

NSHE PEBP Benefits Task Force Summary of Report to the Chancellor

Background:

The NSHE PEBP Benefits Task Force was formed by Chancellor Klaich in early September, 2010 because of concerns of increased costs and limited benefits for NSHE faculty and the effects on staff recruitment and retention. The task force was asked examine the following:

- Review and analyze the current legislative recommendations of the PEBP Board.
- Examine the effects of the proposed cuts on employees.
- Propose alternatives to the current proposals.
- Provide comparison with benefits provided in other states for perspective.

The Task Force, in cooperation with NSHE administration, hired a consultant, Gallagher Benefit Services to assist us with gathering comparative data and identifying near-term alternatives to provide supplemental benefits for NSHE employees.

A final report was sent to the Chancellor earlier this month and included the following:

- Comparisons of our current PEBP health care coverage and proposed July 1, 2011 PEBP coverage to the national higher education averages as well as comparisons to specific regional public higher education institutions; other public employers in the state of Nevada, and private employers in the state of Nevada. Once the PEBP rates are published in early 2011, we hope NSHE will refresh this data analysis with that important information.
- The Task Force drafted an overall response to the PEBP plan for Chancellor Klaich which was sent to the PEBP Board prior to their December 2, 2010 meeting. This letter is available on the Task Force web page (see link below).
- Recommendations to support changes to the PEBP plan during the next legislative session, which has already been identified as a high System priority. We also suggest, as an alternative, consideration of opportunities for viable, near-term options for how NSHE provides health care benefits to its employees.
- Alternatives for the Board of Regents to provide direct supplemental health care benefits for NSHE employees, if resources and some specific technical issues can be overcome. While there are specific options available to provide supplemental benefits, we must caution that there are significant issues to overcome, including identifying resources in this financial environment.
- Recommendations are provided for NSHE to focus on the longer term issue of taking more direct involvement in managing health care and other benefits for NSHE faculty and staff, and even suggesting the future direction may differ significantly from the status quo.
- Ongoing is the evaluation of PEBP claims experience to be gathered from data obtained from PEBP on the past 3 ½ years of actual claims information for NSHE employees.
- A complete set of notes on the activities of the PEBP Benefits Task Force are included on the Task Force web page, which can be accessed at the following site:

<http://www.scs.nevada.edu/default/index.cfm/committees/nshe-pebp-taskforce/%20>

Summary of Report Content:

Following are several key findings we would like to highlight before presenting specific recommendations. Each is summarized below and supported by more detailed information sent to the Chancellor. The task force believes this information verifies that the PEBP plan proposed for FY12 will put NSHE faculty and staff at a competitive disadvantage, both in-state (public and private sector), as well as regionally and nationally. It is also important to note that this data presents a very different, and we believe much more accurate, analysis of the health care benefits provided to NSHE employees than many have gathered from past reports of “public employee” benefits (those from the Las Vegas Chamber of Commerce and the SAGE Commission, in particular). It is also very important to connect these issues relative to health care benefits to overall employee compensation. NSHE employees have experienced a pay reduction with furloughs, no longevity pay, no merit or COLA, and now the affordability of the cost of health benefits is added to this concerning and lengthening list. The concern for retention and recruitment of employees is well beyond just health care benefits, although that is indeed a significant issue.

***Summary information from Gallagher Benefits’ report on comparative data for PEBP health care plan with other public plans.**

The various data comparisons provided from the surveys suggest that our current year (July 1, 2010 – June 30, 2011) plan provisions (FY11) are generally in line to somewhat less favorable to the comparators, while employee contributions are generally more favorable than comparators. However, the proposed plan provisions (FY12), appear to be consistently less favorable than various comparators. This is particularly the case when compared to public higher education institutions in western region states and other Nevada public employers, both with respect to current benefit design, and especially, the plan design proposed by PEBP effective July 2011. Because PEBP has not yet specified what the employee contributions will be for medical and dental for FY12, it is not possible to comment on that important element. If employee contributions are favorable, that does offset what generally would be viewed as a less than comparable set of plan design provisions. However, it is the view of the task force that the proposed provisions by PEBP are less than competitive in comparison.

Supplemental health care benefit options (for current employees and retirees)

The task force has recommended that the Board of Regents consider offering supplemental health care benefits if the current PEBP plan is implemented for FY12. A summary of that information is highlighted below for a flexible benefit option, but there are also options the Board of Regents could consider for specific benefit programs (LTD, vision, etc). This option is considered as a near-term alternative since longer term solutions are needed for on-going challenges to providing health care benefits to its employees.

The “flexible benefit credit” approach to provide employees with additional health care funding seems to be the most flexible and easiest to implement, if the Board so chose this direction. This approach would cover both CDHP and HMO participants. However, this approach would not be applicable for retirees, and NSHE will need to investigate the

overhead associated with NSHE providing additional health care benefits directly to “retirees,” since they are not currently linked with NSHE in any way (their interactions are directly through PEBP, and while we could more easily identify those in the RPA retirement program, those in the PERS system may be very difficult to identify).

***Summary information to date from NSHE analysis of private employers in the state**

We contacted nine (9) private employers in the state of Nevada to request information on the health care benefits they provide to their employees. Not all were willing to provide this data, and those that did were, in general, only willing to share more general data than what was gathered through the Gallagher survey. However, we received information from six (6) of the employers covering banking, resort/casino industry, public utility companies, and other private employers. However, these six (6) private employers in Nevada cover an estimated 12,000 employees (larger than all of NSHE) and therefore we are pleased with the return. Overall, the results indicate that the current PEBP plan is in line with those of these private employers, but they are in general not making major changes for the 2011 plan year (they are on calendar year plan schedule while PEBP is on a fiscal year plan). Therefore, with the plan changes occurring July 1, 2011, NSHE will drop significantly in comparison to what they are offering their employees. It was also noted that some of these private employers offer health care programs for their retirees. It is also important to note that this information is very different from the publicized results of the SAGE Commission, for which no detail data was ever provided. No distinction was made regarding the types or size of employers included in the SAGE Commission.

***Benefits as a percent of salary comparisons between Nevada and Western States**

The task force examined how Nevada higher education compares with total benefits provided for most of the western states. NSHE does not participate in Social Security, so an adjustment for this benefit has been made (however, it must be noted that the states participating in social security provide this employer benefit in addition to other retirement, health care, and other support). Even with the adjustment for social security, it is important to note that the total cost of benefits (as a percent of salary) for NSHE institutions is well below the average of these western states. When you consider the fact that these other states are also providing the social security match, the NSHE benefit rates drop even further below the average (to nearly 7 ¼ percentage points below the average).

Section 3: Specific Recommendations to the Chancellor:

The Task Force developed a series of recommendations for consideration by NSHE. The recommendations below are sorted into one category that is more urgent, and a second category that while critical and important, may have slightly longer time periods for consideration. Please note the recommendations below are not in any priority order.

Activities for the 2011 Legislative Session and Near Term PEBP Related Health Care Plan Action Recommendations:

- a. The Task Force recommends that NSHE have Gallagher Benefits update and finalize their comparative data analysis as soon as the PEBP premium levels are known (February).
- b. The Task Force recommends that NSHE be very active in the upcoming legislative session regarding health care benefits for its employees. This could include supporting

improvements in the PEBP health care program over what has been approved by the PEBP Board, adjusting the structure to include both a high and low deductible option (since the current plan with only a high deductible option and an HMO will be relatively unique in comparison to other public and private employers) and/or consideration of viable near-term alternatives for how NSHE provides health care benefits to its employees.

- c. It is recommended that NSHE develop a communications plan with an external focus, to highlight that NSHE employees do not have high benefits, and are in general not in the PERS retirement program (except for classified and a very small percentage of faculty/professional staff who came from PERS covered employment).
- d. NSHE should support an implementation year adjustment for spouse or domestic partners that are covered under non-PEBP plans, to allow flexibility for the six (6) month period of overlap between those on a calendar year plan schedule.
- e. Consideration should be given to extending the enrollment period, as was done last legislative session to allow employees to adjust to the radical changes in the PEBP plan, and still have a July 1, 2011 implementation date. It is recognized there is a relatively large cost associated with this option.
- f. Phase-in of the reductions in HMO rates in the North, if in fact these rates drop over what exists now. There is a PEBP policy for short-term/2 -year subsidy for large rate increases, and this is inserted below. It should be noted that this subsidy policy is currently in effect with the Northern HMO program for FY10/FY11, but at their 1/13/11 meeting the PEBP Board suspended this policy for the FY12/FY13 biennium. This adds additional concern since the northern HMO rates have been under this subsidy policy for the current biennium, combined with the fact that the pooling of rates north and south will clearly lead to reductions in the north and increases in the south. The HMO participants in the south will therefore have no advantage of this subsidy policy during a biennium when their rates will increase due to higher costs in the north.

Supplemental subsidy allocation:

*A supplemental subsidy will be allocated to any tier and plan with participant contribution increases:

- greater than one and a half times the blended medical trend as provided by plan actuaries, and
- greater than \$100.

*The supplemental subsidy will be the amount required to reduce the participant contribution percent increase to the average of the unsubsidized participant contribution and the blended medical trend, but no lower than the amount required to reduce the increase of the participant contribution to \$100.

Other Overall Recommendations:

- a. It is the recommendation of this Task Force that NSHE establish a system-wide standing committee on NSHE benefits overall, to include Health Care Benefits but not just limited to this program. This would include a focus on future health care coverage (including impacts of federal requirements) and retirement issues. This group, while working with System staff, would also focus on how we can effectively communicate with legislators and other key groups that NSHE employees have

major differences in retirement coverage, and that our "compensation" is not consistent with the previous reports distributed about overall "public employee compensation." The System needs to take immediate action in communicating these facts to key constituent groups.

- b. The Task Force recommends that NSHE immediately begin researching future options to identify alternative approaches to providing health care benefits for NSHE employees that are independent and outside of the current PEBP program, including viable options for communications and/or action steps initiated in the 2011 legislative session. This could include consideration of fully insured programs, self-insured, and/or combining with other large public employee groups.
- c. If the current PEBP plan for FY12 cannot be changed, the Task Force recommends that a request be made to the Board of Regents to provide some funding to support a Flexible Health Benefits Account for each NSHE employee to offset medical cost increases and improve retention and recruitment. The "flexible benefit credit" approach to provide employees with additional health care funding seems to be the most flexible and easiest to implement of any options reviewed. It is recognized that a key factor in implementing this recommendation is identifying funding, especially in this financial climate.
- d. As the Chancellor and Board of Regents consider the option of providing supplemental benefits for NSHE employees, we would like to highlight several potential challenges and key issues that would need to be addressed if supplemental benefits are provided. We have attempted to highlight these issues below.
 - 1) A major issue relates to identifying funding to provide additional health care support, which will be challenging in this fiscal environment.
 - 2) Another major issue that would have to be discussed relative to supplemental benefits is a legal one relative to the Board authority over NSHE state classified staff. It is the view of the Task Force that any supplemental benefits authorized by the Board cover ALL NSHE employees including state classified staff employed by NSHE.
 - 3) The supplemental benefit approach recommended by this Task Force would not be applicable for retirees under the current administrative structure. In fact, we have not been able to identify any supplemental option for retirees that would not require the development of an administrative solution. Retirees interact directly with PEBP for health care, and this information does not come through NSHE.
 - 4) The Task Force recommends the Board of Regents consider the option for a graduated rate/premium structure based on income levels (or allocation of supplemental benefits from NSHE based on the same).
 - 5) The Task Force recommends NSHE seek additional flexibility in managing all "benefits," specifically, the option to consider retirement and health care programs as a package within all benefits, given they are the two largest benefit programs by far. Additionally, there will be an added opportunity this coming legislative session, with the projected significant increase required for the PERS employee/employer contributions (moving from the current 11.25% for employee and employer to 12.25%). Most NSHE

professional/faculty do not participate in PERS, therefore does do not contribute to any future state retirement liability. If NSHE received the normal funding for retirement, health care and all other benefits, but was given the flexibility to manage them as needed, we would be able to consider a total compensation review of our competitiveness for recruitment and retention of faculty and staff, with no increase in funding from the state over what they provide to all other agencies.

- 6) Continue the analysis of the data from PEBP on actual claims experience for NSHE employees in a form appropriate to compare the revenue and expenses from NSHE (net costs), along with utilization trends relative to the NSHE population. This will help foresee the longer range options and opportunities for NSHE relative to health care programs.
- 7) NSHE should argue for alternative approaches to what exists now relative to how PEBP negotiates rates for medical procedures (and including overhead and profit costs). More transparency is needed regarding this process to assure that PEBP members and taxpayers are getting the best prices available.
- 8) NSHE should consider developing specific health care options for NSHE employees for the following biennium (2013-2015). These options/alternatives should consider ways that NSHE resources of health professionals, health programs (med school, dental school, nursing programs, etc.), and health and wellness centers might be used as part of an overall plan to provide health care benefits to our employees.