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
  • 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>$ 134.4</td>
</tr>
<tr>
<td>Retirement</td>
<td>$ 79.0</td>
</tr>
<tr>
<td>Social Security</td>
<td>$ 66.5</td>
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<tr>
<td>Dental</td>
<td>$ 7.5</td>
</tr>
<tr>
<td>Long Term Disability</td>
<td>$ 3.4</td>
</tr>
<tr>
<td>Worker's Compensation</td>
<td>$ 2.6</td>
</tr>
<tr>
<td>Ed Assist/Prof. Development</td>
<td>$ 1.0</td>
</tr>
<tr>
<td>Unemployment Compensation</td>
<td>$ 0.7</td>
</tr>
<tr>
<td>Death Benefits</td>
<td>$ 0.6</td>
</tr>
</tbody>
</table>
Background on Benefits

• What does MSU spend annually on benefits?

  • Over $300 Million (all funds)

  • Health Care Biggest Portion of Benefits Budget

• Determining Health Care Budget
  
  http://vimeo.com/63621017
FY2015-16 Benefits Budget - All Funds = $303.5M

Health/Rx: $134.4M (45%)
Retirement: $79.0M (27%)
Social Security: $66.5M (22%)
Health Care Costs in Perspective

$134.4 million annually works out to approximately:

• $368,219 per day
• $15,342 per hour
• $256 per minute
• $4.26 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 $465 per month.

• In 1984 the cost of health care made up about 3% of the MSU General Fund budget; it now makes up nearly 6.5%.
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

Change

-10.0% -5.0% 0.0% 5.0% 10.0% 15.0% 20.0% 25.0%


Spike in Number of Catastrophic Claims
Substantial Cost Increase in Specialty Medication Cost

*Mercer, Towers Watson, Segal Sibson & Kaiser Family Foundation
**Projected

Generic Prescribing Program & BCN

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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 – 46%
- MSU Retirement – 26%
- Social Security – 22%
- Miscellaneous Other – 6%
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 2015-16 rate is $12,500
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 2016)
- 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
- 1.4% 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, longevity and vacation payouts at termination.
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?