

**The Ohio State University
Faculty Senate Fiscal Committee
DRAFT - Updated January 14, 2022**

TOPIC:

Composite Benefit Rates for September 1, 2022, through August 31, 2023

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 2022-2023 (as a percentage of salaries) are as follows:

Assumes 3% AMCP, 6% Medical Trend

| General University | | | | | |
|-------------------------------|-----------------------------------|-----------------------------------|-----------------|--------------------------------|-------------------------------------|
| | Current Rates* (21-22) | Proposed Rates (22-23) | % Change | Projected Benefit Costs | Calculated Rates (21-22) |
| Faculty | 26.0% | 27.1% | 4.2% | \$ 138,928,805 | 26.7% |
| Combined Staff | 34.3% | 35.4% | 3.2% | 279,824,214 | 35.0% |
| Specials | 15.9% | 15.9% | 0.0% | 14,988,956 | 15.9% |
| Students | 0.4% | 0.4% | 0.0% | 131,523 | 0.4% |
| Graduate Associates | 11.3% | 11.5% | 1.8% | 15,307,360 | 11.3% |
| OSU Health System | | | | | |
| Faculty** | 35.2% | 35.7% | 1.4% | \$ 19,080,294 | 35.5% |
| Combined Staff | 33.2% | 34.3% | 3.3% | 344,902,005 | 34.4% |
| Specials | 16.2% | 16.1% | -0.6% | 22,923,731 | 16.2% |
| Students | 0.7% | 0.6% | -14.3% | 16,388 | 0.7% |
| Graduate Associates | 11.6% | 11.8% | 1.7% | 66,623 | 11.6% |
| Faculty Group Practice | | | | | |
| Clinical Appointments*** | 4.5% | 4.4% | -2.2% | \$ 17,559,713 | 4.6% |

* Current (2021-2022) benefit rates have been reduced to return \$20 million in surplus benefits cash to the units.

** Faculty rate group for the Health System consists primarily of medical residents.

*** Excludes retirement contributions

ADDITIONAL DETAIL:

- Summary of Actual and Projected Benefit Costs by Component
- Methodology for Benefit Rate Calculations and Definitions for Rate Groups
- 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 – FY2020 and FY2021
- Additional Detail on Benefit Administration Costs – FY2020 and FY2021
- Projected Benefit Rates for 2024-2026

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

Global Assumptions:

| | |
|---|---|
| Headcount | Assume stable benefit-eligible FTE (AU2020 actual) |
| Average Pay Increase | Assume guideline increases of 3% in FY2022 and 3% in FY2023. |
| Structure of Benefit Rate Groups | Assume same rate groups as prior year |
| Composition of Benefit Package | Assume same components as prior year |
| Target for Benefit Cash Balances | Cash equal to fully funded benefit liabilities, plus \$28 million Medical Plan Reserves |

Summary of Actual and Projected Costs by Component:

| | Primary Cost Driver | FY21 Total Actual Cost | FY21 Actual Rate/ Cost per FTE | FY22 Total Projected Cost | FY22 Projected Rate/ Cost per FTE | FY23 Total Projected Cost | FY23 Projected Rate/ Cost per FTE | Notes |
|-------------------------------------|--------------------------------|-----------------------------------|---|--------------------------------------|--|--------------------------------------|--|--------------|
| STRS | Salary \$ | 110,855,249 | 13.89% | 118,752,123 | 14.05% | 122,314,687 | 14.05% | (1) |
| OPERS | Salary \$ | 300,523,350 | 13.89% | 313,033,400 | 14.05% | 322,424,402 | 14.05% | (2) |
| Medicare | Salary \$ | 40,741,166 | 1.38% | 41,978,270 | 1.38% | 43,237,618 | 1.37% | (3) |
| Group Life | Salary \$ | 6,482,539 | 0.24% | 6,732,887 | 0.24% | 6,934,874 | 0.24% | |
| Disability | Salary \$ | 6,842,486 | 0.25% | 6,542,384 | 0.25% | 6,738,655 | 0.23% | |
| Unemployment Comp | Salary \$ | 1,762,002 | 0.06% | 1,828,796 | 0.06% | 1,883,660 | 0.06% | |
| Workers Comp-UNIV/OSP | Salary \$ | 3,308,816 | 0.16% | 3,408,900 | 0.16% | 3,511,167 | 0.16% | |
| Workers Comp-Health System | Salary \$ | 4,963,225 | 0.44% | 4,878,398 | 0.44% | 5,024,750 | 0.42% | |
| Benefits Administration | Salary \$ | 6,710,363 | 0.21% | 7,236,636 | 0.21% | 7,453,735 | 0.22% | (4) |
| Graduate Associate Health Insurance | Salary \$ | 13,311,950 | 10.82% | 14,435,187 | 10.93% | 14,868,242 | 11.15% | |
| Medical Plans | Headcount | 326,663,150 | 10,000 | 346,262,939 | 10,600 | 366,993,772 | 11,236 | (5) |
| Affordable Care Act Fees | Headcount | 155,797 | 5 | 151,000 | 5 | 150,982 | 5 | |
| Vision | Headcount | 1,374,929 | 42 | 1,437,348 | 44 | 1,486,941 | 46 | |
| Dental | Headcount | 13,944,520 | 427 | 14,373,475 | 440 | 14,791,930 | 453 | |
| Employee Tuition | Headcount | 27,890,009 | 854 | 30,184,298 | 924 | 32,526,923 | 996 | |
| Dependent Tuition | Headcount | 10,973,252 | 336 | 11,172,110 | 342 | 11,415,173 | 349 | |
| Totals | | <u>876,502,801</u> | | <u>922,408,150</u> | | <u>961,757,510</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) - Includes \$365,000 for Wellness programs

(5) - Reflects projected cost increases of 6% per year.

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 FY2021 actual FTEs and FY2021 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, 2023. 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 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 2022, what rates will be required to cover costs and provide sufficient benefit cash balances for the benefit "year" ending August 31, 2023.

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 FY2021 must be incorporated in the FY2023 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. For Health System, the faculty rate group consists primarily of medical residents.

Combined Staff – Includes administrative and professional (Unclassified) staff, non-exempt (Classified Civil Service) staff and post-doctoral researchers 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.

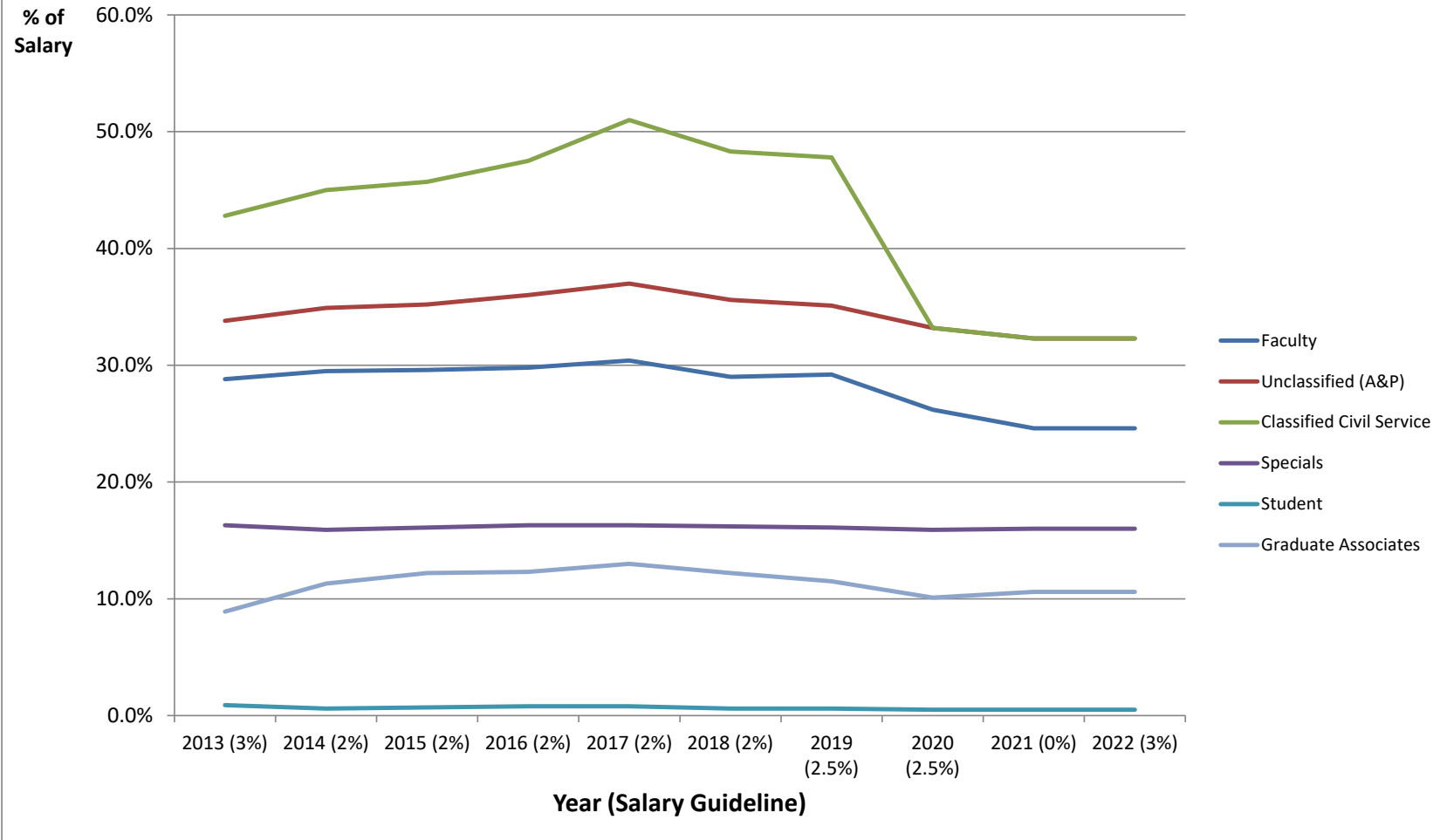
Students – Includes hourly student employees who are not eligible for benefits (rate consists primarily of required Medicare, workers compensation and unemployment contributions). This rate is also applied to additional pay that is not eligible compensation for retirement contributions.

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
FY2017 - FY2021

| | | FY2017 | | FY2018 | | FY2019 | | FY2020 | | FY2021 | |
|---|------------|--------------------|------------|--------------------|------------|--------------------|------------|---------------------|------------|---------------------|--------|
| Primary Cost Driver | Total Cost | Rate/Cost per FTE | Total Cost | Rate/Cost per FTE | Total Cost | Rate/Cost per FTE | Total Cost | Rate/Cost per FTE | Total Cost | Rate/Cost per FTE | |
| STRS | Salary \$ | 97,255,177 | 14.38% | 102,994,649 | 14.62% | 108,639,693 | 14.79% | 116,576,522 | 15.17% | 110,855,249 | 13.89% |
| OPERS | Salary \$ | 237,550,032 | 13.98% | 250,367,406 | 13.80% | 266,755,555 | 13.75% | 285,353,911 | 13.85% | 300,523,350 | 13.89% |
| Medicare | Salary \$ | 31,299,314 | 1.32% | 35,544,765 | 1.41% | 37,772,416 | 1.41% | 40,204,257 | 1.42% | 40,741,166 | 1.38% |
| Group Life | Salary \$ | 5,951,192 | 0.27% | 4,529,164 | 0.20% | 4,805,454 | 0.20% | 5,805,932 | 0.22% | 6,482,539 | 0.24% |
| Disability | Salary \$ | 6,011,636 | 0.27% | 6,310,555 | 0.27% | 6,837,666 | 0.28% | 7,796,116 | 0.30% | 6,842,486 | 0.25% |
| Unemployment Comp | Salary \$ | 820,212 | 0.03% | 786,023 | 0.03% | 697,025 | 0.03% | 1,095,529 | 0.04% | 1,762,002 | 0.06% |
| Workers Comp-UNIV/OSP | Salary \$ | 4,210,443 | 0.25% | 3,960,062 | 0.22% | 3,231,108 | 0.17% | 3,424,205 | 0.17% | 3,308,816 | 0.16% |
| Workers Comp-Health System | Salary \$ | 6,315,665 | 0.72% | 5,940,093 | 0.63% | 4,846,662 | 0.47% | 5,136,307 | 0.49% | 4,963,225 | 0.44% |
| Benefits Administration | Salary \$ | 6,710,635 | 0.26% | 7,085,029 | 0.26% | 7,164,191 | 0.25% | 6,902,132 | 0.23% | 6,710,363 | 0.21% |
| Graduate Associate Health Insurance | Salary \$ | 10,824,215 | 10.00% | 11,745,320 | 10.56% | 12,994,344 | 11.16% | 13,518,319 | 10.93% | 13,311,950 | 10.82% |
| Medical Plans | Headcount | 256,678,900 | 8,705 | 263,165,296 | 8,718 | 269,325,989 | 8,621 | 305,920,922 | 9,424 | 326,663,150 | 10,000 |
| Affordable Care Act Fees | Headcount | 1,419,113 | 48 | 110,360 | 4 | 150,617 | 5 | 156,549 | 5 | 155,797 | 5 |
| Vision | Headcount | 1,349,697 | 46 | 1,714,950 | 57 | 1,788,013 | 57 | 894,964 | 28 | 1,374,929 | 42 |
| Dental | Headcount | 13,531,275 | 459 | 13,788,643 | 457 | 14,417,251 | 461 | 11,629,246 | 358 | 13,944,520 | 427 |
| Employee Tuition | Headcount | 20,936,844 | 710 | 21,699,053 | 719 | 23,831,012 | 763 | 26,343,404 | 812 | 27,890,009 | 854 |
| Dependent Tuition | Headcount | 9,255,792 | 314 | 9,539,301 | 316 | 9,751,633 | 312 | 10,348,807 | 319 | 10,973,252 | 336 |
| Totals | | 710,120,142 | | 739,280,670 | | 773,008,628 | | 841,107,121 | | 876,502,801 | |
| Benefit Over (Under) Recoveries: | | | | | | | | | | | |
| Amounts Charged to Departments | | 768,426,612 | | 807,471,741 | | 789,008,712 | | 805,763,931 | | 828,741,384 | |
| Actual Costs | | 710,120,142 | | 739,280,670 | | 773,008,628 | | 841,107,121 | | 876,502,801 | |
| Over (Under) Recoveries | | 58,306,470 | | 68,191,071 | | 16,000,084 | | (35,343,190) | | (47,761,417) | |

The Ohio State University Trends in General University Composite Benefit Rates



Notes on Trends in Benefits Rates:

- Rate increases in 2012 through 2016 relate primarily to medical costs, which were increasing at higher rates than Faculty, Unclassified and CCS salaries. Decreases in the 2017 and 2018 rates reflect reductions in projected medical costs.
- Unclassified and CCS rates were combined into a single Combined Staff rate in 2018-2019 salary year to simplify the rate structure and to facilitate classification and compensation redesign.

Target vs Actual Cash Balances in Benefits Funds:

| Cash Balances at 12/31/2021 | Actual | Target/Reserve | Difference | Target/Reserve Methodology |
|------------------------------------|-----------------------|-----------------------|----------------------|--|
| Retirement | \$ 74,568,282 | \$ 55,480,000 | \$ 19,088,282 | Employer contributions paid 1-2 months in arrears; current balance includes 2 months of OPERS. |
| Medical | 37,669,046 | 35,100,000 | 2,569,046 | 6/30/21 IBNR calculated by external actuarial consultant for year end financials. |
| Medical Plan Reserve | 28,000,000 | 28,000,000 | - | Medical plan reserves are based on one month of average total claims, per external benefit consultant. |
| Dental | 2,755,748 | 1,850,000 | 905,748 | One month estimated expenses based on historical trend. |
| Vision | 1,363,314 | 481,000 | 882,314 | One month estimated expenses based on historical trend. |
| Workers Comp | 4,474,263 | 6,335,000 | (1,860,737) | Current portion of 6/30/21 IBNR calculated by external actuarial consultant. |
| Life | 3,204,939 | 4,102,808 | (897,869) | Estimated claims liability |
| Other | 7,341,516 | 16,378,060 | (9,036,544) | |
| | <u>\$ 159,377,107</u> | <u>\$ 147,726,868</u> | <u>\$ 11,650,239</u> | |

- 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.
- On December 31, 2021, the University's benefit plans had cash balances of \$159 million, which is approximately \$12 million higher than our target cash balances.

**The Ohio State University
Summary Projection of Benefits Cash Surplus (Deficit)**

*2021-2022 Scenario 2
Return \$20M
via 2021-2022
Rates and \$36M
via Cash Transfers*

Target vs Actual Surplus at 12/31/2021

\$ 11,650,239

Cash to be returned through current 2021-2022 composite rates

(13,333,333)

Projected Target vs Actual Surplus at 8/31/2022

\$ (1,683,094)

Additional Information on Medical Costs:

Additional detail on university medical plan costs for FY2020 and FY2021 are provided below:

| | <u>FY20 Actual</u> | <u>FY21 Actual</u> |
|---|-----------------------|-----------------------|
| Medical Plans Detail: | | |
| Claims, net of employee premiums | \$ 279,902,074 | \$ 299,097,057 |
| OSU Health Plan (including Care Coordination, Health Coaching, etc.) | 10,970,160 | 10,755,952 |
| University Health Connection | 201,780 | - |
| Equifax/Talx (ACA Administration and Consulting) | 180,218 | 254,543 |
| OPPOC (Network Access) | 163,395 | 164,330 |
| Impact (Employee Asst Provider) | 799,840 | 904,355 |
| Truven (Informed Enrollment) | 175,765 | - |
| Trustmark - formerly NGS (claims processing) | 5,823,656 | 5,666,051 |
| ESI (pharmacy benefit manager) | 2,057,653 | 3,731,380 |
| Zelis (former Global Care out-of state claims and medical evacuation) | 1,489,625 | 1,571,233 |
| Aon/Hewitt (Benefits consulting) | 585,660 | 710,608 |
| MindsOn (YP4H Communications Consultant) | 9,224 | - |
| Alight (Dependent Certification) | 57,158 | 79,803 |
| TASC (HRA Admin) | 640,474 | 601,408 |
| HRA payments | 1,579,621 | 1,882,036 |
| Virgin Pulse (YP4H Fees) | 695,030 | 767,604 |
| Virgin Pulse (YP4H Incentives) | 470,444 | 431,817 |
| Design Agency (OE Design) | 10,425 | 7,625 |
| Mercer (Medical IBNR) | 5,000 | 6,312 |
| YP4H (Events, Supplies, etc) | 15,581 | - |
| Other medical admin costs | 88,138 | 31,036 |
| | <u>\$ 305,920,922</u> | <u>\$ 326,663,150</u> |
| | <u>\$ 9,424</u> | <u>\$ 10,000</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:

| | <u>FY20 Actual</u> | <u>FY21 Actual</u> |
|--|----------------------------|----------------------------|
| Benefits Administration Detail: | | |
| Salaries | \$ 4,259,474 | \$ 4,085,670 |
| Benefits | 1,396,022 | 1,260,984 |
| HR System & Ben Admin | 977,235 | 977,235 |
| Adoption | 22,236 | 40,348 |
| Appligent (Accessibility Services) | 9,579 | 11,160 |
| Design Agency (Forms Design) | 2,215 | 4,650 |
| Hewitt (Retirement Consulting) | 22,121 | - |
| Talx (EE verification) | 19,254 | 13,756 |
| Otterbase (Temporary Hire IT) | - | 108,000 |
| Legal Fees (OLA) | 61,467 | 105,360 |
| Other Expenses | 132,530 | 103,201 |
| Total | <u>\$ 6,902,132</u> | <u>\$ 6,710,363</u> |

The Ohio State University
 Summary of Current, Proposed and Projected Benefit Rates
 through Benefit Year Ending August 31, 2026

| | 2021-2022 Current Rates* | 2022-2023 Proposed Rates | 2023-2024 Projected Rates** | 2024-2025 Projected Rates** | 2025-2026 Projected Rates** |
|---|-----------------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| General University | | | | | |
| Faculty | 26.0% | 27.1% | 27.4% | 27.6% | 27.9% |
| Combined Staff | 34.3% | 35.4% | 35.8% | 36.3% | 36.8% |
| Specials | 15.9% | 15.9% | 15.9% | 15.9% | 15.9% |
| Students | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% |
| Graduate Associates | 11.3% | 11.5% | 11.5% | 11.5% | 11.5% |
| Health System | | | | | |
| Faculty | 35.2% | 35.7% | 36.2% | 36.7% | 37.2% |
| Combined Staff | 33.2% | 34.3% | 34.8% | 35.2% | 35.7% |
| Specials | 16.2% | 16.1% | 16.1% | 16.1% | 16.1% |
| Students | 0.7% | 0.6% | 0.6% | 0.6% | 0.6% |
| Graduate Associates | 11.6% | 11.8% | 11.8% | 11.8% | 11.8% |
| Faculty Group Practice | | | | | |
| Clinical Appointments (excl. retirement) | 4.5% | 4.4% | 4.5% | 4.5% | 4.6% |

* Current benefit rates are reduced to return surplus benefits cash to units.

** Preliminary estimates, based on 2% AMCP and 5% medical trend. These assumptions will be updated in future years' rate calculations based on actual medical cost experience and AMCP guidance.