Annuities and Salaries Committee
2009-2010 Report
by Peter Alfeld

Summary

The committee met five times during the year 2009-2010, on 09/21/09, 10/26/09, 2/22/10, 3/8/10, and 3/29/10. Minutes were kept during the first, second, and last of those meetings. Discussions were conducted, but no decisions made, during the third and fourth meetings. A highlight of the year was the presentation by Robert Mayer and Cathleen Zick on the retirement preparedness of University employees. A similar presentation might be useful for the Academic Senate as a whole, or its executive committee. Generally speaking University employees aren't nearly as prepared for retirement, and savvy about preparing for it, as they should be. The committee agreed (but took no action) that increased efforts to disseminate information about retirement options, and the importance of making active retirement decisions throughout ones professional life, would benefit all concerned.

The remainder of this report is taken up by the three sets of Minutes generated during the year.

Annuities and Salaries Committee

Minutes of September 21, 2009, 2:00-3:00pm

present: Peter Alfeld, Bob Allen, Jim Anderson, Joan Gines, Pat Hanna, Sandy Meek, Diane Nicholson, Gage Williams.

The following points summarize the discussion and decisions of the committee:

- The committee agreed to play an active role during the upcoming budget discussions within the University. It appears likely that another base budget cut is forthcoming. Since this will be on top of last year's cuts the effects of such a cut will be severe.
- The chair will invite Paul Brinkman to meet with the committee and educate its members about the relative roles played by State funding and tuition, and the items that are being paid for from these sources, notably faculty salaries and fixed costs such as utilities.
- The committee also discussed the University's budget paradigm which ties departmental funding levels closely to student enrollments. There were a variety of opinions and perceptions about this paradigm, and in any case the committee agreed that that issue belongs more properly into the domain of the budget and planning committee.
- The chair will contact the chair of the budget and planning committee to explore possible coordination of the two committee's actions during the coming year.
- A major issue on the committee's agenda during the past two years has been health benefits for retirees. The committee agreed that since there may be major changes occurring soon on the federal level there is little point to continue discussion of this item at the present time.

- A research group at the University headed by Robert Mayer and Cathleen Zick are currently conducting a study of how people prepare for retirement after the recent economic crisis. The committee will invite these investigators to meet with committee so that we may learn about their findings.
- Joan Gines reported that of the three retirement providers at the University, i.e., TIAA-CREF, Vanguard, and Fidelity Investments, Vanguard recently decided to stop working with the University of Utah. Investment in the funds that they offered are now being handled by TIAA-CREF, without additional cost, for a period of at least three years.
- Several committee members observed that young faculty are not always savvy about making long term retirement investment decisions, and might benefit from counseling. For legal reasons the University can't offer actual investment advice. However, we should explore making information about retirement options possible and perhaps ask retirement providers to give more detailed information about their programs.
- Pat Hanna reported that the current University retirement benefits (14.2 percent for exempt faculty, and about 15 percent for non-exempt faculty) were introduced in the early seventies during a year when there were no salary raises, to make up partially for the lack of raises. The committee agreed that the University's retirement contributions are a major benefit of working here, and a major attraction for new employees. These benefits should not be eroded in any future budget crisis.

Submitted by Peter Alfeld (chair)

Annuities and Salaries Committee

Minutes of October 26, 2009, 2:00-3:30pm

present: Peter Alfeld, Bob Allen, Paul Brinkman, Joan Gines, Pat Hanna, Jerry Jorgensen, Sandy Meek, Diane Nicholson, Gage Williams.

Medigap Benefits for Retirees

Currently the University offers its own Medigap insurance plan for retirees. The cost, born entirely by the retiree, is approximately \$600/month per person (\$900 for a couple) for those not eligible for Medicare, and about \$300 per person (\$500 per couple) for those eligible for Medicare. Due to the evolution of the University's participant pool that cost is now close to twice as large as the cost in comparable Medigap plans for a statewide pool. Jerry Jorgensen, representing University retirees, and Joan Gines proposed to terminate the current University plan, and to replace it with participation in two or three available state plans.

The following is a summary of some of the points made in the ensuing discussion:

- The part of the University plan covering drugs is going up 17% this year and accounts for $138 of the total (per person).
- Part of the reason for the high cost of the existing plan is that relatively healthy people have opted out on their own, and joined more competitive plans. Those left may be less healthy on average, increasing the cost of the plan.
- This year's open enrollment period will be November 15 to December 31. The new program would start January 1, 2010.
- Providers for the new group insurance have been asked to commit themselves for three years.
- The University can terminate its participation at any time.
- The only question mark in this change is the effect of possible nationwide health care reform. However, such reform would likely take several years to become effective.
- There are currently 1150 retirees participating in the existing plan.
- 77 people took advantage of the University's offer last year to pay the Medigap insurance for five years. Those people will be grandfathered out. Their premiums are likely to rise, but the cost will be born by the University. Also grandfathered out will be participating early retirees who are not yet eligible for Medicare.

Joan Gines moved, and Peter Alfeld seconded, that the committee endorse the proposed change. The vote was unanimously in favor of the motion.

Discussion with Paul Brinkman

The second part of the meeting consisted of a discussion with Paul Brinkman. The purpose of that discussion was for the committee to become educated on issues faced by the University in the upcoming budgeting process, and to explore ways in which the committee can constructively and productively participate in that process. Much of the discussion consisted of Paul Brinkman providing information. Some of the points raised include:

- It's quite likely that there will be no salary increases this year.
- The state might require a reduction in benefits, particularly for participants in the state retirement plan. That plan provides for fixed benefits for participants. Specifically it pays 2% of a retirees final salary for each year that the retiree participated in the program. The state is likely to meet commitments to existing retirees, but may reduce its commitment to future retirees.
- Exempt University employees (e.g., faculty) have 14.2% of their salary contributed by the University to an investment plan that the employees control individually. There might be a call for reducing that contribution if the state plan is reduced. On the other hand, exempt faculty have already had their retirement benefits reduced by the recent downturn in the economy, which reduced the value of their investments. The committee reiterated its view that the extent and quality of the existing benefit package, including the retirement

contributions, are a major drawing point for the University of Utah, and it is essential that that quality be maintained.

- A midyear cut (like we suffered last year) appears unlikely this year.
- Last year's cuts were ameliorated by $22 million in federal stimulus funding which will probably not be available during the coming year.
- There has been a significant shift in the distribution of state funding versus tuition funding. In the 1980s the ratio was approximately 80% state funding, and 20% tuition. In the coming year it will be approximately 53% state funding, and 47% tuition. Since 2000-2001, tuition has increased by 98.4%. The trend is likely to continue. There may be a tipping point where increasing tuition will actually reduce enrollment to the point that total funding decreases. It is not clear where that point is and how close we are to it. At present tuition (price) and enrollment (demand) are both increasing.
- The University does use increased tuition income (and other funds) to alleviate the effects of state funding cuts on the operation of departments. Other uses of tuition include fixed costs (including utilities), funds for counter offers to faculty who are being recruited elsewhere, the Library, and program initiatives.
- The University administers a fund of $19 million for Pell grants.
- During the current year, the workforce (consisting of employees and open positions) has been reduced by 350. A small portion of the employees left involuntarily (i.e., they were fired).
- The administration is aware that budget cuts imperil the existing high quality of departments that may have taken decades to build. If budget cuts result in reduced staff support and increasing teaching loads for faculty, those faculty who are able are likely to move elsewhere. Those who leave would be precisely those who are most attractive to other employers as well as the University, and who are contributing most to the current quality of the University's academic program. Loosing these people would cause great damage that would take a long time to repair, even if funding levels are eventually restored and stabilized.
- The committee is prepared to cooperate and contribute in the upcoming budget process. The administration, and Paul Brinkman, will keep us informed of developments and consult with our committee on issues within our scope.

Submitted by Peter Alfeld (chair)

Minutes of March 29, 2010, 2:15-3:00pm

present: Peter Alfeld, Bob Allen, Jim Anderson, Joan Gines, Sandy Meek, Diane Nicholson, Loretta Harper.

This was the third of three meetings (the first two taking place on February 22 and March 8) in which the committee discussed changes in the University Health Plan. The basic issue is that health costs have increased, but this year no additional funding is available from the legislature or student tuition. Joan Gines reported that the University can use about \$8m in its self insurance reserve. That would have been enough to keep employee expenses at the current level based on trends apparent through November of 2009. However, actual health costs during December 2009 through February 2010 were higher than expected and indicate that an additional approximately \$4m will have to come from employees. This could be in the form of increased pay at the time of medical service, or increased premium payments, or a combination of these two. The committee agreed that of those options the less disagreeable is to keep premiums constant, and instead to increase copayments (by\$5) and decrease reimbursement percentages (by 5 percentage points), subject to keeping the out of pocket maximum constant. That preferred option might provide a slightly better motivation for people to take preventive care and to avoid unnecessary Doctor's visits.

The committee dismissed out of hand the possibility of going with the earlier more optimistic projections of health costs, without an adjustment now, but followed by a midyear adjustment if necessary.

Joan also said that it will almost certainly be possible to include the copayment in the out of pocket maximum (which wasn't the case before) and she will pursue this option with the insurance companies. The committee noted and welcomed specifically that premiums and out of pocket maxima will remain at the same level as last year, and the \$40 discount through the wellness program will continue to be available.

Submitted by Peter Alfeld (chair), March 29, 2010.