Executive Summary

2013 Benefits Assessment Study
University of Colorado

March 2014

About This Material

The University of Colorado (CU) partnered with Aon Hewitt in 2013 to benchmark its benefit programs against peer universities. This analysis was last completed in 2010. With the intervening economic downturn, the university wished to assess the continued competitiveness of its non-salary aspects of total compensation.

The results of the benefits study are not wholly unexpected—CU ranks at or near the top quartile of peers for both faculty and University Staff benefit programs. The ranking is due to a combination of an above-market retirement program and higher medical benefit subsidies. This analysis focuses on benefits, however, and keeping benefits above the market has been a CU priority to balance compensation levels that are at or below market in general.

Beyond the retirement and medical benefits, the benchmarking looks at all the major benefit programs, and the results are summarized within this material. We have drilled further down into medical benefits to review the financial competitiveness of CU's health benefits compared to its industry and geographic peers. Based on this analysis, CU's health plan costs are competitively positioned compared to its industry and geographic peers. In addition, initiatives implemented by the University of Colorado Health and Welfare Trust, including "Be Colorado," the wellness component of the health plan, position CU to effectively manage health costs into the future.

As noted above, a similar study was performed in 2010. At that time, the results showed CU in a position near the 50th percentile across all benefit areas. During the intervening three years, there has been some downward movement in the retirement benefits offered by the peers, although the majority of the peers made no changes. The peers also have increased health care costs for employees at a faster rate than CU. In addition to the peer university changes, CU has made a handful of modest benefit improvements. All of these factors combine to improve the competitive position for the CU benefit programs relative to university peers.

This information is intended to be diagnostic in nature. One should not expect to find a prescription in this material. This study provides a thorough analysis of the CU benefit program as it exists today and is intended to be the foundation for discussing how the program will appear in the future.

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Executive Summary of Aon Hewitt's Faculty Benefit Index Study

Faculty—Overview

Methodology

The Benefit Index methodology has been developed to consistently compare differing benefit programs using:

- A common population
- "Middle of the road" assumptions
- Uniform valuation methods and techniques

At the end of the process, the only remaining variable is benefit plan design, resulting in a "fair" comparison of the relative value of each benefit program.

Comparator Universities

- Colorado State University
- Indiana University
- Ohio State University
- Pennsylvania State University
- Purdue University
- University of California
- University of Illinois
- University of Maryland
- University of Michigan
- University of Minnesota
- University of Missouri System
- University of North Carolina at Chapel Hill
- University of Texas System
- University of Virginia
- University of Washington
- University of Wisconsin

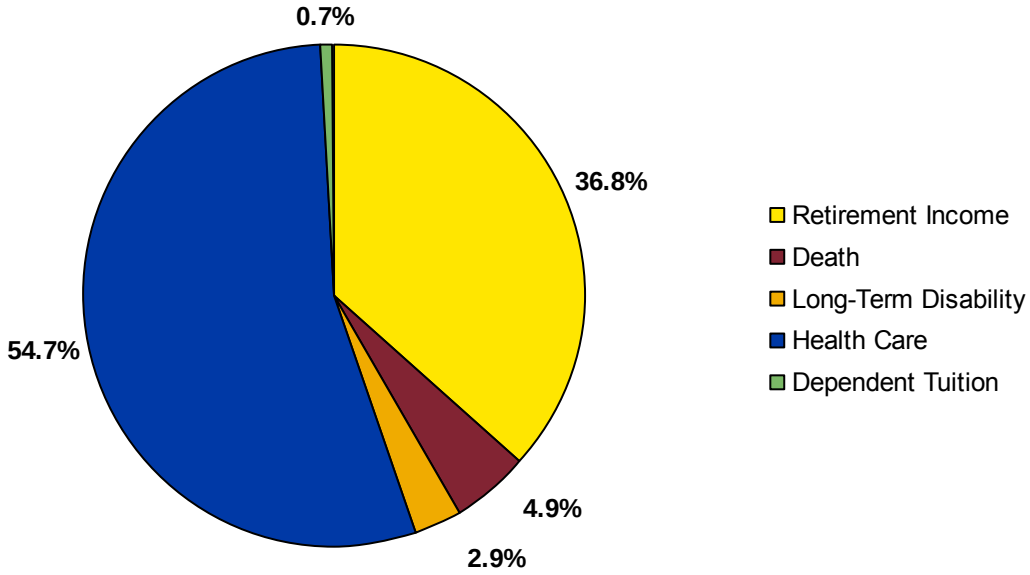
Summary of Results

The 2013 results are summarized on pages five through nine. Overall, Faculty results show a total benefits package that is about 9% above average, ranking in the top quartile. An above average retirement benefit and more heavily subsidized medical plans are the key contributors to the overall results.

Pages 10 through 12 provide explanation for the improvement in market position between 2010 and 2013. In 2010, CU provided benefits that were at-market. Since 2010, peer benefit programs have decreased in value relative to CU with some reducing retirement benefits, and many increasing faculty health care costs. At the same time, CU has made some benefit improvements to the savings plan eligibility requirement, the LTD benefit, and CU has added a dependent tuition reimbursement benefit.

Distribution of Benefit Values

Employer Value



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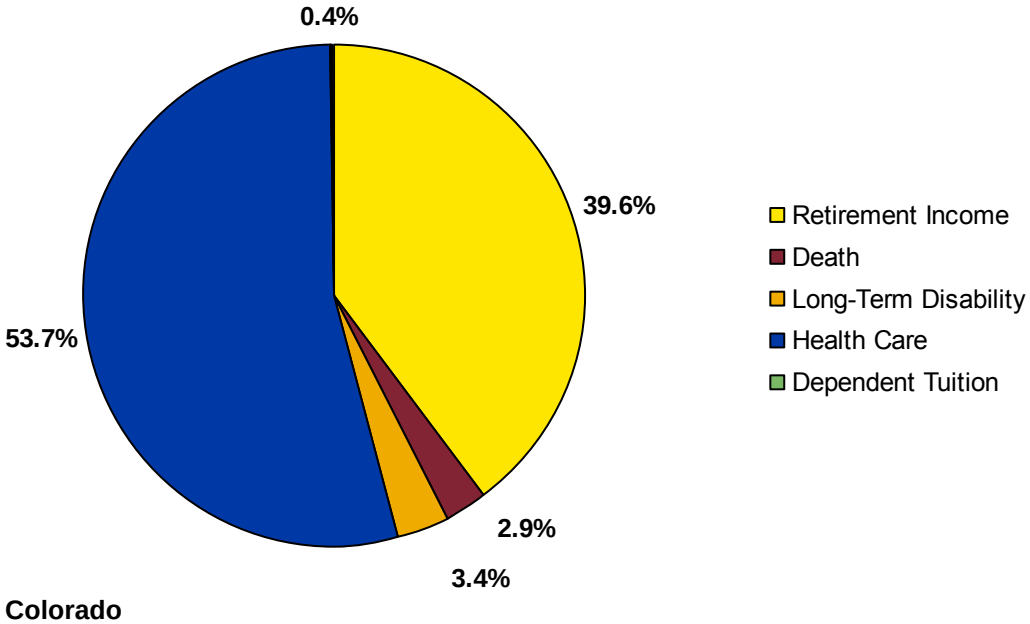

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Distribution of Benefit Values

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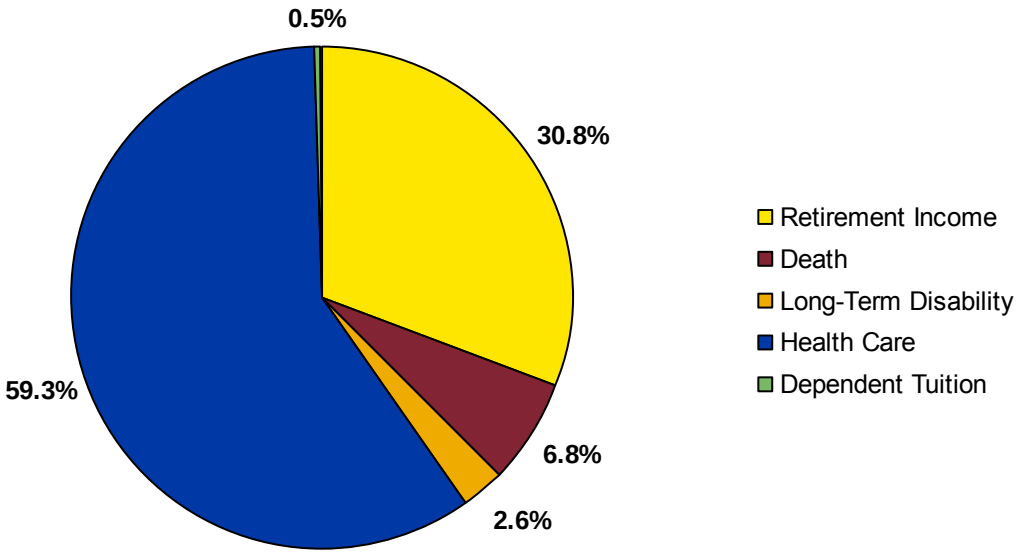

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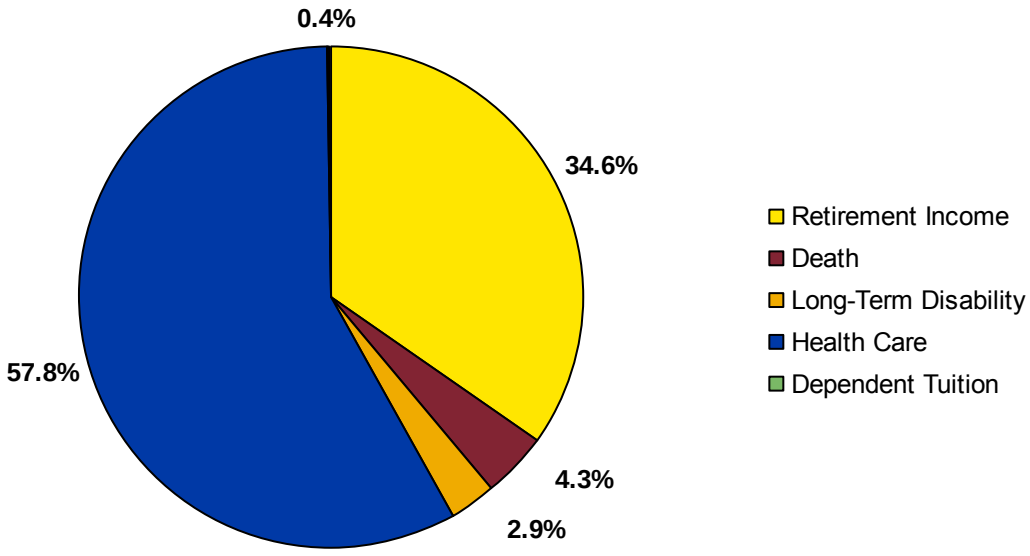

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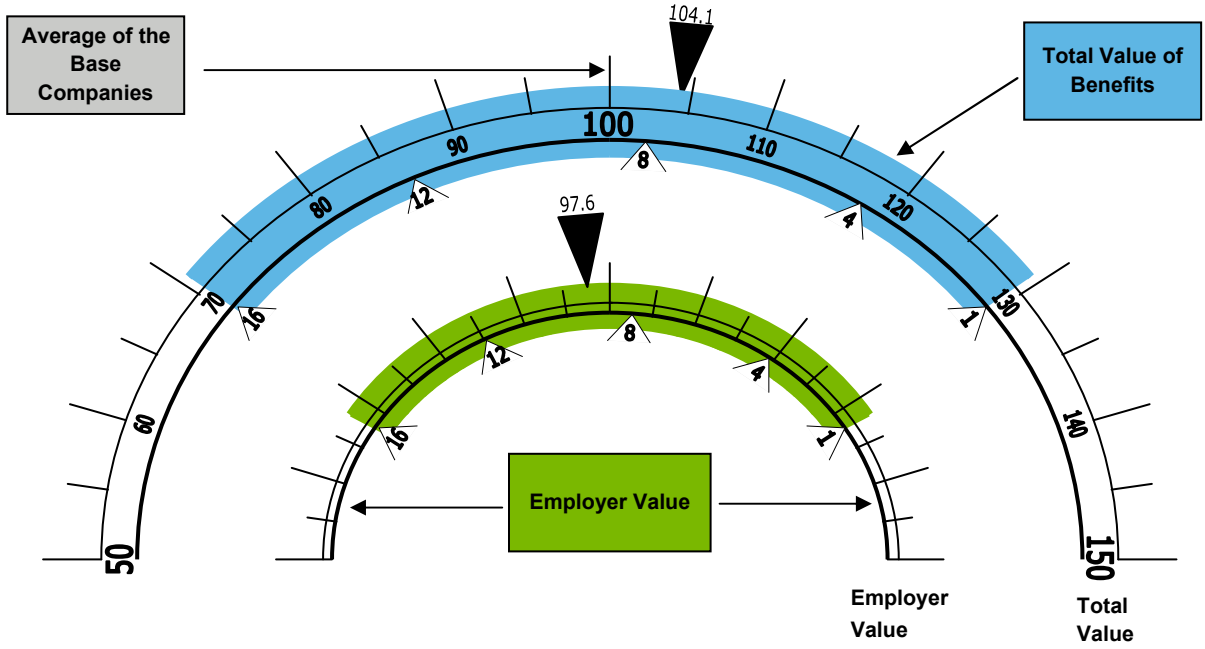
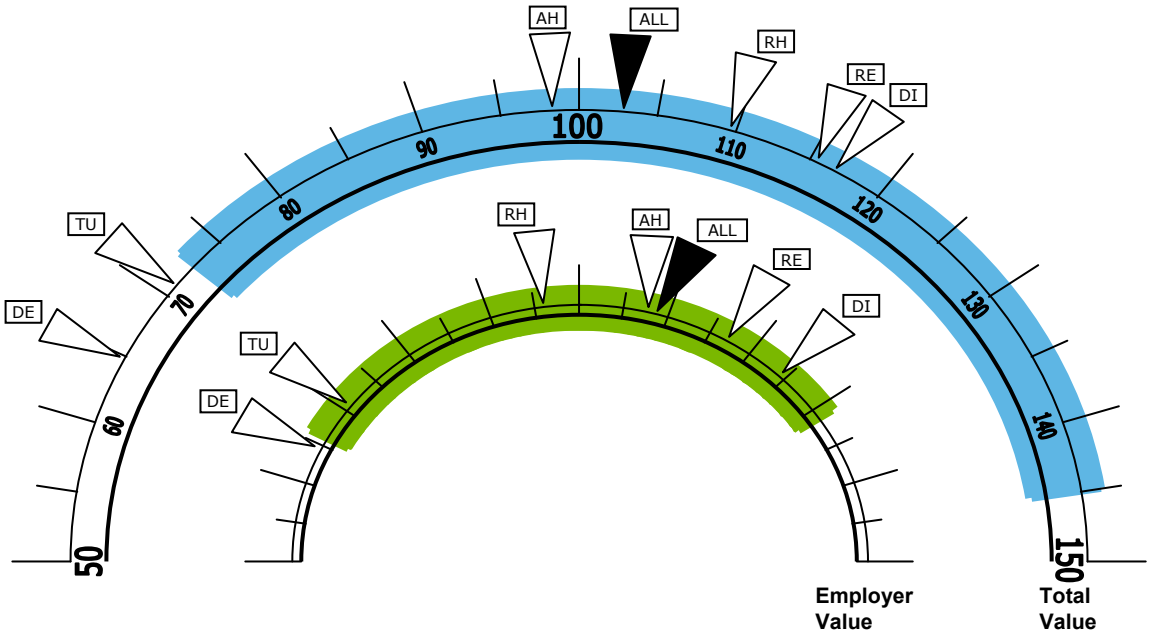
Example Only



Ranking Among Plans in Study	Employer Index	Total Index
1st	132.3	129.6
4th	119.4	117.8
8th	102.2	102.0
12th	84.9	86.2
16th	67.7	70.4

Your Position Relative to the Base Companies	Employer Value	Total Value
Index	97.6	104.1
Ranking	9th / 10th	7th / 8th

Overall Results



Your Position Relative to the Base Companies		Employer Value Index	Employer Value Ranking	Total Value Index	Total Value Ranking
All Retirement	(RE)	117.0	3rd / 4th	115.4	4th / 5th
All Death	(DE)	64.4	14th / 15th	64.8	15th / 16th
Disability	(DI)	124.3	6th / 7th	116.8	5th / 6th
All Preretirement Health Care	(AH)	107.6	3rd / 4th	98.4	10th / 11th
All Postretirement Health Care	(RH)	96.2	8th / 9th	109.6	10th / 11th
Dependent Tuition Reimbursement	(TU)	71.0	9th / 10th	71.0	9th / 10th
All Benefits	(ALL)	108.7	2nd / 3rd	102.7	7th / 8th

Overview of Benefit Index Results

Benefit Area	Employer-Paid Index & Rank (Among 16)		CU Plan Provisions
Retirement	117.0	3rd/4th	ORP 10% benefit (5% mandatory faculty contribution)
Key Explanation for Results Peer university DC plans average about 8.9% of pay (most require faculty to contribute, and average requirement is about 6.8% of pay).			
Active Healthcare	107.6	3rd/4th	HDHP, Exclusive HMO, Kaiser EPO
Key Explanation for Results Extremely affordable HDHP ($0 for single coverage) and competitive pricing for HMO and EPO.			
Retiree Healthcare	96.3	8th/9th	Pre- and Post-Medicare subsidies
Key Explanation for Results Competitive plans and subsidies, plus one peer does not offer a plan and several others have retiree-pay-all programs.			
Death	64.4	14th/15th	$57,000 university-paid death benefit
Key Explanation for Results Six peer universities are providing one times pay or more (without a $50,000 limit).			

Overview of Benefit Index Results

Benefit Area	Employer-Paid Index & Rank (Among 16)		CU Plan Provisions
LTD	124.3	6th/7th	60%, max. $23,625/month
Key Explanation for Results Larger than average monthly maximum for CU faculty, and benefit is fully university-paid (majority of peers require faculty contributions).			
Dependent Tuition	71.0	9th/10th	100% for up to nine credit hours
Key Explanation for Results Only nine peers provide this benefit. CU ranks below all nine because of the limit on credit hours.			

Distribution of Overall Results

The following table illustrates how your values for each major area impact the All Benefits index. For example, the employer All Benefits index is 8.7 percentage points above average, and the Preretirement Health Care index contributes 3.8 points to this All Benefits position. In each benefit area, the Impact on All Benefits is calculated as the Relative Weight multiplied by the difference between Your Index and 100.

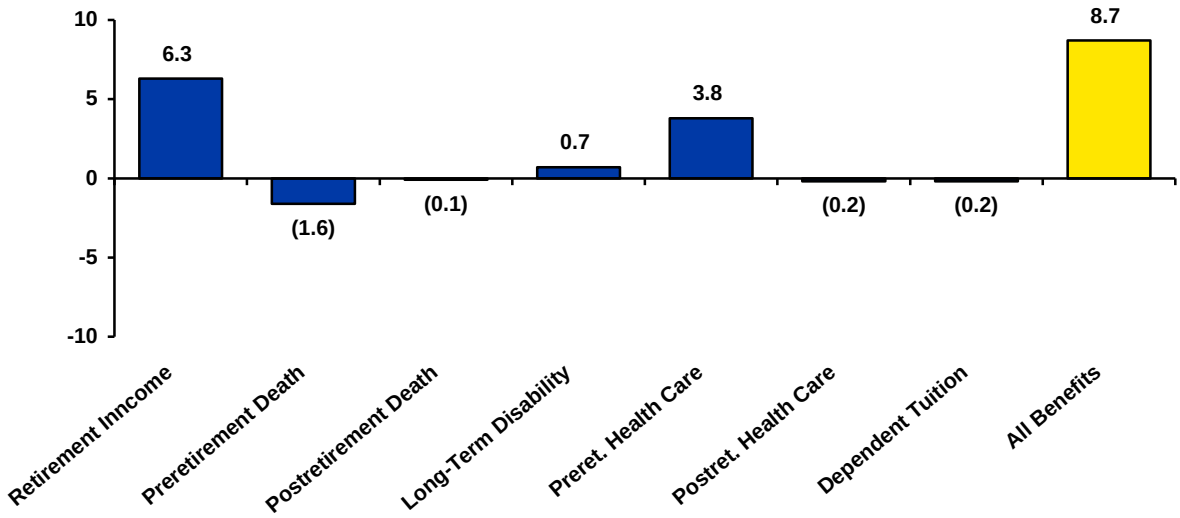
Employer Value	Relative Weight	Your Index	Impact on All Benefits
Retirement Income	36.7%	117.0	6.3
Death			
Preretirement	4.7	65.4	(1.6)
Postretirement	0.1	32.8	(0.1)
Long-Term Disability	3.0	124.3	0.7
Health Care			
Preretirement	49.8	107.6	3.8
Postretirement	5.0	96.3	(0.2)
Dependent Tuition	0.7	71.0	(0.2)
All Benefits	100.0	108.7	8.7

Total Value	Relative Weight	Your Index	Impact on All Benefits
Retirement Income	30.8%	115.4	4.8
Death			
Preretirement	6.5	66.6	(2.2)
Postretirement	0.3	25.8	(0.2)
Long-Term Disability	2.6	116.8	0.4
Health Care			
Preretirement	49.9	98.4	(0.8)
Postretirement	9.4	109.6	0.9
Dependent Tuition	0.5	71.0	(0.2)
All Benefits	100.0	102.7	2.7

Distribution of Overall Results

The following charts illustrate the impact of each major benefit area on the All Benefits index. The numbers shown are developed on the facing page.

Employer Value



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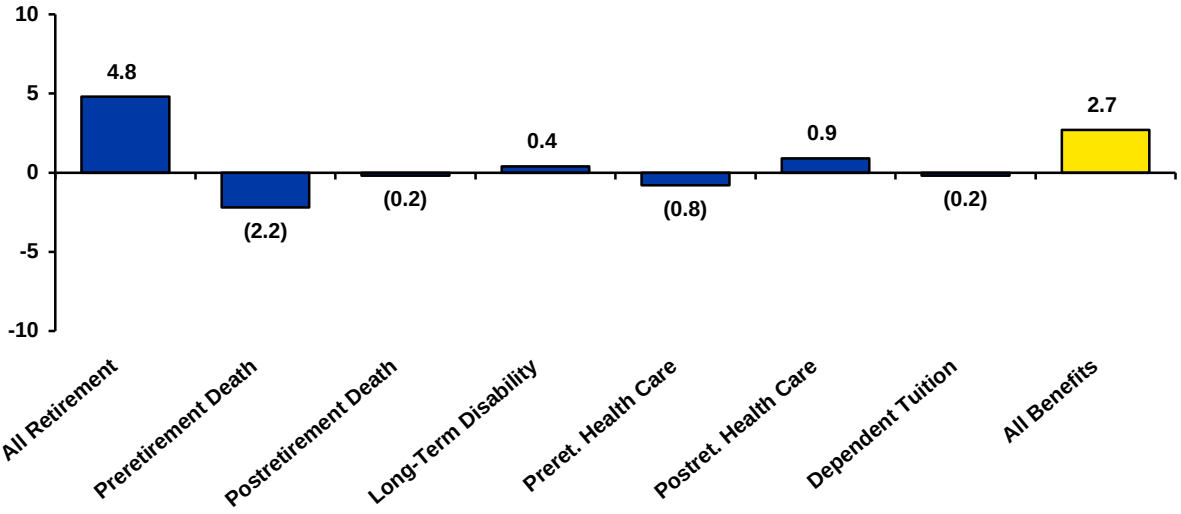

Key Changes Between 2010 and 2013

Peer Group

The 2010 study included 26 universities, 15 of which are also in the 2013 study. The change in peers does not have a significant impact on the overall results, but could have some impact in individual benefit areas.

CU Design Changes

CU made a number of design changes that impacted the results of the 2013 study. The key changes include:

- Changing eligibility for the savings plan from the first of the month after 1 year to the first of the month after hire. This improved the plan value by about 7%
- Increased LTD monthly maximum from $5,500 to $23,625. This translates to "eligible" pay increasing from $110,000 to $472,500. This had a significant impact for Faculty
- Modest health care design changes, and employee contribution have stayed level or *decreased*
- Modest changes to retiree health program designs, but 2013 study reflects no future increases in the subsidy levels. 2010 study projected subsidy amounts to increase in future years with inflation
- Dependent Tuition Reimbursement benefit added providing 9 credit hours/yr for children and spouses (for classes at CU only)

With the exception of the "freeze" on future retiree medical subsidy increases, all of these design changes have a positive impact on the CU benefit values relative to the peers. For medical and dental areas—where the peers generally have significant contribution increases relative to 2010—the decrease in contributions (or level dental contribution requirements) push the CU indexes even higher than they were in 2010.

Peer University Design Changes

Focusing on significant changes in the key benefit areas, we have seen the following changes in plan provisions for the 15 universities that were in both the 2010 and 2013 studies:

- Retirement
  - Several peer universities reduced DB plan benefit and/or increased employee contribution requirement
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- Active Medical
  - Many changes to deductibles, coinsurance, OOP limits, copays, etc.
  - Three peer universities added HDHP options
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  - One university peer changed subsidy to a defined dollar amount

University of Colorado

2013 Benefit Index Analysis

Summary of Results

	2013 CU Faculty in ORP				2010 CU Faculty in ORP			
	Employer Paid		Total		Employer Paid		Total	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Retirement Income	117.0	03 / 04	115.4	04 / 05	97.8	13 / 14	96.3	13 / 14
Death	64.4	14 / 15	64.8	15 / 16	71.7	20 / 21	70.6	24 / 25
Long-Term Disability	124.3	06 / 07	116.8	05 / 06	98.1	15 / 16	80.0	21 / 22
Medical	108.9	02 / 03	97.9	10 / 11	105.2	08 / 09	97.0	19 / 20
Dental	99.7	07 / 08	111.2	06 / 07	90.5	14 / 15	107.7	08 / 09
Active Health Care	107.6	03 / 04	98.4	10 / 11	103.3	14 / 15	96.7	19 / 20
Pre-Medicare	154.8	04 / 05	113.6	07 / 08	186.0	03 / 04	119.8	07 / 08
Post-Medicare	64.7	08 / 09	108.0	11 / 12	129.4	09 / 10	107.8	14 / 15
Retiree Health Care	96.2	08 / 09	109.6	10 / 11	153.2	08 / 09	111.9	11 / 12
All Health Care	106.6	05 / 06	100.2	09 / 10	107.8	10 / 11	98.8	15 / 16
All Security Benefits	108.9	01 / 02	102.9	08 / 09	101.9	12 / 13	95.8	18 / 19
Dependent Tuition	71.0	09 / 10	71.0	09 / 10	0.0	16 - 27	0.0	16 - 27
All Benefits	**108.7**	**02 / 03**	**102.7**	**07 / 08**	**101.2**	**13 / 14**	**95.2**	**18 / 19**
All Postretirement	114.3	02 / 03	113.4	05 / 06	102.6	10 / 11	97.9	12 / 13
All Preretirement Welfare	105.2	04 / 05	95.5	12 / 13	101.4	13 / 14	94.0	23 / 24

Executive Summary of Aon Hewitt's University Staff Benefit Index Study

University Staff—Overview

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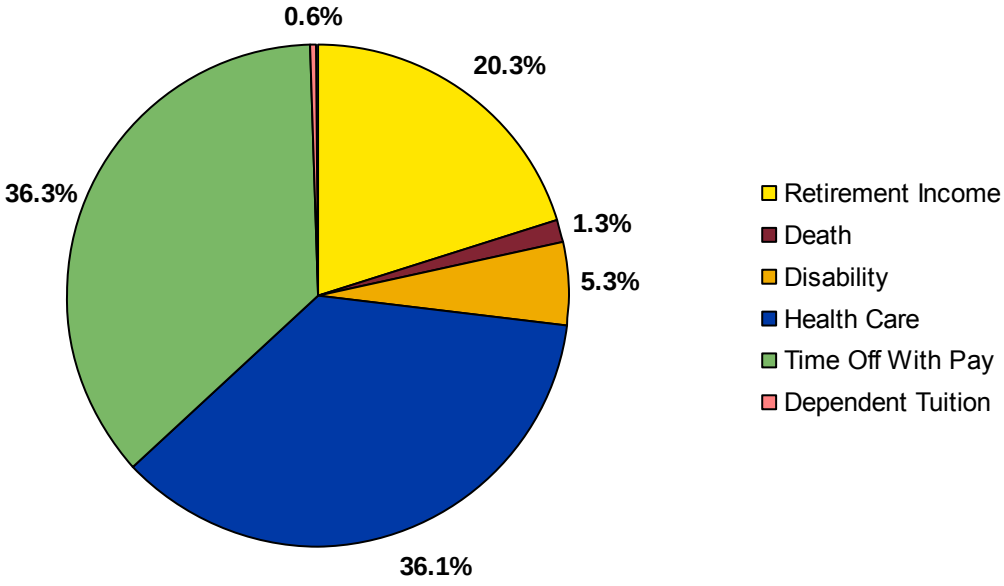

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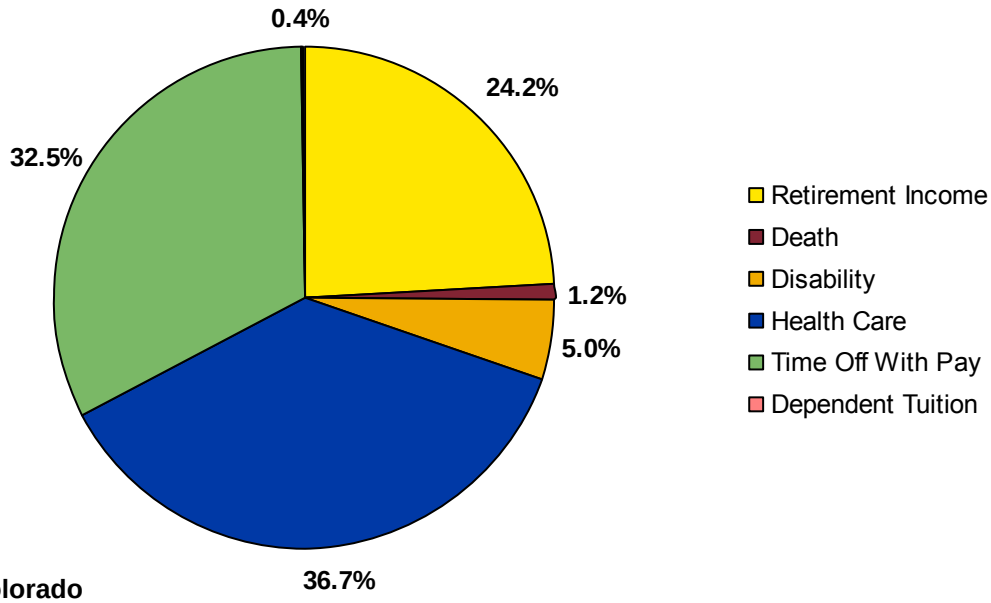

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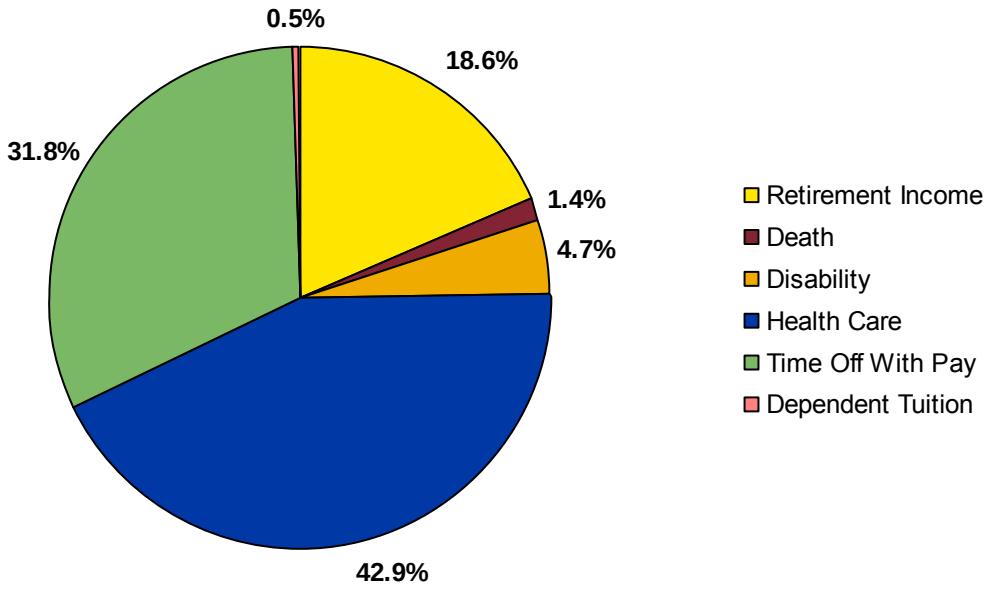

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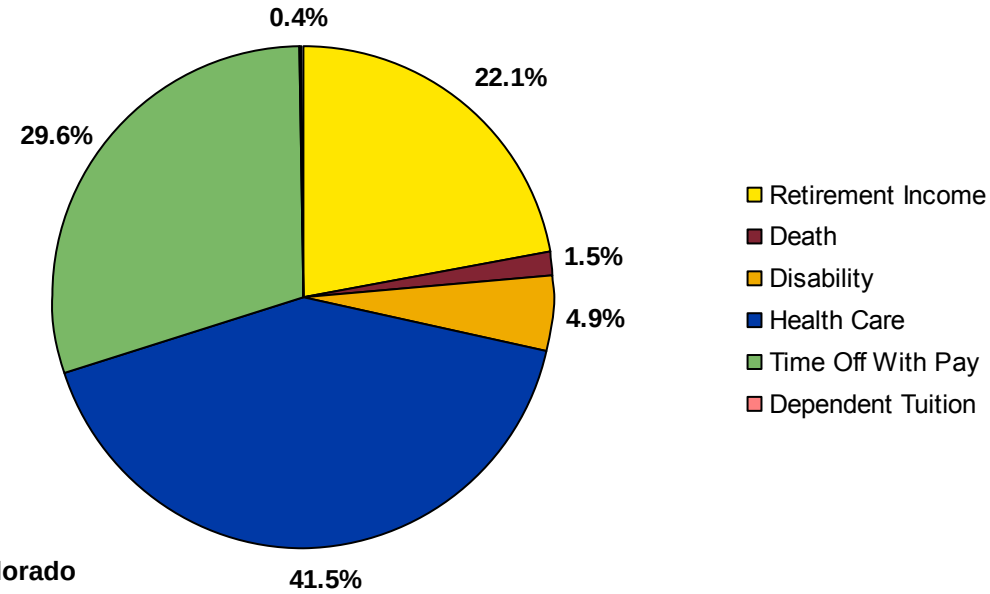

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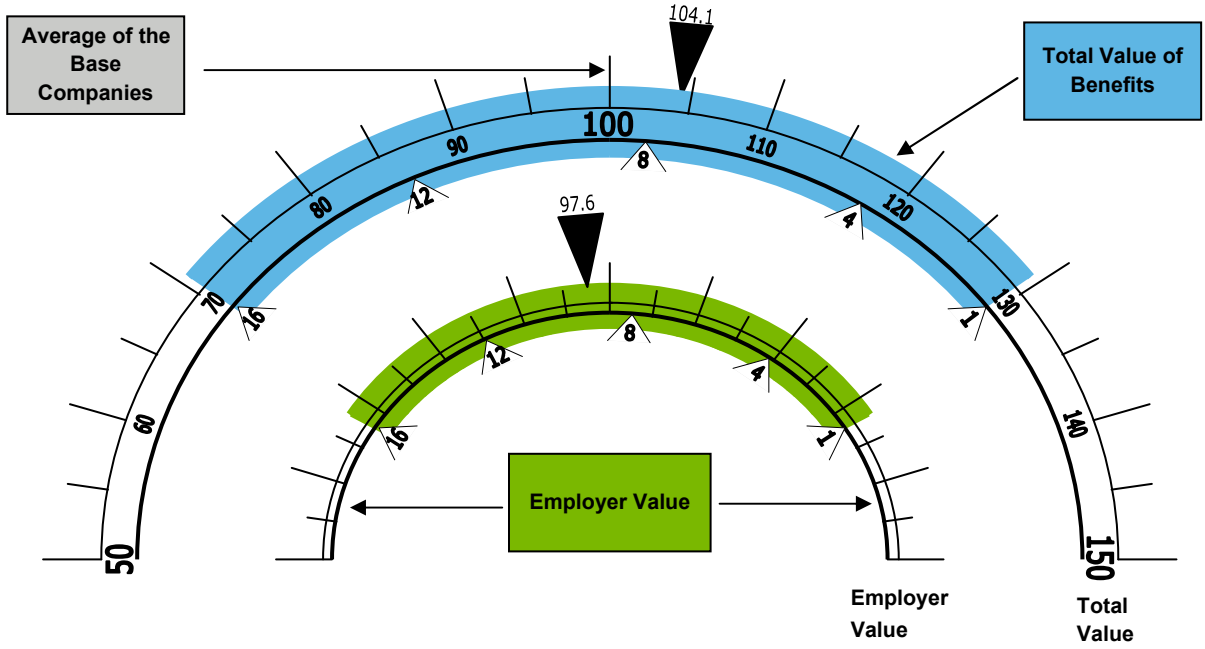

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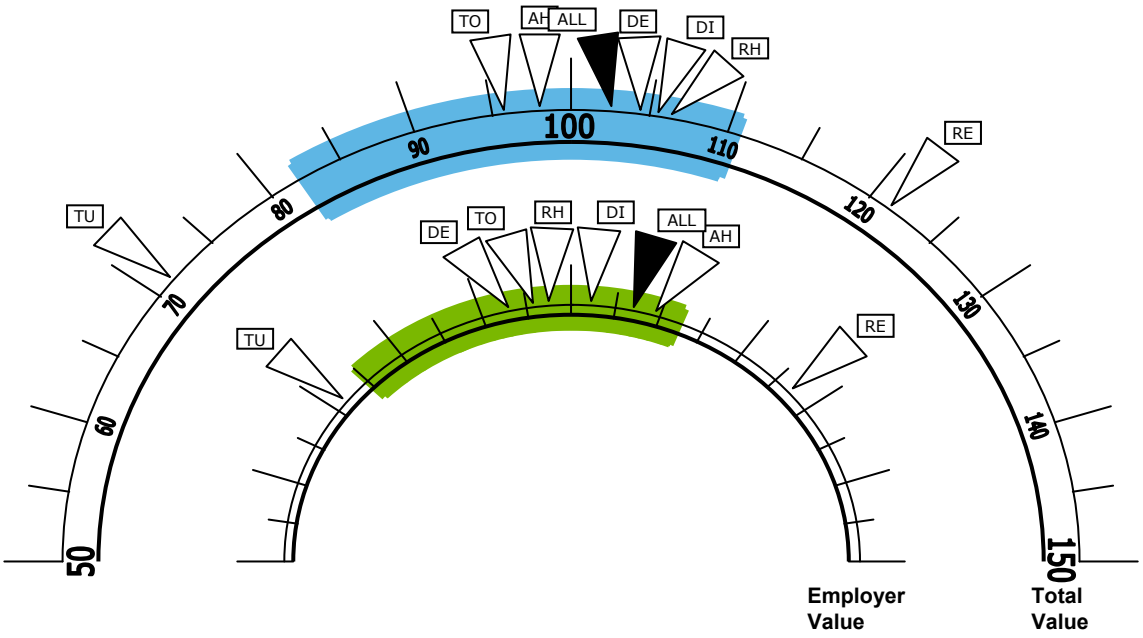

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All Preretirement Health Care	(AH)	109.3	4th / 5th	98.1	10th / 11th
All Postretirement Health Care	(RH)	97.5	8th / 9th	106.3	9th / 10th
Tuition Reimbursement	(TU)	71.5	8th / 9th	71.5	8th / 9th
Time Off With Pay	(TO)	95.8	11th / 12th	95.8	11th / 12th
All Benefits	(ALL)	106.8	4th / 5th	102.5	11th / 12th

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Retirement	127.0	3rd/4th	ORP 10% benefit (5% mandatory faculty contribution)
Key Explanation for Results Peer university DC plans average about 8.7% of pay (most require faculty to contribute, and average requirement is about 6.7% of pay).			
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Key Explanation for Results Extremely affordable HDHP ($0 for single coverage) and competitive pricing for HMO and EPO.			
Retiree Healthcare	97.5	8th/9th	Pre- and Post-Medicare subsidies
Key Explanation for Results Competitive plans and subsidies, plus one peer does not offer a plan and several others have retiree-pay-all programs.			
Time Off With Pay	95.8	11th/12th	10 holidays; 22 vacation days
Key Explanation for Results Peers average about 12 holidays; CU vacation days similar to some peers, but tiered approach is more common to grade into an ultimate vacation schedule of 20-25 days.			
Death	88.7	10th/11th	$57,000 university-paid death benefit
Key Explanation for Results Six peer universities are providing one times pay or more (without a $50,000 limit).			

Overview of Benefit Index Results

Benefit Area	Employer-Paid Index & Rank (Among 16)		CU Plan Provisions
Disability	102.1	5th/6th	Sick leave accrual, plus optional salary continuation plan, plus 60% LTD benefit
Key Explanation for Results Typical sick leave accrual at CU, and larger than average LTD maximum is less impactful for staff than faculty.			
Dependent Tuition	71.5	8th/9th	100% for up to nine credit hours
Key Explanation for Results Only nine peers provide this benefit. CU ranks below all nine because of the limit on credit hours.			

Distribution of Overall Results

The following table illustrates how your values for each major area impact the All Benefits index. For example, the employer All Benefits index is 6.8 percentage points above average, and the Retirement Income index contributes 5.5 points to this All Benefits position. In each benefit area, the Impact on All Benefits is calculated as the Relative Weight multiplied by the difference between Your Index and 100.

Employer Value	Relative Weight	Your Index	Impact on All Benefits
Retirement Income	20.4%	127.0	5.5
Death			
Preretirement	1.3	94.4	(0.1)
Postretirement	0.0	50.5	0.0
Disability	5.3	102.1	0.1
Health Care			
Preretirement	33.2	109.3	3.1
Postretirement	2.9	97.5	(0.1)
Time Off With Pay	36.3	95.8	(1.5)
Dependent Tuition	0.6	71.5	(0.2)
All Benefits	100.0	106.8	6.8

Total Value	Relative Weight	Your Index	Impact on All Benefits
Retirement Income	18.6%	121.4	4.0
Death			
Preretirement	1.4	106.5	0.1
Postretirement	0.1	51.4	0.0
Disability	4.7	105.5	0.3
Health Care			
Preretirement	37.0	98.1	(0.7)
Postretirement	5.9	106.3	0.4
Time Off With Pay	31.8	95.8	(1.3)
Dependent Tuition	0.5	71.5	(0.2)
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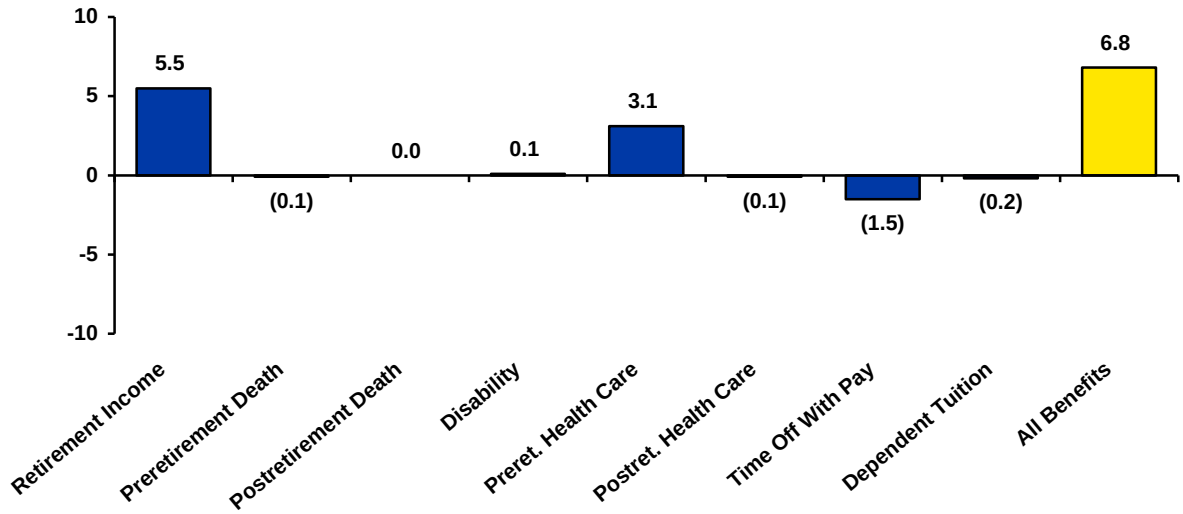

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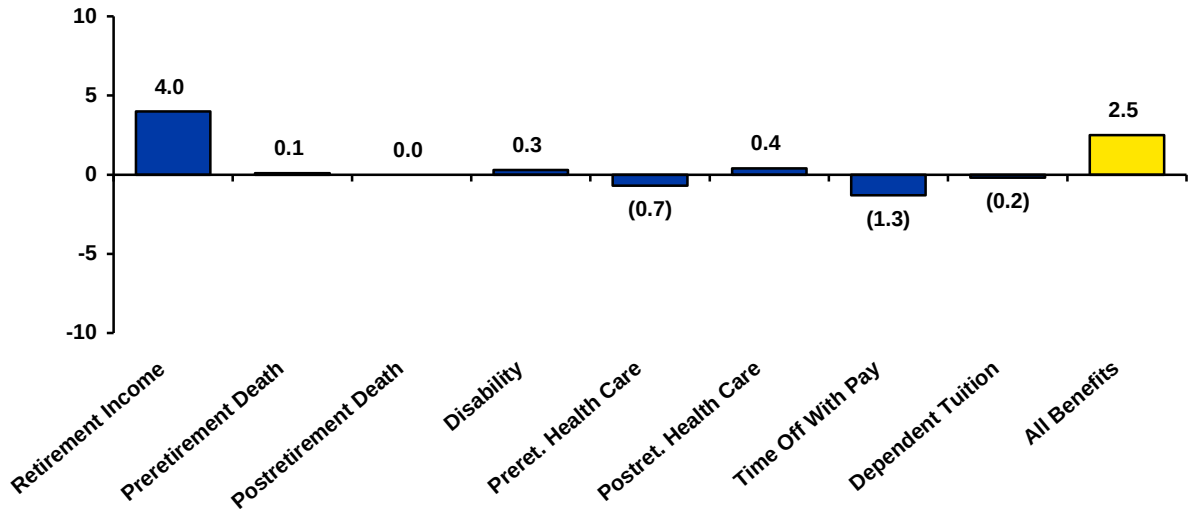

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Disability	102.1	05 / 06	105.5	05 / 06	108.9	06 / 07	105.0	09 / 10
Medical	111.0	02 / 03	97.5	11 / 12	105.9	08 / 09	97.3	19 / 20
Dental	97.8	08 / 09	111.8	06 / 07	92.8	15 / 16	109.7	10 / 11
Active Health Care	109.3	04 / 05	98.1	10 / 11	104.0	12 / 13	97.1	19 / 20
Pre-Medicare	141.1	05 / 06	106.8	07 / 08	175.9	02 / 03	118.2	07 / 08
Post-Medicare	66.8	09 / 10	106.0	10 / 11	141.3	08 / 09	108.5	13 / 14
Retiree Health Care	97.5	08 / 09	106.3	09 / 10	157.1	07 / 08	111.9	10 / 11
All Health Care	108.4	04 / 05	99.2	09 / 10	108.9	08 / 09	99.2	15 / 16
All Security Benefits	113.5	01 / 02	105.9	07 / 08	105.5	10 / 11	99.7	14 / 15
Dependent Tuition	71.5	08 / 09	71.5	08 / 09	0.0	12 - 27	0.0	12 - 27
Holidays	83.0	14 - 15	83.0	14 - 15	83.1	23 - 25	83.1	23 - 25
Vacations	103.3	06 - 08	103.3	06 - 08	102.8	08 - 13	102.8	08 - 13
Time Off With Pay	95.8	11 / 12	95.8	11 / 12	95.5	16 - 17	95.5	16 - 17
All Benefits	**106.8**	**04 / 05**	**102.5**	**11 / 12**	**102.1**	**11 / 12**	**98.4**	**18 / 19**
All Postretirement	123.2	02 / 03	117.6	03 / 04	107.4	10 / 11	102.5	11 / 12
All Preretirement Welfare	108.3	03 / 04	98.2	11 / 12	104.1	10 / 11	96.7	20 / 21
Paid Time Off	96.8	09 / 10	97.0	09 / 10	96.8	14 / 15	97.2	13 / 14

Executive Summary of Aon Hewitt's Health Value Initiative Study


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About This Material

Aon Hewitt's Health Value Initiative™ (HHVI) analysis is intended to provide the University of Colorado (CU) financial benchmarks to assess the cost competitiveness of CU's health plan. The HHVI study evaluates key program elements, including:

- Cost per faculty/staff member
- Institutional costs
- Faculty/Staff contributions and out-of-pocket costs

The HHVI data are based on the active employee populations for 535 of the largest organizations in the United States.

CU's health plan costs were compared to the:

- Entire HHVI data base
- Colorado labor market (includes private, public and non-profit organizations)
- Plan sponsors of similar size (10,000 – 24,999 employees)
- Aon Hewitt-sponsored higher education Pathfinder Universities (PFA)
- Aon Hewitt-sponsored higher education Pathfinder Public Systems (PFS)

The benchmark for the Public Systems (PFS) is comprised of the following institutions:

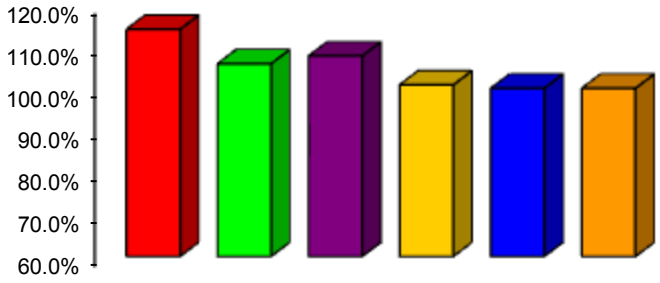
▪ Michigan State University	▪ University of Kentucky
▪ Ohio State University	▪ University of Michigan
▪ University of Cincinnati	▪ University of Missouri
▪ University of Arkansas System	▪ University of Texas System
▪ University of Colorado System	▪ University of Virginia
▪ University of Iowa	▪ West Virginia University Hospitals

Included in the HHVI report is a Financial Index (FI) measuring a plan-sponsor's purchasing efficiency.

An FI score greater than 100% indicates your health plans are providing greater value per dollar spent than other plans in our database. Typical FI values range from 75% to 125%. A higher than average FI score is often achievable by carefully managing provider discount levels, administrative costs, care management effectiveness, and drug utilization patterns,

CU's first HHVI analysis was conducted in 2010 and yielded a FI score 113.2%. Since 2010, CU's Health and Welfare Trust has taken a number of steps to improve the cost efficiency of the health plan including: self-funding the Trust and introducing the "Be Colorado" wellness program. Due in part to these changes CU's 2014 FI score increased to 114.0%.

Financial Efficiency—Overall



	CU	PFA	PFS	10,000-24,999	Labor Market	HHVI
Financial Index	114.0%	105.9%	107.7%	100.8%	100.0%	100.0%
Enrollment	13,523	377,061	257,851	1,423,892	278,204	5,480,846

(Note: PFA = Aon Hewitt Pathfinder Members—All Universities; PFS= Pathfinder Public Systems; 10,000-24,999=Aon Hewitt HHVI Participants of Large Employers; Labor Market=98% Denver)

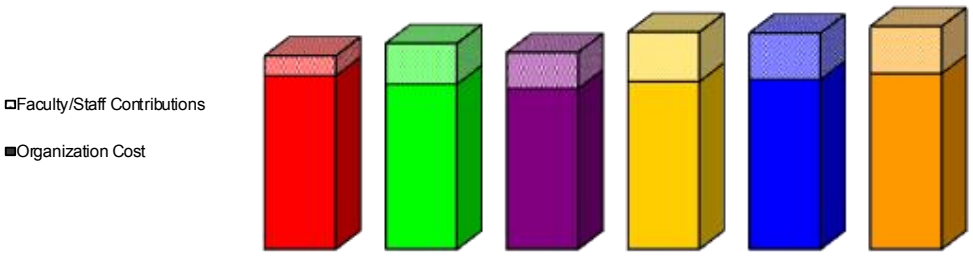
Each of CU's health plans offered to faculty and staff in 2013 have a Financial Index value greater than 100%.

2013 Financial Efficiency of CU Health Plans

CU	CU HDHP PPO	CU Exclusive HMO	CU Kaiser HMO	CU Access HMO	HHVI
114.0%	111.5%	115.9%	113.3%	117.3%	100.0%

CU's 2013 Total Health Plan Costs (i.e., institutional costs plus participant payroll contributions) equal $9,309 per Faculty/Staff member, nearly 2% less than the average cost for the surveyed Public Systems (PFS) and 10.5% less than the local labor market.

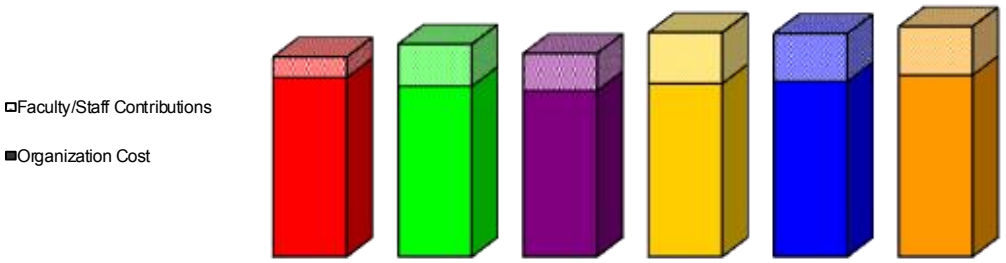
Health Plan Costs Per Faculty/Staff—Overall



	CU	PFA	PFS	10,000-24,999	Labor Market	HHVI
Faculty/Staff Contributions	$950	$1,958	$1,737	$2,374	$2,222	$2,268
Organization Cost	$8,359	$7,949	$7,742	$8,074	$8,179	$8,461
Total Health Plan Cost	$9,309	$9,907	$9,479	$10,448	$10,401	$10,729
Organization Subsidy Percent	90%	80%	82%	77%	79%	79%

CU's 2013 Total Health Plan Costs are based on the average costs associated with the four health plans offered to faculty and staff. The 25% enrollment in CU's account-based High Deductible Health Plan is higher than both Public Systems (PFS) at 8% and the local Labor Market at 18%.

Health Plan Costs Per Faculty/Staff—Overall



	CU	CU HDHP PPO	CU Exclusive HMO	CU Kaiser HMO	CU Access HMO	HHVI
Faculty/Staff Contributions	$950	$114	$1,032	$1,372	$4,231	$2,268
Organization Cost	$8,359	$8,860	$8,262	$8,088	$7,887	$8,461
Total Health Plan Cost	$9,309	$8,974	$9,294	$9,460	$12,118	$10,729
Organization Subsidy Percent	90%	99%	89%	85%	65%	79%
Enrolled CU Faculty/Staff	13,523	3,438	6,085	3,763	237	-
Distribution	100%	25%	45%	28%	2%	-

The following table identifies the factors contributing to CU's favorable Total Health Plan Costs compared to its university and geographic peers.

CU's Key Cost Drivers

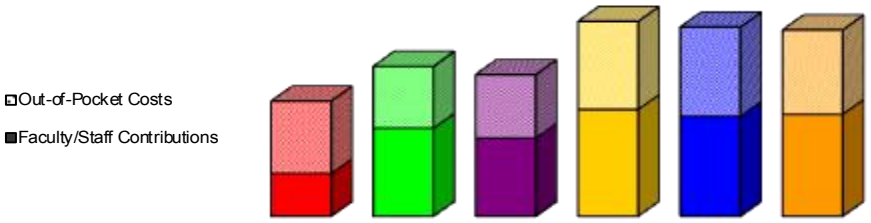
Factors Lowering Plan Cost	Factors Increasing Plan Cost
Lower than average area costs	Maturing covered population
Fewer covered dependents (i.e., declining family sizes)	Richer than average plan design
Purchasing Efficiency	Lower participant payroll contribution requirements

CU's Faculty/Staff contribution requirements (i.e., payroll deductions) are 45% less than the average of the surveyed Public Systems (PFS) and 57% less than the average for the local Labor Market. This variance is primarily due to CU's decision to apply the State of Colorado's employee contribution formula consistently for all faculty/staff members.

The lower than average contribution requirements are offset by higher participant out-of-pocket requirements (i.e., copays, deductibles, and coinsurance). CU's average participant out-of-pocket costs are nearly 14% higher than the average for the surveyed Public Systems (PFS), but are 18% less than the local Labor Market.

When payroll contributions and out-of-pocket-requirements are combined, CU health plan participant costs average 19% less than the average of surveyed Public Systems (PFS) and nearly 40% less than the local labor Market.

Faculty/Staff Costs—Overall



	CU	PFA	PFS	10,000-24,999	Labor Market	HHVI
Out-of-Pocket Costs	$1,608	$1,374	$1,412	$1,955	$1,982	$1,872
Faculty/Staff Contributions	$950	$1,958	$1,737	$2,374	$2,222	$2,268
Total Faculty/Staff Costs	$2,558	$3,332	$3,149	$4,329	$4,204	$4,140

Based on the results of this financial benchmarking analysis, we believe CU's health plan costs are competitively positioned compared to its industry and geographic peers. In addition, initiatives implemented by the Health and Welfare Trust, including *"Be Colorado,"* the wellness component of the health plan, position CU to effectively manage health costs into the future.

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Benefit Index Methodology

Methodology

The Benefit Index methodology has been developed to consistently compare differing benefit programs using:

- A common population
- “Middle of the road” assumptions
- Uniform valuation methods and techniques

At the end of the process, the only remaining variable is benefit plan design, resulting in a “fair” comparison of the relative value of each benefit program.

General Premises

We use different methods to value the various parts of a benefit program. In developing and refining these methods, we have used the following criteria:

- The method must give a reasonable comparison of the value of the different types of plans within a benefit area (e.g., a reasonable comparison of a final pay versus a career pay pension formula requires an assumption about pay increases; a comparison of the value of medical benefits should not depend on whether the benefits are insured or self-insured)
- The method must give a reasonable comparison of the value of the overall program, recognizing that certain parts of it are more valuable than others.

Employee Population Base

To facilitate comparisons, one common population is used in determining the relative value indexes. For the Faculty study, this population has the characteristics of a typical faculty population, and was in fact constructed from data furnished by several universities. Similarly, for the University Staff study, the population is based on a typical staff employee population. These populations do not represent your actual faculty or staff mix. However, we do not think the use of your actual workforce would have significantly altered the relative values shown in this report or the conclusions to be drawn from them.

Developing the Relative Value Indexes

In general, the value of a benefit is determined in one of two ways:

- For each individual in the population, the probability of an event (such as disability) is multiplied by the lump sum value of all amounts to be paid arising from that event, or
- A value is calculated by establishing the value of benefits accruing during the year (an allocation of postretirement values to working years).

The actuarial and employee participation assumptions used are chosen with the intention of being as "realistic" as possible. In effect, these values are summed up for all the employees in the population, recognizing that the value of the various benefits varies by the individual's circumstances—age, service, gender, compensation level. The relative value in any benefit area then recognizes, on a composite basis, the value to an entire employee group—using a mix of employees who have a variety of individual circumstances.

The overall benefit program indexes are not based on an arbitrary weighting of the individual program indexes; instead, the composite indexes reflect the relative value calculated for each program for each organization. Therefore, the Health Care index has more impact than the Postretirement Death index in determining the All Benefits index. The composite indexes are determined by first adding together your organization's benefit plan values for the benefit areas included, and then comparing the result with the average for the base universities.

The index base point of 100.0 is set as the average of the values of the base universities. An index of 97.6, for example, means the value assigned is 2.4% below the base university average.

A Note of Clarification

This study is an analysis of the value of the benefits provided within an organization's employee benefit program. This has been done with the objective of focusing on the question of benefit program design, and is not intended to be an analysis of cost. An organization's benefit "costs" are affected not only by the benefits themselves, but also by accounting and financing decisions and background, such as:

- Use of a conservative versus a liberal basis for funding the pension plan (e.g., low interest rate versus high interest rate).
- The number of years a pension plan has been in existence and its asset performance during that time.
- Decisions to provide directly or insure a particular benefit.
- An organization's internal accounting practices (e.g., for vacation time).
- Pooling of experience among groups (e.g., a disability benefit plan covering faculty and staff employees).

The items in the above list are not benefit design and are not elements in this analysis. The question of whether the present funding-financing-accounting decisions are the most appropriate or the best “buy” is a separate subject.

Benefit Areas Included

The benefits included are those which have substantial value and which can be fairly compared. Additional forms of direct compensation and government-required programs are not included.

The benefits are grouped as shown below. Benefits not included in this index are severance pay, supplemental unemployment benefits, travel accident, extra individual accident, tuition refund, matching donations, work and family benefits, and government-required programs.

- Retirement
  - Primary

    Includes all postretirement payments to an employee and spouse from defined benefit pension plans and noncontributory defined contribution plans (e.g., excludes savings plans). Excludes payment of Medicare premiums and lump sum death benefits under a formula (e.g., a flat $1,000 postretirement death benefit is not included, while a subsidized 50% spouse’s annuity is included). Vested benefits and disability benefits payable after age 65 are included. Preretirement death benefits (lump sum and annuity-type) and the portion of any disability pension prior to age 65 are not included (these benefits are reflected in the Death and Disability indexes).
  - Matched Savings

    Includes 401(k) and 403(b) savings plans with a direct and significant employer subsidy. Only the employer provided retirement value of savings plans has been included. Any assumed payment due to death prior to retirement has been included in the Death indexes. Payments that occur upon disability are considered to be retirement benefits.
- Death

  The preretirement portion includes all lump sum payments and annuity or periodic payments resulting from preretirement death, including those that are insured, self-insured, or payable from the defined benefit and defined contribution plans. Group life benefits have been shown in a separate index. The postretirement death benefits include lump sum benefits from a pension plan. They do not include postretirement benefits that result from pensions paid on other than a single life annuity basis (whether automatic or through an option); these are included in the pension area.
- Disability

  Has been split into short-term and long-term by defining short-term benefits as those payable in the first six months, without regard to source. That is, the Short-Term Disability index includes long-term disability plan benefits if they are payable in the first six months of disability. Similarly, the Long-Term Disability index includes accident and sickness and salary continuation benefits payable after six months.

For the Faculty study, Paid Time Off is excluded (Vacations, Holidays, STD/Sick Leave), so the Disability benefits only include LTD.

- Health Care

  Includes the traditional medical benefits such as hospital, surgical, doctor visits, prescription drugs, etc; dental and vision. The index for preretirement benefits is developed with and without dental, vision, accounts, and credits to allow for specific analysis of medical plans. The Postretirement Health Care index includes not only the package available to a retiree (including dependent coverage) who is over age 65, but also the coverage in the postretirement, pre-Medicare period for the "early" retiree. The payment by the employer of the employee's share of Medicare premiums is included in this index, even if the source is the pension plan.

- Time Off With Pay (University Staff study only)

  Includes holidays and vacations, which are shown combined as well as separately, recognizing that planning decisions on number of holidays are sometimes influenced by the amount of vacation provided and by the flexibility an employee has in scheduling vacation.

- Dependent Tuition

  Includes tuition reimbursement benefits provided to children and spouses of faculty members at the employer's institution or other institutions.

Treatment of Flexible Benefits

For universities with broad flexible benefits plans, the credits are allocated back to the benefit areas that generated them. For example, flex credits equal to the cost of one times pay life insurance are valued in the group life area, and medical price tags are valued net of any medical credits. Sometimes the pool of credits cannot be identified with specific benefit areas (e.g., credits that vary by pay or service). In these cases, the procedure for developing values is:

- The employees in the model population are assumed to elect the various benefits in the same percentages as each employer's own experience.
- Based on these elections and the price tags of each option, the required employee contributions are calculated.
- The pool of flexible credits is calculated based on the employer's credit-generation formula(s).
- The pool of flexible credits is allocated to each benefit area in proportion to the required employee contributions

Supplemental Paper on Retirement and Paid Time Off Trends

Findings Related to Defined Contribution Plans and Paid Time Off Approaches

The University of Colorado

March 2014

AON Hewitt

About This Material

This material updates our paper initially prepared in 2010 which was prepared to address questions related to benefits for University of Colorado faculty and professional exempt staff. The questions involve the University of Colorado Optional Retirement Plan and the vacation and sick leave programs.

While the higher-education landscape has not changed considerably during the years since the original report, there continues to be a significant amount of discussion around potential cost savings initiatives related to benefit program changes.

With regard to the Optional Retirement Plan, the question involves the potential savings for the University of Colorado if the current 10% of pay university contribution is decreased. The scope of this material does not address the potential cost savings, but it does present a summary of the contribution rates for other universities, including a comparison of the AAU Public Universities that will be the focus of a separate, more robust benchmarking exercise. We have also provided information related to the service requirements to be eligible for university contributions and the vesting requirements.

This material also discusses the prevalence of paid time off programs (where vacation days are combined with sick leave) as well as important considerations when evaluating this approach to time off. The question of potential savings to the University of Colorado is beyond the scope of this material.

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Defined Contribution Plans—Prevalence and Discussion

Defined Contribution Plans—Prevalence and Discussion

Over the past few years, retirement programs have become a focus of attention for universities looking for opportunities to cut cost while maintaining competitive benefits offerings where possible.

Whereas the private sector often moves quickly in this regard to achieve desired business results, Higher Education has taken a more deliberate approach. However, this is a topic of discussion and analysis at most universities, and some have taken steps toward new plan designs. In the coming years, we expect to see more significant changes announced, and it would not be surprising to see the pace for change quicken.

University administrators are questioning how they can help faculty and staff members deal with retirement plan losses from the recent past, and how to re-engage individuals in taking responsibility for their retirement. This second topic is leading some universities to reconsider their approach regarding "free" benefits and "matching" benefits.

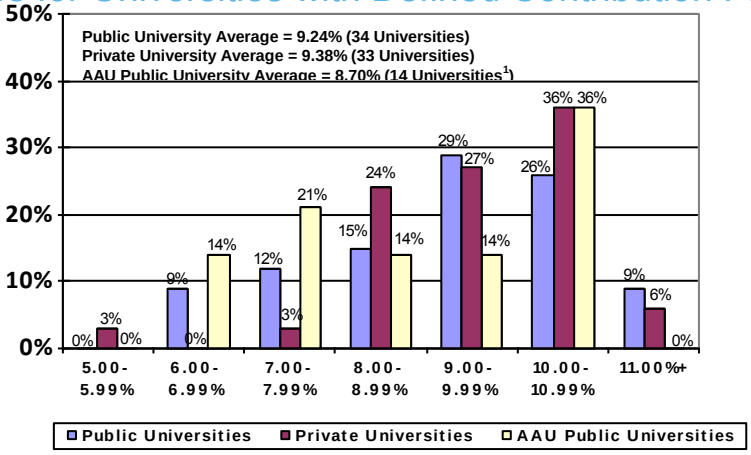
With state budgets under duress, and state budget deficits at disastrous levels, we expect more activity, a faster path to change, and likely a greater focus on employee dollars in the retirement picture.

University Contribution Rates

Aon Hewitt conducted a 2013 Benefit Index study for The University of Colorado. For this material, we have utilized the same 2013 plan design details for faculty. The data is based on 2013 designs and programs available to new hires, as opposed to any grandfathered programs that may exist.

The chart below reveals that the overall university average contribution to faculty accounts is just over 9% per year. Public universities are providing benefits that are comparable to private universities on average, and large university systems (represented by the AAU Public universities) are somewhat below average. The University of Colorado contribution is 10% of pay.

Contribution Rates for Universities with Defined Contribution Plans

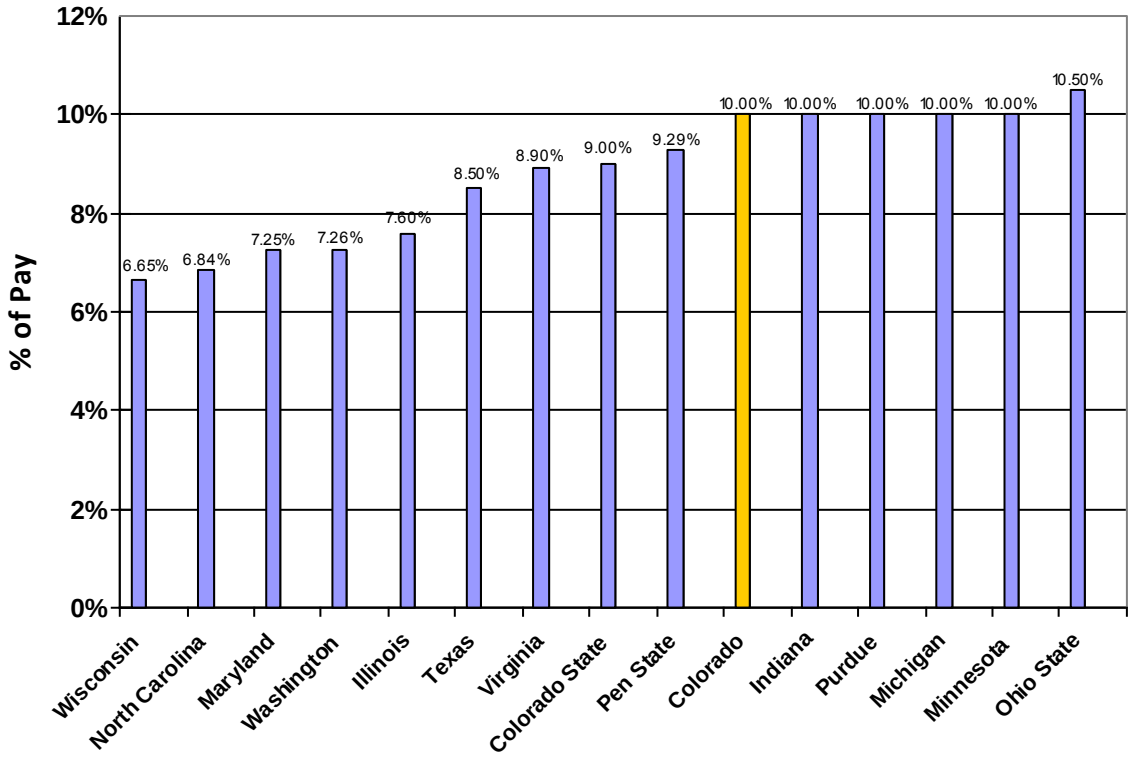


[1] Excludes University of Missouri and University of California where the primary plans are defined benefit pension plans.

Based on the data for public and private universities in our database combined, a contribution rate of 9.3% of pay would put the University of Colorado at the median. The median contribution rate for the AAU Public Universities that will be included in the Benefit Index analysis is about 9.0%.

Focus on the AAU Public Universities

As the previous chart illustrated, the AAU Public universities generally fall in the 7.0% to 10.0% range for the university contribution. The table below individually shows each of these 14 universities and their recent contribution rate.

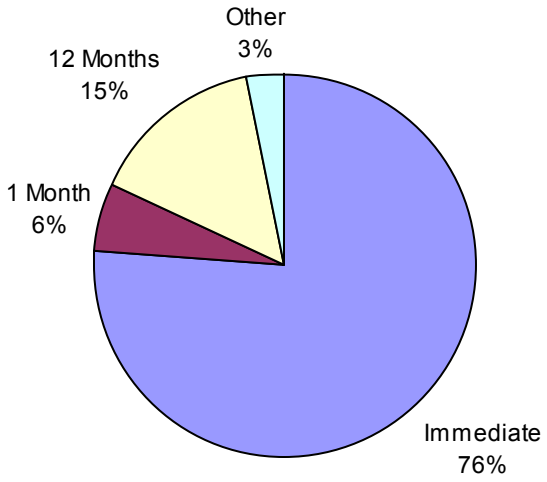


Faculty Contribution Rates

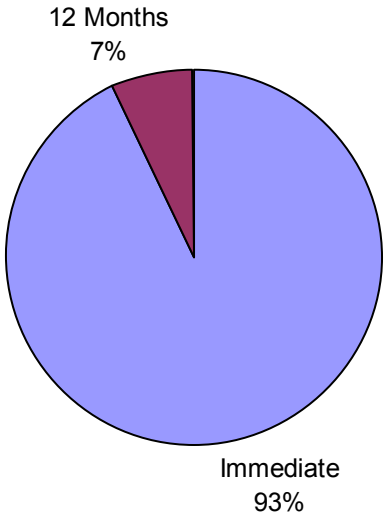
Many of the universities with Defined Contribution plans have mandatory contribution requirements for participants. For the AAU Public Universities discussed above, 11 of the 14 have mandatory contribution requirements which average 6.75% and range from 5.00% to 11.00%. Among the broader group of public universities, the mandatory contribution requirements are similar, averaging about 6.50%. Private universities are less likely to require employee contributions to be eligible for the full university contribution, and are significantly smaller when they are required (averaging less than 4.00%).

Eligibility for University Contributions

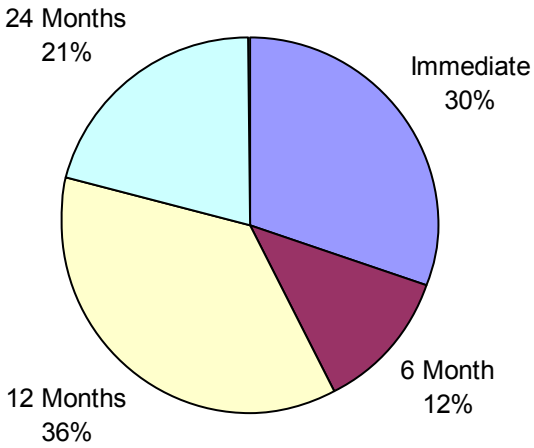
The University of Colorado no longer requires 12 months of service before faculty and University staff are eligible for the 10% contribution. Instead, eligibility is immediate for faculty and exempt professionals. Almost all of the AAU public universities also provide immediate eligibility. The charts below provide details of the eligibility requirements for the defined contribution plans at public, private, and AAU Public universities.



Public Universities



AAU Public Universities



Private Universities

The eligibility requirement for the university contribution can have a significant impact for many faculty and University staff. A waiting period of 12 months or more will eliminate at least one university contribution period and is noticeable when you look at the accumulated account balance for individuals.

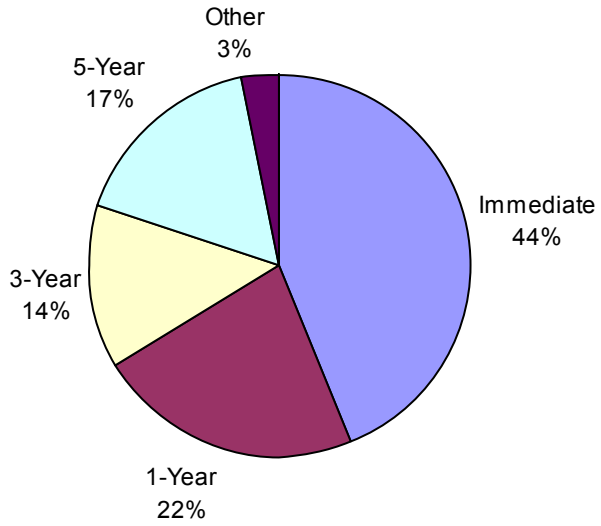
The table below looks at two examples of employees who enter the plan, accumulate an account balance, and then leave or retire. The sample employee characteristics are identified in the table, and the assumptions used for these estimates are listed below the table.

Examples		Account Balance		Impact	
Starting Salary	Years of Service	12 Month Eligibility	Immediate Eligibility	Amount	% Difference
$50,000	5	$24,400	$31,000	$6,600	27%
	10	$72,000	$81,200	$9,200	13%
	20	$261,700	$279,800	$18,100	7%
	30	$692,600	$728,100	$35,500	5%
$100,000	5	$48,900	$62,000	$13,100	27%
	10	$143,900	$162,300	$18,400	13%
	20	$523,400	$559,500	$36,100	7%
	30	$1,385,100	$1,456,300	$71,200	5%

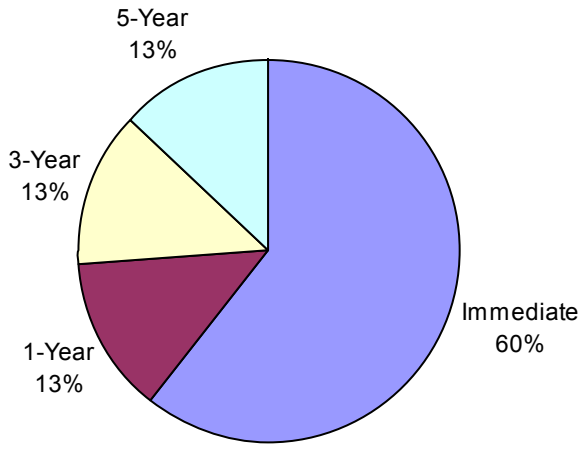
Assumptions: 4% pay increases; 7% investment returns.

Vesting of University Contributions

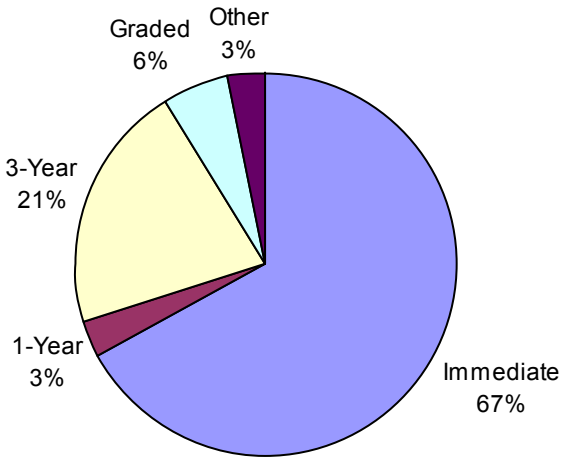
The University of Colorado contribution vests immediately. This is the most common vesting provisions utilized for all of the peer groups. The charts below provide additional details of the vesting requirements for the defined contribution plans of the public, private, and AAU public universities.



Public Universities



AAU Public Universities



Private Universities

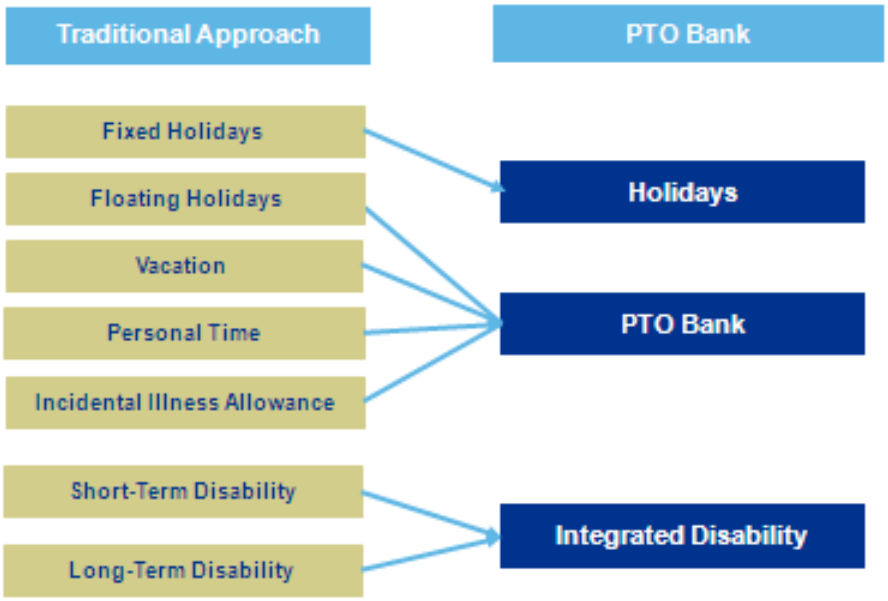
Paid Time Off Programs—
Prevalence and Discussion

Paid Time Off Programs—Prevalence and Discussion

Like retirement plans, paid time off programs have received significant attention in the last few years as employers increasingly focus on finding ways to cut costs while still attracting and engaging talent. As in many other industries, colleges and universities are looking for ways to optimize costs while creating benefit programs more suited to their emerging workforce. Paid time off has been a target for increased attention in recent years across most industries as employers recognize the magnitude of cost of these programs. Many have focused on reshaping (rather than reducing) their paid time off programs in an effort to reduce costs and better accommodate the diverse needs of the workforce. While trends and best practices in paid time off programs have evolved over the past decade, fewer higher education institutions have reviewed their paid time off strategy and programs than their general industry counterparts. However, in the past several years, the trend in paid time off banking in particular has increased within higher education, with prevalence rising from 4% to 11% just since 2010. In the past few years, many have found that redesigning time off programs can be a win/win—resulting in a program that better suits their faculty and staff needs while reducing costs.

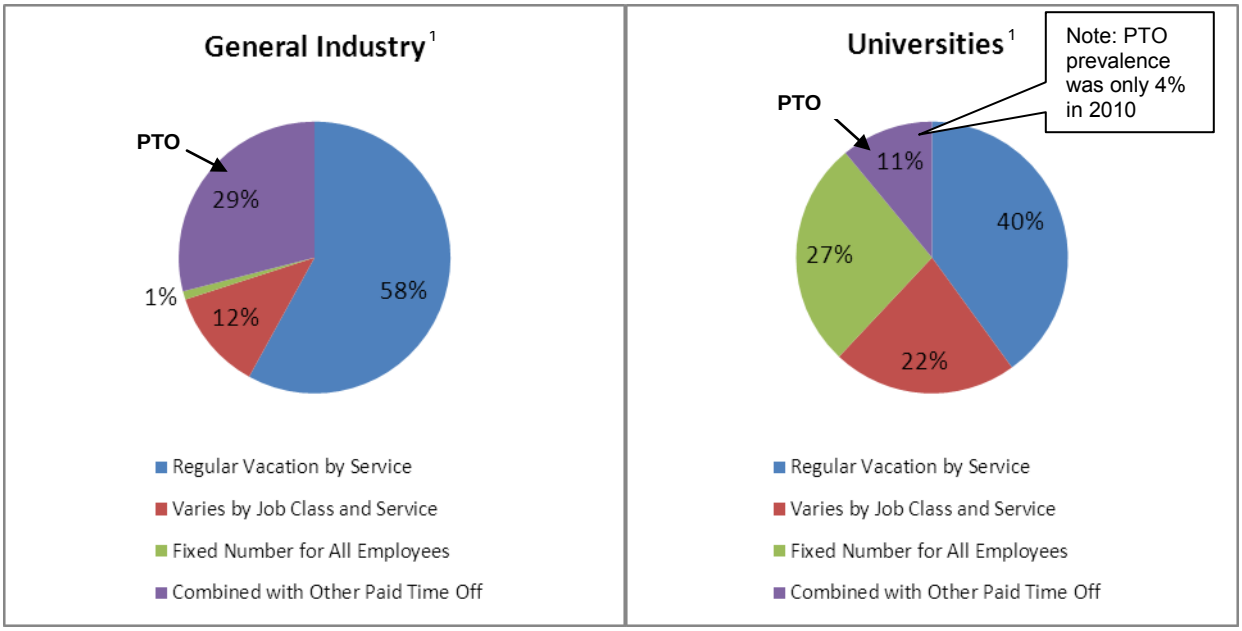
Exploring Paid Time Off Banking

As the focus on the cost of benefit programs in higher education becomes more intense, paid time off programs will continue to receive increased scrutiny. In addition, the workforce of today is very different than that of ten or twenty years ago—and with increased diversity comes a variety of employee time off needs and desires. As a result, in recent years, many employers across industries have restructured their traditional time off programs into a more leading edge approach, a paid time off bank. By definition, a paid time off bank combines several “buckets” of time off provided in a traditional plan—vacation, incidental sick time, personal days, and some or all holidays—into a bank that employees can use for any purpose. It’s simpler to communicate and administer, and allows employees flexibility to meet their life needs.


Traditional Approach
PTO Bank
Fixed Holidays
Floating Holidays
Vacation
Personal Time
Incidental Illness Allowance
Short-Term Disability
Long-Term Disability
Holidays
PTO Bank
Integrated Disability

2013 Prevalence Data

While the trend toward PTO banking has increased significantly in recent years, it is still very much an emerging one—especially within higher education. As the prevalence data below indicates, nearly a third of employers in general industry are offering a PTO bank to their employees in 2013. The PTO bank structure allows employees a tradeoff—full flexibility in how they use their days off as long as they are scheduled in advance whenever possible. PTO banking is often used by employers to promote attendance, better manage absences, and enhance scheduling. As such, it tends to be more common in environments with a high proportion of hourly workers—like health care, customer service centers, and manufacturing facilities—where employees work specific hours and need to be onsite to do their work. To date, PTO banking is far less prevalent among colleges and universities than in general industry, though that trend appears to be shifting somewhat, based on prevalence data we have accumulated over the past few years.



Advantages of PTO Banking

A PTO bank structure offers many advantages to employer organizations and employees. A PTO bank:

- Promotes attendance and rewards those who come to work with additional vacation (relative to a traditional plan with separate banks of vacation and sick time);
- Distributes time off more equitably than in a traditional structure, where those who take more sick days receive more total time off;
- Provides employees with flexibility and control over their time off, promoting work-life balance;
- Enhances recruiting, engagement, and retention;

[1] Source: Aon Hewitt Benefit SpecSelect™ database.

- Simplifies administration, tracking and communication;
- Requires less “policing” of time off by managers;
- Improves control over absences and reduces abuse of time off; and
- Affords the opportunity to reduce costs, as absences shift from unscheduled to scheduled and the total number of days taken typically declines.

Disadvantages of PTO Banking

The PTO bank, however, is not appropriate for all environments and all jobs. In a primarily professional environment, for example, the increased focus on attendance and scheduling of time off typically isn’t necessary. And since these employees don’t often take time off for incidental illnesses and often don’t track absences carefully, adding these days to a PTO bank can result in increasing the cost of the program relative to a traditional structure. On the disadvantage side of the coin, a PTO bank may:

- Increase cost and/or liability by combining holidays and/or sick days with vacation;
- Potentially increase GASB-related liability by not distinguishing between vacation and sick leave for retirement accruals;
- Penalize employees who are not abusers (by reducing the number of incidental sick days added to the bank),
- Cause managers to fear loss of control and increased absences;
- May result in employees coming to work sick to preserve their PTO days for vacation, and
- Be perceived as a take-away and as such present transition and communication challenges.

Transition and Communication

Among universities who have implemented a PTO bank, most find that one of the largest obstacles is developing a strategy to transition existing staff employees to the new plan. Crucial to the success of any change to paid time off is to carefully consider the impact on all faculty/staff groups and to develop a detailed plan to make the transition happen as smoothly as possible. This transition strategy may include:

- Identifying transition elements for new programs (e.g., transferring current paid time-off balances to the new plan, changes to accrual method, changes to accrual year);
- Addressing integration with other time off programs (e.g., extended illness/disability programs, leaves of absence, FMLA, etc.)
- Developing policies and procedures;
- Addressing systems, tracking, and recording issues, and
- Designing a communication strategy and campaign.

Paid time-off benefits are typically visible, used, and highly valued. As such early and up-front communication is critical for allaying employee fears regarding potential take-aways and suspected program design changes.

Many employers have found that a planned flow of communication around the entire process helps to ensure a smooth transition. This includes clearly communicating the institutional or business reasons for looking at this program, the process for evaluating the options, the structure and timing for the new program rollout, and the answer to "what's in it for me?" for employees. Because paid time off is so near and dear to most employees, the most successful PTO implementations typically include a comprehensive communication strategy and campaign. The strategy aligns the new program with the employer's institutional goals or business strategy, targets different messages to different audiences to gain support and appreciation for the new program, and utilizes the most effective communication channels to deliver the messages. Universities often have very different communication campaigns for faculty, administrative/professional and clerical services staff.

The Big Picture

Finally, in discussing trends in paid time off and the pros and cons of moving to a PTO bank approach, it is important to step back and look at the big picture. This involves several important considerations.

- First, what is the University attempting to accomplish with a change in paid time off and how might this approach meet those objectives? Often time-off redesign efforts have many objectives including some that conflict—e.g., enhancing competitive impact, reducing costs, minimizing negative employee impact, streamlining administration.
- Second, how important do faculty and staff consider paid time off programs, and what might their appetite be for making a change to a PTO bank? The employee perception of any changes to paid time off is critical to the success of any program change, and often employers underestimate the impact resulting from a change. Rather than considering a PTO bank in a vacuum, a change of this magnitude should be grounded in both the institutional and/or financial objectives of the University and the needs and desires of the faculty and staff. As discussed above, there are many tradeoffs involved in moving to a PTO bank approach—cost impact, managing absences, diverse needs of faculty and staff employee populations, administrative simplification, impact on various staff employee groups, etc.—and each must be carefully considered.
- Third, in moving to a PTO bank, the University must also examine the integration with other time off programs (extended illness/disability, leaves of absence, FMLA, etc.).
- Finally, how will changing paid time off programs impact the total value of benefits, and how important is the paid time off piece of the puzzle? Changes to paid time off cannot happen in a vacuum; ultimately they need to be considered relative to the entire benefits and total compensation package.

Case Studies—Universities with PTO Programs for Exempt Staff

PTO bank schedules vary significantly among those offering, but most tend to provide 4 or more weeks of time off at hire and cap at 5-6 weeks. Most PTO schedules offered by colleges and universities are fairly flat—providing additional time at 5 and 10 years only. Schedules shown below are days provided to Exempt Staff at 7 Universities in our Benefit Index database that provide a PTO bank. These banks combine vacation, sick and personal time; holidays are offered separately.

	PTO Days Provided After Years of Service			
University	**1 year**	**5 years**	**10 years**	**15 years**
Georgetown University	22	26	26	26
Indiana University	30	30	36	36
Northern Illinois University	25	26	28	28
Rice University	21	21	26	26
University of Illinois	24	24	24	24
University of Pennsylvania	15	24	24	24
University of Virginia	22	24	28	30

In Closing

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This material is intended to assist the University of Colorado in gaining a better understanding of the current benefits environment for defined contribution plans and paid time off programs. Use of this material may not be appropriate for other purposes. Combined with the University's own cost analysis, the discussion and prevalence information included here may be used to enrich or advance important discussions regarding potential plan design changes.

Decisions about individual components of the University faculty and/or staff benefit plans should not be made in a vacuum. Changes to any one benefit area should only be considered after carefully reviewing the complete benefits package that is available, as well as the University of Colorado's compensation practices and philosophies. By identifying highs and lows across all aspects of compensation and benefits, considering which programs are under or over appreciated by the faculty, and assessing what level of cost savings is necessary across all programs, the University will best be able to assess appropriate changes, if any, that may be implemented.

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