Benefits Strategy

Benefits Information Forum
December 1, 2008

University Human Resources
BENEFIT PRINCIPLES

- Quality programs at affordable cost
- Market-competitive programs to recruit and retain faculty and staff
- Responsible fiscal agent and resource steward
- Plan choice
- Enable informed decision-making
- Leverage internal and external expertise in development of innovative benefit design and programs to promote a culture of health
CURRENT BENEFIT STRATEGIES

- Explore multiple strategies to manage future benefit cost increases
- Invest in health and well being of U-M community
- Support five-year strategic plan from MHealthy Advisory Committee
- Implement cost-containing strategies
HEALTH MARKET STRATEGIES:
Influence Health Costs/Improve Health

- Individual Health Plans
- Consumer Directed Health Plans
- Health Savings Account
- Health Reimbursement Account
- Personal Health Coach
- Disease Management
- Healthy Living Plan Designs
- Incentives
- Health and Wellness Programs
- Health Risk Assessments
- Interactive Web Based Tools
- Value Based Insurance Design
- Portable Electronic Health Records
- Care Consideration Software
- Cost Sharing Initiatives
Educate, motivate and empower employees to make good healthcare decisions

Maintain the health of the well

Improve the health of those at risk

Help manage the health of those with chronic disease or disability
NEW BENEFIT COMMITTEES:
Charged by Executive Vice Presidents & Associate Vice President for Human Resources

☐ Formation of two committees:
  ■ Committee on Sustainable Health Benefits
    o Scope includes:
      • Health co-premium sharing
      • Health plan out-of-pocket costs
      • Mitigating financial impact of changes on lower salary employees
      • Part-time benefits
      • Retiree benefits
      • Health opt-out cash
  ■ Committee to Study Vesting Options for the Retirement Savings Plan
BENEFITS - STRATEGIC DIRECTION
Executive Vice Presidents’ Conclusions

- Changes in health care cost sharing between the University and its faculty, staff and retirees are necessary.
  - New aggregate health cost sharing target of 70% University and 30% faculty, staff and retirees average.

- The University will examine the vesting and waiting periods of its retirement savings plan for future hires.

- Continue commitment to creating a culture of health and to sustaining benefit principles of quality, choice, affordability, and market-competitive plans.
### U-M ANNUAL BENEFIT CONTRIBUTIONS: Benefit Trends – Future Projections

<table>
<thead>
<tr>
<th></th>
<th>FY 1997</th>
<th>FY 2007</th>
<th>FY 2017 Projected</th>
<th>FY 2027 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Benefits</td>
<td>$17,164,000</td>
<td>$29,959,000</td>
<td>$52,168,000</td>
<td>$76,635,000</td>
</tr>
<tr>
<td>Retirement Plan</td>
<td>$96,468,000</td>
<td>$185,714,000</td>
<td>$361,235,000</td>
<td>$702,643,000</td>
</tr>
<tr>
<td>Medical+Rx</td>
<td>$90,955,000</td>
<td>$236,237,000</td>
<td>$613,578,000</td>
<td>$1,593,643,000</td>
</tr>
</tbody>
</table>

“Other Benefits” includes dental, LTD, life insurance, opt out cash and Medicare Part B premium reimbursements; does NOT include University contributions for FICA, nor vacation or sick pay.
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Benchmarking Peer Institutions

- Hewitt Benefit Index Study
  - 27 UM chosen comparator institutions

- Internal Benefits Administration Office Survey
  - 23 UM chosen comparator organizations

- Hewitt Health Value Initiative Study
  - 23 Hewitt chosen comparator organizations

- These studies looked at retirement savings, health plan design, eligibility criteria and cost sharing
Benchmarking Results

- Benefit plan design – Services that are covered in health plan design
  - Medical plans have a rich benefit design
- Eligibility – Who qualifies for coverage (retirees, part-time, dependents, etc.)
  - UM has generous eligibility criteria
  - Some peers do not offer healthcare benefits in retirement
  - Some peers offer access only to health plans
  - Many plans do not cover dependents
- Cost Sharing - Co-premium formulas, copays and deductibles
  - On average, our cost sharing ratio is lower than our peers
  - Many peers charge more for retirees health benefits both pre-65 and post-65
- Hewitt consulting stated that given our benefit plan design, eligibility criteria and cost sharing formula we have the richest post-retirement health plan offering in their 1,000 (60 universities) company benefit index database
HEWITT BENEFIT INDEX:
Comparator Group (excludes U-M)

- Brown University
- Case Western Reserve University
- Columbia University
- Cornell University
- Duke University
- Emory University
- Harvard University
- Henry Ford Health System
- The Johns Hopkins University
- Michigan State University
- New York University
- Northwestern University
- Princeton University
- Stanford University
- University of California
- University of Chicago
- The University of Iowa
- University of Maryland
- University of Minnesota
- University of North Carolina at Chapel Hill
- University of Pennsylvania
- The University of Southern California
- University of Texas
- University of Virginia
- University of Wisconsin
- Washington University
- Yale University
The financial efficiency of U-M’s plans may be a better comparative measure than per employee costs. Financial Index (FI) removes the cost differences caused by three main factors:

• Population demographics (including dependent coverage);
• Richness of plan design; and
• Geographic location.

What is left is a measure of how effectively you are delivering health care to your employees. An FI greater than 100% reflects better-than-average financial efficiency.

**Health Plans**

<table>
<thead>
<tr>
<th></th>
<th>U of M</th>
<th>University Sector</th>
<th>25,000+</th>
<th>Fortune 500</th>
<th>Labor Market</th>
<th>HHVI</th>
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</thead>
<tbody>
<tr>
<td>Financial Index</td>
<td>113.4%</td>
<td>105.5%</td>
<td>99.8%</td>
<td>99.8%</td>
<td>100.0%</td>
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</tr>
<tr>
<td>Enrollment</td>
<td>34,325</td>
<td>479,798</td>
<td>3,483,969</td>
<td>3,740,558</td>
<td>2,858,818</td>
<td>5,673,589</td>
</tr>
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2008 HHVI BENCHMARK: U-M Health Plan Financial Efficiency
**2008 HHVI BENCHMARK:**
Annual Health Costs Per Active Employee

### Current Health Cost-Sharing Split

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<tr>
<th>Total Costs</th>
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<th>University Sector</th>
<th>All HHVI</th>
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<tr>
<td>Employee Costs</td>
<td>$ 1,661</td>
<td>$ 2,678</td>
<td>$ 3,299</td>
<td>20%</td>
<td>30%</td>
<td>33%</td>
</tr>
<tr>
<td>Employer Costs</td>
<td>$ 6,578</td>
<td>$ 6,347</td>
<td>$ 6,600</td>
<td>80%</td>
<td>70%</td>
<td>67%</td>
</tr>
<tr>
<td>Total Costs</td>
<td>$ 8,239</td>
<td>$ 9,025</td>
<td>$ 9,899</td>
<td>100%</td>
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### Proposed Health Cost-Sharing Split

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*Employee Costs = co-premiums for health insurance coverage, plus out of pocket costs for co-pays, deductibles and coinsurance for medical services and prescription drugs.*

**Employer costs = employer’s co-premium for health insurance.**
RETIREMENT SAVINGS PLAN BENCHMARKS:

- **Hewitt Benefit Index Findings:**
  - U-M’s 10% of pay contribution is higher than the 8.75% average of the 24 university organizations with a defined contribution plan.

- **U-M Faculty Peer Survey Findings:**
  - U-M plan has no waiting period and University contributions are immediately vested.
  - Vesting periods, ranging from one to five years are common among surveyed peers.
  - Waiting periods, ranging from six to twenty-four months are common among surveyed peers.
RESOURCES
For More Information

☐ Stewardship of Benefits website contains:
  ■ Background information and the case for change
  ■ Committee charges
  ■ Frequently asked questions
  ■ A contact page for sending questions/comments

☐ www.BenefitsStewardship.umich.edu

☐ Questions? benefitsstewardship@umich.edu
Thank you for taking part in the Benefits Information Forum

A streaming video of the event, along with an expanded list of Frequently Asked Questions, will be available on the Benefits Stewardship Web site www.benefitsstewardship.umich.edu on Friday, December 5.