Treatments:

There are several types of bariatric surgeries that are currently performed on morbidly obese individuals. Although you can see examples on television daily of successful surgeries (Al Roker, Carnie

Wilson), there has not been sufficient studies performed and information on success and complication rates done to date.

Recommendation #15: At this time, it is the Committee's recommendation that ISU not cover obesity surgeries until further studies and information can be researched.

Further review on this surgery has not been performed.

Although ISU may not cover the surgeries, an alternative treatment may be to include the use of obesity prescription drugs to the Prescription Drug plan. Many of the obesity drugs are now offered as generics. Therefore, ISU could include these prescription drugs as covered items; but limit the purchase to generic only. These drugs would need to be prescribed by a physician and purchased through the ISU drug card program.

These prescription drugs have been added for 2008.

Another alternative could be a supplement to the current Weight Watchers @ Work program; ISU could reimburse individuals a portion of their WW fees as long as pre-determined criteria were met. Other programs could be developed through the Disease Management Program or through the ISU Employee Assistance Program for weight loss and/or exercise.

Further review on this issue has not been performed.

Increase Wellness Coverage Annual Maximum:

Currently, the ISU Plan pays up to \$200 per year per person (without having an annual deductible met) for a variety of wellness items including annual physicals, routine OB/GYN exams, screening mammograms, well baby care, CA 125 ovarian cancer screening test, PSA test for men over age 50 or with past family history of prostate cancer, etc. To qualify for the payment, one must not have had prior signs or symptoms of illness. However, \$200 is an extremely small amount to promote wellness checks. Some of the testing (colonoscopy) cost is in excess of \$2,000.

To encourage screening for disease, an increase in the annual amount paid should be increased. It is far more cost effective to pay for the screening tests than to pay for treatment of advanced illnesses. Therefore, increasing the payment was investigated by Aon/Principal who performed a cost analysis on our 2004 claims that indicated that increasing the maximum paid to \$600 per year per person covered would not significantly add to the total claims paid as many of these claims are getting paid now due to diagnoses codes determined by the MD.

Recommendation #16: It is recommended that the annual wellness benefit be increased to at least \$600 paid per person per calendar year to encourage screening and early detection.

The ISU health plan amended the annual wellness benefits to pay \$600 per person per calendar year toward wellness benefits as listed in the Employee Health Benefits Plan document for 2007.

Other Benefits:

Life Insurance:

When compared to other schools in the Peer Group and the CUPA benefits survey, the current 2.5 times salary up to \$100,000 paid in full by ISU is better than average. Therefore, the Committee recommends no change in the plan.

Retiree Life Insurance: (not discussed in the Committee – suggested late by an employee)

Most retirees retire with \$5,000 in ISU paid life insurance. Although there is an option to convert the group term coverage to an individual whole life policy at the time of retirement without evidence of insurability, the cost is prohibitive. The \$5,000 maximum has been in force since 1985. To provide adequate retiree coverage, \$10,000 at retirement may be more reflective of current life insurance needs.

Recommendation #17: It is recommended that a review of costs of increasing retiree coverage from \$5,000 to \$10,000 be evaluated.

Further review on this issue has not been performed.

Voluntary Life Insurance:

There are other companies that offer voluntary life coverage that may provide better rates or coverage amounts. As this is an employee pay all coverage, alternatives could be solicited and offered with other voluntary plans in a group to employees. This would provide a coordinated effort of all voluntary coverages that would provide better understanding and individualized service to employees. (See Voluntary Benefits on Page 16.)

Long Term Disability:

Currently, there is a three-year waiting period before new employees can be covered by the plan. New hires that come to ISU and who have had employer-sponsored long-term disability insurance coverage comparable to that of ISU within the past 90 days, can have the three-year wait waived and provided with covered immediately. The University pays the entire premium for the plan.

Suggestions of increasing the income percentage from the current 60 percent will result in increased premiums. The income benefit can not exceed 66 percent of total salary for a group insured product. Dropping the three-year wait was also suggested which would also increase the cost. Utilization of the program during 2004-05 was more than five times the utilization in previous years. Therefore, ISU expects a significant increase in premiums at the next renewal.

Finally, a suggestion was made that the group plan be dropped and individuals voluntary plans be offered. The price of voluntary individuals plan is significantly higher than group rates, but this would decrease the total benefits cost for ISU. Conversely, many employees may not purchase the voluntary plan due to price and later become disabled causing the employee severe financial issues. Long term disability coverage could also be offered in a cafeteria benefits plan where employees could choose from several optional coverages in which to spend their benefits dollars.

Recommendation #18: The recommendation was to wait until the renewal of the current contract to see the effects of high utilization and revisiting this issue at that time. Renewal for the CIGNA LTD plan is July 1, 2006.

The CIGNA renewal will not be done until July 1, 2007, as CIGNA offered one additional year with no changes in rates or coverage if the University would offer a voluntary Accident Policy for 2007. ISU complied which moved the disability renewal to 2007 and provided additional accident coverage for employees/dependents.

Fee Waivers/Awards:

With the goal of attracting more students to ISU, the following was recommended:

1. Dependent Child Fee Award – currently \$1,200 per semester for a maximum of eight semesters. This award currently pays approximately 53 percent of the fees for returning students; 43 percent for new students. (Fees used for comparison are 12 to 18 hours) Employees are indicating that the award is insignificant and no longer entices them to send their children to ISU. It was recommended that a percentage for the fee award (75 percent) be provided.
2. Staff/Faculty Fee Waiver –requires the employee to pay a reduced price per credit hour plus the Technology Fee. This seemed adequate to the Committee who also felt that the maximum hours per year be increased to 18. However, it was further recommended that the Technology Fee be prorated by the number of hours taken.
3. Spouse/Partner Fee Waiver – currently provides one course (limit of four hour course) at half fees per enrollment period. The Committee recommended that for spouses, 75 percent of fees be waived for spouses for all courses with no limits.

Recommendation #19: Increase all fee waivers and fee awards to 75 percent of the total fees waived/awarded. Increasing fee waiver to include all hours taken by spouses. Increasing the fee waiver to include up to 18 hours per year for employees is also recommended.

The Dependent Child Fee Award program was reviewed and amended to cover 80% of qualified tuition per semester for a maximum of ten (10) semesters which includes full-time (12 hours) of summer classes counting as one semester beginning with the Fall semester 2006.

The employee or spouse waivers have not been reviewed further.

Vacation:

Vacation was discussed by the group. There is a disparity among groups of employees that should be reviewed in the future:

- Regular academic faculty do not receive vacation
- Twelve-month faculty earn vacation – 15 – 20 days/year
- Library faculty earn 20 days per year upon appointment
- EAP staff begin earning 15 days per year; increasing to 20 in year four

- Support staff begin earning 10 days per year and increase to 20 over an 11 year time period
- Unused vacation is paid upon retirement or termination (except for grant and coaching staff)
- Grant paid employees must use vacation before expiration date of grant
- Coaching staff earn the same vacation as EAP, but do not have vacation paid upon termination; vacation must be used prior to termination or lost.

The Committee realizes that the following retirement issues will be costly any may not be immediately feasible. However, it is recommended that these issues be studied in the near future.

To date, there has not been further study on this issue.

Retirement Contributions:

Different employee groups currently have different retirement plans and contributions.

Support staff are required to participate in Indiana Public Employees Retirement Fund (PERF). PERF is a defined benefit program where the State actuarially determines the amount of contribution required by the employer. The employer amount is currently set at **6.3 percent beginning July 1, 2007**. There is also a required employee payment of 3.0 percent which is paid by the University after one year of ISU service. Vesting occurs after ten years of PERF service.

Faculty and EAP staff are covered by TIAA-CREF in a defined contribution program. The current contribution rate is 10 percent contributed by the University. This plan has a delayed vesting period of 731 days. There are also limited investment options for the first 731 days of the plan which can take up to ten years for employees to adjust after two years of service.

Recommendation #20: To alleviate disparity among employee groups, it was recommended that a task force study the retirement contributions situation to find to have support staff covered under the same retirement program at the same contribution level as faculty and EAP staff. OR

Recommendation #21: Establish an Optional Retirement Plan (ORP) for additional contributions above PERF to bring the Support Staff's contributions comparable to those afforded to faculty and EAP staff.

Neither of these recommendations has been studied further.

Retirement Incentive Plans:

Currently, faculty and EAP staff have retirement incentive plans that provide incentives for retirement in the form of lump sum payments, leaves with pay, etc. Most are required to have a minimum of 20 years of service and a minimum age of 60 to qualify. These incentive payments range from 25 to 80 percent of the annual base appointment salary (less applicable taxes).

Support staff do not have a retirement incentive program. With 20 years of service and age 60, upon retirement support staff receive half of unused sick leave accumulation; with a maximum of 45 days paid. There is a huge discrepancy between the amounts paid to support staff retirees.

Recommendation #22: It is recommended that the Retirement Plan Incentives for all staffs be studied, possibly with outside legal assistance, to develop goals for retirement and establish a plan that brings parity to the program and fits the needs of all staffs of the University.

This has not been reviewed even though there is a 2003 Support Staff Council proposal outstanding with the administration. This proposal has yet to be approved/denied.

Voluntary Coverages:

A variety of coverage options could be offered to supplement the benefits package. Currently, ISU offers voluntary vision (507 current participants in 2007) and voluntary life (523 current participants) insurance coverage. Additional coverage options could include:

- Short term disability
- Chronic illness coverage
- Prepaid legal coverage
- Financial planning
- Pet insurance

Voluntary coverage is somewhat cheaper than individually purchased coverage if performed through an employer due to savings on marketing costs and by paying less in sales commissions. It is estimated that these coverages could be 15 – 20 percent cheaper than if purchased on an individual basis.

Recommendation #23: Voluntary coverage should be offered to employees to supplement the ISU benefits package.

An additional Voluntary plan, CIGNA Personal Accident was offered in November 2006, of which 62 employees enrolled. Also, the current Standard Voluntary Life insurance offered a one-time open enrollment and increased the guaranteed issue for coverage to be effective in November 2006. There are 370 employees plus dependents enrolled in the Standard coverage.

Voluntary Personal Accident covered was added in 2006 with 110 participants.

Sick Leave:

In comparison to the Peer Group, 57 percent provided employees with 12 days of sick leave per year which was the lowest amount provided. Therefore, the amount of sick leave provided seemed adequate.

The way sick leave is granted/earned is disparate among employee groups. For faculty and EAP staff, 12 days of sick leave is granted at the beginning of each academic/fiscal year. For support staff, sick leave must be earned at a rate of one day per month. This means that new faculty and EAP staff have access to sick leave immediately while support staff do not.

A sick leave bank or voluntary donation system was suggested as a way to assist employees in a time of need. Out of the Peer Group, one provided a sick leave bank and one had a sick leave donation system.

Recommendation #24: It was recommended that:

- **all staff and faculty have the same sick leave policy, either granted or earned,**
- **the three month wait for use of accumulated sick leave for new hires in an initial introductory period be eliminated, and**
- **further study for a sick leave bank/donation system by performed by a task force charged with developing the ISU plan and guidelines for operation.**

This recommendation has not yet been reviewed.

Extensive Educational Programs:

Many of the recommendations for benefits, especially health coverage, will require employees to be educated in the options before very important personal decisions can be made. Some of these options are difficult to understand. The educational efforts should be professionally performed using many mediums in order to reach all employees. The quality of the educational programs and communication pieces can determine the success of the University's efforts to provide quality benefits and affect rising costs. Without an intensive program, these recommendations and changes can be proven worthless. Significant misunderstandings and ignorance of the programs can cause worse frustration than that of the current plans.

Recommendation #25: An intensive educational program utilizing professional communication pieces and multiple mediums of communication are recommended to ensure a level of success with the changes in benefit programs.

Not completed due to the many recommendations that are outstanding.

HR Goals for Total Compensation and Benefits:

Good management practice dictates that employers establish goals and objectives for total compensation and benefits. These goals allow for accountability within the practices, provide a means to ensure consistent application of plans, support non discrimination policy of the institution and legally defend plans and decisions. Well established goals and objectives also will assist in attracting potential donors, vendors, and potential students and employees.

Recommendation #26: A task force should be appointed to establish and a philosophy and goals and objectives for compensation and benefits.

The task force has been discussed. With the monumental task ahead of the group, it is recommended that the group discuss one recommendation per group and begin

with the Post Retirement health coverage and related issues (Recommendation #10 and 11). To date, the Committee has been selected, but not implemented.

Implementation Team:

There is a great need for a team of individuals, along with HR/Benefits staff, to assist in implementation of the recommendations. This team could assist in writing the requests for proposals, reviewing proposals and refining potential issues and guidelines for implementation of the recommendations. A request for volunteers resulted in the following:

- Peter Mikolaj, faculty, College of Business
- Anita Adams, support staff, College of Business
- Alberta Comer, Associate Dean, Library
- Arthur Halpern, Chemistry
- Reed Kidder, administration, Student Affairs (plus Auxiliary) **Retired from ISU in 2006**
- Chip Rogers, administration, Payroll

Recommendation #27: ISU should develop an implementation team to assist in follow up of the recommendations and ensuring achievement of goals.

Implementation Time Table:

Final Report to President and Cabinet	April 15, 2005
Selection of items to pursue and Authorization from the President	June 15, 2005
Formation of Requests for Proposal by Implementation Team	July 15, 2005
RFP's to Vendors and time for return	August 31, 2005
Evaluation of Proposals by Implementation Team	September 30, 2005
Information to Campus Community	October 1, 2005
Implementation of Changes	January 1, 2006

Data Sources:

Peer Group Questionnaire performed by AON
College and University Personnel Association 2004 Benefits Report
AON Business Reports
Comments from Open Forum participants – employees and retirees

**Draft Version
4/15/2005**