Faculty Senate

Salaries & Benefits Committee

2007/08 Year-End Report

Submitted by: Horst Lange

Membership:

Patty Charles	Internal Medicine
Horst Lange (chair)	Foreign Languages
Russ Meyer	Residential Life
James Mardock	English
Lorraine Bonaldi-Moore	Nursing
Aaron DeWall	President's Division
Christopher Williams	Philosophy
Yvonne Stedham	Managerial Science

Charge # 1

Continue to monitor salary equity assessment issues.

Summary:

We interviewed Gena Jones, then Assistant Vice President, Human Resources, and learned that at the beginning of the academic year, HR finished a salary equity study. The algorithm flagged about a dozen cases, but all could be properly explained after further inquiry.

Comments:

Since a number of years now, UNR's HR has had a formal salary equity assessment program in place. In effect, the committee's role is reduced to being informed about the results of the regularly scheduled studies. This oversight function of the committee is presumably pretty irrelevant since any mistakes committed by HR would not be caught. The committee could be charged with examining the algorithm developed to monitor salary equity, but since this algorithm is highly technical, the committee will probably lack the expertise necessary for this task. (However, we are assured that this algorithm includes a comparison with peer institutions.)

Two years ago, the question of the inclusion of age in the assessment method was brought up by the committee. Obviously, the desire for a proper accounting for age must be balanced out with the need for a proper accounting for experience. HR has been of the opinion that the collection of data regarding experience is so cumbersome that it makes the inclusion of this issue in the algorithm not feasible. Even if this is true, it is not satisfactory.

Recommendation:

The committee should continue to monitor salary equity assessment issues. The committee could be charged with a close look at the age/experience issue. However, due to the current leadership transition at HR it is questionable whether a satisfying resolution of the matter could be achieved.

Charge # 2
Continue to monitor retirement plan investment options and plan performance in 2007-2008.

Summary:
Throughout the semester, the committee has been in contact with Kent Ervin, chair of the NSHE Retirement Plans Advisory Committee (RPAC). The major developments are:

- A new Roth 403(b) supplemental retirement plan is now available.
- The default 401(a) retirement plan for new enrollees will now be an age-appropriate lifecycle fund with a target retirement date.
- A single, combined plan guide with information about the plan and all three vendors, to replace the three separate vendor packages now given out to new enrollees, is under development.
- A system of reporting plan performance that is uniform for all three vendors is under development.
- No fund offered by the three vendors should currently be discontinued because of poor performance.

Comments:
A survey of data about investment decisions by a fairly large number of our colleagues conducted last year showed that up to one third made investment decisions that are poor, i.e., trailed the market by a substantially large margin, with some colleagues even getting negative returns in a market whose benchmarks had about a 12% annual return. This makes it imperative for our institution not just to offer the best available investment instruments, but also to educate employees and keep them, as best we can, from making harmful investment decisions. Many of the developments in the offering of investment options do reflect this: setting a lifecycle fund as the default investment option will prevent uneducated investors from the gravest mistakes, and pressing our vendors to present their investment instruments in a way that their performance can actually be compared by someone without a business degree is therefore a welcome development.

Recommendations:
The committee should continue monitoring retirement plan investment options and plan performance. It should also monitor and promote educational programs by, or sponsored by, the university.

Charge # 3
Promote and monitor the implementation of a financial planning benefit.

As mentioned under Charge # 2, many colleagues seem to make surprisingly bad investment decisions, thereby not just postponing their retirement date, but also jeopardizing their financial health in retirement. It is of the essence that any financial advice must take into account not just individual plan performances, but the entire financial picture of an employee's household (real estate, insurances, and more), which is something plan providers cannot and will not offer. Therefore, the committee has urged UNR to use its bargaining power with local financial advisors in order to get good rates for fee-for-service financial advising. The idea was that an employee can get a thorough, objective, and affordable assessment of his/her financial strategies at important moments: after employment, upon getting tenure, when approaching retirement, and so on. Under the leadership of Michelle Kelley, this financial planning benefit has become a reality. UNR employees can, via the HR Website, get in contact with several local financial advisors and get fee-for-service advising at a reduced rate.

Recommendation:
The committee should monitor and promote HR's educational efforts with respect to this new and important benefit. If colleagues do not know about this benefit, or do not understand its importance, they cannot be saved from potentially disastrous investment decisions.

Charge # 4
Provide input on and monitor the impact of new ancillary insurance programs.

Summary:
No new ancillary insurance programs were introduced this year. We understood the charge to monitor the impact of these programs to mean that we were supposed to look for any negative effects recently added ancillary insurance programs might have, such as the impossibility of portability. According to our inquiries with HR, no such effects materialized this year.

Recommendation:
It could be worth charging the committee with a comprehensive review of the palette of insurance vehicles offered through HR. Are the rates competitive? Are the conditions favorable? Is the marketing transparent? The committee could then work with HR to optimize quality in ancillary insurance program offerings.

Charge # 5
Provide input on and monitor the implementation of a policy on parental leave for teaching faculty. This should include an investigation of how various academic units and other institutions handle these issues.

There have been anecdotal reports about hardships and train wrecks in cases when colleagues applied, or tried to make arrangements for, special leave required due to the birth of a child. The committee was therefore charged with investigating the extent of the problem and, if need be, coming up with a policy proposal. After having conducted a survey of deans and assembled a focus group interviewing faculty who recently had gone through this process, we found that the policy at the university was indeed broken. Deans had no coherent conception of the policy beyond applying the administrative manual, and a large majority of affected faculty felt frustrated and demoralized by the process. In addition, we reviewed representative parental leave policies at various institutions around the country. We then formulated a proposal for a comprehensive parental leave policy as a true benefit, having in mind not just the equitable treatment of faculty, but also UNR's ability to recruit faculty and general morale and identification with the university. The complete proposal accompanies this report.

Charge # 6
Interest has been expressed in the option of Type B 10-month contracts for administrative faculty. This might be an attractive and efficient model for administrative positions that have primary duties during the academic year, in Student Services for example. Refer this issue to the Administrative Faculty Personnel Policies and Procedures Committee for 2007-2008.

We formulated a policy and had it reviewed by Gena Jones from HR. We received her response late last semester with important comments. Unfortunately, we could not yet integrate them into our proposal and will have to finish this charge in the coming academic year.

Charge # 7
Retirement benefits for faculty overloads.

This charge was proposed to the Faculty Senate by Cindy Kiel, among others, who then began a term of service on the committee. She agreed to lead the committee's efforts to make headway on it. Unfortunately, she left the university at the beginning of the calendar year. At that point, the committee had started to put all its energy into working on the parental leave policy, and we could not find the time to revisit this charge. We apologize.

However, we understand that this issue is of pressing importance in some parts of the university and will make it a priority in the coming academic year.

Charge # 8
HSAs for health benefits (connected to med coverage).

Summary:
Health Savings Accounts (HSAs) are, like the Flexible Savings Accounts (FSAs) that are already part of UNR's palette of benefits, tools to save money for medical expenses in a tax-advantaged way. In both cases, the money deposited into these accounts is not subject to payroll and income taxes. But whereas the money deposited in an FSA must be used in the given year on risk of forfeiture, the money deposited in an HSA can be rolled over into the following year. In addition, after retirement the money left over in the account can be withdrawn for purposes other than healthcare expenses, giving it in effect the features of a traditional IRA. In fact, it is conceivable that someone would open an HSA for purposes of retirement savings only, thereby substantially increasing the legal limit of savings in IRAs. At first glance, these features make HSAs substantially more attractive than FSAs. However, one can only enroll in an HSA if one is already enrolled in a High-Deductible Health Plan (HDHP). A closer analysis shows that this stipulation makes an HSA an unattractive savings tool for many people.

Comments:
Congress and President Bush created Health Savings Accounts in 2003 in order to decrease overall medical spending in the US. The idea was that their very attractiveness would push people into enrolling in High-Deductible Health Plans, which in turn would offer a financial incentive to use medical services sparingly, avoid unnecessary tests and procedures, and shop around for bargains, thereby reducing overall healthcare spending in the economy. An analysis shows that they are attractive to two classes of people: (a) those who are young and very healthy, because they can enjoy the lower premiums of HDHPs while at the same time not being punished by high deductibles since they use medical services so sparingly that their HSA contributions are efficient retirement savings; and (b) those who are rather sick, because they are forced to spend a lot of their own money on out-of-pocket medical expenses even if they are enrolled in a Low-Deductible Health Plan, but on which money they now can generate tax savings.

The following calculation will reveal the basic situation. Let us take a UNR employee, married with spouse and two children, who is reporting on her 1040 an adjusted gross income of $ 50,000. She takes the standard deduction (if she itemizes, the numbers will be even less favorable) and four exemptions to get to a taxable income of $ 25,700 on which she pays $ 3,076 in federal income taxes. (All numbers are taken from the 2007 instructions to the 1040.) She enrolls in PEBP's High Deductible PPO Plan, fills out the health questionnaire, and is therefore responsible for $ 1,500 of deductibles in excess of the low-deductible plan with a savings of about $ 960 in premiums. (These numbers are taken from the PEPB Website for Plan Year 2009.) If she spends less than $ 960 on deductibles (highly unlikely with two kids), she will make a profit. If she contributed $ 1,500 to the HSA and spent all of it on deductibles, this money would be taxed in the 15% bracket, amounting to a savings of $ 225. In other words, she will have spent $ 1,500 in order to save $ 1,185 – a bad bargain indeed. Only if her family's out-of-pocket healthcare costs exceed $ 3,600 and she has contributed the appropriate amount, will she begin realizing tax savings. (But only up to $ 7,000 in out-of-pocket expenses, since PEBP will pay everything above this margin.) In addition, it is interesting to see that even if the adjusted gross income of this family is substantially higher at $ 150,000, with the money contributed to the HSA falling into the 28% bracket, the family will still only save $ 1,380 while paying $ 1,500 in deductibles.

It is therefore easy to lose money in HSAs if the contributions are only spent on healthcare expenses. However, if the HSA is used in addition as a retirement savings vehicle and contributions are generous enough, the compound interest might under favorable investment conditions upon retirement exceed the losses made on the health expense side of the family's finances. It should be noted that these investment gains are affected by a number of parameters which are not necessarily in the employee's control, such as prospective years to retirement or average investment return and average inflation rate during those years as well as future tax rates, and are therefore not easily calculated by the average investor.

To sum up: for many, if not most, of our colleagues, HSAs are likely to lose money unless they are being made part of a sophisticated long-term investment strategy that probably will require professional help to devise. This probably is the reason why, according to the Kaiser Family Foundation, fewer than 5% of workers with health insurance coverage were enrolled in an HSA in 2007 and why, according to research done by the benefits consulting firm Tower Perrins, the U.S. Government Accountability Office and the Commonwealth Fund, consumer satisfaction with HSAs and HDHPs is at best mixed.

Recommendation:

UNR should consider introducing HSAs, mainly for the benefit of healthy and young as well as comparatively sick colleagues, but only with the condition that there is a strong educational component upon enrollment which makes clear to enrollees that they might be blinded by the seemingly highly favorable conditions of an HSA, but in fact might be losing money unless they are using the HSAs as a retirement investment vehicle in a manner which they are unlikely to be able to figure out by themselves.