

FINAL REPORT AND RECOMMENDATIONS

Johns Hopkins University Benefits Advisory Committee

2012

The Faculty and Staff Benefits Advisory Committee (BAC) was jointly appointed by Professor Sarah Woodson, Chair of the Faculty Budget Advisory Committee, and charged by Senior Vice President for Finance and Administration, Daniel Ennis, and the Provost, Lloyd Minor. The BAC includes representation from across the Johns Hopkins University (JHU) schools and from faculty, staff and administration. (See membership list in Appendix 1.)

Mr. Ennis described the financial and regulatory issues facing the university that the BAC would need to consider in making recommendations on faculty and staff benefits in 2013 and beyond. Based on these considerations, he asked the committee to agree upon a charge and a timeline that would lead to a final report in early 2012.

The Case for Benefits Changes

The last comprehensive review of benefits was in 2004-05. A similar committee to the BAC developed recommendations that focused on health insurance benefits, largely because health care costs were rising faster than JHU salaries and overall consumer prices. That committee's recommendations led to cost savings for the university and employees through consolidating and competitively bidding the pharmacy benefit provider, reducing the JHU provided group life insurance, and increasing deductibles and co-pays. However, trends in health care costs were projected to continue to grow faster than overall inflation. To address this problem the committee recommended that the proportion of the insurance premium paid by faculty and staff be increased. The increases were intended to generally parallel increases made by peer institutions and the private sector. Some of the recommended increases did not take place due to the economic downturn and the impact on annual salary raises. Even with the increases that did occur, the percentage of the premium paid by employees has lagged behind the levels of peer institutions and industry.

Although the university is in a strong financial position today, senior leadership has identified two problems on the horizon: Revenues are likely to be stagnant or growing only very slowly, whereas costs are growing more rapidly. JHU is largely dependent on three sources of income: grants and contracts (58%), patient care (19%), and student tuition and fees (12%). With a long-term federal fiscal crisis, it is unlikely that this primary source of the university's grants and contracts will be expanding in the near term. Likewise, the pressures for health care cost reform likely will be constraining growth in fees to physicians and may lead to lower utilization of many health care services. Finally, we recognize that tuition for higher education has been rising more rapidly than the incomes of many families, making it less affordable.

At the same time, the costs of operating the university are rising inexorably. JHU is a \$4 billion enterprise, and 58% of the university's costs are compensation and benefits. Over the past several years, compensation has risen by 5% per year, almost equally split between pay increases and increases in headcount. Benefits, on the other hand, have been rising by 7.5% a year. As a result, benefits rates have increased from 32% of total compensation in FY09 to 35.5% in FY2012, when benefits costs are expected to be \$468 million.

Benefits can be divided into four major categories: retirement (\$132M, or 28%), health and welfare (\$127M, or 27%), mandated benefits such as FICA (\$82M, or 18%), and all other (\$127M, or

27%). Health and welfare costs rose less than the overall increase in benefits (6.3% versus 7.5% per year), in part because of the initiatives introduced by the previous benefits advisory committee. However, from FY11 to FY17, the costs of health and welfare benefits are projected to increase by 8.9% per year (compared to 5.9% per year for all benefits).

It was in this environment that Mr. Ennis and Provost Minor challenged the Benefits Advisory Committee to find \$10-15 million in annual savings in benefits. This target represented approximately 5% of total benefits (with the potential to reduce the overall benefits rate by one percentage point), which he and the Committee thought was both achievable and material, and unlikely to overly burden faculty and staff.

Committee Charge

The Faculty and Staff Benefits Advisory Committee undertook a comprehensive review of the University benefits programs. It identified opportunities to reduce total University benefit costs while promoting market competitiveness in total compensation (salary and benefits) for both faculty and staff.

The Committee agreed that it should be guided by the philosophy that as a pre-eminent research and teaching institution JHU must attract and retain the best faculty and staff. Benefits that enhance the university's ability to attract such human capital should be enhanced and those that do not contribute sufficient value should be open to reduction. The Committee agreed that it should also be guided by the *JHU Benefits Philosophy: Benefit costs need to be affordable for both faculty and staff, protecting the most vulnerable employees and families. Benefits should provide flexibility and choice, protect against catastrophic financial loss and hardship, and encourage higher education for employees and families. Health benefits should emphasize prevention and promotion of health and wellness through positive behavioral incentives and comprehensive preventive services, as well as the efficient delivery of care.*

Background

The BAC reviewed the performance of the university's benefits program and initiated a survey of faculty and staff to learn preferences for benefits, both in terms of value and satisfaction. The committee reviewed all current benefits looking for potential cost savings and requesting information on anticipated future cost trends. In addition, the BAC asked for and received information on the financial state of the University and the need for reductions in University costs. Comparisons were made between the benefits offered by JHU and those of peer universities to understand our competitive status and information was received showing the comparability of salaries with peer institutions. Once the BAC prepared its preliminary recommendations, we conducted over 30 town hall meetings across the university, and solicited feedback at those meetings as well as through a confidential web survey. Together what was learned shaped the recommendations of the committee.

Findings

The BAC, with the help of the Mercer consulting firm, reviewed every employee benefit offered by the university. The results of this comparison are shown in Appendix 2. The BAC also compared JHU with its peer institutions, as well as large employers, on a number of dimensions. It found that:

- JHU's business model and mix of sources of revenue are unique among peer institutions.
- JHU has a smaller endowment, thinner operating margins, and fewer total resources than its peers. This reality has encouraged faculty and staff to be more entrepreneurial and more thoughtful about managing resources.

- JHU has been very fortunate in its ability to attract and retain a world-class faculty with relatively lower salaries than many of its peers. Some of the university's benefits (in particular, the structure and size of retirement contributions and the dependent tuition grant and remission programs) are demonstrably more generous than almost all of its peer institutions.
- National surveys conducted annually by the Kaiser Family Foundation show that overall health insurance premiums at JHU approximately equal the average employers' premiums for single and family health insurance coverage. In the past decade, 2001-2011, premiums have doubled and are continuing to increase more rapidly than consumer inflation and salaries.
- Surveys conducted by Mercer show that in 2010 the average higher education institution required their employees to pay 19% of the premium cost for single coverage and 28% for family coverage, and large employers in general are having their employees pay 23% of the premium for single coverage and 31% for family coverage. The employee share of health premiums at JHU was 14% for single coverage and 22% for family coverage in the 2010-11 academic year.

The BAC conducted a survey of all 14,004 benefits-eligible JHU faculty and staff. In total, 5,586 employees, or 40%, responded. The survey enabled the committee to rank-order 13 specific benefits in terms of importance and satisfaction to employees. Appendix 3 presents the detailed results. Among the more salient findings from the survey are:

- JHU contribution to employee retirement plans is by far the most-valued benefit to employees, followed by time-off benefits.
- Four benefits have both the highest importance to employees and the highest level of satisfaction: JHU contributions to employee retirement plans, time off, the prescription drug benefit, and having more than one choice of medical plan.
- For those with dependents, the dependent tuition grant and remission programs eclipse all but contributions to retirement plans in terms of importance.

The town hall meetings and post-meeting survey yielded significant insights regarding how the JHU community perceived the BAC's preliminary recommendations. Over 1500 people attended the town hall meetings, and almost 3,400 employees responded to the survey. The detailed discussion of the findings is provided in Appendix 4. Faculty and staff expressed concerns that:

- The income-based premium differentials would not be sufficient to keep health care affordable for employees in the lower salary ranges.
- Salaries at JHU are lagging behind peer institutions and we need to be competitive.
- The university should have more wellness programs.
- Educational benefits for employees (such as the dollar limits and availability of educational programs outside of JHU) should be expanded.
- The concept of "benefit dollars", both current and proposed, is unclear.

Recommendations

Based on the results of the survey and the comparison of University benefits to peer institutions, the BAC recommends that no changes be made in retirement plans and the tuition grant program. The rapidly and continually rising cost of health care was seen by the committee as the primary financial threat to both the university and its employees. In the words of one of the committee members, "if health care is the primary problem, then health care needs to be the primary solution." As a result, most of the recommendations that follow focus on health insurance and affordability for employees with lower salaries. In addition, recommendations are made to achieve efficiencies and share the burden across faculty and staff.

Recommendations on Health Insurance

The BAC recommends the following changes be made in the health insurance benefits starting in 2013.

1. Eliminate the concept of benefit dollars, and capture 50% of the value of those dollars for benefits savings.
2. Employee share of premium was increased in 2012 to 19% single and 25% family, an average of 22%. Recommend increasing average premium to 25% in 2013. In future years, increase the employee's share of premium consistent with peer higher education institutions and large employers, but staying below peer average.
3. Recommend employee contribution toward the health insurance premium vary with salary level to ensure affordability. Lower paid employees should be asked to pay a lower share of premium costs, and higher paid employees should pay a higher share.
4. Employee salaries should be divided into five or more levels in setting employee insurance premiums, with salary levels closer together at lower incomes to soften the impact of moving from a lower to higher salary bracket on premium contributions.
5. Increase health insurance co-pays and deductibles, tracking the market of peer higher education institutions and large employers, but staying below peer average.
6. Increase cost sharing for branded prescription drugs and provide incentives for employees to use generic and mail-order drugs, tracking the market of peer higher education institutions and large employers, but staying below peer average.
7. With every increase in the health insurance premium or employee share of premium, re-evaluate affordability for JHU employees who earn lower salaries.
8. Retain \$500 credit given to those employees who do not take Hopkins health insurance and certify they have health insurance through a spouse or other source.
9. Recommend JHU establish a data warehouse and create the internal capacity for analyzing trends in utilization and costs, impact of health initiatives, and the capacity to monitor the utilization of preventive and medical services by salary level.

10. Suggestion: The recommendations above address only the affordability of the health insurance premium and not other costs associated with health insurance, including co-pays, deductible costs, and out-of-pocket annual limits. To ensure affordability of these other health care-related expenses, JHU may want to consider establishing and funding medical spending accounts for lower-paid employees to partially cover co-pay and deductible costs. The impact of out-of-pocket costs on affordability and health care utilization/costs should be monitored.

Summary: The recommended changes continue to offer choices in health plans and choices that affect out-of-pocket costs for health care, e.g., drug choices (generic, preferred brand, and brand drugs and use of mail order). The BAC recognizes that the above recommendations will not substantially “bend the cost curve” and future health care costs. Recommendations below for a University Health Management Initiative have the potential to achieve longer term savings by promoting health, preventing disease, and improving the management of chronic diseases among employees and family members.

It is important to note that the University is self-insured and together with its employees pays all health care expenses reimbursed by Blue Cross and the Employee Health Plan (EHP), plus a fee for claims processing and for care management. If we learn to utilize health services better, work to maintain our health, and change our lifestyle to reduce risks of chronic disease, we will reduce the total costs of health care and thus, reduce future increases in future insurance premiums. The total cost of health services plus administration determines the insurance premium the University and employees jointly pay.

Non-Health-Related Recommendations

1. Reduce the vacation carryover limit from 44 to 22 days for all new hires, as of January 1, 2013. Note, no change in the accrual of vacation days is recommended. This recommendation will reduce costs to the University at the time future employees retire or leave. It will also encourage employees to use more of their vacation time.
2. Self-insure coverage of long-term disability for months 4 through 6 and achieve estimated cost savings.

Recommendation for Health Management Initiative

The BAC believes that JHU has a unique opportunity to make a major impact on the cost and quality of health care. We have world-class researchers who are developing innovative therapies and others who are examining the most effective and efficient methods of delivering care and keeping people healthy. The committee recommends that the university harness these resources to address the health care needs of JHU employees and their dependents. Therefore, the Committee recommends that senior leadership of the university create a health management initiative charged with developing innovative solutions to our health care problems at JHU. This initiative should focus on, at least, two initiatives:

1. Develop and evaluate programs that provide financial incentives to employees or reduce financial barriers for employees to participate in programs and treatments to protect and improve their health. Examples include: providing free gym membership conditional on regular use; providing a credit toward the health insurance premium if a person participates in a smoking cessation or weight reduction program if needed; and reducing co-pays for persons who consistently refill chronic medications as evidence of adhering to prescribed care, or who are able to control their conditions (e.g., diabetics keeping their HbA1c levels within range).
2. Engage JHU and Johns Hopkins Health System in joint strategies to improve employee and family health and increase the efficiency of health services, thus ensuring the financial health of

both enterprises related to health care costs. Also, strategies should be developed to recognize the health care needs of JHU employees who do not live in the immediate Baltimore area.

Collateral Recommendations

As the BAC conducted its work and presented its preliminary recommendations to the JHU community, a number of issues were raised that were not directly related to benefits. The committee believes that these issues are important, but beyond the scope of our work. Therefore, the BAC recommends that the following actions be taken as soon as practicable:

1. The Faculty Budget Advisory Committee (FBAC) should undertake a formal study to compare JHU faculty salaries, by division, with our peer institutions. The BAC recognizes that some schools conduct such a review on a regular basis, and we encourage others to do so, as well.
2. The FBAC, or an ad hoc committee, should undertake a formal study to compare staff salaries, by category, with large employers in the greater Baltimore/Washington area.
3. Given the university's stated support for lifelong learning, senior leadership should consider raising annual tuition remission for employee education from the current level of \$5,250. The University should also consider allowing at least a reasonable portion of these funds to be used for education outside of JHU.

Summary

The Benefits Advisory Committee undertook a comprehensive assessment of the benefits offered at Johns Hopkins University. We examined every benefit, and evaluated its value to employees and its cost to the university. We focused primarily on health benefits, which are forecasted to be the biggest source of cost increases over the next five years. After much effort, the committee achieved its target of reducing benefits costs by \$10-15 million per year. The table below indicates the forecasted savings achieved from our recommendations in 2013.

Area of Savings	Estimated Annual Savings
Eliminate benefits dollars	\$5.5 million
Increase share of health benefits paid by employee	
Increase deductibles and out-of-pocket limits	\$3.5 million
Increase cost-sharing for drugs	\$3.5 million
Self-insure long-term disability for 91-120 days	\$0.2 million
Reduce vacation carryover	Future savings
Health management initiative	\$0.5 million
Total	\$13.2 million

Acknowledgements

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