

[Note: At its October 2003 meeting, the Academic Council received and approved this document for posting on the Senate-UCFW web page.]

October 2003  
University Committee on Faculty Welfare

### **UCFW's Position Statement on Tiered Healthcare Premiums**

The University pays the overwhelming proportion of healthcare premiums -- around 90 percent, overall. It has always striven to provide a zero-cost option for those willing to accept HMO care. Inflation of healthcare costs and deflation of UC's budget now make that impossible. Lower-income employees may soon, disastrously, give up health insurance because they cannot afford premiums or co-payments -- even though that forfeits the 9x match that UC pays if they enroll in a health plan.

To help address this concern, in June 2003 the University Committee on Faculty Welfare unanimously supported the<sup>1</sup> principle of tiering of UC's subsidy. The Committee reached this conclusion on the basis of exhaustive investigation, analysis, and deliberation. UCFW is sensitive, however, to the need for this principle to be implemented in a proper and equitable way, and will carefully and unflinchingly exercise its advisory oversight of the rate-setting process.

“Tiering” plus [risk adjusting contributions](#) is a linked strategy to maintain choice and affordability of health plans. The University risk adjusts its contribution so that price differences are based on differences in plan design and not differences in the health status of the plans' members. This means that plans that enroll members with a higher health risk receive a larger contribution. At the same time, UC does its best to keep plans available and affordable to all members of the University community. So this year UC has “tiered” the contributions so that the cost of medical insurance is somewhat proportional to relative pay rates.

The "tiering" or "banding" of premiums is not a transfer of wealth from the rich to the poor. It is a reduction in the University's subsidy, by a small percentage, so that UC pays more than 70 percent of healthcare costs for the highly paid, with that subsidy rising to more than 90 percent as income drops. The tax subsidy employees receive for their healthcare premiums (which they pay with pretax dollars) differentially benefits higher-income employees, and substantially offsets the apparent out-of-pocket "cost" of the differential premium subsidy.

Graduated subsidies for healthcare insurance should not be confused with, for example, charging graduated fees for a user-funded program, such as parking, that UC does not subsidize.

UCFW is very concerned that the rates set be not only objectively reasonable under all the circumstances, but also subjectively acceptable to most members of the University Community. Although expressions of concerns are expected, it is the Committee's hope that an informed understanding of the issue will reassure those most affected that they are being fairly treated.

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<sup>1</sup>In AY 2002-03, as part of its efforts to help address the rising costs in health care to the UC Community, the University Committee on Faculty Welfare's Task Force on the Future of UC's Health Care Plans undertook to:  
1) agree on the principles underlying the nature and form of UC contributions to health insurance;  
2) identify a set of strategies; and 3) formulate a recommendation that it could bring to the full Committee.

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At its June 2003 meeting, UCFW members unanimously endorsed the following principles, as formulated by the Task Force:

**Principles for UC Contribution Strategies:**

- Contributions should be structured to allow UC to attract and retain high quality workers (both faculty and staff.)
- Contributions should be structured to facilitate access to high quality health care for all members of the UC community.
- Contributions should be structured to provide UC employees with a choice of plans through the use of risk-adjusted contributions.
- Health care premiums should not be so costly that employees, especially the less highly compensated, elect to opt out of health insurance.
- Providing access to high quality health care is a value to the University community quite different than access to other benefits (such as transportation or life insurance). As a result of these differences, the Task Force supports pay-based contributions for health care, but not for other benefits.

UCFW further recommended that the contribution methodology be adjusted annually depending on premium costs and availability of funding. UCFW recommends that the University seek these principles even in difficult budgetary times.