

Employee Health Care Credit Calculation

The basic premise for this calculation is that the health care budget is constructed using an assumption for the expenditures that will occur during the year. Since the university is self-insured, we must collect enough funds to pay for the health care of our employees. Those funds are collected both from the university budget (through the standard rate incorporated into departmental budgets) and from monthly premiums paid by employees.

When the budget is built, there is a projection of the amount that will come in from departments and the amount that employees will pay in premiums. These projected amounts will establish a percentage of the budget that is expected to come from the university and a percentage that is expected to come from employees. This percentage has varied during past budgets, but the plan for the future is to set a specific target percentage as the budget is created.

Calculation Methodology

As an example scenario, suppose a \$100,000 health care budget was constructed with the assumption that employees would contribute 10% of the budget as follows:

Budgeted	100,000	
OU	90,000	90%
Employees	10,000	10%

If our actual health care costs turn out to be less than projected, we would not spend all these collected funds during the year and there would be a positive budget variance. In the example scenario, suppose that total health care costs turned out to actually be \$93,000.

In addition to a variance in expenditures, the actual amount of money collected from the departmental budgets and the employees may also vary from the projection because of fluctuations in numbers of open positions, employees and dependents between the construction of the budget in the spring and variations in the composition of the workforce during the actual year.

In the example, suppose the actual funds collected are \$94,000 as follows:

OU	84,650	94.06%
Employees	<u>9,350</u>	93.50%
	94,000	

When funds are collected through department budgets and employee premiums the variance in these two sources is independent as shown. For each source in this example, not as much was collected as originally expected with departmental collections at 94.06% of the projection and employee premiums ended up being 93.5% of the projection.

Even though the amount collected was less than expected, expenses were also less than expected (\$93,000) and are actually less than what was collected so there is a positive variance of \$1000 at the end of the year.

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Budget	94,000
Actual Cost	93,000
Variance	1,000

This means that it is possible the employees have paid more than 10% of the actual health care costs. A simplistic assumption would be to assume that if employee share of the original budget was 10%, then 10% of the \$1000 variance or \$100 is the amount they overpaid. This would be true if the variance in the amount collected from the employees and the departments was the same but that is not necessarily true as shown above.

The correct way to determine how the variance should be split between the departments and the employees is to take the actual costs of \$93,000, determine how much should have been collected from departments and employees using the percentages established when the budget was constructed, and compare that to what was actually collected from the two sources to see what the actual variance was as shown below:

Actual Costs	93,000		
	Should Pay	Did Pay	Variance
OU	83,700	84650	950
Employees	9,300	9350	50

From this example, employees have “overpaid” by \$50 and that would be the amount that should be credited.

It is also possible that amount collected from employees could be greater than expected as in the following second example:

Collected		
OU	83,750	93.06%
Employees	<u>10,250</u>	102.50%
	94,000	

The variance is still \$1000, but in this case the overpayment by employees is \$950 rather than the \$100 that would be indicated using the simplistic 10% approach as follows:

	Should Pay	Did Pay	Variance
OU	83,700	83750	50
Employees	9,300	10250	950

Health Care Credit Calculation

Since there have been positive variances in FY06, FY07 and FY08, this calculation will be performed on the budgeted and actual expenditures for these three fiscal years. During these years, there was no explicit percentage specified for the employee share of the budget, but there were specific amounts which can then be converted into a percentage so the variance can be analyzed to determine the

portion of the variance that should be credited to employees in order to maintain the original employee share of health care costs. Calculations for each fiscal year are detailed below.

FY06 Health Care Budget

In FY06, the projected health care budget planned for \$38M in expenditures with \$33M collected from units and \$3.5M collected from employees, which represents 9.57% of the total health care budget. Note that the amount collected is \$1.5M less than the expected expenditures because the reserve was going to be used to make up the difference if necessary. During the year, health care expenditures came out to be \$37.6M resulting in a \$530,000 positive variance. The amount collected, however, was also less than projected with a \$443,100 negative variance. The net difference between the decreased expenses and the shortfall of funds collected created a net variance of \$86,200. These details are shown below:

ALL Employees	<u>Original Plan</u>		<u>What Really Happened</u>		<u>Variance</u>
Total Health Care Expenditures	\$38,151,508		\$37,622,208		\$529,300
Where the funding is obtained		% of Total		% of Total	
General Fund	\$33,143,160	90.43%	\$32,576,196	89.97%	
Employees	<u>\$3,508,348</u>	9.57%	<u>\$3,632,213</u>	10.03%	
	\$36,651,508		\$36,208,408		<u>\$443,100</u>
					<u>\$86,200</u>

Looking at these variances, employees actually paid almost \$124,000 more than originally expected (10.03 % of the total collected) which would lead to the conclusion that this is the amount that needs to be credited. There are two problems with using these numbers to make this calculation. First, these expenses and employee contributions in the health care budget include amounts for optional dental coverage and supplemental life insurance that employees can elect to pay. This means that these amounts need to be removed from both the expenditures and the employee contributions since they are not part of the “required” portion of the health care budget.

In addition, this budget combines AFSME and Non-AFMSE employee expenses and contributions that are under separate health care arrangements which create different contribution percentages for these two groups. Since there is no separate budget for these two employee groups, there is no way to exactly track the expenses for each group. On the contribution side, however, most contributions are kept separate except for about \$100,000 in the COBRA category. Since Non-AFSME employees make up about 82% of the total employee headcount, the expenses for Non-ASFME employees could be estimated to be 82% of the total expenses and 82% of the COBRA contributions. This method will be used in this calculation to separate the expenses and contributions for employees in these two groups.

Applying these two refinements puts the budgeted expenses for Non-AFSME employees at \$30.4M with \$27M to be collected from department budgets and about \$2.3M collected from employees. This creates an expected employee contribution percentage of 7.72% as shown below:

Just Non-AFSME Employees	<u>Original Plan</u>		<u>What Really Happened</u>	
Non-AFSME share of budget Removed optional and taken 82%	\$30,441,625		\$29,961,863	\$479,762
Where the funding is obtained		% of Total		% of Total
General Fund	\$27,177,391	92.28%	\$26,712,481	92.28%
Employees	<u>\$2,273,907</u>	7.72%	<u>\$2,235,533</u>	7.72%
	\$29,451,298		\$28,948,013	<u>\$503,285</u> <u>(\$23,522)</u>

What actually happened during the year was that expenses were almost \$30M leaving a positive variance of about \$480,000 attributable to the health care costs of Non-AFSME employees. Premiums collected from departments and these employees, however, were also less than expected by slightly over \$500,000. The amount collected from employees remained at 7.72% as originally planned. Thus, once optional coverage and bargaining unit employee contributions were removed, the health care budget actually had a \$23,000 deficit.

To determine how much the employees “should” have paid to cover the nearly \$30M in expenses, the budget could recast based on the taking the actual expenses of just under \$30M and calculating the needed amounts from departments and employees using the percentages originally built into the budget. In other words, if the plan was for employees to contribute 7.72% of the cost, then 7.72% of \$29,961,863 would indicate that \$2,313,327 should come from employee premiums. This is compared to what was actually collected from the employees (\$2,235,533) indicating that employees actually underpaid by \$77,794 as shown below

<u>Needed</u>		<u>Collected</u>		<u>Variance</u>
\$27,648,536	92.28%	\$26,712,481		(\$936,055)
\$2,313,327	7.72%	\$2,235,533	7.46%	(\$77,794)
<u>\$29,961,863</u>		<u>\$28,948,013</u>		(\$1,013,849)

This means that the small positive variance this year of \$86,200 does not include any overpayment of premiums by Non-AFSME employees for their basic coverage.

The same process can be used to analyze the contributions from AFSME employees. For this group, the implied percentage built into the budget was 6.16% of a projected budget of \$6.68M. The actual expenses were \$6.57M creating a positive variance just over \$100,000. Collected premiums were nearly \$70,000 below the projection so the net variance was almost \$37,000.

When the original percentages are applied to the actual costs, these employees should have paid \$405,351 but actually paid \$425,261 leaving a positive variance of \$19,909, which would be the amount that should be credited as shown below:

Just Non-AFSME Employees

	<u>Original Plan</u>		<u>What Really Happened</u>	
Non-AFSME share of budget	\$6,682,308		\$6,576,994	\$105,314
Removed optional and taken 18%				
Where the funding is obtained		% of Total		% of Total
General Fund	\$5,965,769	93.84%	\$5,863,715	93.24%
Employees	<u>\$391,830</u>	6.16%	<u>\$425,261</u>	6.76%
	\$6,357,598		\$6,288,976	<u>\$68,622</u>
				<u>\$36,691</u>
Plan based on what happened				
	<u>Needed</u>		<u>Collected</u>	<u>Variance</u>
	\$6,171,643	93.84%	\$5,863,715	(\$307,928)
	<u>\$405,351</u>	6.16%	<u>\$425,261</u>	6.47% \$19,909
	\$6,576,994		\$6,288,976	(\$288,018)

FY07 Health Care Budget

Using the same approach in the analysis shown above for FY06, the FY07 health care budget can be similarly analyzed. At the macro level, there was a \$1,189,275 positive variance for all employees and including optional dental and life insurance coverage. The overall budget and actual expenses were as follows:

ALL Employees	<u>Original Plan</u>		<u>What Really Happened</u>		Variance
Total Health Care Expenditures	\$40,189,839		\$37,702,067		\$2,487,772
Where the funding is obtained		% of Total		% of Total	
General Fund	\$35,652,839	88.71%	\$35,377,592	90.97%	
Reserves	\$800,000	1.99%	(\$163,068)	-0.42%	
Employees	<u>\$3,737,000</u>	9.30%	<u>\$3,676,818</u>	9.45%	
	\$40,189,839		\$38,891,342		<u>\$1,298,497</u>
					<u>\$1,189,275</u>

One difference with the construction of the budget in this year was the budgeting of \$800,000 (similar to the \$1.5M in FY06 that was not budgeted) from the health care reserve in addition to funds from the departmental budgets and employee premiums to reduce the amount needed from these other two sources. The over \$1M positive variance between the budget and expenses, actually includes the \$800,000 sitting in the reserve so the positive variance is mostly a result of this budget structure.

As in the FY06 analysis, the budget and expenses for the AFSME employees (18% of the employee headcount) need to be separated and the premiums and expenses for optional coverage need to be removed. After that is done, the budget and expenses for the "required" coverage of Non-AFSME employees is shown below.

Just Non-AFSME Employees	<u>Original Plan</u>		<u>What Really Happened</u>	
Non-AFSME share of budget	\$32,011,028		\$29,929,450	\$2,081,578
Removed optional and taken 82%				
Where the funding is obtained		% of Total		% of Total
General Fund	\$29,235,328	91.33%	\$29,009,625	93.00%
Reserves	\$402,400	1.26%	(\$82,023.26)	-0.26%
Employees	<u>\$2,373,300</u>	7.41%	<u>\$2,266,791</u>	7.27%
	\$32,011,028		\$31,194,393	<u>\$816,635</u>
				<u>\$1,264,943</u>

After these adjustments, the budget for the Non-AFSME employees was just over \$32M with employees expected to provide 7.41% of the costs (which is actually less than in FY06 mostly because of the use of the \$800,000 from the reserve). The actual expenses were just under \$30M leaving a positive variance of just over \$2M. In terms of the funds collected to pay for these expenses, just over \$31M was collected which is \$816,635 short of what was originally planned. This then reduces the positive variance to over \$1.2M. The question then is how much of this is from employee premiums. On the surface, the employees paid 7.27% of what was collected, which is less than the 7.41% originally planned. But the total amount collected was more than what was needed and the \$800,000 in the reserve did not need to be used. So, how much should the employees have paid to cover the actual expenses?

To answer this, we again take the actual expenditures and recast the budget against that amount to determine what the employees should have contributed if we use the 7.41% originally planned and compare that to what was actually collected from the employees as shown below:

<u>Needed</u>		<u>Collected</u>	<u>Variance</u>
\$27,334,245	91.33%	\$29,009,625	\$1,675,380
\$376,233	1.26%	(\$82,023)	(\$458,257)
<u>\$2,218,972</u>	7.41%	<u>\$2,266,791</u>	<u>\$47,819</u>
\$29,929,450		\$31,194,393	\$1,264,943

This shows that employees contributed \$47,819 more than needed to cover the health care expenditures. This would be the amount that would need to be credited to the employees to keep their share of the expenses at 7.41% as originally planned.

For ASFME employees, the same process can be used to analyze the contributions. For this group, the implied percentage built into the budget was 5.79% of a projected budget of just over \$7M. The actual expenses were \$6.57M creating a positive variance just over \$450,000. Collected premiums were over \$500,000 below the projection so the net variance was over \$60,000 to the negative.

When the original percentages are applied to the actual costs, these employees should have paid \$380,579 but actually paid \$428,251 leaving a positive variance of \$47,672 (even though the net variance was negative), which would be the amount that should be credited as shown below:

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AFSME Employees

	<u>Original Plan</u>		<u>What Really Happened</u>	
Non-AFSME share of budget	\$7,026,811		\$6,569,879	\$456,932
Removed optional and taken 18%				
Where the funding is obtained		% of Total		% of Total
General Fund	\$6,417,511	88.71%	\$6,367,967	94.83%
Reserves	\$397,600	5.50%	(\$81,045)	-1.21%
Employees	<u>\$419,060</u>	5.79%	<u>\$428,251</u>	6.38%
	\$7,234,171		\$6,715,172	<u>\$518,999</u>
				(62,067)
Plan based on what happened				
	<u>Needed</u>		<u>Collected</u>	<u>Variance</u>
	\$5,828,211	88.71%	\$6,367,967	\$539,756
	\$361,090	5.50%	(\$81,045)	(\$442,134)
	<u>\$380,579</u>	5.79%	<u>\$428,251</u>	<u>\$47,672</u>
	\$6,569,879		\$6,715,172	\$145,293

FY08 Health Care Budget

The same calculation can be used for the FY08 health care budget which was over \$41M for all employees and all optional coverage. The actual expenditures were \$37.6M, resulting in a variance of just over \$4M. As in FY07, funding collected from departments and employees was also down a bit over \$800,000 leaving a net variance of just over \$3M as shown below.

ALL Employees

	<u>Original Plan</u>		<u>What Really Happened</u>	
Total Health Care Expenditures	\$41,671,000		\$37,634,967	Variance \$4,036,033
Where the funding is obtained		% of Total		% of Total
General Fund	\$36,982,000	88.75%	\$36,100,491	88.35%
Employees	<u>\$4,689,000</u>	11.25%	<u>\$4,758,988</u>	11.65%
	\$41,671,000		\$40,859,479	<u>\$811,521</u>
				\$3,224,512

As with the earlier calculations, once AFSME employees and optional coverage is removed, the budget for Non-AFSME employees was a bit over \$33M with employees expected to contribute a bit over \$3M or 9.53% of the costs. The actual expenditure for Non-AFSME employees is estimated at just under \$3M resulting in a \$3.3M positive variance. Funds collected from departments and employees fell short of expected by a bit over \$700,000 resulting in a net variance of \$2.6M as shown below.

Just Non-AFSME Employees

	<u>Original Plan</u>		<u>What Really Happened</u>	
Non-AFSME share of budget	\$33,270,680		\$29,931,959	\$3,338,721
Removed optional and taken 82%				
Where the funding is obtained		% of Total		% of Total
General Fund	\$30,325,240	90.47%	\$29,602,403	90.30%
Employees	<u>\$3,193,300</u>	9.53%	<u>\$3,178,142</u>	9.70%
	\$33,518,540		\$32,780,545	<u>\$737,995</u>
				\$2,600,727

From among funds collected, employees contributed 9.7% of the total which is higher than originally planned. To determine how much employees should have provided to cover 9.53% of the actual costs,

the budget can be recast to determine their share of the \$30M in actual costs and compare that to what was actually collected from employees to determine the amount of the surplus as follows:

<u>Needed</u>			<u>Collected</u>			<u>Variance</u>	
\$27,080,351	90.47%		\$29,602,403			\$2,522,052	
\$2,851,608	9.53%		\$3,178,142	10.62%		\$326,535	
\$29,931,959			\$32,780,545			\$2,848,587	

This shows that Non-AFSME employees contributed \$326,535 more than needed to cover the health care expenditures. This would be the amount that would need to be returned to the employees to keep their share of the expenses at 9.53% as originally planned.

Using the same approach for AFSME employees, the implied percentage built into the budget was 8.22% of a projected budget of just over \$7.3M. The actual expenses were \$6.57M creating a positive variance just over \$700,000. Collected premiums were about \$140,000 below the projection so the net variance was almost \$600,000.

When the original percentages are applied to the actual costs, these employees should have paid \$540,062 but actually paid \$617,400 leaving a positive variance of \$77,338, which would be the amount that should be credited as shown below:

AFSME share of budget	\$7,303,320		\$6,570,430		\$732,890
Where the funding is obtained		% of Total			
General Fund	\$6,656,760	91.78%	\$6,498,088		
Employees	\$596,160	8.22%	\$617,400		
	\$7,252,920		\$7,115,489		\$137,431
					\$595,459
Plan based on what happened					
	<u>Needed</u>		<u>Collected</u>		<u>Variance</u>
	\$6,030,368	91.78%	\$6,498,088		\$467,721
	\$540,062	8.22%	\$617,400	9.40%	\$77,338
	\$6,570,430		\$7,115,489		\$545,059

Conclusion

From these combined analysis, the total variances for Non-AFSME employees across these three fiscal years is \$374,354 if you ignore the negative variance in FY06. For AFMSE employees the total is \$144,919.

	<u>Non-AFSME</u>	<u>AFSME</u>
FY06	(\$77,794)	\$19,909
FY07	\$47,819	\$47,672
FY08	\$326,535	\$77,338
Total	\$296,560	\$144,919
W/O FY06	\$374,354	