LEHIGH UNIVERSITY

Date: **November 5, 2012**

To: **All Lehigh Faculty and Staff**

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From: **Patrick Farrell, Provost** **and Margaret F. Plympton,**

Vice President, Finance and Administration Margaret F Plympton

Subject: **Benefits Allocation Review – Senior Officers' Decisions**

EXECUTIVE SUMMARY

We are pleased to report to the Lehigh employee community on **Benefits Allocation Review** decisions made by the Senior Officers. These decisions are based on the recommendations from the Benefits Allocation Review Teams and subsequent campus feedback about those recommendations. They conclude a three-year process that involved the hard work of many faculty and staff.

The goal was to review Lehigh's benefits to determine how they compared with benefits for other comparable institutions and to make improvements or adjustments where appropriate, within the current benefits budget. In reviewing our benefits, the Benefits Allocation Review Team made recommendations on three important elements – retirement, medical and tuition reimbursement. It is important to note that any changes will take effect January 2014.

Dozens of employees gave their time, energy, and ideas as members of the **Benefits Allocation Review Teams** (BART). Over 48 percent of Lehigh employees responded to the survey about Lehigh's benefits program and 54 individuals participated in subsequent focus groups on specific benefits topics. We thank you all for your participation.

After the benefits survey, more than 400 Lehigh faculty and staff members came together to create a **Benefits Philosophy** which guided the decision making process. The university engaged leading experts in the field of employee benefits to compare our current benefits package with those of comparable institutions of higher education across the country. That comparison demonstrated that overall, the Lehigh benefits package is strong relative to other private institutions similar to Lehigh, although individual elements of our benefits package compare more less favorably to others.

The senior officers reviewed more than 750 pages of data and reports and the results of hundreds of hours of discussion. Our deliberations built on the BART recommendations and all of the feedback, and focused on the areas overwhelmingly declared to be most important to Lehigh employees – retirement savings, medical insurance coverage, and the tuition benefit program.

The Benefits Allocation Review Process

The Benefits Allocation Review, the first comprehensive assessment of the total employee benefits program at Lehigh in over 25 years, has been a multi-phase project designed to better align the university's benefits program with its values and the needs of the employee community, while neither reducing nor increasing the total costs of the benefits program.

The initiative included a number of phases:

- An education campaign
- A benefits satisfaction survey
- Multiple opportunities for faculty and staff input into the process, including focus groups and open meetings.
- Developing a benefits philosophy statement
- Engaging The Mercer Group to compare our benefits to 26 leading private four-year colleges and universities
- The first BART defined goals, performance expectations, and related metrics for the benefits program and identified specific benefits in need of additional study
- The second BART created three working groups (dental and health care, retirement plan, tuition benefits) to focus on their respective areas and develop recommendations for consideration
- The working groups came together as one team to identify recommendations for changes to Lehigh's benefits package based on all of the preceding data and discussion
- Faculty and staff participated in discussions of the BART recommendations, in order to invite alternative proposals, get feedback and consider concerns
- Senior Officers received all BAR work including Team recommendations, campus feedback and alternate suggestions, and came to decisions regarding what, if any, benefits changes should be made.

All of the publications pertaining to the Benefits Allocation Review can be found on the Human Resources website: www.lehigh.edu/~inhro. Select the "Benefits Allocation Review Team Update" button on the homepage.

Key Decisions

Please note: these changes in benefits will be effective January 2014.

Retirement

- We will phase in a new retirement savings program over a **three-year period** beginning January 1, 2014. The plan will be fully implemented by January 2017. Current employees, as of December 31, 2013, will continue in the retirement plan with the Lehigh contribution according to the schedule on page 7. They can enroll in the voluntary plan with Lehigh match, but will not be automatically enrolled. New employees, starting on or after January 1, 2014, will be automatically enrolled as they start, but may opt out if they wish.

- All individuals employed on December 31, 2013 will be immediately fully vested in the new plan, meaning there will be no waiting period for these employees to participate.
- The University's contribution rate for the base plan will be changed stepwise, in 1/2 percent increments, from the current 10 percent for most employees to 8 percent as of January 2017; simultaneously, a new matching University contribution will be added for voluntary employee savings. This increases the maximum University contribution to 11 percent.
    - Lehigh will match employee contributions at a rate of ½ percent for each 1 percent of pension-eligible earnings contributed. The maximum employee contribution that will be matched will begin at 3 percent in January 2014, and increase annually to a maximum of 6 percent employee contribution for matching in January 2017. The resulting maximum contribution by Lehigh will be 11 percent beginning January 2014, a 10 percent increase over the current plan (up to allowable IRS limits).
- Employees of any age will be eligible to begin participating in the program immediately upon employment. The current retirement plan requires two years of service to be eligible for Lehigh contributions for employees under 35 years of age and limits the University contribution to 5 percent of salary for employees less than 30 years old.
- Employer contributions will have a three-year vesting period. If an employee leaves prior to reaching three years of service, he or she retains only his or her own contributions to the retirement plan. Beyond three years of employment (as well as for all who are employed at Lehigh as of December 31, 2013), all University contributions will be immediately vested.
- New employees are phased into the full retirement benefits. For individuals who begin benefits-eligible employment on or after January 1, 2014, Lehigh will contribute a percentage of salary to their retirement accounts based on years of service for the first five years of service:
        - Less than three years of service: 4 percent
        - At least three but less than five years of service: 6 percent
        - Five years or more service: 8 percent

  In addition, these individuals will be automatically enrolled in the matching plan at a 3 percent employee contribution rate for a 1.5 percent Lehigh matching contribution. Employees may increase their voluntary contribution and consequent Lehigh match up to the maximum levels shown in Table 1 for the relevant year, and can opt-out of the voluntary contribution portion of the retirement plan at any time.
- A detailed explanation of the BART recommendations, phase-in period, service-based contributions, and matching plan can be found on pages 6-9 of this report.

Medical Plan

The largest factor impacting Lehigh's medical plan is the upcoming implementation of the **Patient Protection and Affordable Care Act** in January 2014. Currently, the university's medical plans are "grandfathered," meaning they do not yet reflect the full range of costs and benefits the law is anticipated to require of all medical plans. That will change, however, in January 2014, when all plans will be subject to the same set of requirements. Details of the Affordable Care Act requirements are still being developed at the Federal level, so although we have projections, final requirements for health care plans and how Lehigh's medical plan will accommodate those requirements will probably not be known for certain until mid-2013.

We concur with the BART observation that having a healthier workforce will slow the rate of cost increases for medical insurance, especially given the tendency for employees to remain at Lehigh for many years. Therefore, as recommended by the BART, Lehigh's 2014 health insurance plans will include a **Wellness Initiative** that will provide incentives for employees to be proactive about prevention, screenings, and treatment of chronic illnesses.

Human Resources will work with the Faculty and Staff Wellness Committee on the design of the initiative. A key component will be reduced monthly insurance premiums for those employees participating in the program.

Tuition Benefit Program

There will be no change to the current tuition benefit program. A discussion of the BART recommendations and the senior officer deliberations involved in coming to this decision are on page 11 of this report.

KEY DECISIONS IN DETAIL

Retirement

Background

Across the nation, planning for a comfortable retirement is a shared responsibility between each employee and employer. There are three essential parts to a person's retirement income, and each is of equal importance. This is sometimes referred to as the "three-legged stool" of retirement planning:

1. Social Security
2. Employer-provided contributions
3. An employee's personal savings

Concerns about the Current Plan

When planning for retirement, a person must consider what percentage of his/her salary each will need to replace in order to maintain a desired lifestyle. Lehigh's current plan, introduced in July 1989, was designed to replace 70 percent of pre-retirement income when combined with Social Security benefits. Using updated actuarial assumptions, Mercer's current financial modeling confirms that the plan succeeds in doing so for two populations of employees:

- Single/unmarried persons earning $50,000 or less
- Married persons earning up to $70,000 as the sole wage earner.

In addition to the fact that the plan doesn't reach its goal for all employees, today's thinking on retirement planning recommends aiming for an even higher income replacement level.

One way to achieve a higher level of income replacement is for employees to participate in a tax-deferred retirement savings plan. The current participation rate in Lehigh's Voluntary Supplemental Retirement Plan (VRSP) is 42 percent of benefits eligible employees.

The current plan also requires employees under the age of 35 to wait two years before receiving retirement contributions, and includes a University contribution of 5 percent for those under the age of 30. Given that earlier plan contributions can make a large difference in a person's ultimate retirement savings, this is a disadvantage to younger employees.

Finally, the present plan provides immediate vesting. This may not be the most effective use of Lehigh's benefit dollars because we are committing resources to employees who may not choose to spend a significant portion of their working lives at the University. For all of these reasons, the Benefits Allocation Review Team recommended the senior officers consider a new retirement plan design.

The New Retirement Plan Design

The BART recommended the following changes to the retirement plan and the Voluntary Retirement Savings Plan (*VRSP*):

- Replace the current two year waiting period for those under age 35 with a three-year vesting period for all new hires
- Eliminate the age-based differential for contribution rates
- Set the contribution rate at 8 percent for all (rather than the current 5/10 percent rates)
- Establish a matching plan to encourage faculty and staff savings
- Introduce auto-enrollment feature with ability to “opt out”

These recommendations from the review team addressed two different goals: 1) to eliminate the inequities experienced by younger employees, and 2) to ensure that preparing faculty and staff members for retirement is a responsibility taken on not only by the university, but also by the employees themselves.

As mentioned above, an important consideration in the review deliberations was to ensure that any plan design changes will not add to the overall cost of university benefits. This is why the recommendation requires reducing the basic contribution amount from 10 percent to 8 percent of salary. This reduction funds the voluntary matching program, given an estimate of the number of Lehigh faculty and staff who will choose to participate.

Campus feedback on this recommendation indicated that it might prove challenging for some employees to participate in additional voluntary contributions to a retirement account. The Senior Officers asked Human Resources to develop an implementation plan for the new retirement program that would achieve the BART’s goals while also providing all employees with the opportunity to gradually adjust to the voluntary contributions toward their retirement savings.

When the new plan is introduced in 2014, all individuals employed on December 31, 2013 will be immediately vested in the plan. New employees (beginning on or after January 1, 2014) will be immediately eligible for benefits under both the basic and the voluntary matching plan subject to a three-year vesting schedule (see below).

For current faculty and staff, the plan contribution and matching changes will be accomplished according to the following schedule:

TABLE 1: SCHEDULE OF INCREMENTAL PLAN CHANGES						
	Base Lehigh Contribution				**Maximum Lehigh Contribution**	
Plan Year (begins Jan. 1)	**Employees Under Age 30**	**Employees Age 30+**	**Employee Contribution Eligible for Match**	**Lehigh's 50% Matching**	**Employees Under Age 30**	**Employees Age 30+**
Today	5.0%	10.0%	0.0%	0.0	5.0%	10.0%
2014	8.0%	9.5%	3.0%	1.5	9.5%	11.0%
2015	8.0%	9.0%	4.0%	2.0	10.0%	11.0%
2016	8.0%	8.5%	5.0%	2.5	10.5%	11.0%
2017+	8.0%	8.0%	6.0%	3.0	11.0%	11.0%

To ensure adequate resources to support a higher participation level for current employees, the contribution schedule for new hires will be phased in and will be based on the length of service with the university. While they may contribute at a higher rate if they wish, new hires will be automatically enrolled in the matching program at a rate of three percent. A new hire who accepts the auto-enrollment at three percent, would therefore experience the following contribution schedule:

TABLE 2:CONTRIBUTION SCHEDULE FOR NEW HIRES W/ AUTO-ENROLLMENT				
Years of Service	**LU Contribution**	**Auto-Enrollment in the Matching Program***	**Lehigh's 50% Matching Contribution**	**Total Contribution**
Less than 3 years	4.0%	3.0%	1.5%	8.5%
3 to 5 years	6.0%	3.0%	1.5%	10.5%
5+ years	8.0%	3.0%	1.5%	12.5%
* Please note: employees may decline auto-enrollment				

Employees can increase their level of voluntary contribution and consequent Lehigh match to the rate indicated by Table 1. Employees can also opt-out of additional voluntary contributions and Lehigh match at any time.

Administrative Changes To The Plan

It is important to understand that any retirement savings plan that receives employer contributions must be maintained in a manner consistent with the requirements of the Employee Retirement Income Security Act (ERISA). Our current retirement plan is ERISA compliant because the University, as the plan sponsor, defines the available investment alternatives within the plan. Our current VRSP does not receive employer contributions and is managed as a non-

ERISA plan. This means that the University exerts no control over the investment decisions of the plan participants.

As we move from a non-ERISA voluntary retirement savings plan (VRSP) that receives only employee contributions to a plan that will include Lehigh matching contributions, we must structure the plan in a manner compliant with ERISA regulations. Beginning January 2014, voluntary retirement contributions and Lehigh retirement contributions will be merged into a single ERISA compliant plan that will meet the requirements of the federal government with regard to best fiduciary practices. The plan will also need to meet new federal standards requiring employers to introduce a stronger level of active management and oversight for their plans. For more information on ERISA requirements, see: http://www.dol.gov/dol/topic/retirement/erisa.htm.

Employees who have contributed to the funds available through the VRSP prior to January 1, 2014 will be able to maintain those investments. As of January 1, 2014, all new Lehigh and voluntary contributions will need to be invested in funds meeting the ERISA standard, and all subsequent contributions for retirement will be allocated to the funds selected by the employee from among the eligible funds.

Our goal is to create a plan that gives faculty and staff access to investment funds that are rated among the best in their fund classes and to offer a brokerage window for those participants who choose to have their voluntary contributions invested in through that means.

Human Resources will form an Investment Advisory Committee of faculty and staff members with investment expertise to help develop an investment philosophy and then select the best vendor to administer the new plan.

To prepare for the change, the Lehigh employee community will receive information regarding the new retirement plan through written, online, and in person communications on an ongoing basis throughout 2013.

Medical Insurance

Impact of The Affordable Care Act

Earlier this summer, the Supreme Court upheld the constitutionality of the **Patient Protection and Affordable Care Act** (PPACA) which requires that all employer-provided healthcare plans meet specific federal standards for access, affordability, and plan design by January 1, 2014.

Lehigh began implementation of certain aspects of the PPACA in 2011, including coverage of employees' adult children up to the age of 26 who don't have access to insurance from their own employment.

Moving forward, there are additional requirements that our plans must meet that will have an impact on the overall cost of health insurance. While the detailed regulations resulting from the law are still being finalized, some of the new requirements that will have a cost associated with them include:

- Expanding coverage to all adult children regardless of availability of coverage through their own employers (anticipated to increase the number of people on Lehigh's plan by about 18 percent)
- Eliminating co-pays for certain preventive care doctor's visits
- Covering 100 percent of the cost for certain well-care expenses such as contraceptives, smoking cessation and other items
- Offering coverage to temporary employees working at least 30 hours per week for at least three consecutive months.

The goals of the new federal requirements are to cover more citizens, prevent and treat more illnesses, and ultimately "bend the cost curve" of the cost of healthcare downward at the national level. In the short run, however, there may be increased costs associated with implementing the Affordable Care Act. As details on both requirements and costs become available, we will need to continue working with our insurers and the campus community to maintain plans that are compliant with the law, within our means, and serve our employees' needs.

Introducing a health management/wellness program into Lehigh's plan design will help reduce the rate of cost increases by fostering a healthier workforce. We believe this program will be successful, especially since Lehigh has a relatively low employee turnover rate. By investing in wellness and the management of chronic diseases, the university should see reduced expenditures in the long run. While the law adds new coverage requirements, it also classifies particularly costly plans as "Cadillac" plans which will become subject to federal excise taxes. If health plan costs continue to increase as they have, several of Lehigh's current plans, as currently constituted, would become subject to these taxes.

Therefore, the senior officers endorse the BART recommendations regarding Lehigh's dental and medical insurance plan:

1. Dental insurance should continue to be offered on a voluntary basis with the full cost of coverage paid for by the employee.
2. The university should develop a multiple year strategy to introduce health management and wellness incentives to encourage faculty and staff members to take an active role in assessing their health and taking steps to improve it. The program would include health risk assessments, bio-metric screenings, and premium cost differentials for individuals who participate in targeted actions.
3. Human Resources, working with the Senior Officers and relevant campus committees, should review and revise medical plan designs to ensure compliance with the

requirements of the Affordable Care Act and to reduce the rate of health care cost escalation.

Tuition Benefit Plan

The full menu of tuition benefits offered by Lehigh compare favorably to those of other institutions. In fact, the plan was above the median for exempt and nonexempt staff when compared to the colleges and universities included in The Mercer Report. This is true even taking into account the fact that nonexempt employees are not eligible for Lehigh's tuition cash grant.

In examining tuition benefit utilization data, we determined that staff members use the employee tuition benefit in far higher numbers than faculty, and staff and faculty use the spouse/partner and dependent tuition benefits at the same level as staff.

The chart below reports the number of individual faculty and staff members who have used one or more of the available tuition benefit programs for themselves, their spouses/partners, and/or their children in the last two academic years.

Employee Group	AY10-11	AY11-12
Administrators	3	3
Exempt Staff	139	132
Faculty	96	90
Nonexempt Staff	115	118
Total	**353**	**343**

BART recommended indexing the dollar value of the tuition cash grant based on the increased cost of undergraduate tuition at Lehigh and extending the tuition cash grant to nonexempt employees; however, they were unable to reach consensus on how such measures would be paid for within current resource parameters. There was no agreement on potentially shifting funds by eliminating other aspects of the tuition program, or limiting access to a certain number of dependents in each family, or on total semesters supported for each participant.

The Senior Officers conclude that no changes to the tuition plan should be made at this time. Changes may be possible in the future, by finding ways to offset increased costs associated with such changes.

Conclusion

In the next month, we will meet with the Employee Relations Advisory Committee (ERAC), the Faculty Compensation Committee (FCC), and the Faculty Financial Planning and Operations Committee (FFPOC) to talk about these decisions. Following these discussions, Pat Farrell and Peggy Plympton will host open meetings for all faculty and staff. These meetings will be held at the following dates and times in Rauch 91:

Tuesday December 4, 2012
11:00 a.m. to Noon

Wednesday December 5, 2012
10:30 a.m. to 11:30 a.m. and 4:00 p.m. to 5:00 p.m.

Human Resources will be leading the efforts to communicate with all faculty and staff to ensure that employees are aware of the decisions, and prepared for changes that will become effective with calendar year 2014. We encourage everyone to stay current by reading *Spotlight* and any printed materials sent to you. You can also expect to hear more in the coming year about information sessions, online presentations, and other learning opportunities.

Any selections needed by employees regarding these benefit changes or existing benefits will take place during the open enrollment period in the Fall of 2013.

We greatly appreciate the time and effort of the numerous members of Lehigh's faculty and staff who participated in this multi-year project. Because of their dedicated efforts, Lehigh now has a Benefits Philosophy and solid data that will help guide our benefits program in the future.