

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION  
ITEM FOR INFORMATION

Received by the Regents  
December 18, 2008

**Subject: Benefits**

The expense of benefits is increasing, creating justifiable concern to those to whom the financial health of the University is entrusted. We have been told that the University is exceptionally generous in its benefits offering and that it would be prudent to align ourselves more with our peers. In response, the executive officers have constituted two committees to explore avenues of saving costs by changing the vesting arrangement for new hires and by increasing the proportion of the healthcare costs paid by employees. The University seeks to reduce its share of healthcare expenses from the current 80% to 70%. We offer a few observations.

1. In the Hewitt peer benefits analysis provided to SACUA, the benefits package of the University of Michigan was only two per cent above the competitive range. This figure does not suggest that we are egregiously out of sync with our peers. An independent analysis of the 26 university peers (those used in the Hewitt comparisons) by the American Association of University Professors shows the UM to be third from the bottom in a benefits ranking, an unenviable placement for recruitment. While we do not doubt the financial impact of benefits on the University, we question that we are an over-generous exception among our peers. Some with whom we compete may consider excellent benefits' offerings a cost of doing business.
2. One of our colleagues reported that the recommendation of the Michigan Healthy Community Advisory Committee (MHCAC) to the committee studying healthcare benefit cost reapportionment was that employee healthcare premiums be set as a percentage of salary. A number of other universities use this method. The salutary aspects of this scheme are that it makes the broadest use of a teachable moment for the impact of increasing healthcare costs and it equalizes the impact of the changes across all salary levels. It would be unfortunate if the greatest burden of the cost shift was substantially-reduced compensation for the majority of our community while the impact on others was trivial. The MHCAC judged a "percentage of salary" approach to be the fairest method. Repeated recommendations to the Regents from the Committee on the Economic Status of the Faculty and a petition circulated among faculty and staff suggest this idea has wider support than just the MHCAC. The highly-paid would pay a greater fraction of their premiums, but the concept of proportionality will result in this extra absolute cost being recovered relatively quickly by merit increases. Conversely, without proportionality, those with lower salaries may take a decade or more to recover from the wage reduction associated with extra costs of benefits, or they may decide to organize. We would hope the executive vice presidents who will make this decision would give substantial weight to this recommendation.
3. The greatest proportion of the University's part-time employees work in the hospital system and benefit from the healthcare premium support offered to those working at least twenty hours. Some work part time by choice; others work part time because it benefits the institution. Significantly more women than men work part time. Many part time employees are paid less

than \$25,000 a year. It will be particularly burdensome on those who work reduced hours involuntarily to face substantial healthcare premium increases.

4. Our retirees are particularly vulnerable. For many years the University confirmed in writing that employee healthcare premiums would be completely covered in retirement. Many came, stayed with and retired from the University because of that social contract. The increased cost of unanticipated healthcare premiums, including the recent elimination of Medicare premium reimbursement, is exacerbated by the economic meltdown and the devastation of their retirement savings. Some retirees face very lean days. We think retirees should be protected as a vulnerable population.
5. We recommend that the substantial increases in healthcare costs be implemented over a five-year period instead of the currently-proposed two-year ramp up. This would give our community more time to absorb the impact and more opportunity to respond to healthcare initiatives of the newly-elected administration.

The two committees are charged with making recommendations. It is the executive vice presidents alone who will decide whether to accept the committee's recommendations and what changes will be implemented. We ask that these considerations be kept in mind to help keep the University of Michigan a truly healthy community. (Submitted December, 2008)

Regents' Bylaw 4.04. The Senate Assembly shall serve as the legislative arm of the senate...The assembly shall have power to consider and advise regarding all matters within the jurisdiction of the University Senate which affect the functioning of the University as an institution of higher learning, which concern its obligations to the state and to the community at large, and which relate to its internal organization insofar as such matters of internal organization involve general questions of educational policy.