



TO: Richard Dietrich, Chair, Senate Fiscal Committee

FROM: Bruce A. McPheron, Executive Vice President and Provost *BAM*
Geoff Chatas, Senior Vice President for Business and Finance/CFO *G*

SUBJECT: Composite Benefit Rates for FY 2018 Approval

Date: April 3, 2017

After discussing the recommended proposal for the Composite Benefit Rates for FY 2018, we have approved the proposal for implementation in Fiscal Year 2018. If you have any questions, please contact Scott Klute at klute.6@osu.edu.

cc: Kris Devine
Brad Harris
Scott Klute
Tom Ewing
Senate Fiscal Committee



THE OHIO STATE UNIVERSITY

FISHER COLLEGE OF BUSINESS

Department of Accounting and MIS

400 Fisher Hall
2100 Neil Avenue
Columbus, OH 43210

614-247-6299 Phone
614-292-2118 Fax

dietrich@fisher.osu.edu

March 2, 2017

To: Bruce McPheron, Executive Vice President and Provost
Geoff Chatas, Senior Vice President and Chief Financial Officer

From: J. Richard Dietrich, Chair *JRD*
2016-2017 Senate Fiscal Committee

Subject: Composite Benefit Rates for FY 2018

Attached is the Composite Benefit Rates recommendation for FY 2018 for your review and approval. The recommendations were discussed by the College Finance Subcommittee (CFS) on January 31, 2017 and subsequently by Senate Fiscal Committee (SFC) at its February 21, 2017 meeting. The Senate Fiscal Committee approved the recommendation for the FY2018 composite benefit rates on February 21, 2017.

Please contact me if you have any questions about this recommendation.

c: Kris Devine
Brad Harris
Scott Klute
Joanne McGoldrick
Tom Ewing

Faculty Senate Fiscal Committee
February 21, 2017

TOPIC:

Composite Benefit Rates for September 1, 2017 through August 31, 2018

CONTEXT:

This is the annual calculation of rates charged to university departments for faculty/staff benefits, such as retirement, health care, tuition benefits, etc.

RECOMMENDATION:

Recommended composite benefit rates for 2017-2018 (as a percentage of salaries) are as follows:

Assumes 5% Medical Trend Rate

General University				
	Current Rates (16-17)	Proposed Rates (17-18)	% Change	Projected Benefit Costs
Faculty	29.0%	29.2%	0.7%	\$ 132,782,811
Unclassified	35.6%	35.1%	-1.4%	207,659,105
Classified Civil Service	48.3%	47.8%	-1.0%	48,709,243
Specials	16.2%	16.1%	-0.6%	17,891,088
Students	0.6%	0.6%	0.0%	325,584
Post-Doctoral Fellows	3.7%	4.9%	32.4%	49,883
Graduate Associates	12.2%	11.5%	-5.7%	13,067,566
OSU Health System				
Faculty	38.5%	38.4%	-0.3%	\$ 15,925,510
Unclassified	34.2%	34.3%	0.3%	224,184,702
Classified Civil Service	53.2%	52.5%	-1.3%	40,667,031
Specials	16.8%	16.6%	-1.2%	11,980,410
Students	1.2%	1.1%	-8.3%	79,101
Post-Doctoral Fellows	3.7%	4.9%	32.4%	-
Graduate Associates	12.5%	12.0%	-4.0%	45,003
Faculty Group Practice				
Clinical Appointments*	5.4%	5.2%	-3.7%	\$ 12,336,774

* Excludes retirement contributions

Proposed 2017-2018 Composite Benefit Rates – Highlights and Key Considerations:

Proposed 2017-2018 rates for full benefit-eligible faculty and staff are relatively stable compared to the 2016-2017 rates, reflecting continued moderation in medical claim and pharmaceutical cost trends, plan design changes (increased deductibles and co-insurance shifted costs to faculty and staff) and renegotiation of vendor contracts.

ADDITIONAL DETAIL:

- Summary of Actual and Projected Benefit Costs by Component
- Methodology for Benefit Rate Calculations and Definitions for Rate Groups
- Five-Year Trends in Actual Benefit Costs and Charges
- Ten-Year Trends in Composite Benefit Rates
- Target vs Actual Cash Balances in Benefits Funds
- Additional Detail on Medical Costs – FY2015 and FY2016
- Additional Detail on Benefit Administration Costs – FY2015 and FY2016

**The Ohio State University
Summary of Key Assumptions
Used in Benefit Rate Calculations**

Global Assumptions:

Headcount	Assume stable benefit-eligible FTE (FY2016 actual)
Average Pay Increase	Assume guideline increases of 2% in FY2017 and FY2018.
Structure of Benefit Rate Groups	Assume no new rate groups or movement of employees between groups
Composition of Benefit Package	Assume same components as prior year
Target for Benefit Cash Balances	Cash equal to fully funded benefit liabilities, plus the \$13 million Medical Plans Reserve

Summary of Actual and Projected Costs by Component:

		FY16	FY16	FY18	FY18	
	Primary	FY16 Total	Actual Rate/	FY18 Total	Projected Rate/	Notes
	Cost Driver	Actual Cost	Cost per FTE	Projected Cost	Cost per FTE	
STRS	Salary \$	92,582,672	14.17%	95,507,177	14.05%	(1)
OPERS	Salary \$	224,198,260	14.01%	233,983,748	14.05%	(2)
Medicare	Salary \$	33,132,102	1.47%	34,001,612	1.45%	(3)
Group Life	Salary \$	6,256,206	0.30%	6,508,957	0.30%	
Disability	Salary \$	5,770,230	0.28%	6,435,737	0.30%	
Unemployment Comp	Salary \$	1,079,817	0.05%	1,123,441	0.05%	
Workers Comp-UNIV/OSP	Salary \$	4,423,198	0.28%	4,610,873	0.28%	
Workers Comp-Health System	Salary \$	6,634,797	0.81%	6,561,432	0.77%	
Benefits Administration	Salary \$	7,005,061	0.29%	7,297,470	0.29%	
Student Insurance	Salary \$	12,141,166	11.67%	12,468,194	10.97%	
Medical Plans	Headcount	272,358,091	9,686	300,274,795	10,678	(4)
Affordable Care Act Fees	Headcount	2,228,490	79	107,168	4	(5)
Vision	Headcount	1,494,774	53	1,616,747	57	
Dental	Headcount	14,863,030	529	15,768,189	561	
Employee Tuition	Headcount	19,384,627	689	23,455,398	834	(6)
Dependent Tuition	Headcount	9,272,163	330	9,458,533	336	
Totals		<u>712,824,683</u>		<u>759,179,471</u>		

NOTES:

(1) - STRS rate to be applied to all Faculty and Specials salaries. Projected cost increases are primarily due to guideline salary increases.

(2) - OPERS rate to be applied to all Unclassified and CCS salaries. Projected cost increases are primarily due to guideline salary increases.

(3) - Medicare 1.45% statutory rate applied to all salaries.

(4) - Reflects projected cost increases of 5% per year.

(5) - Projection includes PCORI fee only (no transitional reinsurance fee expected in FY18).

(6) - Reflects increased utilization of employee tuition benefits and increases in graduate fees

Methodology for Composite Rate Calculations:

- Cost projections are based on the actual costs of the last full fiscal year, incremented for known and/or anticipated changes in costs.
- A primary cost driver is identified for each component of the rate and is used consistently for allocation of actual and projected cost to benefit rate groups. There are two primary cost drivers – salary dollars and benefit-eligible headcounts, which are expressed in terms of full-time equivalents (FTEs). OPERS, STRS and most of the smaller benefit components are allocated to benefit-eligible rate groups based on salary dollars; health care costs and employee/dependent tuition are allocated based on benefit-eligible FTEs.
- To ensure consistency in the calculation of composite rates, we use FY2016 actual FTEs and FY2016 actual salaries, incremented across all rate groups for guideline wage increases. The costs to be recovered are variable costs (as covered salary dollars and benefit-eligible FTEs go up or down, the benefit costs and associated composite rate charges to the departments go up or down accordingly).
- Employee contribution rates for health coverage will not be set until Autumn Semester and are effective January 1, 2018. The current composite-rate calculations assume that the employee's share of projected costs will equal employee contributions. To the extent that employee contributions are set below their projected share of health care costs, the additional costs would need to be recovered via the composite rates charged to the departments.
- A complicating factor in the rate-setting process is the multiple “years” associated with employee benefits. University budgets and Office of Sponsored Programs (formerly OSURF) rates are on a July-June fiscal year, salary increases and University/Health System composite benefit rates are on a September-August year, and medical benefit plan designs and employee contribution levels are on a calendar (January-December) year. We need to predict, by February 2017, what rates will be required to cover costs and provide sufficient benefit cash balances for the benefit “year” ending August 31, 2018.

University/Health System Rates vs. OSP Sponsored Program Rates:

- University/Health System rates are determined by OSU; OSP rates are proposed by OSU and are subject to negotiation with the federal government (DHHS).
- For University/Health System rates, OSU has discretion to pursue rate stability, particularly related to maintaining targeted cash balances and amortizing over/under-recoveries over multiple periods. For OSP rates, the federal government requires full amortization of over/under-recovery in next even/odd year (for example, all over/under-recoveries for FY2016 must be incorporated in the FY2018 rate calculation).
- The lock-step amortization of under/over-recoveries under the federal rate-setting rules increases the likelihood of abrupt increases or decreases in OSP benefit rates.

Definitions for Rate Groups:

University faculty and staff are divided into the following groups for benefit rates:

Faculty – Includes nine-month, 12-month and clinical faculty members eligible for full benefit package, including retirement, subsidized health care, life insurance, disability and tuition benefits.

Unclassified – Includes administrative and professional staff and post-doctoral researchers eligible for full benefit package, including retirement, subsidized health care, life insurance, disability and tuition benefits.

Classified Civil Service – Includes non-exempt staff (hourly and salaried) eligible for full benefit package, including retirement, subsidized health care, life insurance, disability and tuition benefits.

Non-Student Specials – Includes lecturers and part-time staff who are not eligible for full benefit package (rate consists primarily of retirement contributions). This rate is also applied to overtime pay for unclassified and CCS staff, supplemental compensation and off-duty quarter support.

Students – Includes hourly student employees who are not eligible for benefits (rate consists primarily of required Medicare, workers compensation and unemployment contributions). This rate is also applied to additional pay that is not eligible compensation for retirement contributions.

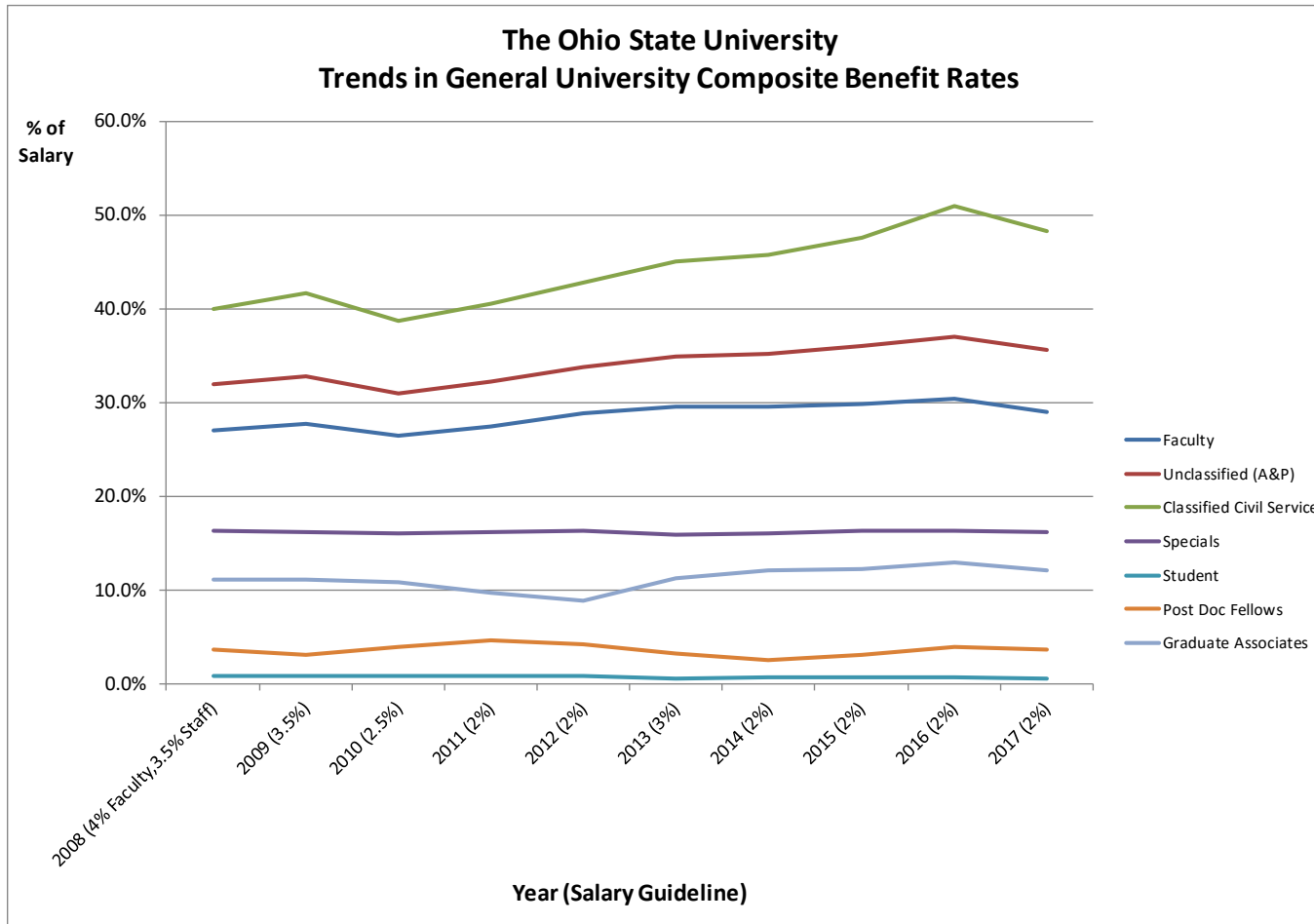
Post-Doctoral Fellows – Includes non-employee fellows who receive a stipend from the university and are generally not eligible for benefits (post docs are offered health care, as permissible under certain grants).

Graduate Associates – Includes graduate teaching, research and administrative associates eligible for an 85% employer subsidy on student health insurance coverage (full-time students have the option to choose to be exempt from retirement contributions, and most choose to be exempt). Tuition benefits are provided to graduate associates through separate fee authorization charges to the departments.

The Ohio State University
Trends in Actual Benefit Costs
FY2012 - FY2016

		FY2012		FY2013		FY2014		FY2015		FY2016	
Primary Cost Driver	Total Cost	Rate/Cost per Head	Total Cost	Rate/Cost per Head	Total Cost	Rate/Cost per FTE	Total Cost	Rate/Cost per FTE	Total Cost	Rate/Cost per FTE	
STRS	Salary \$	78,901,311	13.63%	84,573,014	14.32%	82,408,526	13.72%	86,217,773	13.32%	92,582,672	14.17%
OPERS	Salary \$	174,842,929	13.83%	167,060,653	13.29%	188,578,501	14.36%	213,608,235	16.27%	224,198,260	14.01%
Medicare	Salary \$	24,597,601	1.33%	27,020,965	1.46%	25,944,916	1.36%	27,732,227	1.28%	33,132,102	1.47%
Group Life	Salary \$	4,524,294	0.27%	4,124,480	0.24%	5,866,856	0.33%	4,846,621	0.24%	6,256,206	0.30%
Disability	Salary \$	4,498,988	0.26%	4,647,528	0.27%	5,061,071	0.28%	5,601,396	0.28%	5,770,230	0.28%
Unemployment Comp	Salary \$	1,655,440	0.09%	1,709,492	0.09%	1,656,403	0.09%	1,576,066	0.07%	1,079,817	0.05%
Workers Comp-UNIV/OSP	Salary \$	5,870,000	0.47%	6,774,807	0.52%	6,418,828	0.48%	5,092,138	0.33%	4,423,198	0.28%
Workers Comp-Health System	Salary \$	6,901,897	0.91%	7,953,034	1.13%	7,845,234	1.06%	7,638,207	1.00%	6,634,797	0.81%
Benefits Administration*	Salary \$	4,870,689	0.24%	4,783,216	0.24%	6,118,220	0.29%	6,476,925	0.28%	7,005,061	0.29%
Student Insurance	Salary \$	10,539,156	10.39%	11,101,253	10.49%	12,000,000	11.16%	12,013,656	11.27%	12,141,166	11.67%
Medical Plans	Headcount	221,115,155	7,801	232,231,028	8,518	259,978,711	9,703	263,176,856	9,531	272,358,091	9,686
Affordable Care Act Fees	Headcount							3,088,741	112	2,228,490	79
Vision	Headcount	2,183,478	77	1,875,448	69	1,642,949	61	1,729,533	63	1,494,774	53
Dental	Headcount	14,162,524	500	14,349,532	526	15,097,478	564	15,376,695	557	14,863,030	529
Employee Tuition	Headcount	11,486,095	405	13,509,396	496	15,586,516	582	17,510,419	634	19,384,627	689
Dependent Tuition	Headcount	8,663,984	306	9,146,673	335	9,407,949	351	9,492,108	344	9,272,163	330
Totals		574,813,542		590,860,520		643,612,158		681,177,596		712,824,683	
Benefit Over (Under) Recoveries:											
Amounts Charged to Departments		570,063,094		603,024,011		630,350,862		693,536,902		746,458,794	
Actual Costs		574,813,542		590,860,520		643,612,158		681,177,596		712,824,683	
Over (Under) Recoveries		(4,750,448)		12,163,491		(13,261,296)		12,359,306		33,634,110	

* Benefits Administration category revised in FY2012 to include all salaries charged to benefits funds.



Notes on Trends in Benefits Rates:

- Rate increases in 2011 through 2016 relate primarily to medical costs, which were increasing at higher rates than Faculty, Unclassified and CCS salaries. Decreases in the 2017 rates reflect reductions in projected medical costs.

The Ohio State University
Target vs Actual Cash Balances
in Central Benefits Funds
31-Dec-16

	Target	Actual	Difference
Retirement	\$ 24,542,400	\$ 23,948,187	\$ (594,213)
Medical Liability (IBNR)	31,500,000	70,037,448	38,537,448
ACA/Catastrophic Reserve	13,000,000	13,000,000	-
Dental	1,715,000	3,712,209	1,997,209
Workers' Compensation	4,326,868	6,737,793	2,410,925
Group Life	766,917	413,052	(353,865)
Other	4,978,517	(5,724,031)	(10,702,548)
Total	\$ 80,829,702	\$ 112,124,658	\$ 31,294,955

Targets for Benefit Cash Balances:

- Benefit rate calculations are tied into an analysis of benefit cash balances.
- The absolute minimum/floor for benefit cash balances is an amount equal to the full-accrual liabilities for each component of the benefit rate.
- For the 17-18 benefit rate calculation, the target for benefit cash balances is an amount that includes both the full-accrual liabilities and the \$13 million Medical Plan Reserve.
- At December 31, 2016, the University's benefit plans had cash balances of \$112.1 million, which is approximately \$31.3 million higher than our target cash balances.

Additional Information on Medical Costs:

Additional detail on university medical plan costs for FY2015 and FY2016 are provided below:

	<u>FY15 Actual</u>	<u>FY16 Actual</u>
Medical Plans Detail:		
Claims, net of employee premiums	\$ 241,240,912	\$ 250,874,786
OSU Health Plan (including Care Coordination, Health Coaching, etc.)	9,582,518	8,848,040
University Health Connection	862,574	821,532
Equifax (ACA Consulting)	-	231,385
OPPOC (Network Access)	143,355	147,875
Impact (Employee Asst Provider)	597,065	597,940
Truven (Informed Enrollment)	158,371	153,900
NGS (claims processing)	5,413,131	5,244,561
ESI (pharmacy benefit manager)	706,565	1,042,055
Global Care (out-of state claims and medical evacuation)	1,269,118	1,536,389
Hewitt (Benefits consulting)	941,134	668,978
MindsOn (YP4H Communications Consultant)	123,197	71,956
Buck/Xerox (Dependent Certification)	143,215	84,508
Limeade (YP4H Vendor)	792,811	851,764
Limeade (YP4H Incentives)	1,392,500	969,831
Mercer (Medical IBNR & Sponsored Dependent pricing)	15,000	15,000
YP4H Prizes	25,020	25,791
YP4H Events	9,544	26,756
Randstad (Consultant less funding from OCIO)	(239,788)	
COBRA and other medical admin costs	614	145,043
Total	<u>\$ 263,176,856</u>	<u>\$ 272,358,090</u>

Additional Information on Benefits Administration Costs:

The composite benefit rates provide funding for certain salary, benefit, IT system and purchased services costs that are related to the provision of University employee benefit programs. Salaries, benefits, IT costs and other general expenses are allocated broadly to all rate groups based on salary dollars. Actual benefits administration costs are summarized below:

Benefits Administration Detail:	<u>FY15 Actual</u>	<u>FY16 Actual</u>
Salaries	\$ 3,759,678	\$ 3,914,366
Benefits	1,387,766	1,513,151
HR System & Ben Admin	977,235	977,235
Adoption	64,770	68,036
Hewitt (Total Rewards Statements)	-	34,458
FireProof (Document Scanning and Storage)	10,429	-
Rachel Dwyer (Document Design Work)	10,773	-
Solutions Staffing (Temporary EEs)	40,287	52,017
Appligent (Accessibilby Services)	11,660	7,795
Legal Fees (OLA)	-	163,881
Other Expenses	214,327	274,122
Total	<u><u>\$ 6,476,925</u></u>	<u><u>\$ 7,005,061</u></u>

The Ohio State University
Office of Human Resources
Benefit Pool Salaries with out benefits

Salary Expense	FY15	FY16	Proposed FY17 as of Dec 2016	FY15 FTE	FY16 FTE	FY17 Proposed FTE
Customer Service: <i>Main point of contact for HR business partners, faculty and staff, and job seekers for a variety of HR-related questions, including all OSU faculty/staff benefit plans, Your Plan for Health (YP4H), employment, and human resources policies.</i>	\$ 307,738	\$ 364,134	\$ 370,197	7.8	9.0	9.0
Health & Welfare : <i>Provide for the accurate administration of the university health & welfare benefit programs, which include medical, dental and vision, tuition assistance, life insurance and short-term disability; includes ensuring compliance with federal and state regulations and university policy.</i>	\$ 220,065	\$ 250,148	\$ 262,638	4.8	5.0	5.0
Retirement: <i>Provide for the accurate administration of the university retirement programs, which include Ohio Pubic Retirement (OPERS), & State Teachers Retirement (STRS) Systems, Supplemental Retirement Accounts (SRA), Alternative Retirement Accounts (ARP) and the Retirement Continuation Plans (RCP); includes ensuring compliance with federal and state regulations and university policy.</i>	\$ 494,732	\$ 450,484	\$ 520,629	10.6	9.9	11.0
Integrated Disability¹ : <i>Assists faculty and staff with applying for disability and workers' compensation benefits, coordinating leaves and providing consultation services for short-term disability, long-term disability, Workers' Compensation, transitional work services, remain at work services, physical therapy services, job development services, OPERS/STRS disability retirement, Unemployment compensation, and Classified Civil Service (CCS) disability separations.</i>	\$ 895,738	\$ 929,864	\$ 968,920	16.0	16.1	16.0
Benefit Consultants : <i>Conduct new employee benefit orientations; open enrollment forums; individual faculty & staff benefit consultations; pre-employment and recruitment benefit consultations & other benefit-related departmental presentations by request. Resolve benefit appeals and escalated customer service issues.</i>	\$ 98,010	\$ 93,868	\$ 98,440	2.0	1.9	2.0
Benefit Technical Support : <i>Provides direct support to the Benefits team, including setup, maintenance and administration of the PeopleSoft Benefits Administration module, including eBenefits. Researches and provides resolution for issues through training, communication or through system solutions. Provides business analysis and technical project management for benefit initiatives. Conducts regular data quality audits to identify issues and determine ways to improve the data accuracy and process efficiencies.</i>	\$ 319,671	\$ 335,929	\$ 292,333	5.0	4.8	4.0
Benefit Communications Support : <i>Provides content design and development for benefit-related print and electronic media, including forms, new hire and open enrollment materials, plan documents and summary descriptions, ads, articles, and presentation materials.</i>	\$ -	\$ 96,583	\$ 98,644	0.0	1.0	1.0
Benefit Legal Support: <i>Provides legal consultation and guidance for benefit and tax-related compliance issues.</i>	\$ 163,955	\$ 168,059	\$ 171,420	1.0	1.0	1.0
YP4H: <i>Responsible for the successful development and execution of all engagement and communication strategies to support YP4H. Manages vendor relationships that provide YP4H services. Participates in the strategic planning process to continue evolving YP4H and measure the effectiveness of current YP4H programs. Provides content for and manages the YP4H website, including incentive program administration. Manages the development and execution of YP4H events and social media.</i>	\$ 181,815	\$ 185,227	\$ 190,384	3.0	3.0	3.0
Benefit Administration : <i>Responsible for design, implementation, and management of all University benefit programs, including budget and cost analysis, vendor selection and management, project management, communication and compliance. Provides leadership for Benefits staffing, development and performance management. Liaison to University leadership and constituencies on all benefit issues and initiatives. Also includes administrative support for entire Benefits Dept. ²</i>	\$ 1,038,408	\$ 1,026,876	\$ 887,240	9.8	8.8	7.8
Students: <i>Provides clerical, data entry and administrative support to Benefit Processing staff.</i>	\$ 39,547	\$ 13,194	\$ 8,736	2.5	1.9	0.5
TOTAL	\$ 3,759,678	\$ 3,914,366	\$ 3,869,582	62.4	62.3	60.3

Footnote:

¹ - FY16 includes 3 FTE's at \$132k for FML whose expense is covered 100% by OSU WMC and excluded from this summary

² - FY17 salary decrease due to reduction of 1 FTE

Composite Benefit Rates Administrative Position Review Process

Background

The Ohio State University (OSU) offers a comprehensive benefit package to meet its employee's needs. The comprehensive benefit package is evaluated annually and associated costs are reviewed. These costs for benefits provided are largely subsidized by the university, with employees also paying contributions to cover the cost of benefits not paid by the employer.

On an annual basis, the benefit costs paid by the employee and subsidized by OSU are reviewed. The portion that is subsidized by OSU is funded through utilizing composite rates that are charged to each college and units against their payroll dollars.

The composite benefit rates are reviewed and updated on an annual basis through the fiscal budgeting process. As a part of that review process, positions for staff who are charged against the benefit funds are reviewed for appropriateness so that their cost can be included in the composite rate calculation.

This annual position review process was created collaboratively between the Office of Human Resources and Business & Finance. The purpose is to ensure that only appropriate expenses are charged to benefit funds based on their direct correlation to administering the university's benefit plan offerings.

Process

The process for reviewing positions charged against the benefit funds consists of:

- Identifying benefit staff positions that relate to day-to-day benefit administration operations and comprise over 80% of the employee's job responsibilities.
- Identifying leadership positions that lend their oversight and strategic guidance to the plan establishment, governance review process, and President's Cabinet and Board of Trustee updates.
- Compiling the positions, FTE, and salaries identified through the above steps and comparing to prior fiscal year.
- Meet and review compiled data and historical trends and provide information, as requested, to respond to any variances in the year over year comparisons.
- Obtain approval on percentage of salary to be included in composite rates from the below. Salary percentages charged are representative of time and effort identified positions work on benefits operation.
 - AVP Total Rewards, OHR
 - SVP Talent, Culture & HR, OHR
 - VP Operations, B&F

FY16 Review Summary

OHR, following the steps identified above, reviewed the positions to be charged in 2017 – 2018 against the benefit funds with:

- Joanne McGoldrick - AVP Total Rewards, OHR, January 2017
- Kris Devine - VP Operations, B&F, January 2017
- Brad Harris – Assistant Provost and Chief Administrative Officer, OAA, January 2017