Presentation to the
Financial Administrator Development Program

Benefits and Fringe Rates

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Agenda

• Introduction
• Benefits Overview
• Health Care Costs
• Establishing a Fringe Benefit Rate
• Fringe Benefit Model
Background on Benefits

• Why do we offer benefits?
  • Attraction & Retention of Staff
  • Some Required by Law
  • Paternalistic Reasons
  • Negotiated
## Background on Benefits

<table>
<thead>
<tr>
<th>Employer-Paid Benefits</th>
<th>Annual Cost (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health/Rx</td>
<td>$ 126.5</td>
</tr>
<tr>
<td>Retirement</td>
<td>$ 76.7</td>
</tr>
<tr>
<td>Social Security</td>
<td>$ 64.5</td>
</tr>
<tr>
<td>Dental</td>
<td>$ 7.4</td>
</tr>
<tr>
<td>Long Term Disability</td>
<td>$ 3.3</td>
</tr>
<tr>
<td>Worker's Compensation</td>
<td>$ 2.5</td>
</tr>
<tr>
<td>Ed Assist/Prof. Development</td>
<td>$ 1.2</td>
</tr>
<tr>
<td>Unemployment Compensation</td>
<td>$ 0.9</td>
</tr>
<tr>
<td>Death Benefits</td>
<td>$ 0.5</td>
</tr>
</tbody>
</table>
Background on Benefits

• What does MSU spend annually on benefits?
  • Over $280 Million (all funds)
  • Health Care Biggest Portion of Benefits Budget
  • Determining Health Care Budget
    http://vimeo.com/63621017
FY2014-15 Benefits Budget - All Funds = $283.4M

- **Health/Rx**: $126.5M (45%)
- **Retirement**: $76.7M (27%)
- **Social Security**: $64.5M (23%)

*Other benefits include: Long Term Disability, Worker's Compensation, Ed Assist/Prof. Development, Unemployment Compensation, Death Benefits - Basic Life.*
Health Care Costs in Perspective

$126.5 million annually works out to approximately:

- $343,000 per day
- $14,250 per hour
- $240 per minute
- $4 per second
Health Care Costs in Perspective

• In 1966 the cost for health care coverage for an individual was approximately $8 per month. Today MSU pays about $450 per month.

• In 1984 the cost of health care made up about 3% of the MSU General Fund budget; it now makes up nearly 7%.
MSU Health Care Annual Rate of Change - FY 1981 to Present

More Covered Lives, Medical Inflation, Advances in Medical Technology, Aging Population, Unhealthy Lifestyles

More Covered Lives,
Medical Inflation,
Advances in Medical Technology,
Aging Population,
Unhealthy Lifestyles

- 81-82
- 86-87
- 91-92
- 96-97
- 01-02
- 06-07
- 11-12
- 16-17

Aetna
Caremark
Community Blue

Blockbuster Drugs

Specialty Medications

Affordable Care Act

Hillary Affect

BCN & Generic Prescribing Program
Looking Into The Future

5% Future Trend Line
8% Future Trend Line

Cost Difference Between Trend Lines 10 Year Out = $57M

Projected Cost 2013-14: $125M

$250M
$193M

-25,000,000
25,000,000
75,000,000
125,000,000
175,000,000
225,000,000
275,000,000

70-71 75-76 80-81 85-86 90-91 95-96 00-01 05-06 10-11 15-16 21-22
Factors Impacting Health Care Costs

• Numbers of Individuals Covered
• An Aging Population
• Medical Inflation
• Increased Utilization
• Government Regulations
• Medical Technology Advancements
• Defensive Medicine Due to Litigation Risk
Health Care Cost Control Strategies

• Plan Design Changes

• Incent Healthy Behavior/Lifestyles

• Provide Tools to help Consumerism (e.g. Cost and Quality Comparisons)
MSU's 10 Year Health Care Trend Compared to Benchmark

- **Mercer, Towers Watson and Kaiser Family Foundation**

Spike in Number of Catastrophic Claims

Generic Prescribing Program & BCN
Health Care Costs Trended Out 10 Additional Years

- **MSU Health Care Cost**
- **If MSU Health Care Cost Increased at Benchmark Trend**

* Includes active faculty and support staff and retirees

** Mercer, Towers Watson and Kaiser Family Foundation

**Total Est. Annual Savings if MSU & Benchmark Trends @ same 10 year avg. as prior 10 years**

14,200 EE's/Retirees x $10,700 = $150M
Fringe Benefit Allocation Model
What does “SI” mean??
Michigan State University uses the specific identification (SI) fringe benefit costing model to project and recover the cost of fringe benefits from employing departments (all funds) and to maintain a contingency reserve for fringe benefit expenses.
Why SI?

• Identifies the cost per employee and allocates it proportionately to the accounts from which the employee is paid

• Applied to all MSU accounts with charges to department general fund accounts redirecting to centrally budgeted and funded general fund accounts
Benefits Components of SI

- Health/Dental/Prescriptions – 45%
- MSU Retirement – 26%
- Social Security – 21%
- Miscellaneous Other – 8%
Health/Dental/Prescriptions

- Fixed dollar amount/flat amount
- Based on the University average cost per employee with an amount factored in for all current University retirees covered by MSU insurance
- Based upon ELIGIBILITY for health benefits, not PARTICIPATION. If the employee chooses not to participate, the department will still incur the charge
- FY 2014-15 rate is $12,437
MSU Retirement

• 10% of base salary
• Employee must be ELIGIBLE and PARTICIPATE
• Not a 10% allocation – this is the **actual** amount being contributed to the retirement vendor on behalf of the employee
Social Security

• FICA – 6.2% of all salary up to the annual salary cap ($118,500 for calendar year 2015)
• Medicare – 1.45% of all salary
• **Actual** cost, not allocated
• Some employees are exempt from Social Security such as students therefore the department will not see a charge
• Salary subject to Social Security may be reduced by certain pre-tax deductions causing a lower charge to the department
Miscellaneous Other

• Allocated charge, not actual
• 1.5 % of base salary
• Follows health eligibility – if no health charge, no miscellaneous charge
• Covers the cost of unemployment compensation, workers’ compensation, long-term disability, life insurance, employee tuition reimbursement and longevity
History of SI Health Rate
ACA HEALTH FEE

- Monthly fee of $401.03 charged by KFS entry to object code 6645 ACA Health Fee
- Effective January 2015
- Fee is based on ELIGIBILITY for health benefits, not participation
- Department(s) responsible for fee: Primary org unit listed on the employee’s active assignment(s) on the last day of each month
- If employee has more than one active assignment, the fee will be split EQUALLY among all employing departments
- Departments can provide an account for each unique org to be used for all ACA fees by contacting hr.ACAHealthFeeInfo@hr.msu.edu. If no account is provided, the department’s central salary account will be charged
- Because the transaction will originate in KFS, departments can also move the charge after it has been processed
- For more detail on the fee: http://www.hr.msu.edu/healthystate/documents/ACA_FAQ.pdf
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• http://ctlr.msu.edu/COPayroll/Fringes.aspx - Fringe benefit policy and information
Questions?