# Benefits for the Public Good


## By Valerie Martin Conley

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Benefits are a sizable portion of higher education employee compensation. Colleges and universities reported spending an average of $21,744 in total benefits per full-time faculty member on nine-month contracts alone in 2010–11. In public institutions the average was $21,234; in private institutions it was $22,927.[1]

The escalating cost of benefits elicits much concern. "Median annual cost of health care this year" noted a 2011 report, "was 7.3 percent higher than last year for both employee only and employee + family coverage for the three most common plan types (PPO, HMO and POS)."[2] "Median annual plan premiums," the report continued, "increased to $5,868 for employee only coverage and to $16,388 for employee + family coverage. The percentage increases in costs are greater this year than in the preceding two years."[3] "The median monthly premium for stand-alone dental plans," the report concluded, "increased five percent for employee only coverage and three percent for employee + family coverage."[4]

As states battle continual budget shortfalls and as economic struggles continue to plague academe, we see why reducing benefits—especially retirement benefits—emerged as a strategy for combating fiscal woes. National and state policy has moved toward shifting responsibility for retirement from government, taxpayers, and employers to individuals for more than a decade. Legislation eliminating mandatory retirement and gradually increasing full retirement age lengthens the time individuals remain in the workforce. These trends jeopardize the existing social contract in which public sector employees and education professionals forego higher salaries in exchange for secure benefits and retirement. "In sum," I wrote in the *NEA 2012 Almanac,* "these trends pointed to a new retirement and benefits reality characterized by adjusted expectations regarding responsibilities and the assumption of individual risk."[5]

These trends accelerated during the recent recession. The consequences are only beginning to come to light. For example, according to the National Retirement Risk Index, "the percentage of households at risk increased by nine percentage points between the 2007 and 2010 surveys—44 percent to 53 percent."[6] Elaborating on the repercussions for those entering or contemplating retirement, the index compilers conclude, "Today's workers face a major retirement income challenge."[7] The facts are sobering. "Even if households work until age 65 and annuitize all their financial assets, including the receipts from reverse mortgages on their homes," the compilers conclude, "more than half are at risk of being unable to maintain their standard of living in retirement."[8]

The public good requires us to ensure adequate benefits. We must start by continuously monitoring the benefits landscape. This chapter surveys the current benefits landscape from the perspectives of employers and employees, provides information on benefits expenditures for selected institutions, and examines 2012 state pension and retirement plan legislation. A discussion of the Patient Protection and Affordable Care Act (ACA) follows the descriptive data. The chapter then assesses prospects for reestablishing equilibrium.

## PERCEPTIONS: EMPLOYERS AND EMPLOYEES

Where do we go from here? An answer may emerge from gathering information about what employees want and need from benefits packages, and from holistic thinking about benefits needs over the life span. Results of the *MetLife Study of Employee Benefits Trends* consistently show the importance of benefits to attracting and retaining a productive workforce. This year's survey highlights the changing attitudes of younger workers towards financial security and benefits. The study "reveals fundamental differences between the way younger and older workers view employee benefits, financial decision-making, career planning, job satisfaction and loyalty to employers." Two-thirds (66 percent) of Gen Y employees," the survey fund, "said that economic conditions are causing them to look more seriously at achieving financial security through their employee benefits.[9] Put simply: Benefits matter. "Employees who are very satisfied with benefits," the study continued, "are nearly three times as likely to say they are very satisfied with their jobs and less likely to plan to leave."[10]

Benefits, the report adds, enhance organizational commitment and loyalty.[11] Almost three–quarters of employers (71 percent) and employees (73 percent) agree that good salaries produce loyalty.[12] But gaps emerge when asked about the importance of benefits. A larger percentage of employees than employers said health benefits, retirement, and non-medical benefits—dental, disability, vision, and life insurance—were very important for feelings of loyalty. Employees and employers disagreed less on the importance of health benefits (66 percent and 57 percent, respectively) than on retirement benefits (59 percent and 42 percent, respectively), and non-medical benefits (51 percent and 32 percent respectively).[13]

Employee/employer loyalty is related to the adequacy of total compensation—salary and benefits, or simply higher wages. The report notes "a widening gap between employer and employee perceptions of company loyalty towards employees."[14] Differences in the perception of loyalty between employers and employees widened during the Great Recession. The percentage of employers feeling a very strong sense of loyalty to employees grew from 52 to 59 percent between 2008 and 2011. But the percentage of employees who believe their employer has a very strong sense of loyalty to them decreased from 40 to 32 percent.[15]

Changes in the structure of benefits may explain some of the resulting tension. Employers look for ways to respond to employees' strong desire for benefits coverage, while leveraging benefits as a recruitment and retention strategy. "Progressive employers," states the report, "are more likely to predict a greater role for benefits choice and personalization in the future."[16] Among the emerging strategies: "voluntary benefits"—where the employee covers 100 percent of the cost. More employers are using voluntary benefits: "And 42 percent of employers who currently do not offer voluntary benefits say that they plan to do so in the next two years."[17] "Gen Y," the report notes, "has an especially strong interest in a range of voluntary benefits."[18]

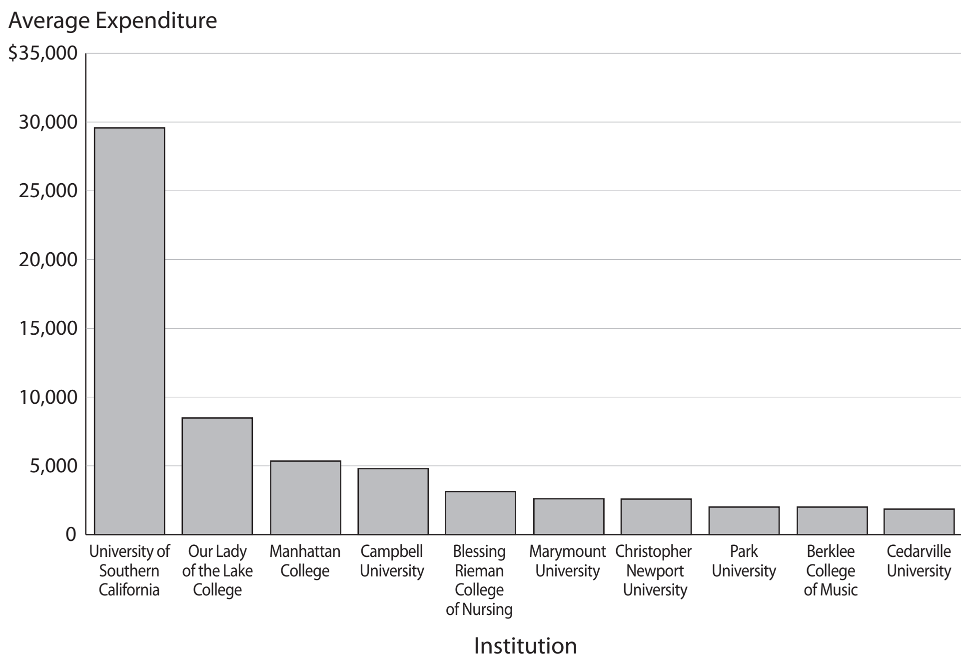
Employers may offer voluntary benefits "as a cost effective way to increase employee options and choices" or to replace employer-paid benefits.[19] Seventy percent of surveyed employers "agree they offer voluntary benefits to expand the types of benefits offered without increasing benefits costs."[20] But more than one-half (54 percent) agreed they offer voluntary benefits "to replace employer-paid benefits programs and reduce company benefits costs."[21] Replacing guaranteed benefits with voluntary programs is not a recipe for reducing tensions or increasing loyalty.

## BENEFITS EXPENDITURES

Figures 1–6 show the ten institutions with the highest average expenditures, by type of benefit for full-time instructional staff on 9/10-month contracts. The data are from the IPEDS Data Center. Figure 1, for example, shows data for disability income protection. Institutions were asked to report expenditures for long-term disability income payments (defined as salary in excess of six months) not covered in other retirement or insurance plans. Payments exclude the accumulation of unused sick leave.[22] The University of Southern California reported the highest average expenditures for long-term disability income payments: $29,575 in 2010–11. Under the basic USC disability plan, employees receive 70 percent of gross pay for a maximum of 52 weeks.[23] Even among institutions reporting the highest average expenditures, amounts paid were often $3,000 or less.

As with disability income protection, workers compensation and unemployment compensation can be costly for institutions. The

**Figure 1. Highest Average Expenditures: Disability Income Protection: 2010–11**




*Source:* IPEDS Data Center.

amount of compensation can vary from state to state (Figures 2 and 3). All states except Texas require employers to provide coverage.[24]

Average expenditures for group life insurance among institutions reporting the highest expenditures in 2010–11 ranged from $6,544 at Trinity Valley Community College to $1,734 at Massachusetts Maritime Academy (Figure 4). There is less variability among institutions reporting the highest expenditures for medical/dental plans and retirement plans (Figures 5 and 6).

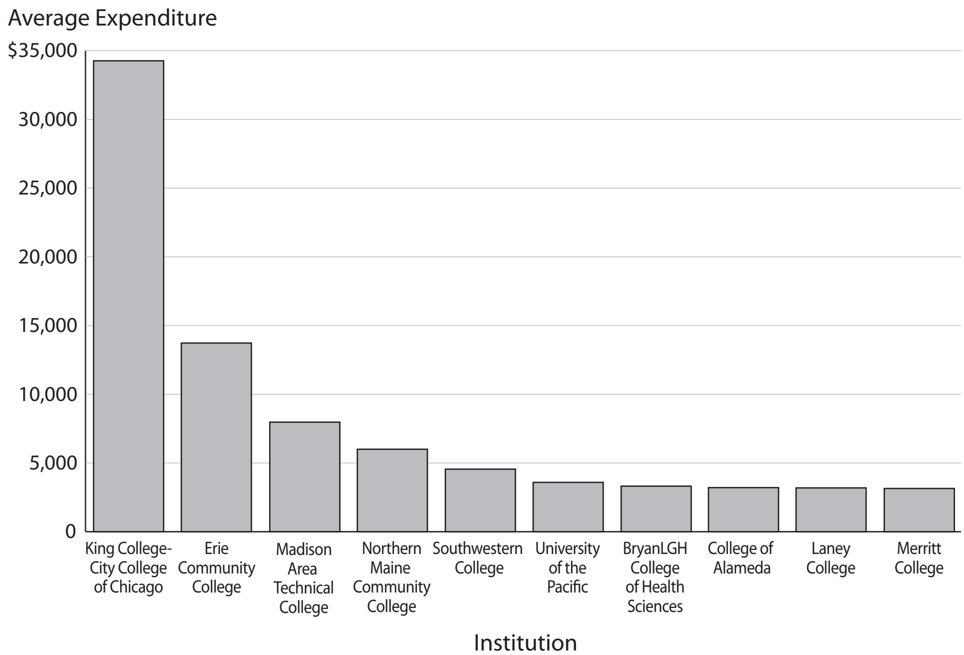
Figure 7 shows institutions with the highest total expenses for benefits for full-time instructional faculty and staff on nine-month contracts employed at public two-year and four-year institutions in 2010–11. Figure 8 shows the data for private not-for-profit institutions. Highest average expenditures are more consistent among public institutions than private not-for-profit institutions, in part because of state requirements governing public institutions.

## 2012 STATE PENSION AND RETIREMENT PLAN LEGISLATION

According to a report from the National Conference of State Legislatures, eight states "made major structural changes in state retirement plans" in 2012, and several other states had considered, or were considering, plan changes.[25] Fewer states made plan changes than in the previous two years, signaling a slowdown of major reforms.

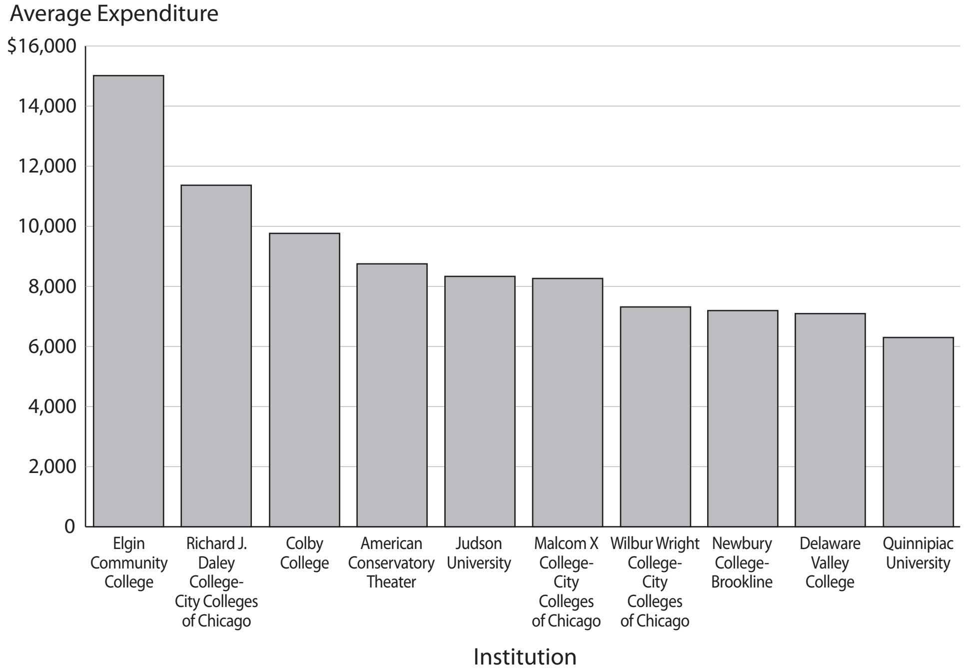
Kansas and Louisiana will replace defined benefit plans with cash balance plans—reportedly "rare" changes in the public sector that should be closely monitored. Cash balance plans provide *individual* accounts to which employers and employees contribute. These accounts differ from conventional defined contribution plans where members decide how the money is invested. Instead, one trust fund manages all of the accounts. Similar to defined benefit plans, members are guaranteed a return on investment, based on an annuity derived

**Figure 2. Highest Average Expenditures: Workers' Compensation: 2010–11**



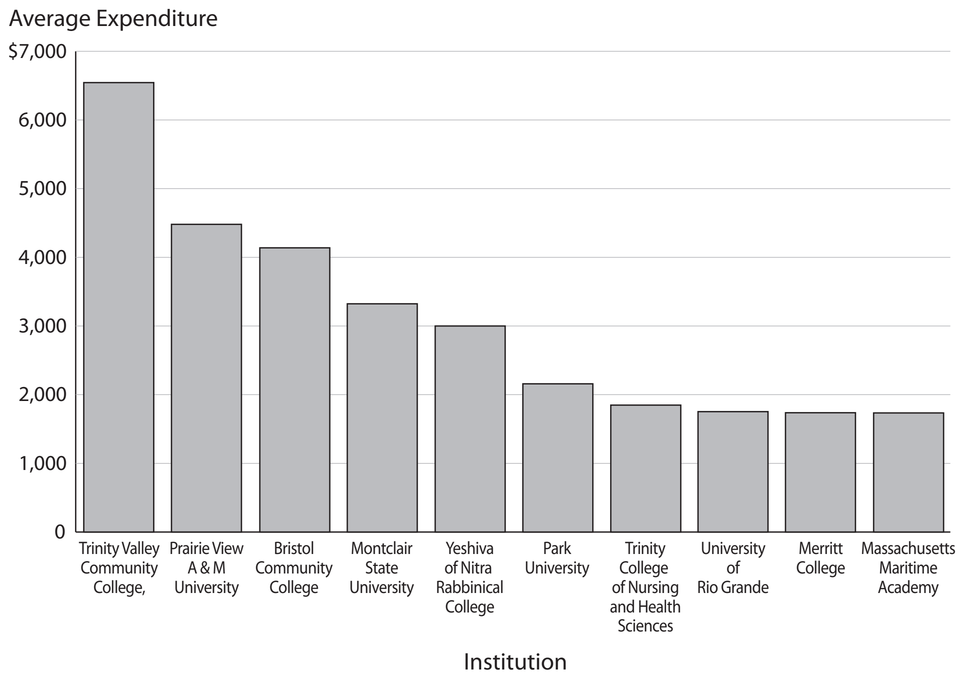

*Source:* IPEDS Data Center.

**Figure 3. Highest Average Expenditures: Unemployment Compensation: 2010–11**



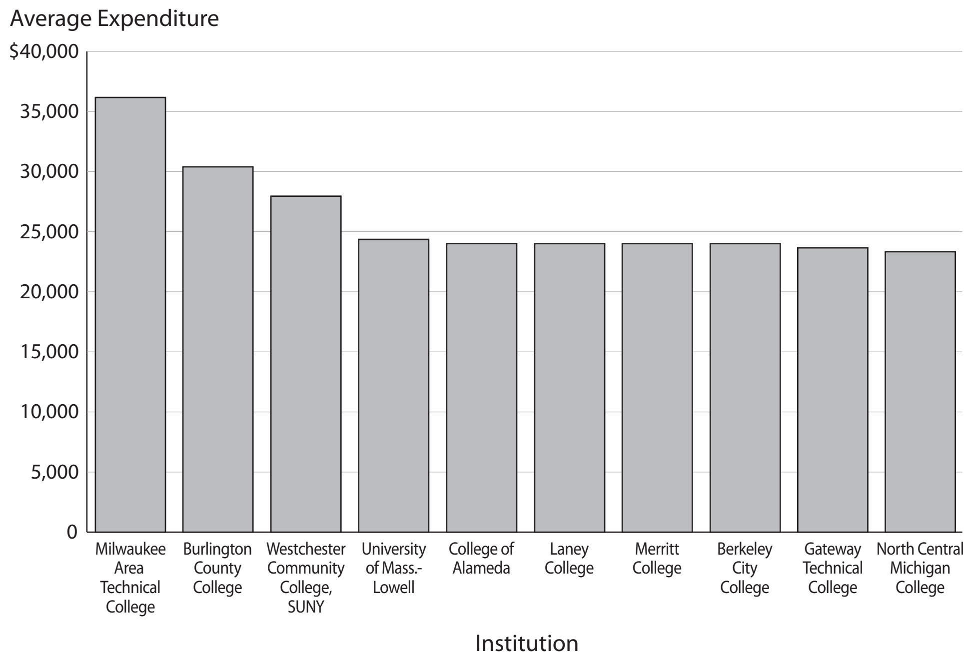

*Source:* IPEDS Data Center.

**Figure 4. Highest Average Expenditures: Group Life Insurance: 2010–11**



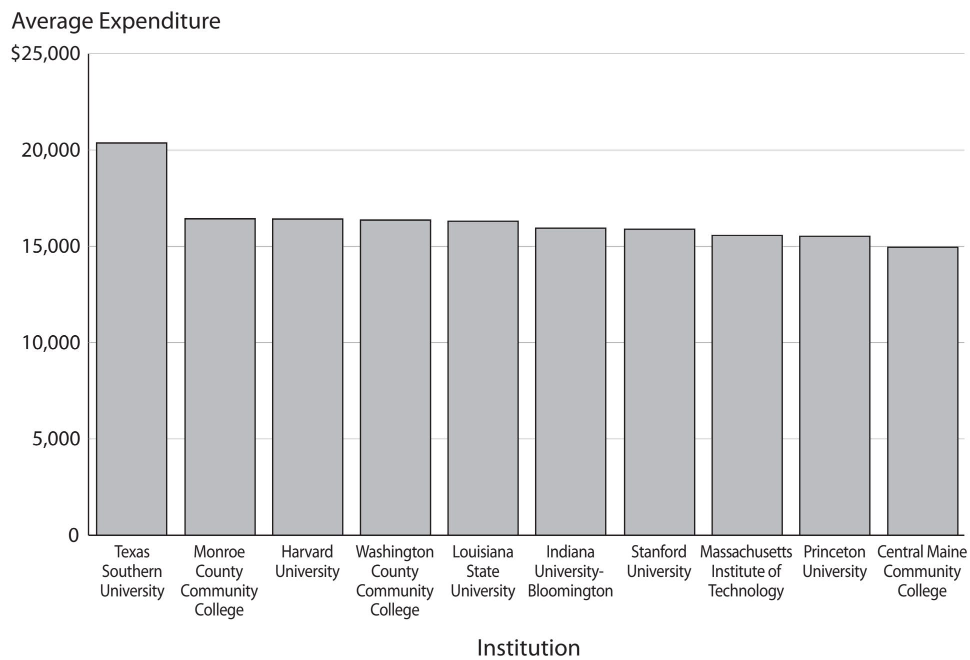

*Source:* IPEDS Data Center.

**Figure 5. Highest Average Expenditures: Medical and Dental Plans: 2010–11**




*Source:* IPEDS Data Center.

**Figure 6. Highest Average Expenditures: Retirement Plans within Five Years: 2010–11**




*Source:* IPEDS Data Center.

from the account balance. Unlike defined benefit plans, returns above the guaranteed annuity are *possible,* if the accounts perform well and if investment returns allow it. Louisiana will replace its defined benefit plan with a cash balance plan for new public employees, beginning July 1, 2013. The plan is mandatory for higher education faculty, but it is optional for other education employees. Employees contribute eight percent; employers pay four percent.

Kansas will replace its defined benefit plans with a cash balance plan for new employees on January 1, 2015. Employees will contribute six percent, while employer payments will increase from three percent to six percent as employees accrue years of service.

Other changes in 2012 included contribution rates and funding issues, cost of living adjustments, plan type changes, divestiture, governance and investment policy, purchase of service credit, re-employment after retirement, and voluntary plans.[26] In 2012, California Governor Jerry Brown proposed a controversial 12-point pension reform plan. The plan had two stated goals: to "reduce taxpayer burden for state retiree health care costs," and to "put California on a more sustainable path to providing fair public retirement benefits."[27] After heated debate, Governor Brown and state legislators "reached a deal on public employee pension changes."[28]

Key provisions of the deal, according to the California Faculty Association, include:

- New employees must pay 50 percent of normal costs. The employer can bargain to require current employees to pay any portion of the retirement contribution.
- Local employers have additional authority to require employees to pay for a greater share of pension costs through impasse proceedings, if they do not achieve 50-50 cost sharing in five years.
- The maximum retirement age for new miscellaneous employees will increase to 67.
- The "anti-spiking" provision: Pensions are based on the average of the final three years of regular, recurring pay. Post retirement employment is limited to 960 hours.
- Pensions to felons, and retroactive pensions are prohibited. Pension holidays are eliminated; as is the ability to purchase service credit for airtime.
- Pensionable salary is capped at $110,000 for employees in Social Security and $130,000 for employees not in Social Security.[29]

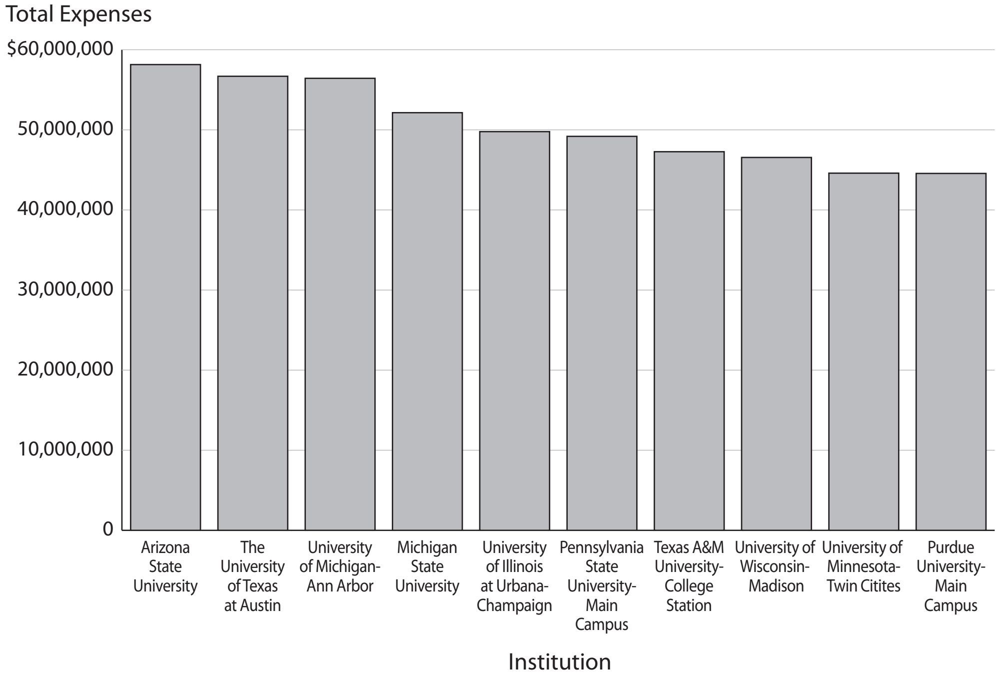
## THE PATIENT PROTECTION AND AFFORDABLE CARE ACT

It is too soon to assess the impact the Patient Protection and Affordable Care Act will have on U.S. workers, especially higher education employees. Reforms will roll out through 2014 and beyond. Colleges and universities are scrambling to understand their options.[30]

One key dilemma: determining full-time employment status—an oft-raised question. Ongoing struggles with distinguishing full-time and part-time instructional staff make it difficult to answer basic questions about the number of faculty employed by an institution. The Fair Labor Standards Act classifies adjunct faculty as exempt professionals, while the ACA defines a full-time employee as anyone who works 30 hours per week in any given month. Courses taught and student credit hours generated do not easily translate into hours worked per week. Often, it is left up to the institution to designate an individual's employment status. But tying the decision to entitlement for health insurance coverage results in high stakes: access to health care coverage for individuals and additional costs for institutions. Penalties for noncompliance could be as high as $2,000 per full-time employee. So employees and employers need clear guidance, along with feasible and practical regulations.

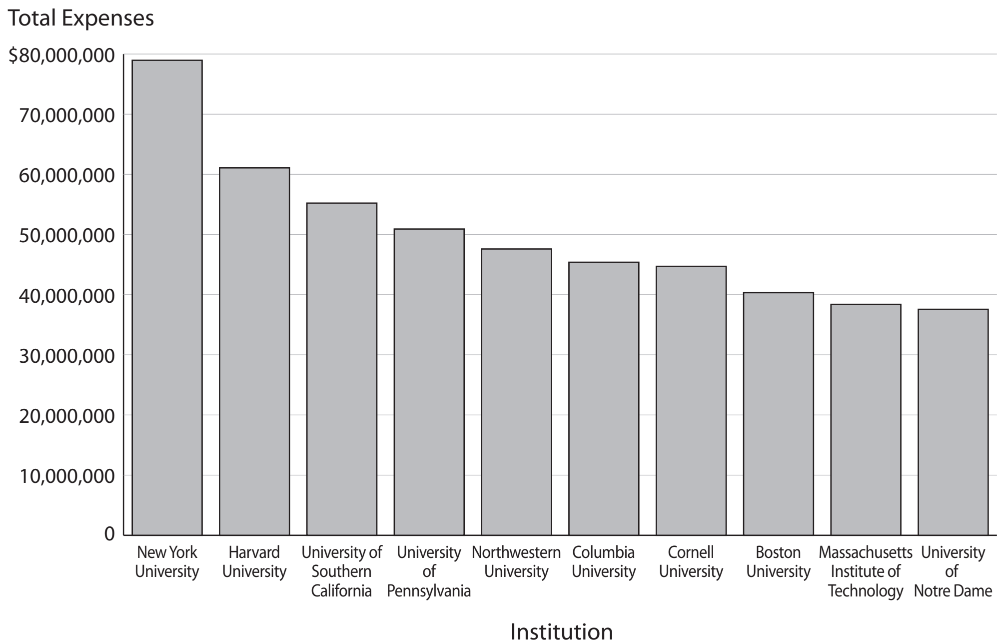
Guidance released by the IRS in August 2012 included a "safe harbor method" that employers may use to determine eligibility of variable and seasonal employees, "An employee is a variable hour employee if, based on the facts and circumstances at the date the employee

**Figure 7. Highest Total Expenses on Employee Benefits, Public Institutions: 2010–11**




*Source:* IPEDS Data Center.

**Figure 8. Highest Total Expenses on Employee Benefits, Private Institutions: 2010–11**




*Source:* IPEDS Data Center.

begins providing services to the employer (the start date), it cannot be determined that the employee is reasonably expected to work on average at least 30 hours per week."[31] The method involves determining a three-month or a 12-month "measuring period," and a "stability period" that must be equal to or greater than the measuring period.

The guidance does not address adjunct faculty, and applies only when the employer can track employees' hours. But after receiving numerous requests for clarification, the IRS proposed rules for determining whether adjuncts worked at least a 30-hour workweek. The rules stated that colleges and universities must "use a reasonable method for crediting hours of service." Acknowledging a suggestion from the American Federation of Teachers, the IRS cited as "reasonable" a widely used formula for estimating hours worked: at least three hours a week for every credit hour taught. This formula considers in-class and out-of-class work hours. Future collective bargaining negotiations will provide other interpretations of "reasonable" methods.

The proposed rules are currently under review. Here are the "initial thoughts" of the College and University Professional Association for Human Resources, an association of employers.[32]

> Determine whether an adjunct faculty member meets the 30-hour threshold by allowing a measuring period for adjuncts of up to 12 months. If an adjunct's course load during the measuring period is less than .75 of a full course load for a full-time teaching professor as established by that department (or by the school or university, depending on university policy), then the employer would not need to provide the adjunct coverage during the stability period. In determining a full course load, departments and universities need to keep in mind many full-time professors have duties outside teaching, including research, supervision and administrative responsibilities, and may not teach a full load."[33]

At least two institutions so far have not waited for additional guidance. Their actions portend adverse consequences for student employees and part-time faculty. On December 31, 2012, the Community College of Allegheny County "cut course loads and hours for some 200 adjunct faculty members and 200 additional employees to avoid paying $6 million in Affordable Care Act-related fees in January 2014."[34] Days later, Youngstown State University was "cutting adjuncts' hours to avoid Affordable Care Act-related costs."[35]

New Faculty Majority (NFM) is not waiting for further clarification either. A 501(c)(6) membership organization, whose mission is "improving the quality of higher education by advancing professional equity and securing academic freedom for all adjunct and contingent faculty," NFM contracted with an insurance provider to offer coverage to members in 37 states and the District of Columbia.

## REESTABLISHING EQUILIBRIUM

A survey of 2012 pension and retirement legislation compiled by the National Conference of State Legislatures suggests a slowdown of pension reform. Institutional data on benefits expenditures show significant variation by type of benefit and few clear patterns. Unfolding effects of the Patient Protection and Affordable Care Act suggest that greater differences in availability and share of cost for medical benefits may be on the horizon.

Significant challenges are coming. Negotiations must consider the need for intergenerational programs, and for plan characteristics benefiting all employees and the public good.

## NOTES

1 U.S. Department of Education, 2012.

2 College and University Professional Association for Human Resources, 2011, 2.

3 Ibid., 2.

[4] Ibid., 3.

[5] Conley, 2012.

[6] Munnell, Webb, and Golub-Sass, 2012, 1.

[7] Ibid.,1.

[8] Ibid., 1.

[9] Metropolitan Life Insurance Company, 2012, 7.

[10] Ibid., 21.

[11] Ibid., 26.

[12] Ibid., 26.

[13] Ibid., 26.

[14] Ibid., 23.

[15] Ibid.

[16] Ibid., 28.

[17] Ibid., 29.

[18] Ibid., 67.

[19] Ibid., 30.

[20] Ibid.

[21] Ibid.

[22] IPEDS, n.d., Human Resources Section.

[23] University of Southern California, n.d.

[24] U.S. Social Security Administration, 2007.

[25] National Conference of State Legislatures, 2012, 1.

[26] See National Conference of State Legislatures, 2012 for details on major developments. A searchable database providing information on current state pension and retirement legislation is available at: http://www.ncsl.org/issues-research/labor/pension-legislation-database.aspx. The database included 22 bills introduced in California at the time of writing.

[27] California, 2011, 1.

[28] California Faculty Association, 2012; Ortiz.

[29] California Faculty Association, 2012, paragraph 4.

[30] The College and University Professional Association for Human Resources is an information source for human resources directors.

[31] Internal Revenue Service, 2012, 1.

[32] Ulman, 2012.

[33] Ibid., para. 6.

[34] Flaherty, November 20, 2012, para. 2.

[35] Ibid., para. 1.

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