

## Benefits Programs of the University of Pennsylvania: Review and Recommendations

### To the University Community

This report is published in *Almanac* so that all Penn faculty and staff will be aware of the principles and thought processes that went into the development of the recommendations.

It also provides an opportunity for the community to give us feedback, via email at *benefits@pobox* or by campus mail to the co-chairs.

In addition, members of the Benefits Advisory Committee will meet during the next month with faculty, staff and administrative groups for discussion of the recommendations and for providing feedback to the Committee. It is anticipated that final decisions will be made by the President, Provost, and Executive Vice President in March, 1997, with a view to implementation for the start of the coming fiscal year.

#### *The Benefits Advisory Committee*

*Dr. Barbara Lowery, Co-Chair, Associate Provost*

*H. Clint Davidson, Jr., Co-Chair; Vice President, Human Resources*

*Debra Fickler, Associate General Counsel*

*Stephen Golding, Vice President for Finance*

*Dr. David Hackney, Chair, Personnel Benefits Committee;*

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## I. Introduction and Executive Summary \*

An effective and attractive employee benefits package is vitally important to the University of Pennsylvania. Benefits that satisfy employee needs and are competitive with those provided by peer institutions, enable the University to recruit and retain excellent faculty and staff. The University's benefits package is also very important to employees, since it assists faculty and staff in achieving income protection, retirement savings, health care insurance, and professional and personal development.

The University of Pennsylvania offers a wide range of employee benefits to help pay for health care expenses; to provide retirement benefits; to protect against the loss of income due to illness, disability, or death; and to cover some portion of tuition expenses for employees and their dependents. In addition, Penn pays for legally mandated benefits such as Social Security including Medicare, unemployment insurance, and workers compensation insurance. Finally, Penn provides paid time off from work including holiday and vacation pay.

For Penn to continue to provide an attractive and competitive benefits package, the package and its cost must be skillfully managed. Penn's cost of employee benefits has been one of the fastest growing components of the University's budget over the past ten years. These costs have more than doubled, averaging an annual growth rate of 8.1%, or a total of \$75 million over this time period, and they now exceed \$139 million in FY 97. Employee benefits costs represent approximately 12% of the total University budget (excluding the University of Pennsylvania Health System). At this high level, the cost of employee benefits is negatively affecting Penn's ability to meet other critical University priorities, including maintaining and achieving competitive salaries for faculty and staff, allowing researchers to effectively compete for sponsored research grants, and providing the University with the ability to maintain a competitive tuition policy that best meets the needs of our students.

In order to conduct a careful, thorough review of Penn's benefits package and to receive advice from the University community, a Benefits Advisory Committee was appointed. The Committee included faculty members recommended by the Faculty Senate—Dr. David Kozart, Past Chair of the Medical School Faculty Senate, Dr. David Hackney, Chair of the University Council Personnel Benefits Committee, Dr. Robert Hornik, Chair of the Senate Committee on the Economic Status of the Faculty, and Dr. Olivia Mitchell, International Foundation of Employee Benefit Plans Professor of Insurance and Risk Management; leaders of the Penn Professional Staff Assembly and the A3 Assembly—Ms. Marie Witt and Ms. Betty Thomas; and senior administrators with specific benefits implementation and financing responsibilities—Mr. Clint Davidson, Mr. Stephen Golding, Ms. Debra Fickler, Mr. Gavin Kerr, Dr. Michael Wachter, and Dr. Barbara Lowery. The Committee was supported by a working subcommittee that met weekly throughout the review period to evaluate the current program, study benchmarking information from peer institutions, and develop alternative proposals for the Committee. The Committee was further supported in its work by Towers Perrin, a consulting firm specializing in human resources and employee benefits. Towers Perrin's roles were to assist in gathering and analyzing the benchmarking information, in providing information on benefits trends and the "best-practice" packages that were being adopted elsewhere, and in designing and costing a range of feasible alternatives in each area.

The work of the Committee was based on a number of critical principles including the need to maintain an attractive benefits package that meets the need of University employees; to realize a competitive benefits package; to adopt plans that conform to the best practices of

benefits design; to maintain affordable benefits for lower-wage employees; to retain those benefits that are most valued by employees; and to simplify and clarify the benefits package. It was the consensus of the Committee that the proposed changes provide employees with a benefits package exceeding competitive standards and fully satisfying these principles.

When the Committee had agreed to a set of preliminary proposals, its recommendations were taken to the University's Academic Planning and Budget Committee, which advised acceptance of the proposals after several months of deliberations and revisions. Meetings were also held with the Deans to receive their input. This broad input helped to achieve a high degree of consensus in support of final recommendations set forth in this document.

The Committee has concluded that Penn needs better management of benefits costs and control of their future growth than has occurred in the past. To achieve this, like any employer, Penn needs to conduct periodic reviews of its benefits policies and practices to ensure that they remain competitive, cost-effective, in compliance with federal regulations, and appropriate for the needs of the University and its employees. The entire benefits package has not been reviewed at Penn for 15 years. As a result, we have missed a number of opportunities to improve our benefits design and to make benefits more cost effective.

As the Benefits Advisory Committee began work last summer, major issues quickly emerged. First, it was determined that the University's retirement programs might not be in compliance with new federal tax regulations governing these plans effective July 1, 1998. Second, Penn's formula for pricing different health insurance options, adopted in 1989 and not altered since then despite major changes in the cost of our different plan options, had led to sharply declining employee payroll contributions, reaching zero and even resulting in some refunds in FY 96. This runs counter to local and national trends since 1990 of increasing employee contributions to health care coverage. Third, the PennFlex credit system for life insurance, developed as a first step in a total flex-credit program but never completed, embedded an inefficient administrative anomaly in the overall program. Fourth, the University's method of giving pre-tax contributions for employee life insurance actually had the unanticipated effect of increasing most employees' taxes. Fifth, the University's tuition program, particularly the graduate tuition remission for employees' spouses and dependents, far exceeded those provided by peer institutions. Finally, the administrative and communication complexity of the current program led to high administrative costs, while making the benefits package less understandable and consequently less valuable to many employees.

The retirement programs noted above and the University's disability benefits programs were not included in the current benefits review. They will be examined further using the principles outlined below, and recommendations concerning them will be made for comment and implementation in FY 99.

### Principles

The benefits review process was driven by a set of principles that were accepted and approved by the Committee and by the Academic Planning and Budget Committee. The principles are the following:

1. The cost of employee benefits must be managed and contained while providing for a range of benefits that assists employees in achieving income protection, lifelong savings, health care, and professional and personal development.

2. Penn's benefits must be competitive in the different markets in which Penn competes for faculty (national and international), administrators (local and national), and support staff (local).

3. Penn's practices should conform to the best practices of benefits design: tax efficiency, cost-effectiveness, high value for expenditure, shared responsibility, compliance with the law, and administrative simplicity.

4. No single group should bear a disproportionate burden for benefits

\* *Many of the benefits of employees in collective bargaining units are governed by the provisions of the applicable collective bargaining agreement. Therefore, some of the benefits and proposed changes to benefits described in this article may not apply to employees in collective bargaining units.*

cost containment.

5. Benefits that are greatly valued by employees should be retained if at all possible, although even these benefits may require change.

6. The employee benefits package must be simplified and clarified while allowing for meaningful choice, in order for employees to better understand and utilize their benefits.

### **Proposed Changes: Health Care Insurance**

Major changes proposed to the University's FY 1998 Health Care Insurance benefits are as follows: The range of plan choices should be expanded. The Plan 100 indemnity plan should be retained, along with Health Maintenance Organization (HMO) plans and the PENNCare Preferred Provider Organization. A new Point-of-Service (POS) plan should be offered, providing considerable choice through UPHS, Keystone, and out-of-network tracks.

Employee payroll contributions for all health insurance plans should be reinstated, returning to the University policy in effect between 1980 and 1994. This would raise the average employee payroll contribution to health care insurance from 11% to 17% of the overall premium in FY 1998, leaving the University with an average 83% contribution. The FY 98 percentage contribution from employees, in fact, would be slightly lower than the Penn level in effect in 1994, and would be several percentage points below those of peer institutions today.

A new prescription drug plan should be introduced for those electing an HMO plan. Balancing the prescription drug plan with the reinstated payroll contribution for the HMO, the total cost to the average employee choosing the HMO option would actually decline next year.

### **Tuition**

The current undergraduate tuition program should be retained without change.

Special qualifying courses should be developed in the College of General Studies and the Wharton evening program to be made available in September, 1997, to employees whose admission to Penn's undergraduate program is deferred for academic reasons.

The graduate tuition program for employees should be retained without change. The graduate tuition benefit for spouses and dependents should be available only to spouses and dependents of current employees who enroll, or are enrolled, in a graduate program by the fall semester of 1998. For those individuals, the benefit would end by June 2002 or upon graduation from the specific graduate program in which the student is enrolled, whichever comes first.

Tuition benefits should be available only to employees whose salary is subject to the University's employee benefits rate.

### **Life Insurance**

In FY 98, Penn should provide all employees, at no charge, with life insurance coverage worth 1x (one-times) annual benefits base salary. Employees will be able to purchase additional life insurance, at group rates, up to an additional four times pay. The current plan maximum should be raised from \$300,000 to \$750,000. Employee optional life insurance will be offered on an after-tax basis in order to reduce unnecessary taxation on "imputed income."

The current flex-dollar program should be eliminated. In its place, Penn should increase all current employees' base pay to compensate them for the elimination of flex credits. The amount of the adjustment would be determined as the difference between the flex credit amount that would have applied effective July 1, 1997, under the current plan, and the cost of the new plan's employer-provided benefits of one times pay. Employees should still be able to direct a portion of pay into the pretax spending accounts and pay for health insurance premiums on a pretax basis.

### **Paid Time Off**

A single vacation accrual schedule should be designed for new staff (A1s and A3s) based on length of service. Current staff should receive the better of the new or existing paid-time-off accrual schedules. Newly-hired staff should be able to request accrued paid time off after the 120-day introductory period.

Reduced summer hours should be eliminated. The current winter vacation should be maintained.

### **Benefits for Part-time Employees**

Benefits for part-time employees should be expanded to include the option of participation in the Health Care Pre-Tax Account with a maximum of \$1,000 and an eligibility requirement of two years of continuous service.

### **Future Plans**

In the future, all components of the employee benefits package should be reviewed annually, in the context of the principles described above, to ensure that the University's benefits offerings continue to meet the goals of the University and its employees. Annual review and periodic adjustment should also prevent the package from straying from a cost-efficient package that conforms to best practices of benefits design.

## **II. Health Care**

### **A. Review of the Current Plan**

The Committee is well aware of the critical importance of health care benefits to the financial and emotional security of the entire Penn population. In order to gain a better perspective, this section provides some background on how health care benefits have been delivered at Penn through the years. Following this discussion is a brief summary of the current Penn health care benefits program as it stands before adoption of the recommended changes.

Up until the late 1970s, health care benefits at Penn were provided largely through a number of indemnity plans. These Blue Cross and Blue Shield (BC/BS) plans allowed members to seek care from any doctor or hospital.

In the late 1970s, Health Maintenance Organization (HMO) options were added to the Penn program. Over the years, the HMOs offered by Penn—Keystone, US Healthcare (USHC) and QualMed—grew in enrollment as the combination of increased benefits, reduced paperwork and typically lower payroll contributions led to heightened appeal relative to the indemnity plan.

In 1987 a new indemnity option—the BC/BS Comprehensive Plan—was offered at Penn. This plan provided reduced benefits at a payroll contribution cost lower than that of Plan 100.

The last change to the Penn health care plan was the addition of the PENNCare option in 1995. This plan is a Preferred Provider Organization (PPO) based on the network of hospitals and physicians under development by the University of Pennsylvania Health System (UPHS). This plan allows members to obtain health care from physicians within the UPHS network at 100% coverage (after a \$10 copay) without a requirement to select a primary care physician (PCP) or to receive referrals for visits to specialists. Since its introduction, this plan has garnered enrollment of about 25% of the Penn population.

In terms of the range of options, types of plans, and benefits levels, Penn's current health insurance plans can be summarized as follows:

**Range of options.** Penn offers health care benefits options which afford employees a high degree of choice. Within each option, employees are offered a varying degree of choice over the health care providers they prefer to use.

**Types of plans (see Definitions, Appendix A).** Employees currently can choose from among three different plan types: traditional indemnity, a preferred provider organization (the PENNCare PPO), and several HMO options. Each plan has differences in benefits levels, the degree of health care provider choice, rules on access to health care and (in some cases) payroll contributions.

**Benefits levels.** The specific benefit provisions in the Penn plans are comprehensive and competitive, with one major exception: the lack of prescription drug coverage under the Keystone and USHC HMOs is a significant disadvantage from both competitive and clinical (i.e., quality of care) perspectives.

**Managed care.** All plans have elements of managed care: the indemnity plans and PENNCare include provider discounts; the HMOs include provider discounts and a range of health care utilization controls.

**Contributions.** For plan year FY 97, employee contributions are required for Plan 100 enrollees (\$61 per month for single coverage and \$167 per month for family coverage). No employee contributions are required currently for almost all other plan options, although this was not the case before 1994. University contributions, therefore, have sustained these programs over the past two years.

Appendix B illustrates the key features of the current Penn health care options.

## B. Background and Issues

### 1. Trends in the Health Care Insurance Market

During the program evaluation, the Committee learned about a range of current employer practices, trends and emerging initiatives in the health care insurance arena. Most importantly, broad and rapid change is affecting the health care and health insurance markets at an unparalleled rate. An important element driving innovations in the health care benefits market was the high rate of increase in health care costs in the 1980s. As part of that trend, Penn's health care costs increased more than 15% per year for 1988 through 1990. Reacting to high inflation, many employers turned more to managed care as a means of controlling costs.

Managed care plans—HMOs, PPOs, etc.—offer the potential for cost savings at the expense of some degree of choice. The reason is that managed care plans impose some tradeoffs: in return for lower charges and coverage of more health care services (e.g., preventive care), individuals agree to give up some elements of choice (e.g., over which doctors and hospitals can be used in order to obtain full benefits). Many employees have agreed to forego some elements of choice in order to obtain the higher level of benefits available under managed care plans. About 40% of the Penn population has elected coverage through an HMO which provides coverage only for services rendered by doctors and hospitals who participate in the HMO's network.

Most employers now require employees to share in the cost of health insurance through payroll contributions, and periodically find it necessary to increase the employees' payroll contributions to reflect continuing increases in health care costs. In addition to sharing in the high cost of health care, employee cost sharing serves another goal: it can make overall health care plans more cost-effective by making employees more aware of the costs of health care they receive. If they are given a range of plan options, employees can make informed economic choices about plan elections based on the actual cost and value of each plan.

### 2. Issues Involving Cost Sharing

The high cost of health care has placed an increasing burden on the financial resources of all employers—a burden that has contributed to stagnant rates of growth in salary and wage increases, among other things. As noted above, employers have responded by requiring employees to share in the cost of health coverage through payroll contributions for virtually all plan options. This is true of both peer universities and Philadelphia area employers.

It is an irony that employee contributions for health care coverage at Penn, however, have actually declined in recent years, in both dollar levels and as a percentage of total health care costs. As a percentage, employee contributions declined from nearly 18% in FY 95 to a projected 11% for FY 97. If no plan redesign were to take place, this percentage would decline further to about 8% for FY 98, with the University paying 92%. In the current year (1996/1997), a large majority of Penn employees make no payroll contributions for their health care insurance, although two years ago, all Penn health care plans required employee contributions. The history of employee contributions is shown in two tables in Appendix C.

The health care cost sharing approach adopted by Penn in the late 1980s—that remained unchanged despite a rapidly changing environment—

caused this erosion in employee contributions. The Penn formula set the University contribution to each plan based on a fixed percentage of the cost of Plan 100. Unfortunately, this formula did not account for employees moving to different plans. The employee population with lower health costs did, in fact, migrate from Plan 100 to the low cost plans, while higher risk employees who incurred larger amounts of health care remained in Plan 100. This increased Plan 100 costs further, thereby further increasing the University's subsidy to the other plans. With that dynamic in effect, the University's contribution for all plans, other than Plan 100, reached 100% and the employee contribution fell to 0%. Put bluntly, the costing mechanism malfunctioned.

If this costing mechanism were maintained, the Penn program would increasingly act as a primary coverage "magnet" for spouses of Penn employees who work elsewhere and who decline coverage from their own employers in favor of Penn's free options. Penn would then increasingly bear some of the health care cost burden that rightfully should be that of other employers.

A central result of the benefits redesign effort is a recommendation to re-institute payroll contributions for all health care options at Penn. Constraints on Penn's overall financial resources, and the competing needs for funds elsewhere in the University, make this step extremely necessary and important. The recommendation is that employee cost sharing will be set, in the aggregate, at about 17% of plan cost, somewhat below the 18% contribution of FY 95. This is still well below the average in the private sector, where employee contributions typically range up to 20% or higher for a more limited menu of choices.

### 3. Issues Involving Choice and Flexibility in Health Care Plans

The Committee recognizes that choice and flexibility within an overall health care benefits plan are important to Penn's employees. The issue of choice has two dimensions. The first dimension relates to the range of alternative health care plans such as the traditional indemnity plan, a managed care HMO option, and a PPO or POS plan. The second dimension covers choice within the plans; for example, broad selection of doctors and hospitals within a managed health care plan and an option to obtain health care from any provider as an "out-of-network" benefit.

Among peer institutions, the trend with respect to the degree of choice is clearly toward reduced choice. For example, the Committee learned that most peer universities in our survey no longer offer an indemnity option and only a minority offer a PPO plan. The most prevalent plan types include POS and HMO plans. Among Philadelphia area employers included in the assessment, over half still offer an indemnity option (perhaps because of the strong market position of the local BC/BS plan and the favorable discounts negotiated with health care providers), about one fourth offer a PPO, more than half offer a POS plan, and most offer HMOs.

The challenge for employers over the past several years has been to balance the desires of employees for a high degree of choice with the serious need to control health care benefits costs. Some employers have controlled costs by offering only those plans that include managed care cost controls built into the plan's features. Other employers have blended the attributes of a flexible benefits plan with the cost efficiencies of managed care by offering a menu of choices that allow employees to choose which option best suits their needs—with payroll contributions set for the various options to reflect their overall value, benefits levels and cost-effectiveness.

The recommendations outlined below reflect the objectives, philosophies and key concerns of a broad cross-section of the University community. Further, the new program—in terms of the elements that will change and those valuable components of the current program that will not change—fulfills the principles articulated earlier in this report.

Several elements of the recommendations need to be stressed. First, Penn's employees will be able to select the same type of health care plan that they have enjoyed in the past. An additional option, a POS plan, will be offered for the first time and will provide considerable flexibility and choice. The HMO option will be improved through the addition of prescription drug insurance.

Second, the cost sharing in the recommendation is slightly less than the percentage employees contributed in FY 95. Employee payroll contributions, across all plan options, have been a feature of Penn's health benefits

package as far back as 1980.

The proposed new health care benefit program continues to exceed competitive standards when compared both to peer institutions and to employers in other areas. The degree of cost sharing proposed for next year is less than the cost sharing of peer institutions. In addition, Penn will continue to offer more choice than most peer institutions. Health plan options that are highly valued by Penn employees—such as the indemnity Plan 100—have been retained in the new program. The PENNCare plan, while now requiring an employee payroll contribution to reflect its greater cost, will still be offered.

The new POS program allows employees access to care through three tracks: (1) a PENNCare POS track which utilizes the primary care physician network of UPHS; (2) a Keystone POS track which utilizes the primary care physician network of Keystone HMO; and (3) an out-of-network benefit. The out-of-network benefit feature makes that third track function very much like the PENNCare PPO. By adopting the POS option, employees will enjoy considerable choice at a cost lower than the PENNCare PPO option, but higher than the more managed care HMO option.

The main benefit the current program failed to provide in comparison to peer institutions was prescription drug coverage in Penn's HMOs. The recommended health care plan rectifies this deficiency. By adding the prescription drug benefit, the added cost to employees of the HMO premium is more than offset by the benefits improvement. Hence the total cost borne by employees in the HMO option should actually be reduced under the proposed plan. Obviously, the effect for each employee will depend on the extent of prescription drug usage.

The Committee believes that the proposed redesign of the health care insurance benefits will strengthen and improve them at Penn as well as make them more cost-efficient. The recommended array of health benefits options allows meaningful choice in the types of plans offered, with contributions more closely reflecting the costs of each plan.

### C. Recommendations for FY 98\*

A summary of the recommendations to be effective July 1, 1997 is provided in Appendix D.

- **Make no changes in the dental benefit plans.**
- **Retain the current BC/BS Plan 100 indemnity option.** While enrollment in this plan has decreased over the years, many Penn employees still find that Plan 100 best suits their needs in terms of benefit levels and freedom of access to providers. For July 1, 1997, there should be no change in benefits levels or prescription drug plan, but an increase in employee contribution cost (to \$66 per month for single coverage and \$172 per month for family).
- **Retain current PENNCare PPO.** Since the initial offering of the PENNCare PPO in 1995, enrollment in this plan has reached about 25% of the University population. It is necessary to institute employee contributions to reflect more appropriately the PENNCare PPO's range of options, benefits levels, and cost relative to other Penn options. Effective July 1, 1997, monthly contributions should be \$40 for single coverage and \$104 for family coverage. There should be no change in benefits levels.
- **Retain current Keystone and USHC HMO options.** Based on enrollment, HMOs are the most popular health benefits option at Penn. In order to enhance the appeal of these efficient and convenient programs, some significant changes are slated for July 1, 1997:
  - A new prescription drug benefit should be added to the existing HMO programs. This change should improve the quality of care under the HMOs by now covering this very important element of effective treatment.
  - Incentives should be added to the Keystone and USHC HMOs for members to select primary care physicians from within the UPHS network. Reduced copays should apply for office visits obtained through UPHS providers. Copays should be increased for non-UPHS providers.
  - Care can still be obtained from providers who are part of the broader HMO network, but who do not participate in the UPHS network. In this case, copays for office visits would be slightly higher than copays for use of UPHS providers.
  - Employee contributions should be re-instituted effective July 1, 1997. The amounts should be \$10 per month for single

coverage and \$26 per month for family coverage. These payroll deductions compare very favorably to contributions charged by most other employers regionally and nationally. Further, these amounts are less than the contributions required under the University's plan for Keystone and USHC HMO coverage prior to July 1, 1994.

- **Offer a new UPHS/Keystone Point of Service (POS) option.** Keystone HMO now offers a new option, the Keystone POS plan, that allows members to access care in two ways. Each member can decide, at the point a health care service is required, whether to seek care "in-network" or "out-of-network":

— In-network benefits would apply when services are provided by or referred by the regular Keystone HMO network of doctors, including the network of physicians available through PENNCare. Each employee who chooses this option must select a primary care physician who is responsible for providing care or for referring care to a network specialist. In-network coverage provides the highest level of benefits, generally 100% after specified copays.

— Similar to the Keystone and USHC HMOs for July 1, 1997, the new POS options should include incentives (through lower copays for office visits and no hospital deductibles) for members to obtain care through UPHS providers.

— Out-of-network (non-referred) benefits would apply when care is sought from doctors and hospitals who do not participate in PENNCare or the Keystone HMO network. No referrals are required for out-of-network care. Out-of-network care is reimbursed at a lower benefits level than in-network care, generally 80% after an annual deductible of \$200.

— Payroll contributions for the POS plan should be set at \$20 per month for single coverage and \$52 per month for family coverage. These contributions compare well to contributions charged by other employers for similar plans—and the plan provides a high degree of flexibility over how care is accessed and choice of doctors and hospitals.

- **Eliminate BC/BS Comprehensive option.\*** The current Comprehensive plan has relatively low enrollment, and similar benefits would be available as out-of-network care within two other University options: the PENNCare PPO and the proposed new PENNCare/Keystone POS plan. For these reasons, the Committee recommends elimination of this option effective July 1, 1997.

- **Eliminate QualMed HMO option effective July 1, 1997.\***

*Note:* None of the University's medical plans contain pre-existing condition exclusions. If plans are changed at Open Enrollment, no claims for benefits under the new plan will be denied because of an illness or condition that existed before enrollment in the new plan. As open enrollment approaches, employees will receive more information on each of the benefits options to be offered effective July 1, 1997.

### D. Continuing Vigilance and Re-evaluation

Today, the health care cost inflation rate is running at approximately 4% and appears to be going still higher. The reasons include the continued adoption of improved, but costly, health care technologies and the aging of the population. Penn needs to monitor health care costs and plan design on a regular basis in order to keep its health benefits plan as competitive and cost-efficient as possible. The Committee recognizes that the health care situation in this country is in a state of rapid change. To the extent possible, it recommends that future decisions continue to allow for choice among different plans and for a relatively low cost plan for those who need such a choice.

\* *Any retirees who are currently enrolled in the Comprehensive or QualMed (Greater Atlantic) Plans will be asked to select another health care plan effective July 1, 1997. Effective July 1, 1996, newly retired faculty and staff members started to contribute toward their health care premiums. Since their contributions are based on active employee's contributions, the changes in cost-sharing described above will also affect the contribution levels for those retirees.*

### III. Tuition Remission

#### A. Review of the Current Plan

Penn subsidized a portion of tuition and fees for employees, spouses, and dependents at a cost of \$8.3 million in FY 97. The current Penn tuition remission program covers both graduate and undergraduate courses and is extended to full-time faculty, regular full-time staff, and limited service staff employees immediately upon employment. The program also provides benefits to spouses/domestic partners and dependent children of eligible employees, after three years of employment. The remission percentage varies as follows:

**Percentage of Penn Tuition & Fee Remission (Undergraduate)**

<i>Employee</i>	<i>Spouse</i>	<i>Dependent Child</i>
100%*	50%*	75%

**Percentage of Non-Penn Tuition & Fee Remission (Undergraduate)**

The University also provides tuition remission for eligible employees of 40% of Penn's tuition (approximately \$7,600 for the FY 97 school year) or the actual tuition charges (whichever is the lesser amount) for undergraduate courses taken by dependent children at other accredited institutions, to a maximum of four years per child.

**Percentage of Penn Tuition and Fee Remission (Graduate)**

(This benefit is limited to individuals who can gain admission to Penn's graduate schools.)

<i>Employee</i>	<i>Spouse</i>	<i>Dependent Child</i>
100%*	50%*	100%—except, 75% for Medical, Dental, Veterinary, Law and Wharton

#### B. Background and Issues

##### Undergraduate

Penn's undergraduate tuition remission plan is a vital component of the overall benefits program. It is integral to the University's efforts to attract and retain excellent faculty and staff, and it is in keeping with the principle of developing employees personally and professionally. It distinguishes Penn as an employer of choice and is a testament to the University's commitment to Penn employees, their families, and their future. The resulting improvement in workforce skills serves the mutual needs of the University and its employees. Also, the program serves to advance the University's educational mission and benefits the community as a whole.

Compared to the for-profit sector, the tuition remission plan provides Penn a unique competitive advantage. While many private employers provide limited, job-related educational benefits to their employees, few (if any), are willing or able to offer those available at Penn.

The fact that the tuition remission program generally equals or exceeds those of our peer institutions and that the tuition benefit, expressed as a percentage of the fringe benefits rate, is in the upper third of the comparison schools is evidence of the strong commitment Penn has made to this program.

Many faculty and staff have taken advantage of the undergraduate tuition remission program, both the tuition remission for Penn courses and the remission for courses at institutions other than Penn. In reviewing the plans at other universities, the Committee noted that a number of peer universities sponsor programs similar to the non-Penn tuition plan, but the benefits are often less generous. The most typical provisions are those that impose restrictions on eligibility, cumulative limits or lower remission levels. Consideration was given by the Committee to similar modifications that would limit the non-Penn tuition benefit. Consideration was given also to the fact that overhead recovery for tuition on research grants will end in the year 2000. After considerable discussion, however, it was concluded that the non-Penn tuition benefit is an important component of the University's total benefits package and, in keeping with the principles, it should not be modified.

There is one aspect of the undergraduate tuition benefit that deserves special mention. There are some Penn employees whose admission to the College of General Studies (CGS) or Wharton's undergraduate program

is deferred because they are unable to meet Penn's admission requirements. These deferrals occur for a variety of reasons, ranging from the course of study in high school, to an inadequate grade-point average, to the number of years out of school. In many instances, the undergraduate committees of schools, such as the CGS and Wharton, believe that the employee may have the academic potential to succeed at Penn and have advised the employee to strengthen his or her background to demonstrate readiness for studies at Penn by taking specified courses at approved, accredited community colleges. If the employee obtains a grade of "B" or better, the school at Penn will admit him/her.

Many of these employees are younger staff whose salaries often fall at the lower end of the University's compensation scales. This places them in the awkward position of being unable to take advantage of free tuition at the University because they cannot afford tuition at an approved, accredited community college and therefore cannot use the route described above for admission to Penn, a situation that runs counter to good human resources practices. It also runs counter to the principle of providing for the personal development of employees. The Committee, along with representatives of CGS and Wharton, considered this problem at length and recommended the solution described below under "Recommendations."

##### Graduate

The graduate tuition benefit has two distinct parts, the benefit for employees and the benefit for spouses and dependents. With respect to the benefit for employees, the Committee felt, as with undergraduate tuition, that the program is important to effective recruitment and retention. It also serves to enhance employee personal and professional development and thus it serves the needs of the University and its educational mission. The Committee found that the graduate tuition benefit for employees is clearly at about half of the peer institutions surveyed. This benefit is often important to the many employees who take advantage of this benefit.

The extension of a graduate tuition benefit to spouses and dependents is rare among peer institutions. There were only two other schools in our survey that offered benefits to spouses and dependents as well as employees, and none of the local employers surveyed extend educational benefits to spouses and children. Moreover, unlike the undergraduate benefit, the graduate tuition benefit is limited to those who can gain admission to one of Penn's graduate schools. At present, this unusual benefit is provided to only 122 employees at an annual cost of \$1.3 million. In this case as well, the loss of overhead recovery of tuition from research grants in the year 2000 was considered. For these reasons, the Committee viewed this benefit to spouses and dependent children as less valuable and defensible than the graduate tuition benefit for employees and the undergraduate tuition benefit. However, its recommendation includes a safety net of two years for those already planning to use this benefit.

Finally, the Committee learned that a small group of individuals whose salaries are not included in the benefits pool nevertheless can receive tuition remission for themselves or their dependent children. While the principle of providing for professional and personal development for full-time Penn employees has guided the committee's thinking, providing such benefits to non-employees clearly runs counter to best practices of benefits design.

#### C. Recommendations

- Make no changes in the undergraduate tuition benefit for employees, spouses, or dependents. The current benefits with existing tuition and fee remission formulas for both Penn and non-Penn programs should be retained.
- Develop a program that allows employees whose admission to Penn is deferred for academic reasons to take special qualifying course work at Penn under the tuition benefit program beginning in September, 1997.
- Make no changes in the graduate tuition benefit for employees. Employees would continue to be eligible for 100% remission for a maximum of two courses per semester.
- Eliminate the dependent and spouse graduate tuition benefit. This benefit should be available only for spouses or dependents of current

\* Maximum of two courses/semester

employees enrolled in a graduate program by the Fall semester of 1998. The benefit should cover the normal length of graduate study, but in no case more than 4 years. That is, all spouse and dependent graduate tuition benefits should cease effective June 30, 2002. The extension of the benefit for individuals who enroll by September 1, 1998 recognizes that some

individuals who are currently eligible for the benefit, but who have not yet taken advantage of it, may have missed the deadline to apply for 1997 admission.

- Provide tuition benefits only for full-time, University compensated individuals.

## IV. Life Insurance

### A. Review of the Current Plan

Penn currently provides group term life insurance for all regular full-time employees in the form of "Pennflex dollars" to purchase this benefit. Part-time employees who earn sufficient income are offered the opportunity to purchase life insurance. The annual cost for the current program is \$2.5 million. The maximum amount of coverage is \$300,000 and employees are required to carry minimum life insurance through the University's plan in the amount of the lesser of one times an employee's benefits base salary\* or \$50,000. The level of credits is determined by an age-based multiple of the employee's benefits base salary. The amount is based on the following schedule:

Age	Coverage of annual benefits base
Under 36	4 x
36-45	3.5 x
46-50	3 x
51-64	2.5 x
65-70	2 x
Over 70	1 x

Dependent life insurance is also available to full-time faculty and staff to cover their spouses/domestic partners (\$10,000) and dependent children (\$5,000).

The current Pennflex program provides employees with flexible credits keyed to life insurance coverage. Employees may use these credits to buy life insurance, to acquire other benefits, put them in pre-tax expense accounts, or take them in cash.

### B. Background and Issues

#### Insurance Levels

The levels of life insurance credits provided to Penn employees are higher than those of the peer institutions and local large companies surveyed. They are also higher than actual life insurance amounts Penn employees elect to buy. An analysis of Penn employee preferences indicates that many employees buy less insurance than their credit allocation would allow. The credit structure by age and pay is also relatively uncommon among employers and it makes the current program very complex and costly to administer. Most employers surveyed fund a basic level of life insurance that is the same multiple of pay for all employees. The most widely-used life insurance benefits design is for an employer to pay for life insurance equal to one times benefits base salary, although there were some universities in the survey that provided lesser amounts. As is the situation at Penn, most employers surveyed also allow employees to purchase additional coverage at their own cost frequently up to a financial limit much higher than the maximum level of coverage at Penn, \$300,000.

The Committee examined all of these issues as it developed the recommendations below to move to a life insurance benefit of one-times benefits base salary, and an increase in the amount of coverage employees may purchase for themselves.

#### Tax Issues

The current Penn plan offers life insurance in a tax inefficient manner. IRS rules require that taxes be paid by employees on the "imputed income" value of life insurance coverage exceeding \$50,000. "Imputed income" cost for life insurance in the tax tables required by the IRS far exceeds the

actual cost of insurance coverage for Penn employees. In other words, while the current Penn plan appears to offer life insurance on a pre-tax basis, tax rules in fact make the plan more costly to employees than an after-tax plan. Moving to an after-tax basis can generate significant tax savings to employees (about \$300,000 per year across Penn as a whole, through a reduction in unnecessary imputed income). Indications are that Penn employees find the current tax treatment confusing and it is also difficult for the University to administer. The recommended tax treatment changes below are designed to simplify the administration of the program while making it more understandable to employees. They are also designed to save employees money.

#### Flexible Credits

Pennflex dollars currently cost the University \$2.5 million plus the additional costs of administering and communicating this complex system. The Pennflex program at Penn was introduced about ten years ago. The program was designed as a first step toward an overall flexible credit design for benefits. However, there was no further movement toward a total flexible credit program. Some universities and local employers provide flexible credit systems, but none do so for a single benefit. Because of the difficulty and costs associated with communicating and administering the Pennflex system, the Committee recommends that it be discontinued. To the extent that Penn employees still value the credits it is undoubtedly because they can choose to use them for benefits other than life insurance or as cash. Thus, the Committee has recommended a strategy that would return to employees their lost Pennflex dollars in the form of an increase in benefits base salary which provides the ultimate flexibility for the use of those dollars.

The Committee evaluated the impact of the life insurance program changes on a set of typical employees. When considering the impact from the reduction of flex credits, the compensating base pay adjustment, and employee tax savings, it was found that the typical employee would gain financially in the short term and over time. In the few instances where employees were projected to be disadvantaged under the proposed program, their financial loss would be very small either in dollar amount or as a percentage of pay.

### C. Recommendations

- Automatically provide all employees with noncontributory life insurance coverage of one times benefits base pay, up to a current plan maximum of \$300,000.
- Increase benefits base pay to compensate employees for the reduction in credits from changing to the new plan. The amount of the adjustment would be determined as the difference between the flex credit amount that would have applied effective July 1, 1997 under the current plan, and the cost of the new plan's employer-provided benefits of one times pay.
- Allow employees to purchase life insurance in excess of the non-contributory basic benefit provided by the University up to an additional four times pay to a maximum of \$750,000 of combined basic and optional coverage. This additional insurance would be acquired at a rate of one-times pay over the prior year's election at each enrollment period. For amounts in excess of \$500,000 individuals would be asked to provide evidence of insurability.
- Offer employee purchased life insurance on an after-tax basis in order to reduce unnecessary taxation on "imputed income" and save money for employees. Employees should still be able to direct a portion of pay into the pretax spending accounts and pay for health insurance premiums on a pretax basis.
- Eliminate the current flexible credit arrangement.

\* Note: For faculty members, the benefits base is the academic base plus any salary for a full-year administrative appointment. For staff members, the benefits base is the annual base salary, excluding overtime, shift differentials, etc.

## V. Paid Time Off

### A. Review of the Current Plan

Penn has a number of categories against which paid time off currently can be charged. These include vacation days, personal days, holidays, a floating day, "special winter vacation" days, and in many although not all units "summer hours"—a reduced summertime workweek, for which paid compensatory days may be taken in the fall if the summer hours are not used. The paid time off accrual schedule for A1s and A3s and the total number of paid time off days is indicated below:

#### Current Accrual Schedule

	1 yr	2yr	3yr	5yr	Hol	Pers	Float	Sum	Wint	Total @5yrs
A1	<22	22	22	22	7	0	1	3	4-5	37-38
A3	<10	15	20	20	7	3	1	3	4-5	38-39

A1s have a total of 22 vacation days upon employment (pro-rated during the first year based upon a July 1 starting date), A3s accrue up to a total of 20 vacation days within three years. Upon employment, all staff have seven holidays and one "floating" day which replaced the Good Friday holiday some years ago. A3s receive three personal days per year as additional paid time off.

Upon employment, all staff are also given four to five special winter vacation days. The weekdays between the Christmas Day and New Year's Day holidays are designated as special winter vacation days. These days are additional paid time off and are not charged against vacation balances.

In addition, some but not all units at Penn alter their schedule of weekly hours worked for July and August. "Summer hours" in some segments of the University are 9:00 a.m. to 4:30 p.m. Monday through Friday with a one-hour lunch period. This results in a work week reduction from 35 to 32.5 hours with no reduction in pay. As an alternative to working 32.5 hours in the summer, an employee in units following this practice receives three compensatory days off\*, which can be used during the fall.

### B. Background and Issues

Examination of the practices of local for-profit companies and not-for-profit institutions confirmed that the number of paid time off days for staff at the University is significantly higher than the norm. The number of paid time off days at Penn is about 13 or 14 days higher than local for-profit employers. There is no doubt, however, that the number of paid time off days is a benefit that is valued by employees.

In general, Penn employees also accrue vacation time faster than average in comparison to both for-profit and not-for-profit employers. Most employers typically accrue paid time off based on length of service—as is the case with Penn non-exempt staff—but Penn exempt staff receive 22 days after the first year. This accelerated accrual rate clearly runs counter to the principle of staying close to competitive norms. Paid

\* Note: Ungraded staff, Human Resources, clinical areas of UPHS, Dental School and Veterinary Medicine typically do not choose to observe summer hours. According to present policy, other schools/centers also may opt to be excluded from observation of summer hours reductions.

time off for hourly employees, offered by employers surveyed, is presented below.

#### Accrual Rates for Employers Surveyed (Profit v. Not-for-Profit)

	1 Y	2Y	3Y	5Y	Hol	Pers	Float	Sum	Wint	Total @5yrs
P	<10	10.7	10.7	14	9	2.1	0	0	0	25.1
NP	<16.8	19	20	22.8	8.6	3.4	0	0	0.1	34.9

Penn's practice of offering a seasonal variation of paid time off—"summer hours"—is not a feature offered by any of the other employers surveyed. This policy of reducing employee hours during the summer without reducing pay was created decades ago, in the days that preceded the advent of air-conditioned offices and classrooms. It also preceded the rapid growth in research and summer classes, both of which create the need for staff throughout the calendar year. It has thus become an antiquated and inefficient policy. Moreover, in recent years, the practice has been unevenly administered across the University. As is noted above, there are a growing number of units and schools that do not provide summer hours or compensatory time for them, resulting in inequities among employees. Along with the many categories against which paid time off can be charged, the practice of providing summer hours also has contributed to the costly administrative complexity of accounting for employee time off.

Finally, the survey data revealed that most local employers allow staff to use accrued time after an introductory period (typically three-six months). Penn, however, does not allow use of vacation time for up to one fiscal year. The Committee believed that this practice of allowing no vacation time for a full year was not in the best interest of either the employees or the University.

### C. Recommendations

- Maintain the current winter vacation without requiring employees to make use of paid time off.
- Eliminate the reduced summer hours and the compensatory days off associated with them.
- Reduce the number of categories for paid time off by combining personal and floating days into a single "paid time off" accrual to simplify time-off accounting. Current staff would be credited with the same number of vacation, personal and floating days using the existing accrual schedule.
- Adopt a single accrual schedule for new staff (A1s and A3s), hired after July 1, 1997, based on length of service, to provide for a total of 24 days paid time off, an additional seven holidays, plus the special winter vacation. The accrual schedule would be as follows:

#### Recommended Accrual Schedule: A1 and A-3

	1yr	2yr	3yr	5yr	5+yr	Hol	Pers	Float	Sum	Wint	Total @5yrs
	<15	17	19	21	24	7	0	0	0	4-5	35-36

- Allow current staff to receive the better of the new or existing paid-time-off accrual schedules. This would result in an additional paid day off for A1 employees with more than 5 years of service.
- Allow newly-hired staff to request accrued paid time off after the 120-day introductory period.

## VI. Benefits to Regular Part-Time Employees

### A. Current Benefits

Penn currently provides to part-time employees the benefits shown in Figure 1, opposite page.

### B. Background and Issues

Penn has over 700 regular part-time employees, 500 of whom have faculty titles while the rest have staff titles. One-hundred-forty part-time employees participate in the health care plan, while 50 are in the life

insurance program. Some employees have requested that Penn consider expanding the current benefits package to include pro-rata sharing of health care premiums, University contributions to the tax-deferred annuity plan, a long-term disability plan, and tuition benefits.

The Committee reviewed surveys of several area employers with which Penn competes, surveys of certain peer universities, and a nationwide survey of practices of about 500 employers. These surveys showed that benefits programs offered to part-time employees vary widely. Some

offer no benefits while others offer the same benefits that are provided to full-time employees. The Committee concluded that Penn's benefits for regular part-time employees are generally competitive with those of other area employers.

The Committee also analyzed the cost of enriching the current benefits package in accordance with requests that have previously been received, as well as its effect on the employee benefits fringe rate. At previous meetings of the Personnel Benefits Committee where the subject was discussed, the Committee recommended reviewing the part-time benefits package "within the context of the overall design of the University's benefits package rather than as an addition to the current package." This Committee also recommended that any proposals to improve the benefits be on a cost-neutral basis. An analysis of the requested additions to the current program showed that Penn would have to incur substantial costs to include them.

### C. Recommendations

- Maintain the current benefits package for regular part-time employees.
- Expand benefits to include the option of participation in the Health Care Pre-Tax Account with a maximum of \$1,000 and an eligibility requirement of two years of continuous service.

Figure 1: Current Benefits for Regular Part-Time Employees

1. Statutory Benefits		Cost to Penn	
a. Social Security & Medicare		7.65% of salary	
b. State Unemployment		0.30%	
c. Workers Compensation		1.00%	
	<i>Total</i>	<i>8.95% of salary</i>	
2. Non-statutory Benefits		Cost	
	To Employee	To Penn	
a. Health care Plan	Active employee's contribution plus Penn's contribution	Because Plan is self-insured, cost to Penn equals actual claims reimbursed	
b. Life Insurance (2x annual sal. available)	Group rate negotiated by Penn with insurer	Cost to Penn is a function of claims filed	
c. Defined Benefit Retirement Plan*	None	Approximately 3.5% of salary	
d. Tax-Deferred Annuity Plan	Voluntary contributions only	None	
e. Pre-Tax Dependent Care	Contributions up to \$5,000	None	
f. Vacation and Sick Days (pro-rated according to schedule worked)	None	Applicable Salary	
g. Holidays (paid pro-rata for days falling on scheduled work day)	None	Applicable Salary	

\* Employee must work at least 1000 hours per plan year.

## VII. Retirement Benefits

### A. Current Retirement Benefits at Penn

Penn sponsors the Tax-Deferred Annuity (TDA) plan for faculty members and exempt employees. In order to receive a contribution from the University, employees must contribute to the plan. The schedule of required employee and University contributions is shown below.

Employee Age	Employee Contribution Required	University Contribution
under 30	4% of pay	6% of pay
30-39	5% of pay	8% of pay
40 & Over	5% of pay	9% of pay

University contributions are vested immediately. In other words, these contributions are non-forfeitable if an employee terminates employment. Employees have a choice of investment options for both their own contributions and for University contributions.

Penn also sponsors a defined benefits plan, the Retirement Allowance Plan (RAP), for nonexempt (A3) employees. No employee contributions are required. Upon retirement at age 65, this plan provides an annual benefit equal to 1.25% of final five year average pay multiplied by years of credited service. Reduced benefits are available from age 55 with at least five years of service (benefits are reduced since they are paid over a longer period of time). Benefits are vested, i.e., non-forfeitable on termination, after five years of service.

Penn also sponsors a supplemental TDA plan for all employees that allows additional savings for retirement on a tax preferred basis. In addition, Penn contributes to employees' Social Security benefits.

### B. IRS Nondiscrimination Requirements

Retirement programs such as those at Penn must meet certain IRS requirements. Originally, these requirements were to be met by July 1, 1997, or employees would be taxed on the University contributions made on their behalf by the University. The new deadline for compliance announced by the IRS is July 1, 1998.

The IRS requirement for non-discrimination provides that retirement plans cannot discriminate in favor of highly compensated employees (defined for IRS purposes as an employee earning at least \$80,000 in 1997). These rules generally must be met by reference to the entire University controlled group. The University controlled group includes UPHS (the Hospital, Presbyterian Hospital, Clinical Care Associates and any other hospitals which the Health System acquires). However, if certain IRS tests using all employees in the controlled group are met, the non-discrimination requirements can be tested by only looking only at the University's non-health system plans. If the UPHS continues to change as it has in the past year, the controlled group testing accomplished in 1996 will need to be monitored again prior to the 1998 deadline. Thus, what appear to be appropriate solutions at this time may not meet the IRS requirements in 1998.

### C. Recommendations

- Make no changes in either the TDA plan or RAP for FY 98, since the IRS has extended compliance deadline to July 1, 1998. Along with the overall review of retirement benefits, the nondiscrimination tests will be conducted next year with updated employee data to see what plan changes, if any, will be necessary for compliance.

## VIII. Disability

### A. Current Coverage

The University has a Long-Term Disability (LTD) insurance plan to provide faculty and staff who become totally disabled with income after benefits from available sick pay, personal days, vacation and extended sick leave end. "Total disability" is defined as the inability to perform duties in "any occupation" as confirmed by Penn's Disability Board. The LTD plan assures that total disability income from all sources will equal 60% of base salary up to a maximum benefit of \$5,000 per month. It is designed to work with other sources of income to replace 60% of salary

while disabled. Other sources of income include social security; workers compensation; other government disability, retirement or unemployment plans; any settlement or damage award received from the University related to the disability; 50% of income from part-time or rehabilitative employment and income from any other employer. A3s and A1s grade PA8 and below must complete a three-year service requirement to be eligible to receive this benefit. The plan is fully paid for by the University and thus income taxes are withheld from disability benefits payments.

LTD benefits may be received after Penn's Disability Board has

determined that the criteria for disability have been met; after all sick pay, personal days, vacation and extended sick leave allowances have been used ; and after the disability has been continuous and total for six months.

**B. Recommendations**

- The LTD plan is complex and has not been reviewed in several years. As is indicated above the plan includes elements of sick time, personal days, short term disability, vacation, workers compensation

and LTD. In addition, the plan design must comply with federal laws including the “Family and Medical Leave Act”. Given time and resource constraints, a comprehensive review of the disability plan was not undertaken as part of the redesign project.

- The Committee recommends that the plan be reviewed in 1997 taking into consideration the integration of the disability plan with other Penn and external benefits, tax implications and the adequacy of protection.

**IX. Summary**

It is the consensus of the Committee that the benefits package proposed above provides employees with a program that exceeds competitive standards and fully satisfies the principles that guided the redesign of benefits at the University. It recommends that, in the future, the benefits

package in its entirety should be reviewed annually. This review should occur in the context of the principles described above to ensure that the University’s benefits offerings continue to meet the goals of the University and its employees.

**Appendices**

**A. Choice: Understanding the Health Care Delivery Vehicles**

**Definitions**

There are several types of health care plans prevalent in the marketplace; these plans vary significantly in terms of benefit levels, overall flexibility (e.g., restrictions on provider access) and cost effectiveness. These plan types are described below:

- **Traditional indemnity.** These plans reimburse for all eligible expenses without application of discounts or participating provider features. Reimbursement is typically 80% after a deductible.
- **Discounted indemnity.** Programs like the University’s current Plan 100 and Comprehensive options are considered discounted indemnity plans because BC/BS has negotiated reduced fees with participating medical providers.
- **Preferred Provider Organization (PPO).** Plans such as the University’s PENN Care option offer members a choice of receiving medical care:
  - From within a network of preferred providers (like the UPHS doctors and hospitals in the PENN Care program) at higher benefit levels (e.g., 100% after a copay).
  - From any other doctors and hospitals, at lower benefit levels (e.g., 80% after a deductible).

In a PPO, members are not required to select a primary care physician who will be responsible for providing care or coordinating care with other network providers. Members may see any network provider, without a referral, at the preferred benefit level.

- **Health Maintenance Organization (HMO).** An HMO is a health plan that develops a network of doctors, hospitals and other providers who are responsible for providing all the health care services needed by the HMO’s enrollees. Members must select a primary care physician and need to obtain referrals in order to visit network specialists. No coverage is provided for medical services obtained from nonparticipating providers. While some HMOs employ their own doctors, most contract with “private practice” physicians and community hospitals who continue to see patients from other health plans.
- **Point-of-Service (POS).** POS plans are a cross between an HMO and a traditional indemnity plan. Like a PPO, members can choose to receive care from within the network (in this case, the HMO network) at a higher benefit level, or they can go “out of network” (the indemnity option) and receive reimbursement at a lower benefit level. Like an HMO, members must select a primary care physician and need to obtain referrals in order to visit network specialists.

**Key Plan Characteristics**

Plan Feature	Traditional Indemnity	Discounted Indemnity	Preferred Provider Organization	Point-of-Service Plan	Health Maintenance Organization
Network of Providers with Negotiated Price Discounts	No	Yes	Yes	Yes	Yes
Access to Network Through Primary Care Physician	No	No	No	Yes	Yes
Local Clinical Oversight of Network Providers	No	No	No	Yes	Yes
Benefit for Use of Non-Network Provider	Full	Reduced (balance billing)	Reduced	Reduced	None

## B. Key Features of Current Program

Benefits	Indemnity		PPO		HMOs		
	Plan 100	Comp	PENN Care		KHPE	USHS	QualMed
<i>Plan type</i>	<i>Indemnity</i>	<i>Indemnity</i>	<i>In-Network</i>	<i>Out-of-Network</i>	<i>HMO</i>	<i>HMO</i>	<i>HMO</i>
Deductible							
Amount	\$200	\$200	\$0	\$200	\$0	\$0	\$0
Application	MM <sup>(1)</sup>	All charges	N/A	Out-of-network charges	N/A	N/A	N/A
Coinsurance	100%/80% <sup>(2)</sup>	80%	100%	80%	100%	100%	100%
Max. out-of-pocket	\$2,200	\$1,200	N/A	\$1,200	N/A	N/A	N/A
Office visit	Ded & coins	Ded & coins	\$10	Ded & coins	\$5	\$5	\$5
Pharmacy	80%	80%	80%	Reduced		No coverage	No coverage
80% (\$50 ded)							
Monthly contributions							
Single	\$61	\$0		\$0	\$0	\$0	\$0
Family	\$167	\$0		\$0	\$0	\$0	\$8

- (1) Deductible applies to Major Medical (MM) charges only  
(2) 100% coinsurance for hospital and medical/surgical; 80% coinsurance for Major Medical

## C. Historical Monthly Employee Contribution Summary—Medical Options

	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
<b>Plan 100</b>										
Single	\$18	\$20	\$27	\$38	\$44	\$48	\$54	\$58	\$58	\$61
Family	62	72	86	105	119	133	147	159	159	167
<b>PENN Care</b>										
Single	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(6)	0
Family	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(6)	0
<b>Comp</b>										
Single	6	5	7	1	1	1	1	1	(6)	0
Family	27	30	40	15	11	11	12	12	(6)	0
<b>QualMed</b>										
Single	9	7	1	1	1	5	5	11	6	0
Family	23	24	25	23	36	51	55	56	45	8
<b>USHC</b>										
Single	13	17	14	17	14	18	11	5	(3)	0
Family	35	51	61	68	48	56	37	21	2	0
<b>Keystone*</b>										
Single	15	16	19	4	13	19	9	4	(10)	0
Family	44	47	50	30	29	49	32	19	(10)	0

\* Delaware Valley HMO before 90/91.

## D. Key Features of Recommended Program

Benefits	Indemnity	POS	PPO		HMOs		
	Plan 100	KHPE	PENN Care	KHPE	USHC		
<i>Plan type</i>	<i>Indemnity</i>	<i>In-Network</i>	<i>Out-of-Network</i>	<i>In-Network</i>	<i>Out-of-Network</i>	<i>HMO</i>	<i>HMO</i>
Deductible:							
Amount	\$200	\$0/\$120 <sup>(3)</sup>	\$200	\$0	\$200	\$0	\$0
Application	MM <sup>(1)</sup>	N/A	Out-of-network charges	N/A	Out-of-network charges	N/A	N/A
Coinsurance	100%/80% <sup>(2)</sup>	100%	80%	100%	80%	100%	100%
Max. out of pocket	\$2,200	N/A	\$1,200	N/A	\$1,200	N/A	N/A
Office visit	Ded & coins	\$10/\$15 <sup>(4)</sup>	Ded & coins	\$10	Ded & coins	\$5/\$10 <sup>(5)</sup>	\$5/\$10 <sup>(5)</sup>
Pharmacy	80%	80%	Reduced	80%	Reduced	80%	80%
Monthly contributions							
Single	\$66		\$20	\$40		\$10	\$10
Family	\$172		\$52	\$104		\$26	\$26

- (1) Deductible applies to Major Medical (MM) charges only  
(2) 100% coinsurance for hospital and medical/surgical; 80% coinsurance for Major Medical  
(3) No copay applies when using UPHS; \$120 copay applies per inpatient admission for non-UPHS facilities  
(4) \$10 copay applies when using UPHS providers  
(5) \$5 copay applies when using UPHS providers

**Benefits Programs  
of the University of Pennsylvania:  
Review and Recommendations**

Comment on this report can be sent to the  
Benefits Advisory Committee  
by email to [benefits@pobox](mailto:benefits@pobox),  
or by campus mail  
to the co-chairs of the Committee,  
whose names are given on page S-1.

