# MINUTES

BENEFITS COMMITTEE
July 18, 2019

ATTENDEES: Phil Phillips (chair), Donna Nofziger, Nicolle Taylor, Connie Horton, Hung Le, Joan Singleton, Marnie Mitze, Rick Marrs, Agus Harjoto, Lauren Cosentino, Danny Dewalt, Lee Kats, Gary Hanson, Marc Goodman, Michael Feltner, Matthew Midura, Larry Bumgardner, Joseph Fritsch

ABSENT: Rick Marrs, Pete Peterson, Naomi Goodno

Together, the University Management and Retirement Plan Committees form the Benefits Committee.

I. BENEFITS COMMITTEE CALL TO ORDER:
Vice President for Administration Phil Phillips called the Benefits Committee meeting to order. The date was Thursday, July 18, 2019, in the TAC Lobby Conference Room – Malibu Campus. He announced Chief Marketing Officer Rick Gibson is stepping down from the committee and introduced Associate Vice President of Integrated Marketing Communications Matthew Midura as a new member of the University Management Committee. He also announced Executive Assistant to the Vice President for Administration Kaitlyn Alderete will serve as the new committee secretary starting at the August committee meeting. Director of Financial Planning Greg Ramirez also joined the meeting. Chief of Staff Marnie Mitze opened in prayer.

II. BENEFITS RENEWAL — Discussion
Chief Human Resources Officer Lauren Cosentino updated the committee on the recent changes to the University's benefits plans. The committee discussed medical premium cost-share history, employer subsidy data, University cost per head, salary and age demographics, cost drivers and loss history for Anthem and Kaiser medical plans, the top five Anthem and Kaiser health conditions by paid amount, our financial efficiency index, HSA contribution levels, and proposed rate increase details.

Chief Human Resources Officer Cosentino shared enrollment history data by medical plan, highlighting an enrollment increase in the Vivity plan. Anthem HDHP enrollment increased significantly as a result of last year's University HSA seeding. She noted there are only three households currently enrolled in the Anthem EPO plan. Across all medical plan enrollments, the University will pay an average of $13,000 for medical benefits and $7,500 for retirement benefits per benefitted, full-time employee in fiscal year 2020. Correspondingly, each employee will pay an average of $2,585 for medical premiums in fiscal year 2020.

Chief Human Resources Officer Cosentino posed the following questions to the committee:

- How should the University seed HSA in 2020?
- Should the University redirect Delta Dental renewal savings to offer a financial planning benefit (such as Planning Grounds) to employees?
- Does the committee approve the 2020 proposed rates?

The committee discussed the proposed renewal at an overall 7.3% increase, which is the lowest in several years. This is due in part to an improved loss history. After a motion duly made, the committee approved the renewal with the following increases:

- Kaiser: 9.9%
- Anthem HMOs (Advantage and Vivity): 3.3%
- PPO HSA plan and EPO 9.9%

It was suggested that Human Resources survey our lowest-paid employees to determine whether they would use a financial planning benefit, and investigate what other financial planning tools are on the market before making a decision. Chief Human Resources Officer Cosentino will investigate financial planning tools similar to Planning Grounds and return to the committee in August with an update. Additionally, Human Resources will lead a discussion of the value for every dollar spent on benefits at next year's annual University Management Committee benefits discussion.

III. EMERITI RETIREMENT HEALTH PLAN— Discussion

The wide-ranging discussion on benefits turned to the Emeriti retirement health plan, prompted by a Seaver Faculty Association resolution to reinstate the benefit. Pepperdine established the plan in 2005 to help ensure that paying for medical care was not a barrier to retirement for employees who reach retirement age. The particular plan was selected, in part, because it allowed retired employees who moved away to maintain health coverage that performed well nationally. At that time, there were very few options that allowed for national movement. After the Affordable Care Act, many options allow for this national movement.

Under the Emeriti plan, during employees' period of employment, the University contributes a tax-exempt monthly amount into the plan account of qualifying employees (faculty and staff over 40 years of age) – initially \$100 per month, which grew over time to \$148 per month (this equated to the University paying \$960,000 - \$1,420,000 annually). All employees can elect to contribute after-tax dollars to their account during employment. Upon retirement, retirees can use these funds to pay for qualified medical expenses, including health insurance premiums.

Since the plan's inception, only 3% of employees participate in the plan by voluntarily contributing funds to their account. Additionally, approximately 50% of qualifying employees never receive this benefit because they separate from the University before they are vested. Low participation in the plan is caused, in part, by limitations and restrictions, such as:

- Funds are restricted to medical expenses and may not be used in any other way.
- Employee contributions are after-tax dollars without an option for pre-tax contributions.
- Funds are forfeited if an employee separates from the University before vesting (55 years of age and 10 years of continuous service, or 65 years of age and 5 years of continuous service).
- If an employee/retiree or their spouse dies before the funds are used, the funds are forfeited and cannot be used for estate planning purposes.

Prudent and responsible benefits planning is a critical part of the University's annual financial planning process, and each decision carefully considers the impacts on our students, faculty, and staff as well as the University's financial resources. These impacts must be considered in a multi-year context. During the FY19 planning process, the University faced an overall employee medical premium increase of 21.6% for the 2019 plan year, which equated to $4,500,000 annually.

If the University simply accepted this increase at the existing contribution levels, a family's monthly medical insurance payment, on average, would have gone from $412 to $686. The University's contribution would have resulted in a sizable deficit in the benefits budget that would have grown worse every year. To avoid this type of disruption to our employees' budgets and the University's finances, the Benefits Committee was forced to adjust health plan design features in order to lower the plans' costs. This is done in a way to maintain strong levels of benefits in the plans while reducing costs. As part of a holistic approach to managing health care costs, the University was also compelled to consider reallocating funds from other University-provided benefits that were not as widely used to lessen the burden of the medical insurance premium increases, which impact virtually all employees.

Due to the small number of employees voluntarily participating in the plan compared to the material impact many employees would face with medical premium increases, the Benefits Committee decided to reallocate roughly $1,000,000 of annual funding from the Emeriti plan to help offset increased medical premium costs. This effectively reduced the University pre-tax contribution to the plan to $10 per month; however, all eligible employees continued to be allowed to choose to fund their individual accounts by making post-tax contributions. By reallocating this funding from the plan budget to the medical insurance budget, the University mitigated the increased out-of-pocket medical premium contribution the vast majority of employees experienced in 2019. This $1,000,000 is still part of the University's overall benefits budget that is expended for its employees. It has simply moved from being expended through the Emeriti plan to now being expended as part of the medical insurance premiums. To reinstate the $1,000,000 to the plan, the University would have to remove it from the medical insurance plans, leaving a $1,000,000 annual deficit there.

If the University had elected to maintain the level of 'Emeriti' funding as it had in the previous years, the University would have been faced with a decision to (1) increase the employee contribution for the medical insurance premiums beyond a reasonable level, (2) severely cut design features from the medical insurance plans (which would also result in greater costs to the employees), or (3) incur a benefits budget deficit of over $1 million.

Chief Human Resources Officer Cosentino and Vice President Phil Phillips answered questions. After discussing the Emeriti plan at length, the committee voted to confirm, with one abstaining vote, its prior decision to reduce the Emeriti benefit in favor of reducing employees' costs for medical benefits plans in calendar year 2019. The committee asked that its decision be communicated to the Seaver Faculty Association via Dean Feltner.

The committee then discussed the best use for the Emeriti forfeitures resulting from employees separating from the University. The committee elected to continue its current practice of distributing the forfeitures to plan participants as a one-time allocation.

At this time, the Retirement Plan Committee members and Director Ramirez left the meeting, which ended the Benefits Committee meeting, and the regular University Management Committee meeting commenced.