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Senate Assembly Committee on the Economic Status of Faculty

Annual Report to Regents - 2010

University of Michigan – Ann Arbor
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Executive Summary :

Committee charge: Composition of Faculty, Salary Data, Benefits, Report to Regents

Faculty Composition Report: Half of University of Michigan faculty are retirement eligible by 2013. The economic downturn has not put a ding in the rate of retirement we are told by HR. There is a trend away from majority tenured and tenure track faculty which has the potential to challenge Michigan's international stature unless the tenure ranks are maintained and rebuilt in the face of pending faculty retirements. The tenured and tenure track faculty tend to distinguish the University from regional campuses. Market competition for accomplished internationally acclaimed faculty will intensify as more faculty age and retire. Aging faculty is a peer institution and societal trend. Competition for active accomplished faculty is likely to intensify based on demographic trends.

Faculty members are generally recruited by other faculty, with minimal assistance from Human Resources and resources provided by Dean's and Department Chairs. UM has historically competed well with any of its peers for junior faculty, less well for recruitment and retention of more senior faculty. Michigan's strength has been to offer organized and focused thematic programs to create an attractive academic environment to facilitate faculty retention and recruitment. Yet, peer institutions also provide attractive programs which along with at times higher pay and benefits have been successful in recruiting faculty away from Michigan. Recruiting replacement faculty can prove to be quite expensive. UM's outstanding faculty will continue to be targeted for recruitment to replace retiring and aging faculty at other institutions. Even with our outstanding supportive donors, UM continues to have a lower endowment per student and a lower endowment per faculty than the majority of our academic peers, which places it at a potential financial disadvantage to recruit and retain outstanding faculty. UM does have one of the fastest growing endowments in terms of contributions in the world. Efforts to raise funds to support the University need to be continued. **Recommendations: Recruit and retain the best faculty in the world by providing enhanced compensation and benefits, along with building thematic programs and groups. Track personnel changes carefully to lead market changes.**

Salary Report. Once again the faculty are eager to provide a detailed salary report, and we appreciate working with the Provost's office. This data is made available to faculty and administrators on the SACUA website. Providing transparent data contributes to employee satisfaction with a fair and equitable workplace. The committee is very interested in comparisons of total take home University salary, a figure which is often challenging to define due to published and unpublished salary data. Compensation beyond published salary data also obfuscates transparent comparisons of salary between institutions. Data reviewed this year did reveal some faculty receive no raises which is a monetary form of demotion. We would prefer this data be analyzed on an annual basis. **Recommendations: Provide transparent salary information, study low outliers to evaluate reasons for low compensation. Salary needs to be enhanced to avoid a pay**

cut from benefit cost shifts, as well as to become more competitive with peer institutions.

Health Benefits: The University continues to provide outstanding benefits, although a significant portion of these benefits remain in an unfunded retirement benefit which is not guaranteed. Particular note should be made of healthy living initiatives which are having a positive impact on the UM community, and we encourage ongoing support for the Michigan healthy living initiatives. There has been a significant cost shift of benefits to faculty. First, Medicare B co-premium costs were shifted to the retirees from the University. Next, the employee health premium contributions shifted from 20% to 30% of health premium cost. Now there is anticipation of further changes in retiree health costs, which represent deferred compensation to the faculty. The use of salary bands appears to penalize the lower middle class, particularly staff members and junior faculty, and does not ask for anything resembling even a modest sacrifice from the top earners.

Here are two percentages of additional burden:

Single Faculty member, making 150K:

\$120/year=0.08 percent

Single mother making 55K:

\$458.4/year=0.8 percent

That is ten times as much, and I haven't figured in the higher tax savings for someone in a higher income tax bracket.²

Perhaps a formula that equalizes the burden as percentage of income would be much fairer, more just.

Representation Recommendation: The committee respectfully requests that Senate Assembly have a voice in choosing a truly representative group of institutions against which the University of Michigan is benchmarked in all future studies of salaries and benefits. Furthermore the committee favors a benchmarking to academic institutions only.

Recommendation: The committee favors a benchmarking to academic institutions only. There is no need to include Henry Ford Health System in our benefit benchmark. Fourteen of Twenty Seven Universities included in the selected peer cohort have academic health centers. Academic health salaries tend to be less than those at private practice settings such as Henry Ford Health System. Benefits should be grandfathered for those already hired to the greatest extent possible.

University Autonomy: As a tenet of academic freedom, the University is opposed to the legislature in Lansing setting faculty benefits or salary directly (see attached testimony).

Recommendation: Support plans to keep the University autonomous.

Disability Benefits: The University contributions to disability premiums are embarrassingly low in comparison to our peers, where we rank in the bottom 30%.

Recommendation: Enhance University contribution to disability benefits. Make life insurance and disability policies portable when people leave the University.

Retirement Benefits: The University implemented a one year waiting period for new faculty to receive retirement matches from the University, effectively cutting the retirement benefit for new hires. **Recommendation: The faculty favor a written commitment from the University. The committee favors preserving retirement benefits at current levels and would like to see a written commitment from the University that retirees will retain their current benefits. The committee also favors preserving the retirement benefit match at current levels. If this is not possible in the future then the committee strongly urges that these benefits be grandfathered for those currently hired**

Dependent Tuition: The University of Michigan historically competed for faculty with a low in state tuition offering an outstanding education for faculty children. The University and Regents are to be commended for providing Merit Awards for undergraduates. With the rapid rise in tuition costs, the University of Michigan is at a competitive disadvantage with both peer and non-peer institutions for faculty recruitment and retention. Institutions ranging from Washtenaw Community College to Harvard value a dependent tuition benefit. The SACUA benefits committee has provided a detailed report on this issue and recommends a program where the University would stimulate education cost saving by matching faculty MET contributions to help fund their future dependent tuition. Implementing this program would distinguish Michigan as providing social policy leadership. Spring and Summer Term are enrolled well below campus capacity. **Recommendation: Adopt the Benefits Committee recommendation of MET matching. For faculty and staff dependents, provide reduced tuition and fees for Spring and Summer Term, where class room seats sit vacant awash in fixed costs. Alternatively, offer more merit scholarships for faculty tuition relief.**

Fitness Facilities and Creating a Healthy Community: The University is to be commended for its M-Healthy initiatives. The report on fitness facilities documented the Universities poor competitive position in this area relative to peers (see attachment). The availability of market level recreational facilities are useful to recruit and retain faculty. Creating a culture of fitness should reduce health benefit costs to the University.

Recommendation: Engage the athletic department in constructive discussions about how they may better serve the University by assisting with planning of recreational sport facilities, bike and fitness trails connecting all of campus. Implement plans to engender a culture of fitness for the faculty and students.

Health Facilities: One faculty benefit is access to the University of Michigan Health System. The adult hospital whose design dates back three decades to the 1980's is dated. The use of double rooms to domicile patients poses an infection risk and complicates cleaning of rooms between patients. **Recommendation: The faculty endorse plans to renovate and expand the Main Hospital to eliminate double rooms except in cases of national disaster.**

Report to Regents on Faculty Economic Status: The faculty has faced a harrowing period in their economic status in a year that has been punctuated by financial erosion and uncertainty. Faculty members have faced losses in their 401K retirement plans along with losses in equity investments. Savings for dependent education have been negatively impacted for many as well. In this context, the University has shifted benefit co-premium costs to faculty and retirees, which will mitigate their disposable income. The Michigan economy is challenged by global market competition, which has led to losses in faculty personal net worth secondary to an eroding Michigan real estate market. The Pfizer departure has led to erosion in the tax base of Ann Arbor, which may result in higher tangible real estate taxes for Ann Arbor Homeowners or Ann Arbor income tax. In this context, pressure to maintain academic excellence in competition with our peer institutions will intensify. **Recommendation: The committee applauds the efforts of the University to enhance the economic recovery of the State of Michigan. The Regents are encouraged to enhance the economic status of the faculty. Invest a portion of the endowment in a Michigan Venture Capital Fund, increase input of faculty and staff with expertise which may facilitate success.**

STATE HEALTH BENEFITS COMMITTEE TESTIMONY

Thank you for the opportunity to testify before the committee. I want to thank you for the support the State provides to higher education; higher education is the engine that can and will transform the Michigan economy by training a work force to attract new high quality jobs and residents to our great state.

First, I would like to clarify that I do not come here representing the University of Michigan who is my employer, but rather as Chair of the Committee on the Economic Status of the Faculty, which is a faculty governance committee based on elected representation of the faculty of the University of Michigan. We embrace providing high quality benefits in the most cost effective structure. The University, with the support of its faculty, has been a leader and innovator in continuously reforming its employee health care programs. The University of Michigan has been looked to as a model for their employee health benefit management by other Universities across the nation.

I am told that the official position of the University of Michigan on this bill is neutral, although the University does not anticipate participating if passed as we anticipate being more cost effective. I come here, based on elected faculty representation, as Chair of the Committee on the Economic Status of the Faculty appointed by SACUA and confirmed by the faculty's Senate Assembly, to be certain you know that our faculty committee does not wish their benefits to be managed as proposed in this bill without further revision.

We have a lengthy history of health care reform in Ann Arbor, as cost containment is a dynamic process and not a hinge point in time. Drawing on expertise including faculty in diverse areas such as the College of Pharmacy, The Center for Value Based Insurance Design, and The Center for Healthcare Research and

Transformation, the University has successfully controlled the rate of increase in its healthcare costs and is a model for health care management that is being emulated across the country. Local control has allowed for substantial innovation.

Working on health care as a local issue has promoted investments in initiatives such as the Michigan Healthy Living Initiative and implementation of a Data Warehouse initiative which allows the University to track the success of interventions and cost effectiveness of health care on outcomes. Local management of our Pharmacy benefit has resulted in a marked shift to generic medications while using SXC as a claims processor. We have used our faculty expertise to design prescription drug benefits which are leaders in cost containment and high quality care.

We have high quality benefits with a lower cost structure as a result. This benefit design has withstood the test of competition, being lower than the MUCH university consortium of healthcare, as well as lower than a BCN pooled pharmacy benefit. I want to point out that when we looked at the option of transitioning to a BCN pooled pharmacy benefit, we would have lost local control and innovation going forward, as well as had tremendous expense and discomfort adopting their structured therapies with different formulary step therapies. The University did not perceive a cost benefit to what competitors offered.

Following my brief introduction, I would now like to direct my attention to specific concerns with the bill. How can we maximize purchase pooling power when essentially only one insurer provides coverage across the whole state? It is almost as if this bill is crafted for a single insurance provider, as there appears to be an insurer that can provide health insurance coverage throughout the state at this time. The bill seems like a slam dunk win for Blue Cross Blue Shield. In the long run, a single insurer will likely be able to set their price unless the State breaks up the very pool it is

trying to create into local or regional pools in order to generate more competitive bidding.

One mechanism by which purchasing power can be pooled is to carve out the pharmacy benefit portion of the State employee's healthcare to increase pill purchasing power. We propose that the state could study this further through CHRT, the Center for Health Research and Transformation at the University of Michigan.

While this approach is fraught with challenges including transitioning from different stepped formularies and blending multiple health delivery systems, it could warrant further study. One can even wonder if the University of Michigan model for pharmacy benefits could be adopted across the State.

Another concern with the proposed State health care reform is its timing during a period of ongoing National health reform. We propose the State consider a health reform study looking at the impact of new tools which may become available such as health insurance exchanges. Again, CHRT could perform a health reform study to look at how other states are managing their health care and what factors are unique to the Michigan market.

We also have been able to invest locally in preventive health measures such as a Michigan Healthy Living initiative to increase fitness and cut long term health costs. Local investments in disease prevention will be discouraged if savings are not realized locally but rather globally. Why would an employer spend on prevention if they did not realize the savings from their investment?

Concerns will the bill

Sec 2(e) - Will universities be required to enroll? Doesn't this violate the independence clause of the constitution?

Sec 3(2a) - Having 4 committee members represent diverse employees cannot possibly adequately represent the various concerns and interest of dozens of unions and thousands of non-unionized employees.

Sec 12 (b) - Wellness programs are obviously a good idea but where will the state find the resources to front the initial costs of these programs and who will monitor their progress/effectiveness? Today employers have a financial reason to encourage healthy lifestyles, but this bill removes that incentive.

Secs12-14 - The new state employer agency will be tasked with creation of this program; formulation of plans; monitoring the cost containment of those plans; implementing the program's incentives; and creating/implementing/evaluating the numerous cost saving measures. This charge seems to be a very tall task, especially considering self-insured employers have been trying this for years with limited success - and likely a much larger compensation budget.

Sec 19 - Opt-out. We are aware that other individuals have expressed concern over the cost of opt-out before this committee. The bill lists a 5% savings minimum to opt-out. What if the committee decided (it is the committee's decision) that a group of employees (say the U-M faculty and staff) were too valuable to the purchasing power of the committee regardless of their benefits cost? Is it ok if they are at 6% lower, 8% 10%? To whom can an employer appeal to remain independent? We propose an OPT-IN structure rather than an OPT-OUT structure. If the state can provide a high quality benefit at a lower cost structure, let employees OPT-IN to the health insurance plan during open enrollment. One of the key tenants of any health care reform should be to preserve CHOICE.

Alternatives

Pharmaceutical plan (OPT-IN). The state's Medicaid multi-state pooling plan is an example of how this can save money. Perhaps the increased purchasing power of the public employees (especially the retirees) might further increase savings.

Another option would be for the state to create a plan to compete with private insurers. Public employees and unions have the option of selecting this or any other available plan. Such a program could also be open to individuals and small businesses.

The speaker anticipates \$700-\$900 million dollars in savings. What will this state do if after creating the bureaucracy to run this program and our school districts and local governments downscale their benefits staff, those savings don't materialize? How long does this experiment continue and how do we go back?

While obviously lower premiums are better, the biggest concern is the escalation of health care costs and providing high quality benefits in the most effective cost structure.

Michigan's health care spending will likely be in the realm of \$60-\$70 billion dollars this year (using 2004 kaiser data and 5% growth). If the state merely dictates to health providers a cut in revenue from state employees by \$900 million, and we are not saying it can, won't this cut be an effective tax on everyone else who pays for health insurance in the State? The savings need to be real reductions in cost, not merely cuts in reimbursement.

Insurance companies and hospitals will not be able to absorb a drop in revenue and continue to provide for the uninsured and underinsured. In short, a forced cut in reimbursement will lead to a rise in everyone else's premiums to cover this "taxpayer savings." This is really like passing a new tax on everyone else in the state.

We believe the emphasis should be on value based medicine, rather than just on cutting reimbursement.

Precisely how would opting out work? Who would account for costs? What about costs of conversion? Health insurance is not like leasing a car where you turn the old one in and drive off in the new one. Transitioning stepped pharmacy benefits, provider networks, and plan coverage has huge administrative and overhead costs as well as time and anxiety costs for the covered employees. Would Universities have to opt out annually? Would they be protected from political coercion to participate? How would they be protected from a health insurer providing a "low ball" bid to get everyone covered and then jacking rates up in subsequent years, with the costs of back conversion being prohibitive? The option to opt out needs to be a real option, not just another Michigan Promise.

Finally, we do not believe that the bill is constitutional. The University of Michigan has never been part of state employee benefits or compensation. Neither have any of the other state Universities. How Universities allocate finances to pay for things, things such as salaries and benefits, are expressly autonomous under the constitution of the State of Michigan. The bill as it stands explicitly naming and including the University of Michigan is almost certainly unconstitutional. We respectfully ask that direct mention of the University of Michigan be deleted from the bill, and that the mechanism of opt out be at the discretion of the University, which would allow the State option to compete for the University's health care business on the basis of price and quality at the University's discretion to participate. The University competes globally, and we believe it needs to provide competitive benefits for its unique marketplace. We believe the University is currently providing high quality benefits at a lower cost structure than currently available alternatives. This high quality low cost

structure is possible through local control over our benefit plans with the University managing its own pharmacy benefit, prevention, and disease management programs. We applaud the State's efforts to reduce health care costs and provide high quality benefits in an effective lower cost structure.