

**The University of Washington
Faculty Council on Retirement, Insurance & Benefits**

The Faculty Council on Retirement, Insurance & Benefits met **Thursday, December 14, 2000** at 9:00 a.m. in 36 Gerberding. Chair Diane Martin presided.

PRESENT: Faculty Bliquez, Brandt, Breidenthal, Frey, Kochin, Kuhr, Martin, Waaland. *Ex officio* *Baylor, Dwyer, Olswang, *Chamberlain, Dougherty, Winsor. *Special guest* Dick Thompson.

ABSENT: Faculty Boxx, Lamont. *Ex officio* *Stowitschek, *Henley. (*with vote).

Chair Martin asked that **Minutes from November 9, 2000** be approved via email.

Report from Dir. of Government Relations Dick Thompson

Thompson began his report by emphasizing that if the Washington State Legislature maintains current levels of healthcare coverage for state employees it will exceed the mandatory spending limit set by Initiative 601 by more than \$800 million. This year, the Legislature will need to increase spending on health care by \$1 billion over the next two years just to maintain the current level of health services. Automatic teacher cost-of-living pay increases approved by voters Nov. 7 will require an additional \$460 million in spending from the state's general fund over the same 2001-2003 period. There are several reasons why the state budget is over the spending limit: the I-732 teachers' raise, I-601 spending cap, more students in public schools and community colleges, more people in prison, and more people in nursing homes. (see overheads)

The Legislature will be faced with three options regarding the spending cap: they can vote to raise the spending limit, they can make severe budgetary cuts, or they can do a combination of both. The state will likely raise premiums and co-pays, though the University will argue that a tradeoff between salary and benefits is "not acceptable." The Governor's budget does assume some lifting of the spending cap because 601 has been amended to allow the Legislature to move some money from the general fund to the non-general fund. Thompson advised that once an initiative is two years old it can be rescinded or amended by a majority vote; it is possible that I-601 could be made to "go away" based on such a vote.

There will also be pressure by state employees who will argue that if K-12 teachers get a cost-of-living raise all other state employees should get a raise. The practice of combining state employees into one bargaining unit is known as "coupling." Years ago it was not in the best interest of higher education employees to couple their salary increases with K-12 and Community College teachers. However, for the past 12 years, K-12 teachers have become a focal point for public, and therefore legislative, attention for salary increases. Thompson noted that every 1% raise in state employee salaries equals \$140 million.

Thompson explained that different price indicators would be used to calculate K-12 teachers' increase vs. other state employee's increases. A Seattle-based CPI would be used to calculate K-12 teachers' cost of living raises. The IPD (Implicit Price Deflator) will be used to calculate other state employees cost of living raises. The IPD is state-based and uses a bigger market basket than the CPI. The IPD results in 1% less than the CPI.

Brandt asked that the council focus its discussion on the tradeoff between salary and benefits since this appears to be inevitable. The council felt that state employees would probably lose benefits over time, especially healthcare benefits, since benefits levels have held for the past four

years and inflationary costs were absorbed by the state. Given the variety of state employee benefits scenarios it is difficult to talk in general terms about salary/benefits tradeoffs. For lower-paid employees with dependents, benefits are going to be more important. Salaries are taxed but benefits are not; if salary increase is more than benefits loss it might be better to take the salary increase--but, better for *whom*?

Between 1997 and 1999, Governor Locke was able to uphold the idea that existing benefit levels were maintenance levels. Many senators now believe that benefit levels are discretionary--that they are bargainable--and will be debated and traded off for all sorts of things. If state employees opted for better benefits it would help lower-paid employees; the lower one's salary, the more important one's benefits are.

Frey asked if FCRIB could see comparison charts that show the impact of different scenarios of salary/benefits tradeoffs for various ages and salary levels. Thompson advised that the Health Care Authority (HCA) has the data and perhaps Katy Dwyer's office could get the data from HCA and present it to the council. Frey noted that dependents cost the state enormous amounts of money and that better-compensated employees take plans that cost more out-of-pocket. He also pointed out that salary and retirement contributions are inextricably linked, therefore it is not accurate to say "salary/benefits tradeoff": if one receives a salary increase, one receives a concomitant retirement fund contribution. Another thing to keep in mind is--when salaries increase, they stay increased while benefits may fluctuate.

There are approximately 14,000 UW employees (primarily staff) not in the TIAA-CREF retirement plan; they are in PERS plans. How do UW employees, as well as other state employees, feel about salary and benefits tradeoffs? The council needs to answer this question before providing recommendations to UW legislative reps. The council also needs to explore the question of hiring and retaining staff at the UW--if the University is having trouble hiring and retaining qualified staff then a benefits decrease is going to exacerbate this problem. The same is true for faculty. Local housing costs are also an issue. Seattle may soon have the same cost of living and housing problems as cities like New York City. The same salaries are being paid across the state even though it is cheaper to live in Tacoma or Bothell than Seattle. Some council members argued that salaries should be paid in relation to the cost of living in a given area.

Thompson asked, "What does faculty want legislative reps to say about salary/benefits tradeoffs?" The Certified Staff Association (CSA) says it wants the Legislature to focus on benefits. The Legislature will not raise taxes until November 2001, then all tax raises will likely be transportation-related. There are already propositions being bandied about in the Legislature like closing down the geriatric ward at Western State Hospital; this will result in the loss of hundreds of jobs, not to mention a critical resource for the elderly.

Martin observed that UW employees enjoy lower cost benefits. Holt noted that Boeing funds all medical expenses for its employees though Martin noted that Boeing does not pay for dependants. Dwyer advised that the Public Employee Benefits Board's (PEBB) position is to continue to cover families. One council member pointed out that this subsidy of dependants creates an inequity in total compensation for staff and faculty: why should single employees with no dependents receive less compensation than employees with dependants? Single employees should receive the same level of compensation as employees who have dependants and the logical way to achieve this is by implementing a cafeteria-style benefits plan where employees are given a set amount of money to spend on a wide array of benefits options.

Martin wondered how FCRIB could stay updated on Legislative issues. Thompson advised that there is the Thursday morning Legislative Committee meeting; perhaps FCRIB could send a representative to the meeting. Martin proposed that FCRIB poll faculty members regarding a potential salary/benefits tradeoff; the council should also speak with a representative from CSA. Thompson commented that the tradeoff question is a "roll-the-dice" situation and is values-based. Martin agreed that the UW has such a heterogeneous faculty that it is hard to find an "average" scenario for salary/benefits tradeoff. Olswang suggested that FCRIB ask faculty the following question, "Based on the teachers' salary initiative that recently passed (I-732), how much do you believe the Legislature is obligated to raise higher education faculty salaries?"

Thompson noted that the UW's Office of Financial Management (OFM) has requested a 3.6 % and 2.7 % raise for higher ed faculty for the next two years. However, it is unclear whether higher ed faculty will receive these raises due to the I-732 initiative. The raise will depend on how many employees are covered under the initiative. Thompson advised that there is a \$120 million debate going on right now in the Legislature over whether I-732 only pertains to K-12 and Community College teachers who are funded from the General Fund. The result of this debate could mean a total salary increase of \$340 million rather than \$460 million.

Olswang reminded the council to consider the thousands of state retirees who pay for healthcare costs and have no choice between salary and benefits. How will their interests be met? Thompson imparted that retirees are likely to take a big hit over the next few years. The Basic Health Plan is also likely to suffer heavy cuts. Chamberlain asked whether the pact among the six baccalaureate schools will affect the UW's bargaining position. Olswang replied that it is not unheard of for the UW to take a different position than its sister institutions. Dwyer noted that many of the UW's sister campuses do not have the same benefits choices that the UW has--many state employees in rural locations only have access to Uniform Medical.

Martin asked the council what it thought the benefits of a Class C resolution on salary and benefits would be. Thompson said if the resolution truly represented the will of the faculty then it would be helpful to the legislative reps, but, given the heterogeneous makeup of the faculty, can they reach a consensus on benefits vs. salary? Olswang asked Thompson which battle will be fought first in the Legislature, salary or benefits? Thompson replied that, depending on how the supplemental budget is treated, salary and benefits are likely to be linked together and will be decided at the last minute.

Thompson explained a concept that was being explored by the State Legislature that might alleviate some of the budgetary constraints. House Bill 3169 states that you can move state programs into the General Fund, thereby raising the General Fund limit, as long as you move the program *and* the revenue that funds the program. K-12 teachers will not be happy if this type of thing happens because every time the Legislature raises the General Fund spending limit it reduces the spillage that is earmarked to go towards K-12 salary raises. Thompson predicted that a lot will be done in the coming budgetary debate based on this "two-way-street" system of fund swapping.

The council also discussed the likelihood of a UW tuition increase. No one knows the size and style of the tuition hike but the Governor has made one proposal that would implement a 35% increase over the next five years. The Governor feels the UW should be charging what education actually costs, especially for its professional schools.

The meeting adjourned at 10:30 a.m. Minutes by Todd Reid, Recorder.