Compensation Committee's Analysis of the proposed benefit plan change 11/20/2013

Goals
As stated in the proposal the primary goals include: maintaining a competitive benefits package, achieving a cost savings from medical and drug plans, and positioning the medical and drug plans for the future. Proposed changes in benefits are laid out in the first three pages of the 17 page proposal from the administration.

Some advantages of the plan change:
- No longer have the beneficiary restriction of "surviving dependent" for assigning a beneficiary.
- Allow faculty to participate in the High Deductible Plan.
- 0.5 -1% increase in John Carroll University's contribution to retirement.
- Those currently not electing basic life insurance now get it, paid by the university
- John Carroll gets out of the Life Insurance Business.
- Faculty, Staff, and administrators under a single plan.

Some Disadvantages of the plan change:
- Higher Premium costs – After 2 years and depending upon the salary tier one is on it could be more than a 50% increase.
- Spousal Surcharge
- If one currently participates in the 1x salary death benefit as well as the 2x salary life insurance the new plan covers 2x salary (but at no cost to the participant)
- Deductibles go up.
- Maximum out of pocket expenses increase.
- Emergency Room Copay increase.

An Analysis of the results of the change in benefits proposal using PPO for the calculations.

The following two tables apply to everyone. The 0% increase in medical costs from 2014 to 2015 is a conservative estimate. The figures for 2014 are accurate. Numbers in red indicate a net loss.

Two year total increased medical premiums assuming 0% increase in medical costs in 2015			
	$40000-$69999	$70000-$99999	>=$100000
Single	$303.36	$430.92	$749.76
Single + Spouse	$673.44	$956.64	$1664.52
Single + Child(ren)	$550.92	$782.76	$1361.88
Family	$918.36	$1304.28	$2269.80

Two Year Total Retirement increase minus Increased costs for Premiums for specific examples				
	$60000(<10 yrs service)	$70000	$80000	$100000
Single	$296.64	$969.08	$1169.08	$1250.24
Single + Spouse	$-26.56	$443.36	$643.36	$335.48
Single + Child(ren)	$49.08	$617.24	$817.24	$638.12
Family	$-481.64	$95.72	$295.72	$-269.80

What we conclude is when considering the effect on the faculty as a whole, the increased costs due to only the medical premiums is offset by the increase in retirement contribution for almost everyone. The exception appears to be the folks with families on the plan that have less than 10 years of service and those earning at the highest salaries. For those earning $60k but with 10 or more years of service, there is no loss in compensation. Some of us stand to have enhancements in compensation in this scenario near and above $1k over 2 years.

There are additional potential costs to all faculty resulting from a move to the proposed healthcare plan. For all, the co-pays associated with the medical and drug plans are increasing. This is much more individualized and therefore too difficult to project. However, the PPO plan medical co-pays will accumulate against our out of pocket maximums, and our PPO plan drug co-pays will begin accumulating against our plan out of pocket maximums as of 1/1/2015. Both of these are improvements because neither medical nor drug accumulates against our out of pocket today.

The recent addition of a promised extra $200,000 towards the faculty salary pool is also hard to quantify since everyone does not receive the same amount and in fact some people may get 0 of those extra dollars and there was also no promise made regarding future salary increases. However, the promised amount corresponds to an average salary increment of roughly $1000 per faculty member, which would increase the above sample numbers by that amount depending on actual individual increase. It is also true the stated figures for salary pools will include the adjustments for tenure and promotions, not just for general increases. Again, difficult to quantify what the extra $200,000 means.

Some of us may reach or exceed the deductible in our current plans, and some of those could potentially reach the out of pocket maximum. The deductibles for the PPO go up $200 for singles and $100 for families for in-network use. Out of pocket maxima increase by $450 and $600 respectively.

Worst case Two year total increased out of pocket expenses cost			
	$40000-$69999	$70000-$99999	>=$100000
Single	$900.00	$900.00	$900.00
Single + Spouse	$1200.00	$1200.00	$1200.00
Single + Child(ren)	$1200.00	$1200.00	$1200.00
Family	$1200.00	$1200.00	$1200.00

Spouses would be assessed the surcharge if the spouse is able to obtain medical insurance through his/her employer and chooses not leave our plan. The net cost for choosing the alternative plan is obviously impossible to determine by our committee.

Two year total cost for spousal surcharge			
	$40000-$69999	$70000-$99999	>=$100000
Single	$0.00	$0.00	$0.00
Single + Spouse	$2880.00	$2880.00	$2880.00
Single + Child(ren)	$0.00	$0.00	$0.00
Family	$2880.00	$2880.00	$2880.00

It is possible that some could experience the worst case scenario for healthcare costs as well as be assessed the spousal surcharge. The next table shows this worst case.

Two Year Total Retirement minus Increased costs for Premiums, maximum out of pocket, and spousal surcharge				
	$60000 (<10 yrs. Service)	$70000	$80000	$100000
Single	$-603.36	$-60.08	$-269.08	$-350.24
Single + Spouse	$-4153.44	$-3636.64	$-3436.64	$-3744.52
Single + Child(ren)	$-1150.92	$-582.76	$-382.76	$-561.88
Family	$-4398.36	$-3984.28	$-3784.28	$-4349.80

The change in the Life insurance plan is very hard to quantify, and involves relatively complicated formulas to estimate. Here we briefly outline the key features of the current and proposed plans:

- Current plan: All faculty with 10 or more years of service receive a "death benefit" of 1x salary, which is treated as taxable income upon payment. Roughly 150 faculty also elect the basic life insurance benefit for which the employee and university share 1:1 the costs of the 2x salary insured benefit. Some also elect to carry additional supplemental insurance.
- Proposed plan: The uninsured "death benefit" is removed and replaced with a fully insured 1x of salary, paid for by the university. This benefit, like the present "death benefit", is automatic for employees with 10 or more years of service. Further, the elective basic life insurance benefit is now automatic for all benefits eligible faculty at the level of 1x salary and paid for in full by the university.

A clear positive of this is that those that don't currently opt, and pay the premium for, the basic life insurance (47 of us), they will now automatically have 1x of coverage from the beginning and 2x after 10 years of service. On the other hand, the 150 of us who do currently elect the basic life insurance coverage and want to maintain their current level of coverage (2x salary for <10 years and roughly 3x at 10+ years) will need to pay for supplemental insurance. The table below outlines the cost difference to this population.

Age	Salary	Current Cost To Employee per year	New Cost Employee per year with make-up of 1x salary	Difference
38	60000	$230.40	$72.84	$157.56
50	70000	$294.80	$281.68	$13.12
60	80000	$501.20	$796.96	$-295.76
69	100000	$962.00	$1840.96	$-878.96
70	100000	$897.00	$3483.04	$-2586.04

In order to maintain roughly the status quo in terms of life insurance coverage for the 150 of us that elect the basic life insurance, there would be additional costs for those in their early 50s earning $80k or more. The additional costs in this scenario become > $300/yr. somewhere in the 60s age bracket.

If all of the costs were maximized for the same employee at once, the increased costs could be as high as outlined in the next table.

Two Year Total Retirement minus Total Increased costs including life insurance				
	$60000(<10 Yrs. Service)	$70000	$80000	$100000
Single	$-288.24	$-33.84	$-860.65	$-5522.32
Single + Spouse	$-3838.32	$-3610.40	$-4028.16	$-8916.60
Single + Child(ren)	$-835.80	$-556.52	$-974.28	$-5733.96
Family	$-4083.26	$-3958.04	$-4375.80	$-9521.88

Obviously, one would not expect that many will incur all of these extra expenses, and they would all be adjusted upward by an amount related to the increased salary over 2 years related to the additional $200k salary pool. But, we heard loud and clear from our departmental visits that faculty want to know how much this will actually cost them. Note this does not take into account any extra costs due to changes in deductibles nor any change, if any, in medical coverage due to a change in plan.

The administration's proposal certainly affects different faculty members differently. It might not be an exaggeration to say that no two faculty members would be affected in exactly the same way. There's no doubt that some individuals would benefit financially. But we can assess that, for the faculty as a *group*, the proposal represents a decrease in benefits. After all, the aggregate worth of the proposal to the university is $200,000. So the new plan represents a reduction of $200,000 for the faculty as a whole--minus, of course, the additional retirement contribution, which can be estimated at about $142,000 (based on the average faculty salary as reported by IPEDS). Starting in the second year, individual health care premiums increase by an average of 50% (plus additional cost depending on group experience and increased medical costs), since the premiums go from a 10% share to a 15% share. With health care costs rising much faster than our salaries, it will not take long for the added cost of the new plan to outweigh the added retirement benefit. The following example illustrates the long term consequences of the change in plans. Due to the use of salary tiers these are rough estimates of what one can expect. Assumptions: Medical costs increase by 12% per year and salary increases by 2% per year.

Family medical coverage for $70,000 salary for the next 15 years					
Year	Salary	Extra Retirement	Premiums	Premiums	Net gain
		1%	(Current)	(New)	
2014	$70,000.00	$700.00	$2,162.36	$2,356.56	$505.80
2015	$71,400.00	$714.00	$2,421.84	$3,146.17	-$10.32
2016	$72,828.00	$728.28	$2,712.47	$3,523.71	-$82.96
2017	$74,284.56	$742.85	$3,037.96	$3,946.56	-$165.75
2018	$75,770.25	$757.70	$3,402.52	$4,420.14	-$259.92
2019	$77,285.66	$772.86	$3,810.82	$4,950.56	-$366.88
2020	$78,831.37	$788.31	$4,268.12	$5,544.63	-$488.19
2021	$80,408.00	$804.08	$4,780.29	$6,209.98	-$625.61
2022	$82,016.16	$820.16	$5,353.93	$6,955.18	-$781.09
2023	$83,656.48	$836.56	$5,996.40	$7,789.80	-$956.84
2024	$85,329.61	$853.30	$6,715.97	$8,724.58	-$1,155.31
2025	$87,036.20	$870.36	$7,521.88	$9,771.53	-$1,379.28
2026	$88,776.93	$887.77	$8,424.51	$10,944.11	-$1,631.83
2027	$90,552.46	$905.52	$9,435.45	$12,257.40	-$1,916.43
2028	$92,363.51	$923.64	$10,567.70	$13,728.29	-$2,236.95
Totals		$12,105.39	$80,612.22	$104,269.18	-$11,551.57

There would be some added benefit gained from interest accumulated on the extra contributions to retirement that will help offset the total loss of $11,551.57.

Then, there's the "extra" salary pool of $200,000 for this year. (Take 35-40% off of that for taxes.) But what would be a reasonable salary pool, without passing the proposal? It is our experience that when a new operating budget is developed it begins with the previous year's budget and then is modified accordingly. There was a $390,000 salary pool last year which is essentially the stated $200,000 faculty salary pool plus the "extra" salary pool of $200,000. Obvious questions include what will salary increases be like in the future because there are no assurances they will be reasonable amounts. Hence, without some sort of guarantee of future salary pools, all we know for sure is that health care premiums are increasing by at least 50%, and out-of-pocket expenses will increase for everyone who requires any health care at all.

In spite of the fact that healthy people (especially those who do not have a working spouse on the JCU health plan) will be better off under the proposed plan, we see the change as a reduction in aggregate benefits. Whether a person votes based on the aggregate reduction, or on a personal increase or reduction, is up to that person's conscience. To help individuals understand the details needed to make an educated vote we are making our excel calculator available at \\jcuweb\math\faculty\kirsch\BenefitsCalculator.xlsx
The compensation committee is basing its recommendation on the likelihood that the proposal represents an aggregate decrease in benefits.

Recommendation:

Although we were encouraged by the addition of $200,000 for the faculty salary pool, the compensation committee was not given the opportunity to discuss the addition in salary with the administration before it was made public to the faculty and we believe the current proposal is still a work in progress. Therefore the Committee on Finance, Faculty Compensation, and Work-Related Policies recommends that Faculty vote against the proposed change in benefits as it is currently packaged. But, we wholeheartedly embrace the last paragraph of the administration's response to our counter proposal which said:

> *The two of us (John Day and Jon Smith) along with Rich Mausser would be willing to meet with the Compensation Committee to further discuss the issues you mention in your proposal. As you suggest, these could be considered as part of a long-term adjustment in compensation and benefits.*