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
- Bonus Item: Affordable Care Act (a.k.a. Health Care Reform)
Uses ($1.9B in 2012) – $1.3B (65%) payroll & benefits

- Payroll (930K)
- Benefits (341K)
- Contractual services
- Depreciation
- Repairs and maintenance
- Supplies and general
- Student financial aid
- Travel
- Contract and grant subawards
- Other operating expenses
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>
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</thead>
<tbody>
<tr>
<td>Health/Rx</td>
<td>$125.0</td>
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<tr>
<td>Retirement</td>
<td>$72.3</td>
</tr>
<tr>
<td>Social Security</td>
<td>$61.0</td>
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<tr>
<td>Dental</td>
<td>$7.1</td>
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<td>Long Term Disability</td>
<td>$4.1</td>
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<tr>
<td>Worker's Compensation</td>
<td>$3.1</td>
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<tr>
<td>Ed Assist/Prof. Development</td>
<td>$1.2</td>
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<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 $275 Million (all funds)
  • Health Care Biggest Portion of Benefits Budget

http://vimeo.com/63621017
FY2013-14 Benefits Budget - All Funds = $275.1M

- Health/Rx: $125M (45%)
- Retirement: $72.3M (26%)
- Social Security: $61.0M (22%)
- Other benefits (small portions): Long Term Disability, Dental, Worker's Compensation, Ed Assist/Prof. Development, Unemployment Compensation, Death Benefits - Basic Life
Health Care Costs

- MSU’s Historical Health Care Costs
  http://youtu.be/Fiy5xQ_uEyM

- Factors Influencing Costs

- Cost Control Strategies
Historical MSU Health Care Costs
1970 to Present

Key Cost Drivers:
- More Covered Lives
- Expanded Coverage
- Double Digit Inflation

50's
- More Covered Lives
- Some Expanded Coverage
- Double Digit Inflation (early 80's)

Hillary Affect
- Blockbuster Drugs
- Direct to Consumer Drug Ads
- Biotech Drugs (Specialty)
- More Expensive Treatments
- Aging Population
- More Retirees

Key Cost Drivers:
Significant Plan Design Changes

70-71
80-81
90-91
00-01
10-11
MSU Health Care Annual Rate of Change - FY 1981 to Present

More Covered Lives, Medical Inflation, Advances in Medical Technology, Aging Population, Unhealthy Lifestyles
Looking Into The Future

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

Projected Cost 2013-14: $125M
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)
10 Year Health Care Trend

- MSU
- Benchmark Average*

*Spike in Number of Catastrophic Claims

*Mercer, Towers Watson and Kaiser Family Foundation

Generic Prescribing Program & BCN
MSU Average Annual Health Care Cost Per Person*

* Includes active faculty and support staff and retirees

<table>
<thead>
<tr>
<th>Year</th>
<th>MSU</th>
<th>If MSU Cost Increased at Benchmark Trend*</th>
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<tbody>
<tr>
<td>2001</td>
<td>$5,345</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
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</tr>
<tr>
<td>2003</td>
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<td>2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
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$5,345 to $12,185

$8,274 to $12,185
Health Care Costs Trended Out 10 Additional Years

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

Annual Savings per Employee/Retiree: $10,700

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

* Includes active faculty and support staff and retirees
** Mercer, Towers Watson and Kaiser Family Foundation
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
Establishment of Fringe Rates
HR’s Role

Key Steps

• Rate Renewal
• Develop Benefits Budget
• Provide Budget\Cost Data
• Calculate and Recommend S.I. Fringe Data
• Monitor and Report Costs
Establishment of Health Care Fringe Rates

Projected 2012/13 Health/Rx and Dental S.I. Calculation

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Health/Prescriptions</td>
<td>$123,890,000</td>
<td>$89,490,000</td>
<td>$34,400,000</td>
</tr>
<tr>
<td>Dental</td>
<td>$7,080,000</td>
<td>$5,425,000</td>
<td>$1,655,000</td>
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<tr>
<td>Health Care Administrative Costs</td>
<td>$890,000</td>
<td>$705,000</td>
<td>$185,000</td>
</tr>
<tr>
<td>Total</td>
<td>$131,860,000</td>
<td>$95,620,000</td>
<td>$36,240,000</td>
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<tr>
<td>Average Active FTEs</td>
<td>10,650</td>
<td>10,650</td>
<td>10,650</td>
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<tr>
<td>Avg. annual cost/active FTE</td>
<td>$12,381</td>
<td>$8,978</td>
<td>$3,403</td>
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</tbody>
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### Other Benefits Related to S.I. Calculation

<table>
<thead>
<tr>
<th>Other Benefits</th>
<th>2012/2013 Projected Budget</th>
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<tbody>
<tr>
<td>Course Fee Courtesy</td>
<td>$3,665,000</td>
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<tr>
<td>Long Term Disability</td>
<td>$3,635,000</td>
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<tr>
<td>Worker's Compensation</td>
<td>$2,912,000</td>
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<td>Ed Assist/Prof. Development</td>
<td>$1,690,000</td>
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<tr>
<td>Unemployment Compensation</td>
<td>$1,620,000</td>
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<tr>
<td>Death Benefits - Basic Life</td>
<td>$450,000</td>
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Establishment of Fringe Rates
Controller’s Role

- Project current fiscal year-end balance in Fringe Benefit Clearing Account and Fringe Benefit Reserve (5% of annual HR benefits budget)
- Based on HR’s rate recommendation, project the year-end balance in the Fringe Benefit Reserve for the next fiscal year
- Create scenarios showing impact to reserve using higher and lower rates
- Present scenarios to management from HR, CO, OPB and CGA for final decision
- Communicate rate to campus
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 2012-13 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 ($113,700 for calendar year 2013)
• 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
• 2 % 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 background checks
History of SI Health Rate

![Chart showing the history of SI Health Rate from 2004-05 to 2012-13. The rates are as follows:
- 2004-05: $9,600
- 2005-06: $10,800
- 2006-07: $11,200
- 2007-08: $11,200
- 2008-09: $11,800
- 2009-10: $12,000
- 2010-11: $11,500
- 2011-12: $12,075
- 2012-13: $12,437]
Bonus Item:
Affordable Care Act (a.k.a. Health Care Reform)

• What is it?
• Why is it important to us?
• What will it cost?
• What’s the latest?
• How do I learn more? [http://www.hr.msu.edu/](http://www.hr.msu.edu/)
Affordable Care Act
Why is it Important to MSU?

• Cost Impact

• Systems Modifications

• Policy & Processes Impacted
Affordable Care Act
What is the Latest?

- Still Plenty of Gray
- Moving Target
- Committee Work
- Switch to Calendar Year
Affordable Care Act

What will it Cost?

• New Fees
• More Employees Covered
• Impact of Other Employer’s Decisions
Affordable Care Act

How do I learn more?

http://www.hr.msu.edu/
Contact information

• Chris Hanna, Director, HR Administrative Services
  • hannat@hr.msu.edu; 884-0147

• Sue VanCamp, Management Analyst, Payroll
  • vancamps@ctlr.msu.edu; 884-6866

• http://ctlr.msu.edu/COPayroll/Fringes.aspx - Fringe benefit policy and information
Questions?