September 29, 2006

Memorandum

To: Members of the Faculty and Administration
From: Benefits Committee[1]

Re: Employee and retiree health insurance

In January 2006, we distributed a brief progress report regarding our deliberations on employee health insurance and premium cost sharing. As we reported then, we reviewed extensive data on peer schools and met several times with a consultant from Mercer to understand national trends and options we should consider. We conferred with the Faculty Compensation Committee about the preliminary direction of our findings and were encouraged to continue to develop recommendations. We had made sufficient progress by March to recommend changes in the way that health insurance premiums are divided between active employees and the College, as well as plan design changes to limit cost increases in insurance. The recommendations were submitted to the Committee on Priorities and Planning at the end of March, and were reviewed by the Trustee Committee on Budget and Finance at their May meeting. We consulted further with the Faculty Compensation Committee after that meeting, and received their support for the recommendations. Additional questions from trustees were addressed at the August Executive Committee meeting of the Board. With the support of all of these campus and trustee committees, we are now ready to share the plans to be implemented on January 1, 2007.

A primary consideration in our work this past year has been the rise of family health insurance premiums at Vassar to $700-800 per month or an annual employee cost of almost $8,400 to $9,600, depending upon the plan choice between MVP and BC/BS. Clearly, this expense is a very difficult burden for many faculty and administrators and, with increasing frequency, a serious obstacle in hiring new employees.

Vassar's long-standing practice of asking faculty and administrators to cover the full additional cost of insurance for their dependents, while covering 100% of the single employee's health insurance premium appears to be out of step with the way many other employers approach health insurance coverage. In most cases, we see that other colleges, and most employers outside of higher education, require some employee contribution for single coverage and at the same time offer a higher employer subsidy for dependent health care than Vassar does currently.

[1] The recommendations represent the work of the Benefits Committee in 2005/06. Members were Marianne Begemann, Dan Giannini, Bill Lunt, Sabrina Pape, Mary Carole Starke, Jon Rork, Sarah Hoger, Betsy Eismeier (chair).

Figure I

Premium Cost-Sharing Policies at 27 Liberal Arts Colleges

Detailed Table: See Figure V.

	Single Premium paid by the College	Total Family Premium paid by the College
Vassar College	100%	37%*
High	100%	85-93%**
Median	84-86%**	70-77%**
Low	53-67%**	36-69%**

Survey includes Amherst, Barnard, Bates, Bowdoin, Bryn Mawr, Bucknell, Colby, Colgate, Connecticut, Dartmouth, Davidson, Franklin & Marshall, Hamilton, Haverford, Middlebury, Mt Holyoke, Oberlin, Sarah Lawrence, Skidmore, St Lawrence, Smith, Swarthmore, Trinity, Union, Wesleyan, Wellesley, Wheaton.

*37% for Vassar recognizes the single coverage paid by the College as a portion of the total family premium. Percentages in all cases represent the portion of total family premium, including the employee coverage paid by the College.

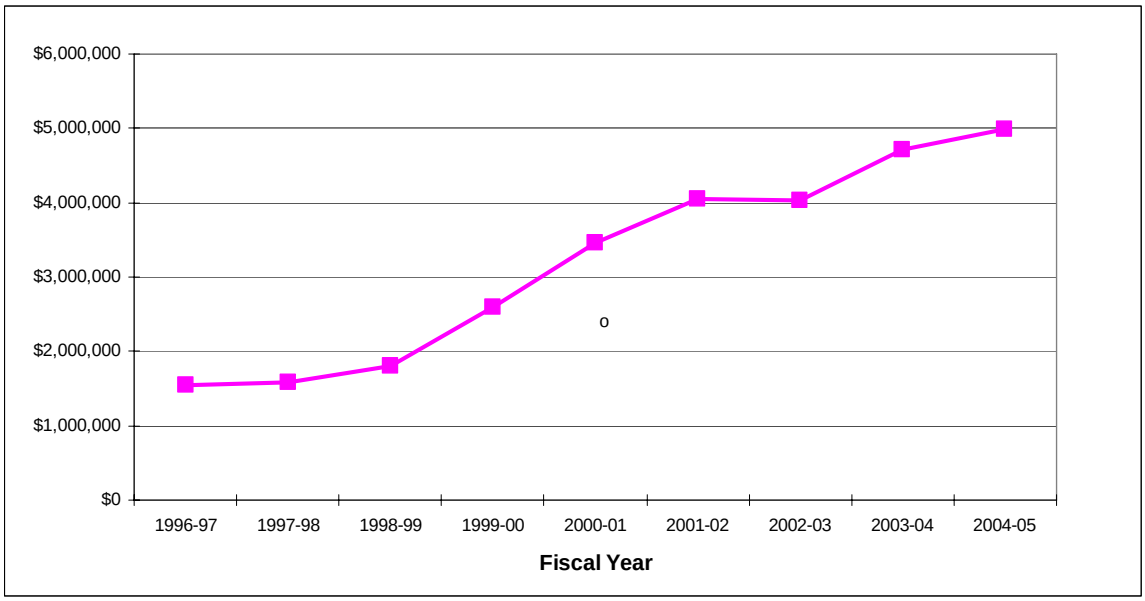
** Ranges reflect the existence of sliding scales based on income among some schools in the survey. Vassar is somewhat similar by having higher subsidies for hourly employees with dependents, negotiated in union contracts (85% of total premium for CWA employees and 100% for SEIU employees). The SEIU plan design is a union plan, subject to other cost controls not present in the College-sponsored plans.

We learned that the cost-sharing principles illustrated in the comparative data are common in the workplace. Most consultants and many employers believe that cost sharing for single and dependent coverage builds awareness of the high, and rising, cost of employee health insurance and that individuals who participate financially become better health care consumers as well. The Benefits Committee recommended that the College re-structure premium cost-sharing to be consistent with peer colleges and other employers, seeking a position around the median of the peer group. Furthermore, we recommended that this be accomplished in one step, rather than phased in over several years because of the increasing disadvantage to Vassar in recruitment.

We recognize the difficulty of making a change in premium-cost-sharing in times of rising health insurance costs and tight personal and college budgets. In aggregate, the cost of faculty and administration health insurance has risen from $1.54 million in 1996/97 to $4.99 million this year as shown in Figure II below. Costs leveled off in the late 1990's and again in 2002, reflecting plan design changes and external market conditions. But over the entire period, the average annual rate of growth has been 15.8%. Figure III below shows the growth of individual premium rates for single employees: the BC/BS PPO premium has grown at an average annual rate of 14.7% per year since 1997, to $5,825 per year currently, while the HMO premium has increased by 11.2% per year over the same period, to a cost of $5,106 per year. Health insurance is a highly valued employee benefit, and the Benefits Committee should strive to oversee key aspects of Vassar's delivery of the benefit – including plan design, incentives for maintaining good health and preventing illness, as well the adequacy of the insurance to protect each of us from catastrophic financial burdens of high cost medical care.

Figure II

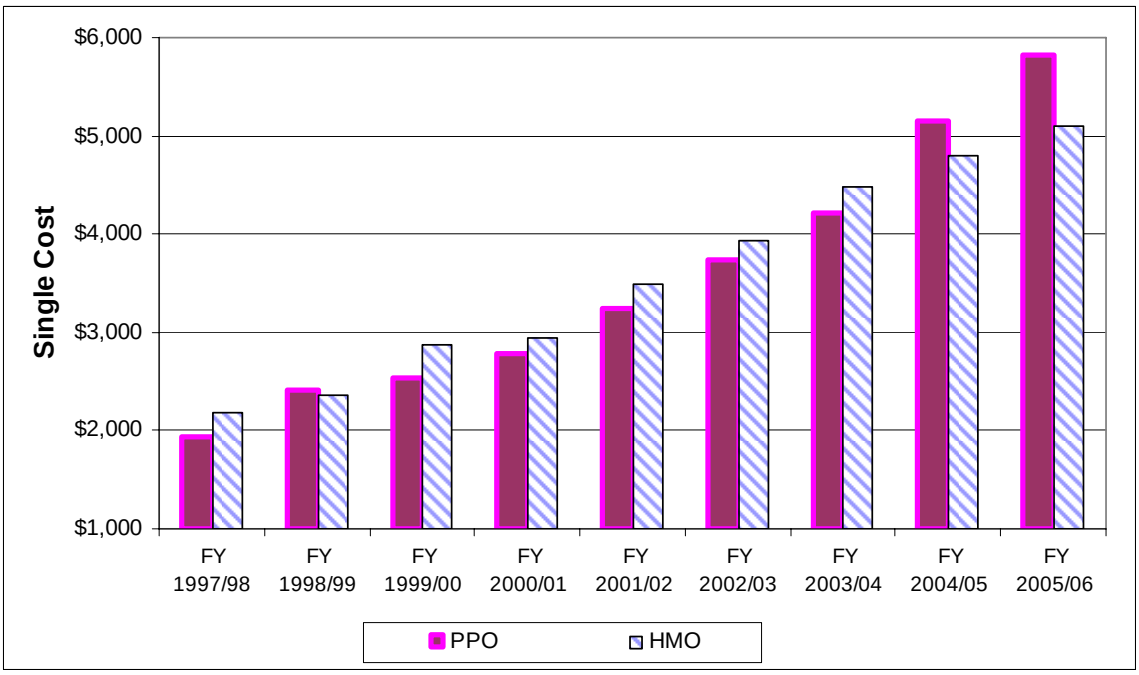
Rising Cost of Faculty and Administration Health Insurance Cost



This cost increase is driven primarily by increasing premium rates, and those in turn reflect high utilization of the plans offered by Vassar. Another factor, but less significant, has been an increase in employment of both faculty and administration during this time period. The premium cost trend for the Blue Cross/Blue Shield PPO and the MVP HMO single rates are illustrated in Figure III:

Figure III

Trend in Individual Premium Costs



As part of the restructuring plan, we have recommended a combination of additional College funding for health insurance, new contributions from single employees in line with other colleges, and some plan design changes that seem appropriate to both the PPO and the HMO plans. In total, we expect the College to spend over $220,000 annually in order to restructure premium cost-sharing.

Plan of Action

The Committee recommended and received endorsement for the following steps effective January 1, 2007:

(1) Vassar should institute an *employee contribution of 15% of the monthly premium* for single medical coverage for all medical plan offerings on a pretax basis. By making the contribution pre-tax as permitted by law, the $64 or 72 monthly contribution is actually a much lower reduction in net pay for each employee. This change would position Vassar at the average of our peers as illustrated in Figure I.

(2) The College should reduce the employee contribution for dependent coverage across all PPO and MVP offerings for faculty and administrators, depending upon the plan and type of dependent coverage selected to *30% of the total premium for employee plus dependents* (parent-child, two-person, and family). This change would position Vassar at the average of our peers as illustrated in Figure I. Figure IV shows the current employee contributions and the proposed employee contributions using the 2006 Blue Cross PPO and MVP HMO monthly premiums:

Figure IV

Monthly Contributions
Using 2006 Premium Rates for Illustration

	BC/BS PPO		**MVP HMO**	
	Current Employee/College	**Proposed** Employee/College	**Current** Employee/College	**Proposed** Employee/College
Single	$ 0/482	$ 72/410	$ 0/426	$ 64/362
Parent & Child(ren)	$ 371/482	$ 256/597	N/A	N/A
2 Person	$ 482/482	$ 289/675	$ 425/426	$ 255/596
Family	$ 819/482	$ 390/911	$ 709/426	$ 340/795

(3) We also recommended a number of steps that are related to periodic adjustments in co-pays and deductibles, many of which have been in place since the inception of the PPO plan design, roughly eight years ago, as well as a few changes in the HMO plan design.

For the Blue Cross/Blue Shield PPO plan design

- An increase in the RX co-pay
- An increase in the emergency room co-pay
- An increase in the out-of-network deductible from $200 to $500
- An increase in the office co-pay from $12 to $15 per visit
- Adoption of an inpatient hospital co-pay of $250 per admission

For the MVP HMO plan design

- An increase in the RX co-pay
- Adoption of an inpatient hospital co-pay of $240

The structure of these recommended changes are driven to some degree by available insured products, offered by BC/BS and MVP. The Benefits Committee sought to make the co-pays similar in each case. Co-pays and deductibles provide reminders/incentives to use the benefits provided the plan appropriately, and are an important consideration in plan design.

Complete table of peer institution health plan contributions: see next page

Figure V:

Vassar Peer Colleges: College Contribution to Health Insurance

Jun-06

Institution	College Contribution:	
	Single	Family
Amherst	70% - 90%	70% - 90%
Barnard	86% - 100%	67% - 80%
Bates	96% - 100%	71% - 76%
Bowdoin	87%	73%
Bryn Mawr	84% - 99%	67% - 72%
Bucknell	75%-98%	60% - 91%
Colby	85%-95%	65% - 80%
Colgate	95%	37% - 80%
Connecticut	50% - 89%	50% - 89%
Dartmouth	85% - 100%	68% - 100%
Davidson	80% - 83%	60% - 70%
Franklin & Marshall	80% - 89%	80% - 89%
Hamilton	87% - 93%	59% - 83%
Haverford	100%	70% - 80%
Middlebury	82% - 97%	63%-80%
Mt Holyoke	75%	75%
Oberlin	65% -90%	65% - 90%
Sarah Lawrence	86% - 93%	86% - 93%
Saint Lawrence U.	100%	64%
Skidmore	71% - 90%	71% - 90%
Smith	90%	70%
Swarthmore	100%	60% - 85%
Trinity	62% - 70%	62% - 70%
Union	72% - 93%	66% - 86%
Vassar	100%	37%
Wellesley	66% - 75%	66% - 75%
Wesleyan	66%	66%
Wheaton	82%	70%
Williams	70%	70%

Note:
Contributions presented as a range, i.e. 70% -90%, are due either to financial sliding scale or tomultiple health plans, with contributions weighted toward one "target" plan.