Effects of HB 5345 on Higher Education Employees

Howard Bunsis; Professor of Accounting

Eastern Michigan University

Chair, National AAUP (American Association of University Professors) Collective Bargaining Congress

Treasurer of:

- National AAUP
- Michigan Conference AAUP
- Eastern Michigan AAUP

Roadmap

- Overall Assessment of HB 5345
- National Health Care Trends
- Health Care Costs at Michigan's Public Universities
- Health Care Options at Michigan's Public Universities
- Role of the State Appropriation in Michigan's Public Universities
- Effect on Collective Bargaining Rights: Seat at the Table and a Voice in the Process
- Suggestions and Conclusions

Alleged Cost Savings of HB 5345

- Cost savings from efficiencies are not well defined. The bill states that cost savings will be achieved:

"Through purchasing, reimbursement, or pilot program strategies, promote and increase the adoption of health information technology systems such as electronic medical records, electronic prescribing, and integrated delivery systems that do any of the following" (see next slide)

Worthy Goals

- (i) Facilitate diagnosis or treatment.
- (ii) Reduce unnecessary duplication of medical tests.
- (iii) Promote efficient electronic physician order entry.
- (iv) Increase access to health information for patients and their health care providers.
- (v) Improve health outcomes.
- (vi) Reward or encourage review of diagnosis and care by clinical advocates to ensure appropriate treatment.
- (vii) Reward employee participation in wellness or disease management programs and regular preventive care.

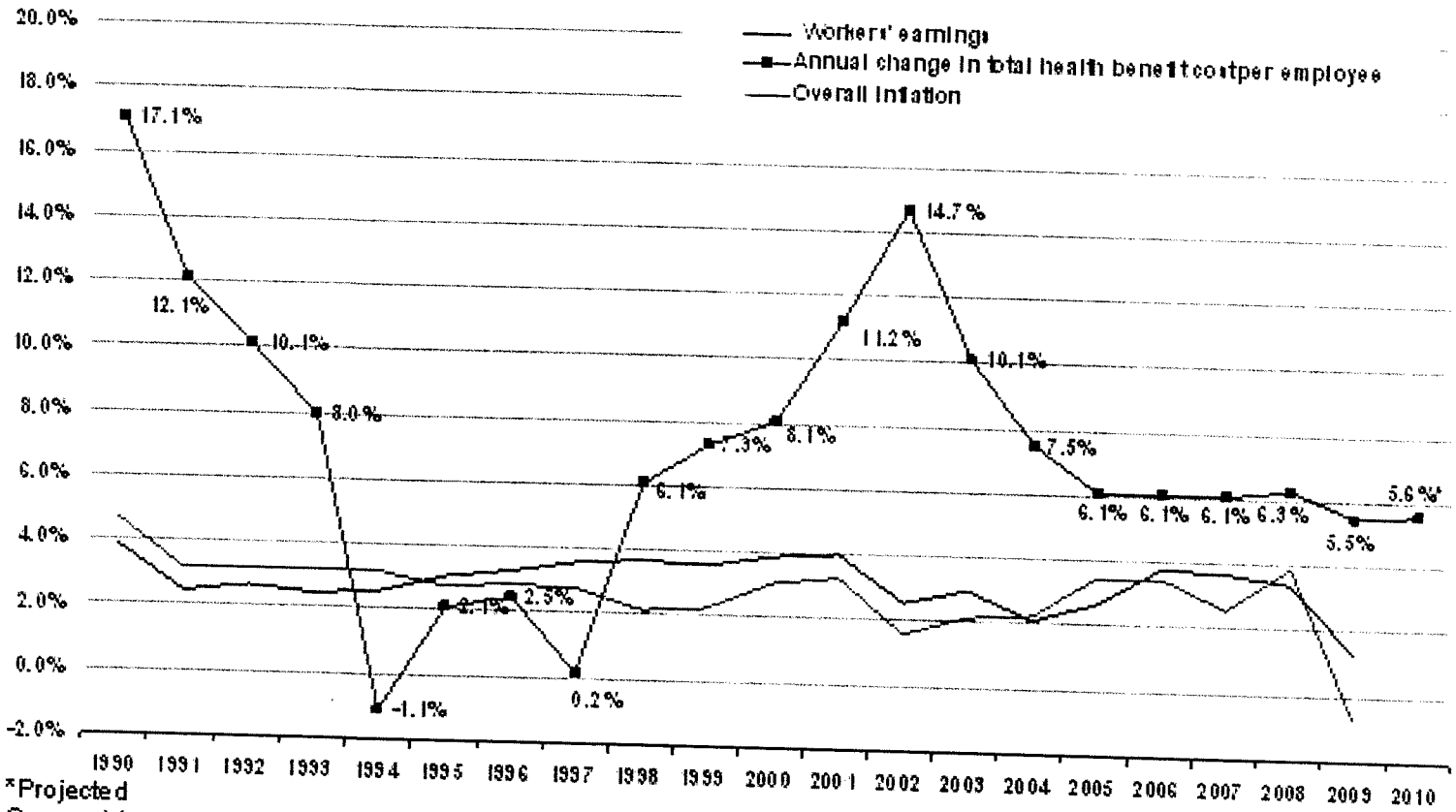
Will The Savings Be There?

- The claim that electronic records will save millions is easy to say and cannot be proven
- The strategies are nice, but how will they work in practice?
- The Office of the State Employer (OSE) will be very powerful
- The only way this proposal will save money for the state is if:
  - Benefits are reduced – that is what standardization of benefits really means
  - Out of pocket costs are increased
  - Both of the above (likely)

Mercer: November 2009

FIGURE 1

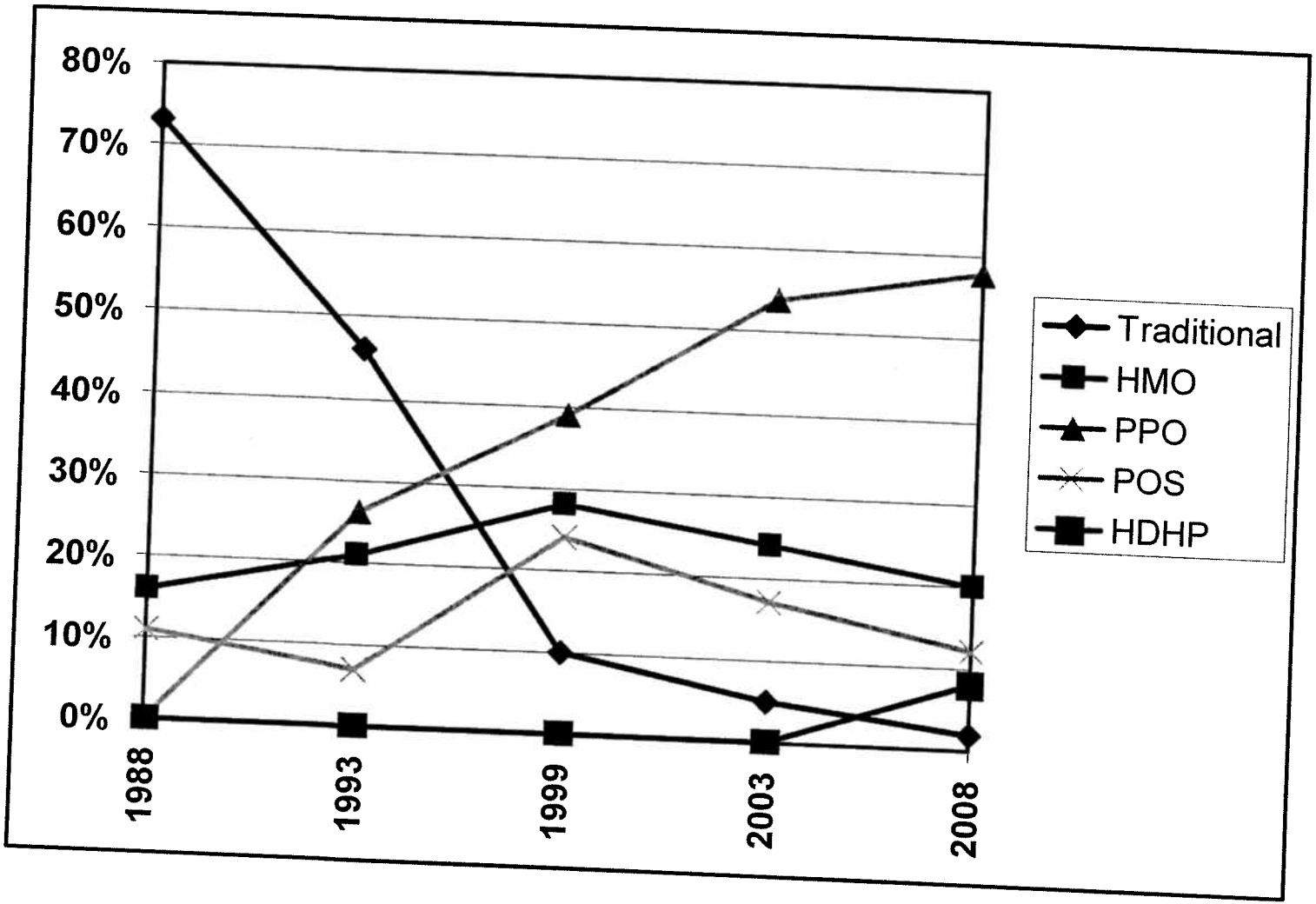
Total health benefit cost per employee rises 5.5% in 2009, the lowest annual increase in a decade.



*Projected

Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1990-2009; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1990-2009.

Types of Plans Offered Over Time



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2008

Towers Perris Study

- **Towers Perrin Health Care Cost Survey Shows Average Annual Per-Employee Cost of $9,660 in 2009**
- According to Towers Perrin's annual Health Care Cost Survey, the average corporate health benefit expenditure in 2009 will be $9,660 per employee-an increase of 6% over 2008 figures.
- The 6% growth rate will make 2009 the fifth consecutive year of single-digit percentage increases

Health Care Costs at EMU

- Total Costs to EMU were approximately $7 million in 2008. EMU's total expenses are about $300 million (just over 2% of total costs)
- Average cost is $10,000 per member
- The faculty pay approximately 15% of that cost (before 1/1/2007, we paid no premiums)
- Cost to EMU is approximately $8,500 per employee
- Compares favorably with Towers Perrin study of the private sector ($9,660 in 2009, it was 6% less in 2008, or $9,113
- EMU has fewer single people and an older population than the general public (54 year average. 26% single)
- Conclusion: Costs are not out of control

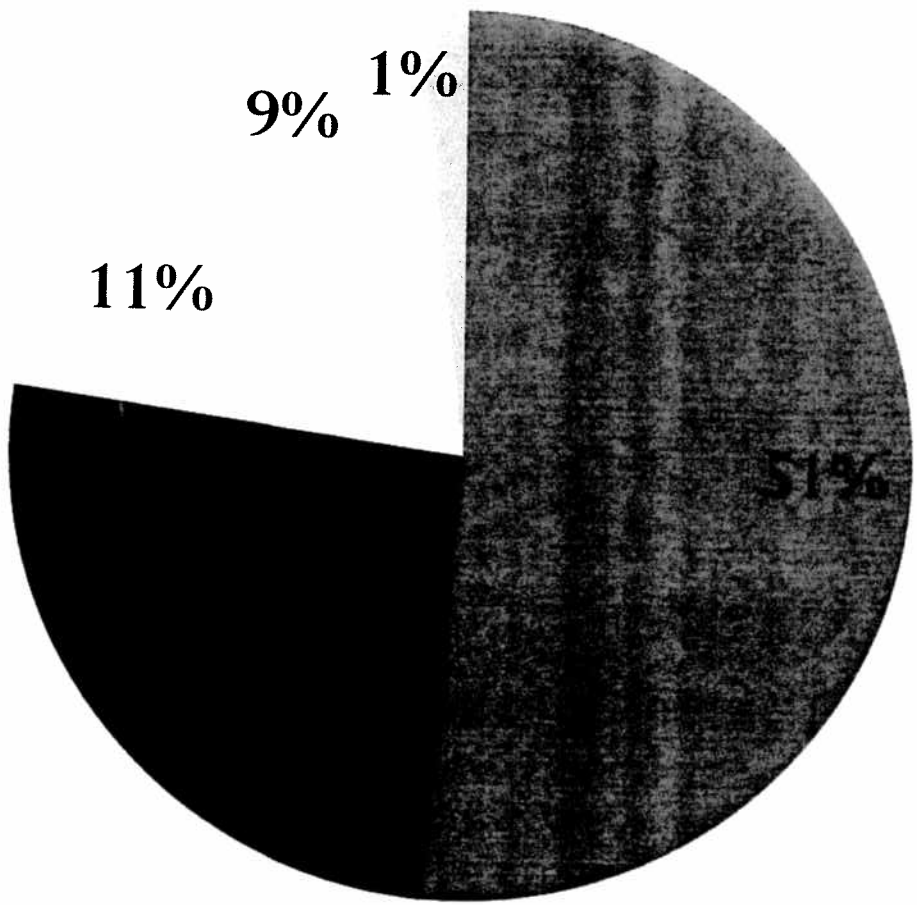
Recent AAUP Contracts

- Oakland University's contract kept the health care out of pocket premiums and deductibles virtually unchanged from before
- Wayne State University maintained their choice as well, without any significant increase in premiums or deductibles
- Northern Michigan University settled in a similar manner
- Health care costs were not a significant issue in any of these negotiations
- The administrations at these universities would not have agreed so readily if health care costs were out of control
- All three contracts are for three years, going through 2012

Choice of Health Care Plans

- At Western Michigan, the only choice is a Blue Cross PPO
- At Eastern Michigan, we used to have 4 plans: 2 HMO's, 1 PPO, and 1 traditional plan. Now, we only have a Blue Cross PPO
- At Northern Michigan, only a choice of the Blue Cross PPO
- Wayne State and Oakland have more choice, but Oakland's choices are fewer than they were before the last contract

EMU 2009 Revenue Distribution



- Tuition and Fees
- State Appropriation
- Auxilliaries
- Federal Grants and Financial Aid
- State Grants and Financial Aid
- All Other Sources

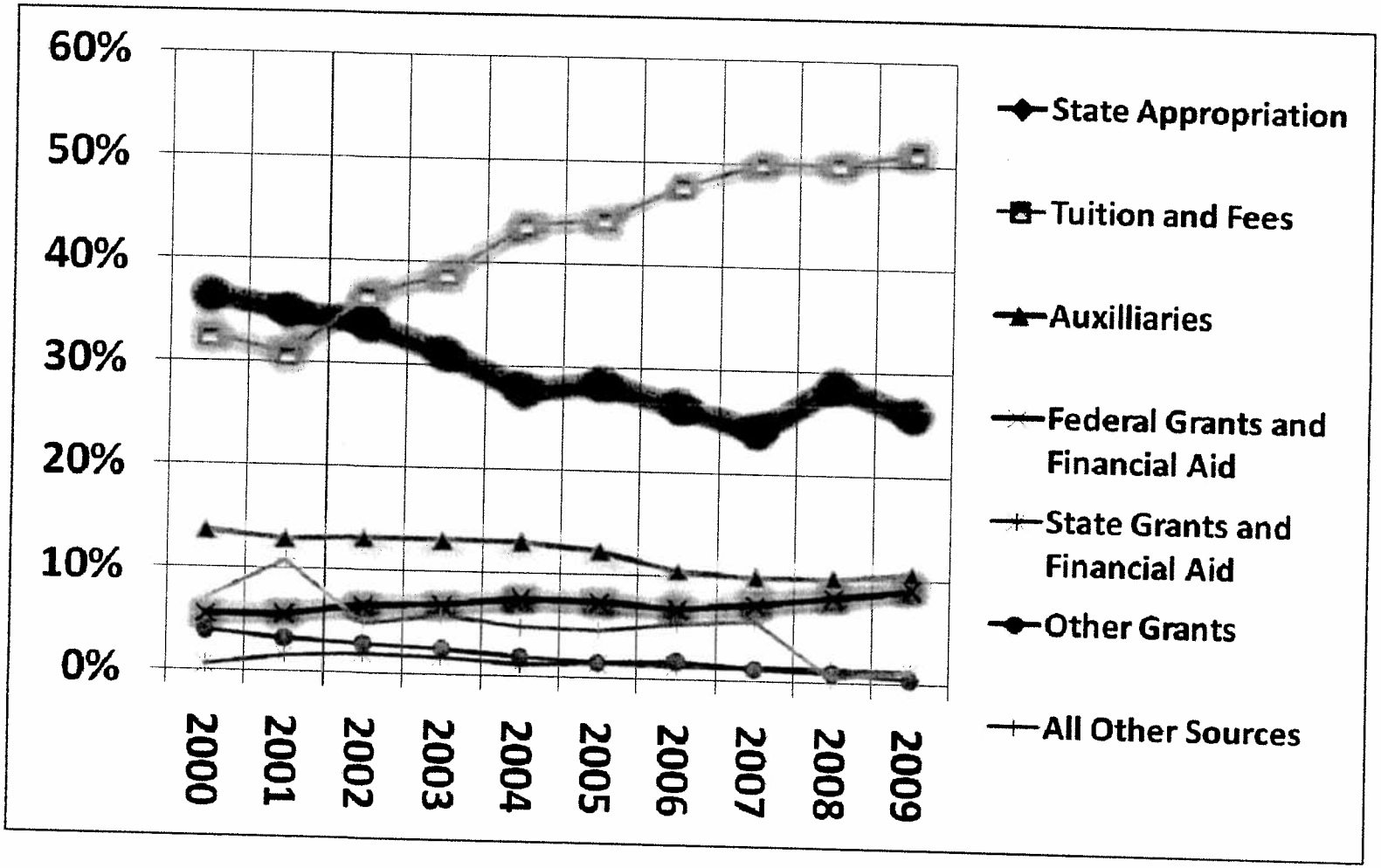
Source: EMU 2009 Audited Financial Statements

EMU: State Appropriation vs. Tuition Over Time

	1988	1994	2000	2006	2009
State Appropriation	56,664,711	64,793,514	81,903,068	76,764,820	78,551,800
Tuition and Fees	30,594,856	55,877,021	72,911,310	138,191,166	154,674,331
State Appropriation vs. Tuition	1.9	1.2	1.1	0.6	0.5

Source: EMU Audited Financial Statements

EMU Revenue Sources: 2000 to 2009



Source: EMU Audited Financial Statements

Legislative Authority

- The State appropriation represents slightly more than ¼ of total revenues at the AAUP institutions in the state (even less at the three "majors").
- In the business world, when a shareholder owns between 20% and 50% of the stock of another firm, we use the equity method of accounting; you have influence, but not control.
- Mandating health care by the Legislature amounts to control
- The Legislature should hold colleges and universities accountable for the appropriation:
  - Percent of costs that go to instruction
  - Graduation rates
  - Program review and assessment
  - Admission of Michigan residents

Abrogation of Collective Bargaining Rights

- This is the biggest problem with this bill – currently, we collectively bargain health care costs. That right would be unilaterally taken away by this legislation.
- In the past, we and other Michigan public faculty unions have traded off salaries for enhanced benefits. If this bill becomes law, those prior concessions will be solidified, with nothing to trade off.
- Are we overpaid? At EMU, the average faculty (90% of us have doctorates) salary is $70,000. This is less than the average salary of an Ann Arbor Public School teacher.

Will the AAUP Have Any Say?

- As 500,000 public employees are covered by this plan, what say will the AAUP faculty have? There are less than 10,000 AAUP faculty in Michigan.
- We simply are too small to have a seat at the table or an effective voice in the process.
- Currently, we have that seat on each of our campuses, and we are s strong voice. That is the essence of shared governance and faculty input in the collective bargaining environment
- This legislation will deny us that seat and that voice – and with the goal of reducing costs that are not out of control on our campuses, and that we can best control by working together with our administrations in the collective bargaining process

NMU Contract on Healthcare

- The Board's contribution to the health program for each covered faculty member will be as follows:
  - 2006-07 Average cost up to $9,195
  - 2007-08 Average cost up to $9,747
  - 2008-09 Average cost up to $10,400
- The faculty member's maximum health contribution limits shall be:
  - $1,050 for 2006-07
  - $1,150 for 2007-08
  - $1,250 for 2008-09
- If the average cost in any of the years is less than the sum of the Board's contribution to the health program and the faculty member's maximum health contribution amounts stated in Section 9.2.1.1 above, the savings shall be refunded to Association members as specified in Section 9.2.1.1.2.
- If the average cost for 2006-07 and/or 2007-08 and/or 2008-09 is greater than the Board's contribution, such excess average cost shall be borne by those faculty members who were covered by the health program during such plan year up to the amounts listed in Section 9.2.1.1.

Drug Analysis at EMU

- Currently, we receive information from Blue Cross on every prescription filed by our members (no names), and the cost to EMU
- Analysis of generic and mail order utilization. Both are cheaper for the member and for EMU. Example: Lipitor for EMU faculty in 2008
  - Generic alternatives are Simvastatin, Pravastatin, and Lovastatin
    - Cost to EMU is on average $10 for a 30-day supply of the generics
    - $162 average cost for Lipitor
- Mail order versus Pharmacy:
  - 265 thirty day prescriptions: Cost of $43,000 to EMU
  - 100 90-day mail order scrips (equivalent to 300 30-day scrips): Cost of $23,000 to EMU
- Will this type of analysis be possible for the EMU-AAUP, so that we can communicate information to our members? Very doubtful.

Other Issues

- EMU negotiates a stop loss provision based on our experience, using data for our population. This type of negotiation would not be able to occur.
- For dental, should preventative care be covered at 75% or 100%? We currently bargain on these issues.
- Wellness Issues: We try to negotiate these locally, with incentives and utilization based on facilities on our campus and communities. There may be wellness in the new plan, but our employers may not pay for these plans if they do not benefit from any cost reductions
- Benefits for other eligible adults are not universal across Michigan's public universities. We have bargained extremely hard for these benefits over time; what will happen to these benefits is unclear.

From the EMU Faculty Survey

- What are your estimated annual out of pocket costs for office co-pays and out of network charges?
  - ____$0
  - ____$1 to $200
  - ____$201 to $500
  - ____$501 to $1000
  - ____Over $1,000

- What are your estimated annual out of pocket costs for prescription drug co-pays?
  - ____$0
  - ____$1 to $200
  - ____$201 to $500
  - ____$501 to $1000
  - ____Over $1,000

More from the EMU Faculty Survey

- With your current dental coverage, what are your estimated annual out of pocket costs above the $1,000 limit in the plan?
  - ____$0
  - ____$1 to $200
  - ____$201 to $500
  - ____$501 to $1000
  - ____Over $1,000
- Are you willing to participate in an insurance plan that bases your premium on lifestyle factors? (check all that apply)
  - ____Weight
  - ____Alcohol use
  - ____Smoking
  - ____Other (please specify)
  - No to all

Suggestions for Moving Forward

- If you want to reduce costs, there should be more competition in the insurance market – Blue Cross is so dominant, and this will legislation will likely increase their dominance.
- At EMU and WMU, we have no choice but Blue Cross
- A potential solution is to have the public plan as **option**, not a mandate
- Competition will ensure that Blue Cross, other health care providers, and any new State plan offer competitive benefits at reasonable prices

Conclusion

- If this legislation passes, we will be left with higher out of pocket health care costs and reduced coverage
- We will be left with the elimination of a significant right that we have in collective bargaining. It is like giving something up at the negotiating table and getting nothing – in fact giving up more – in return. A lose-lose for faculty, and our administrations will not be able to work with us to reduce health care costs
- Options are better than mandates