BOARD OF REGENTS **AGENDA ITEM 11**
STATE OF IOWA **SEPTEMBER 17-18, 2008**

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MODIFICATION OF UNIVERSITY OF IOWA FLEXIBLE BENEFITS SYSTEM

Actions Requested: Consider approval of the University of Iowa's phased plan to modify the faculty and staff flexible benefit system as follows:

On **January 1, 2009**, maintain the existing flexible benefits program under the current structure, except:

1. Decrease the cap on University flex credits directed to spending accounts from $9,000 to $7,500; and

2. Adopt a new Group Life Insurance cap level: Employer funds 2½ times salary up to a maximum salary of $200,000. (Maximum Group Life coverage will be $500,000). All other features of life insurance will remain the same, including the option to purchase supplemental life.

On **January 1, 2010**, maintain the existing flexible benefits program under the current structure, except:

1. Decrease the cap on University flex credits directed to spending accounts from $7,500 to $6,000.

2. Reduce the funding and coverage cap of Group Life Insurance from 2½ to 2 times salary. Continue maximum salary cap of $200,000. (Maximum Group Life coverage will be $400,000). All other features of life insurance will remain the same, including the option to purchase supplemental life.

On **January 1, 2011**, implement the May 2008 Funded Retirement and Insurance Committee (FRIC) recommendations as detailed in Attachment A. The University of Iowa administration may modify these recommendations if financial circumstances warrant or if the University governance process produces additional modifications that improve upon the 2008 FRIC recommendations while still achieving the goals of financial sustainability and competitive fringe benefits. Significant changes different from the recommendations outlined in Attachment A will be subject to subsequent consideration by the Board.

Executive Summary: The University of Iowa Flexible benefits program covers approximately 11,000 regular faculty, non-organized professional and scientific, and supervisory Merit staff. Professional employees represented by SEIU participate in the flexible benefits program under the same terms and conditions as other staff and faculty. AFSCME-covered employees participate in the long term disability and life insurance programs at no cost to the employee.

The flexible benefits program was instituted on January 1, 1990. Other than changes in health and dental insurance plans offered, the program is unchanged since it was instituted other than to add a cap of $9,000 on flex credits effective January 1, 2008.

Each covered employee receives a monthly amount of flexible credits calculated primarily on family status and to a lesser degree on years of service and salary. Flexible credits allocations are made up of four components: health, dental, life, and long-term disability. Under the current system, covered employees may also direct their flexible credits beyond the basic products to supplemental life insurance, accidental death and dismemberment insurance, and dependent care and health care spending accounts.

Fringe benefits and energy are the fastest growing major elements in the University's overall budget. Both must be managed, or there will be serious consequences in recruiting new faculty and staff as well as in providing competitive salary increases.

Benefits are a greater and greater portion of overall faculty and staff compensation. In FY 2009, just the year-to-year growth of fringe benefit rates required a special General Education fund expense increase of $4.2 million. The same economic issues also govern UIHC, the student housing system and all other University units.

University Wellness programs and their increased emphasis on prevention and the incentives for use of generic drugs have helped slow the increase in University health insurance costs, but the overall program costs continue to grow at an unsustainable pace under the current structure of the flexible benefits program.

The review of the current flexible benefits program began in the spring of 2007, with an initial review by Human Resources and assistance from benefit consultant Hewitt Associates.

Hewitt Associates of Lincolnshire, Illinois, has been engaged periodically by the University of Iowa since 1988. In the Spring of 2007, Hewitt was asked to review and offer design alternatives for the flexible benefits program. A report was issued in September 2007.

In September of 2007, the University's Funded Retirement and Insurance Committee (FRIC) was given the charge to work with University HR to develop specific recommendations for change during the 2007-2008 academic year which would maintain a competitive benefits program and be financially sustainable in the future. The members of the FRIC are selected by the faculty and staff governance groups as part of the University's shared governance system.

The University's Faculty and Staff Budget Committee, also composed of faculty and staff representatives, discussed the increasing cost of benefits and the necessity for changes as a part of the overall University wide budget review process.

The recommendations developed by FRIC are the outcome of its work over the past year and have been reviewed by the President, Vice Presidents, Deans, and senior professionals across campus.

Subsequent to FRIC's recommendations, a vigorous campus debate ensued in a number of campus forums which were sponsored by FRIC, Staff Council, and the Faculty Senate. Additionally, over 500 e-mails were received at a central electronic mail box established to collect opinions and concerns related to the recommendations.

The five most common concerns expressed through e-mail, and to a large extent, mirrored in the open forums, were the following:

1) adverse impact on financial situation of faculty and staff due to loss of flex credits,

2) reduction of total compensation package,

3) adverse impact on retention of faculty and staff,

4) adverse impact on ability to pay for child care expenses,

5) need to delay or phase-in/grandfather-in changes to allow for personal budget planning.

The University anticipates these changes will produce cumulative annual savings over a five-year period of approximately $3 to $4 million, and this will grow over time. The factors leading to cost growth for flex benefits will be capable of management annually under the recommended proposal.

FUNDED RETIREMENT AND INSURANCE COMMITTEE RECOMMENDATIONS

The four insurance benefits that are currently the foundation of the flexible benefits program would be provided for faculty and staff as follows:

HEALTH INSURANCE

Faculty and staff would be provided a 100 percent University contribution for single coverage from either of the existing insurance plans (UI Choice or CHIP II). The University would contribute 80 percent toward the cost of coverage for employee/spouse, employee/child(ren) or employee family, based upon the premium cost of the UI Choice plan. This could also apply toward the cost of the CHIP II plan, with the employee paying any difference in cost. Where two spouses/partners are employed by the University, they would be provided with one employee/spouse or family plan without charge.

DENTAL INSURANCE

Faculty and staff would be provided a 100 percent University contribution for single coverage from either Dental I or II plans. The University would contribute 80 percent toward the cost of coverage for employee/spouse, employee/child(ren) or employee family, for either Dental I or II plans. Where two spouses/partners are employed by the University, they would be provided one employee/spouse or family plan without charge. Dental III will be eliminated due to low enrollment.

GROUP TERM LIFE INSURANCE

Faculty and staff would be provided life insurance at the amount of two times salary, up to a maximum of $400,000 in coverage. Individuals could choose to buy additional life insurance.

DISABILITY INSURANCE

Faculty and staff would also receive long-term disability insurance to provide 60 percent salary replacement. The current, five-year “ramp up” provision would be eliminated, and employees would be covered with the 60 percent benefit upon employment.

Because the four insurances above would be provided to employees, the new program would not have flexible credits based upon these insurance coverages. However, the new program would continue to have an element of choice, as each employee would receive a General Benefits credit; some employees receiving shared saving credits as described below.

GENERAL BENEFIT CREDITS

All faculty and staff would be provided $90 per month in General Benefit Credits to be used at their discretion toward the cost of family health or dental insurance, the purchase of additional life or accidental death and dismemberment insurance, or toward a dependent care or medical spending account.

SHARED SAVINGS CREDITS

Individuals who are covered by health and/or dental insurance not at the University would receive an additional Shared Savings Credit as an incentive to remain with their current insurance providers. Individuals who elect not to enroll in the University's health insurance plan would receive an additional $200 per month in Shared Savings Credits. Individuals who elect not to enroll in the University's dental insurance plan would be provided an additional $25 per month in Shared Savings Credits. Finally, individuals who elect to receive only $50,000 in life insurance would receive an additional $40 per month in Shared Savings Credits. The life insurance option would be in effect for the first year but would be subject to further review for continuation into subsequent benefit years.