

President's Report

Why Negotiating Our Benefit Plan Changes Makes The Most Sense

by Richard Hansen, FA President

The first question I ask anyone bemoaning the benefits change proposal recommended by the Health Benefits Task Force and—at this date—supported by all of the bargaining units is, “Do you believe the state budget cuts impose great hardship on the District?” For those who answer “No,” I offer this data: the general fund faces an \$8.1 million deficit and categorical programs are burdened with cuts of \$7.8 million. The prospects for 2011-12 don't look much better.

For those who answer “Yes, but why not take reductions from *somewhere else*, like salary?” I will explain how the proposed benefits changes are the best means to address the District's sharply declining revenue while limiting its ongoing impact on employees.

A salary cut is never regained because of “compounding.” Each raise builds upon the base that precedes it. Cutting the base digs a hole that cannot be refilled. As a result, employees would forever play catch-up. In contrast, the employee contributions, a necessary component of the bargaining units' proposal, sunset in two years. For the two years of the agreement, these contributions would be deducted pre-tax from a base salary that remains intact. When the two years are up, salary remains whole.

From another perspective, reducing salary to pay for health benefits doesn't make sense. Doing so would mean that active employees bear the full expense of paying for increased health benefit costs for retirees.

Of course, FA would prefer to retain fully paid health benefits—who wouldn't? However, in the short term, the plan design changes are necessary to meet the immediate financial needs of the District. Over the long-term, these changes result in cost containment and make continuing District-paid medical coverage viable.

Here's a question many have asked FA: “Why not just sit tight? What can the District do if we refuse to make concessions?” The answer is two-fold: the alternative to the

current proposed changes is a catastrophic change in District medical benefits. And the District has recourse to procedures that could ultimately result in imposition of its proposal. Let me explain how this might play out.

If or when negotiations reach a point where no progress seems possible, each side makes its last best and final offer. If the parties cannot agree, the issue goes to impasse under PERB (Public Employment Relations



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Board). Employers may not unilaterally change wages or employment conditions when impasse is declared but must maintain the status quo until impasse procedures are completed.

Impasse procedures take a long, long time, requiring mediation and, if that fails, a fact-finding panel to which each side presents its case. In making recommendations for settlement, *which are non-binding on the parties*, the panel must consider state and federal laws, the interests of the public and the financial ability of the employer, wages and working conditions of comparable employees elsewhere, the cost of living, benefits already enjoyed by the employees, and other factors the panel finds relevant.

We saw the District take this inexorable path once before, in the early 1990s, when financial trouble beset the District due to the costly De Anza parking structure and a rob-Peter-to-pay-Paul strategy to pay for it. Eventually the shell game collapsed in a budget meltdown. Management mistakes cost the prior Board their seats and a few administrators their jobs, but the long-term losers were the rank-and-file faculty and classified employees because the new Board—elected on a platform of fiscal accountability—went after retiree health benefits to “protect” the District against future budget black holes.

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Negotiations Update

FA Says “No” on Cap, Sets Conditions for Benefit Plan Changes

by Anne Paye, FA Chief Negotiator

At the October 21 negotiating session, the Faculty Association countered the District's May 20 and September 30 proposals on a point by point basis, as described below.

Acknowledging that health benefit costs are a major driver of the District's continuing operating deficit (these costs rise, on average, \$2 million annually) and that lack of COLA and growth funding have further exacerbated the problem, FA agreed to meet the District's identified goal of reducing the current District health benefit budget to that of 2006-07 (according to Interim Chancellor Mike Brandy, the last time the District books balanced at year end)—a reduction of \$6 million dollars.



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But, and this is a big “but,” FA refused to accept the District's approach to the problem: the implementation of a “cap”—or a “defined monthly contribution” in District lexicon—that would permanently limit the District's benefits cost to the 2006-07 level and shift future cost increases to employees and retirees.

A brief summary of the proposed changes to each of the three District health plans is provided in the accompanying article, “How ‘Option 4’ Preserves Health Plans.”

Full-Time Faculty Employees and Retirees

• FA rejected District proposals to cap benefits at a \$972 (later amended to \$975.69) fixed rate per employee per month (PEPM) and proposed “Option 4” changes, as recommended by the District Health Benefits Committee Task Force, to *Article 22 – Paid Benefits* and *Article 23 – Paid Benefits for Retired Employees*.

• FA rejected District proposals on regular and contract faculty employees working less than 100 percent whereby coverage would be reduced to a prorated contribution based on the employee's pro-rata assignment.

• Because Option 4 alters the current benefits structure by requiring monthly contributions from all employees covered under *Articles 22 and 23*, FA proposed an “opt-out” provision (a \$150 per month District reimbursement) for employees who certify group health coverage through an employer other than the District or through a non-District employer of a spouse/domestic partner.

• FA rejected District proposals to reduce benefits under *Article 23A – Paid Benefits for*

Retired Employees Hired After July 1, 1997. The District is seeking to eliminate spousal coverage and to cap the annual “bridge” amount—forever pegging the District annual contribution (2.8 percent of the top step of the salary schedule) at the 2009-10 rate.

Part-Time Faculty Employees

• FA rejected District proposals to drastically alter *Article 22A – Paid Benefits for Part-Time Faculty*. The District proposed paying a pro-rata “defined benefit contribution” equivalent to the faculty employee's (prior) annual load for faculty in the 0.5 and above load range (who now have fully paid Kaiser coverage) and eliminating a District contribution for faculty in the 0.4 to 0.499 range (who now have 50 percent paid coverage).

Instead, FA proposed implementing Option 4 with a 75 percent District contribution toward the Kaiser plan for faculty employees with loads of at least 0.5. Under this proposal, the employee monthly contribution rates would be \$136 for employee-only; \$272.50 for employee plus one; and \$386 for employee plus family.

• For part-time faculty employees with loads between 0.4 and 0.499, FA proposed maintaining the District's contribution at 50 percent and the following employee monthly contribution rates: employee-only, \$273; employee plus one, \$545; employee plus family, \$772.

Terms and Conditions

In consideration of its concessions on *Articles 22, 22A, and 23* identified above, FA agreed to meet the District's interest in a two-year agreement, with no re-openers unless mutually agreed to by the parties, *conditioned upon the following terms*:

- The 2010-11 employee monthly contribution rates as specified in Option 4 remain the same in 2011-12;
- The health benefit trended increase for 2011-12, if any, be covered by the “Fund 61 – Rate Stabilization Fund,” a \$5 million reserve produced through District health benefit savings from Plan Year 2004-05 through Plan Year 2008-09. This fund is separate from, and in addition to, the “Fund 61 – Mid-Year Claims” fund, another \$2 million reserve also produced through District health benefit savings during the last five years;
- Any and all “health benefit savings” produced during the two years be allocated to the Fund 61 – Rate Stabilization account;
- The employee monthly contribution rates sunset at the end of the two-year agree-

ment (June 30, 2012) and revert to “0” for the two core plans, Kaiser and EPO, and to “0” for employee-only on the PPO Plan. FA proposed that, at the sunset date, the plan design changes delineated in Option 4 remain effective and that the parties negotiate future employee monthly contribution rates on the Kaiser and EPO plans, if any, in light of 2012-13 revenue (including backfill) projections and the impact of a federal health plan, if any, in place at that time.

FA also proposed retaining the current terms for dependent coverage on the PPO Plan; i.e., employees who enroll dependents in the PPO Plan share the cost of the plan by paying the difference in the premium cost between the EPO Plan for employee plus one or employee plus family; and,

- The District withdraw its demand for a “defined benefit contribution,” i.e., a “cap,” based on the 2006-07 District Health Benefits Budget.

Salary

• FA accepted the District proposal “to not increase” the 2008-09 salary schedules (the 2007-08 schedules plus 0.005 percent) in 2009-10, with the exception of *Appendix C* for *Article 7* teaching assignments as described immediately below.

• FA rejected the District proposal to suspend/postpone/eliminate the 2010-11 scheduled part-time parity *Appendix C* increase from 76 to 77.5 percent as agreed by the parties on August 22, 2008.

• FA rejected District proposals for a 10 percent reduction in base salary rate for 2010-11. Instead, FA proposed that the \$6 million resulting from its concessions on *Articles 22, 22A, and 23* be used to eliminate the deficit—other than that stemming from categorical cuts—projected in 2010-11. Using figures drawn from Chancellor Brandy's Opening Day presentation, FA argued that District projections indicate a “\$3.8 million operating deficit” and a “\$4.3 million Step, Column, Benefits,” for a total of \$8.1 million. However, the \$4.3 million figure assumes a \$2.7 million health benefit increase, an increase that will be eliminated by Option 4. Therefore, the combined projected deficit is \$5.4 million: an amount that will be easily cured with the \$6 million in health benefit savings produced by Option 4.

FA advised the District that its proposal was based on current economic assumptions and on budget data, health benefits information, and cost projections provided by the District. If the current economic assumptions change due to changing financial conditions or due to misleading or inaccurate District-provided budget data, health benefits information, and/or cost projections, FA reserved the right to withdraw its proposal(s) and present new ones based on changing financial situations and/or revised data, information, and cost-projections.

The District proposals are on the table with all the bargaining groups, and FA is working with the other labor units to create a unified response. What happens if no progress occurs? FA President Richard Hansen lays out that grim scenario in his President's Report article. The Association will keep faculty well-informed about this important issue.

Upcoming Faculty Workshops in November

Part-Time Symposium: November 7

FACCC is sponsoring a one-day series of workshops on part-time topics of interest, including advocacy, retirement, teaching and learning. This event will be held at San Francisco City College, Downtown Campus, November 7, from 8:30 am to 4:30 pm. Register online at www.faccc.org. Look for a flyer with more detail in faculty mailboxes.

CalSTRS Retirement Checkup: November 9

An informative 90-minute workshop presented by a CALSTRS Benefits Counselor and designed for educators approaching retirement will cover the following topics:

- the roles of CalSTRS and the employer
- calculating retirement benefits
- decisions to make at retirement
- working after retirement.

This workshop will be held in the FHDA District Board Room on Monday, November 9, from 3:00 pm to 4:30 pm. Please RSVP to Thuy Quach (650.949.6219) or Patti Conens (650.949.6220)

How “Option 4” Protects Health Plans

by Anne Paye, *FA Chief Negotiator*

During the summer, as the District continued to press for major changes in health benefits and the bargaining groups continued to resist the proposed cap, the District Health Benefits Committee agreed to form a Task Force, comprised of representatives from all the employee groups, to study the issue and recommend ways of reducing the health benefits budget. The goal was a targeted reduction of \$6 million, reducing the current \$32 million health benefits budget to the \$26 million expended in 2006-07 (the last time that the District operated without an internal deficit). The Task Force accepted the challenge, with agreement by all that “anything was better than a cap.”

At the outset, the Task Force hoped to meet the targeted reduction by plan design changes. But that hope rapidly proved illusory: only \$3 million could be carved out of benefit costs through increases in co-pays and—on the self-insured plans—through modifications including deductibles and coinsurance (a provision under which the employer and employee share costs incurred after the deductible is met, according to a specific formula). Taking out more than \$3 million in costs would have reduced the plans to major medical rather than comprehensive health coverage.

So, the Task Force determined that the budget reduction would have to derive from two sources: \$3 million from plan design changes and \$3 million from employee/retiree monthly contributions. In order to distribute the latter burden fairly, the Task Force recommended that all participants in all plans contribute monthly, at a rate that

equalizes plan cost with employee financial responsibility and allows employees/retirees and their families to balance their medical needs and priorities with contribution levels and out-of-pocket costs.

This “3 + 3” strategy—the result of hours of meetings, at least twelve iterations of various plan changes and their cost savings, endless debate about “equity” and who was “subsidizing” whom, competing visions of health coverage as usable benefits versus insurance against catastrophic illness or accident, and comparison of proposed design changes to costs and features of CalPERS plans—resulted in Option 4, briefly described below.

The Task Force recommended preserving the three health plan options currently available: Kaiser and EPO would be the two core plans. Each would provide the best comprehensive plan coverage at the lowest possible cost to employees/retirees and their dependents. In order for the District to continue to offer these two options, each plan would be priced and structured to maintain an enrollment balance so that one plan did not create adverse selection against the other.

The plan design changes for Kaiser primarily include \$10 increases in co-pays. More significant plan design changes occur in the EPO: \$350 deductible/individual (x2 for plus one, x3 for family); coinsurance of 10 percent for lab and hospital services up to an annual maximum out-of-pocket of \$1,000 individual (x2, x3); and, increases in co-pays for office visits and prescription drugs. Employee monthly contribution rates for the two core plans were set at \$48 for employee-only, \$96 for employee plus one, and \$144 for employee plus family.

In addition to the core plans, the PPO buy-up plan would be offered. This plan provides richer coverage and requires larger monthly contributions than Kaiser and EPO. The PPO plan is essentially the EPO plan with a “cushion” on top to meet the needs of employees/retirees who depend on services from out-of-network providers. Therefore, the EPO plan design changes described above apply also to the PPO plan for in-network services. For non-network services, PPO plan design changes include a deductible of \$700 (x2, x3) and coinsurance of 30 percent for lab and hospital services up to an annual maximum out-of-pocket of \$3,000 individual (x2, x3).

Under the PPO plan, the in-network and non-network deductibles and out-of-pocket maximums “cross accumulate,” i.e., the amount paid for in-network is used to satisfy the non-network requirement and vice versa. In other words, if one uses both network and non-network providers, the most an

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FA Retreat Focuses on Health Benefits

by Linda Lane, *FA News Editor*

At this year’s FA Retreat, most of the sessions and workshops were devoted to health benefits changes necessitated by the District’s fiscal straits. Earlier this year, the District announced its goal of reducing health benefits costs by \$6 million a year. FA, acknowledging the spiraling health care costs, not only locally but across the nation, concurred that reductions were necessary.

Because health care expenses have increased an average of \$2 million per year and projections for 2010-11 indicate another rise of \$2.7 million, maintaining current benefit plans is not a viable option, especially at a time when state revenues to community colleges are plummeting. District employees and retirees (like most workers and retirees around the nation) must brace themselves for a rise in out-of-pocket health care expenses, e.g., higher co-pays and deductibles, and, under the EPO and PPO plans, co-insurance (i.e., the employee pays a percentage of the cost of services up to a maximum annual out-of-pocket limit).

For details on the proposed plans, see the Negotiations Update and Option 4 articles in this issue. FA News will continue to give updates on health benefits negotiations.

Near the end of the Retreat, Executive Council members participated in a role playing exercise to acquaint them with questions and

comments they are likely to hear on the proposed health plan changes. As examples, FA has been asked a number of times why health benefits need to change at all—why not cut *something else*? The reality is that 85 percent of Fund 14 (the general money pot) is spent on



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salary and benefits; the other 15 percent pays primarily for the operation of the two campuses, e.g., the electricity bill. FA has also been asked why not preserve benefits by using the money spent on “unnecessary extras,” such as remodeling costs and new off-campus sites. Those dollars come from Measure E and Measure C restricted funds, which can’t be slated for other purposes. So other than salary, which FA hopes to maintain as is, there are no other funding sources to reduce or use.

Now ready to explain the details of and rationale for FA’s health plan design changes, Executive Council members look forward to engaging faculty on this important topic. Those with questions or comments can contact their FA liaison (http://fa.fhda.edu/council_members.html) or the FA office (650.949.7450).

Health Benefits “Option 4” . . .

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individual would pay is \$700 for deductibles and \$3,000 for coinsurance. Employee monthly contribution rates for the PPO plan were set at \$120 for employee-only, \$240 for employee plus one, and \$360 for employee plus family.

Monthly rates are figured on a 12-month basis (payment schedules yet to be worked out). For active employees, the contributions are deducted on a pre-tax basis from each paycheck.

The Task Force agreed to incorporate “wellness benefits” into the Kaiser and the self-insured plans; although doing so resulted in modest cost increases, established health indicators show that such improvements have a positive effect on overall employee health and result in cost savings over the long haul. Therefore, all plans will reduce barriers to obtaining health care and encourage wellness related services, such as early detection and prevention. Depending on the plan, preventive care office visits and related services will be offered either at no-cost or at low-cost (co-insurance or co-pays). The District will continue, and expand, its program of wellness activities in order to encourage and improve the health of its employees.

Those who did not attend the FA Benefits Forums or those who want to examine the plan changes more closely are encouraged to visit the FA website and consult the “Benefit Modeling Version 12” PDF files for Kaiser, EPO, and PPO. In addition, FA Executive Council members are well versed in the plan design changes and their rationale and are ready to answer questions. FA staff also welcome inquiries: faculty should call either the main number (650.949.7544) or the negotiators’ line (650.949.7074).

The Faculty Association recognizes the import of this matter to all employees and retirees and has made every effort to protect the tradition of comprehensive health benefit coverage in this District. While some decry the “erosion” of benefits, in reality, the only way of preserving them is through plan modification. In this severe budget reduction era, there is no other alternative. As one FA negotiating team member stated, “I don’t like it—no one wants to pay for something they used to get for free—but it [Option 4] is fair.” Given the difficulty of accepting concessions on health benefits, “fair” is just about the most positive adjective that one could hope for in these trying days.

Labor/Management Control Is the Answer

by Richard Hansen, *FA President*

Behind the scenes, the unions’ response to the District proposals on salary and benefits takes on additional importance. It marks the first time that all of the units have worked together to formulate a bargaining position. It is also the culmination of an impressive collaboration among all of the constituencies participating in the District Benefits Committee, including the bargaining units. For its part, FA intends to expand this success by enlisting the support of the other bargaining units to have the District institutionalize this process in the formation of a joint labor-management benefits committee. District administrators would not control such a committee. Instead, the bargaining units would join with the District to hire consultants, investigate alternative plans, and ultimately send its recommendation to the Board of Trustees.

Why is this so important? It is imperative that the bargaining units take greater control of benefits because the District has shown, in response to the current budget cuts, its lack of commitment to providing employees with quality healthcare. Remember, the District proposal to the impending budget cuts was an in-your-face, take-it-or-leave-it reduction in salary and a hard “cap” on benefits. “Sorry,” was the District’s comment to employees, “we can only afford what we used to pay in 2006-07, and we’re not going to worry about maintaining the plan. If you want the current quality of benefits, the employees will have to pay for it, not the District.” And, don’t forget that the District topped this off with a salary cut proposal.

A template for such a joint labor group is Los Angeles Community College District’s Joint Labor/Management Benefits Committee, which has the authority to review current benefits programs and effect changes deemed necessary to contain costs while maintaining the quality of care offered to employees; to review and evaluate/replace consultants and plan providers; and to review and make recommendations about the District’s health benefits budget, among other tasks.

But, a joint labor-management committee in our District is a future goal. Over the next month, bargaining unit leaders will be working toward winning District approval of its proposal and then winning member ratification. The timeline is tight. In order to have the proposal in place for the 2010-11 year, negotiations and then ratification must succeed by the end of Fall Quarter. It would be a mistake to stall the process either in negotiations or in the ratification vote. If this occurs, we may face a similar standoff to the one in the 1990s: a board and administration dead set on undermining employee benefits. The results could be devastating.

We are in a new environment. The community leaders who established this district valued their faculty and classified employees. Several of those leaders were among those board members who were unseated by the De Anza parking structure financial scandal. Those visionary leaders were betrayed by short-sighted administrators, and employees paid the long-term penalty. Since the demise of that board, we have had two successor boards. The first eliminated retiree medical benefits and the second, our current board, looks like it may insist on capping district benefit expenditures.

The bargaining units’ proposal offers a powerful alternative to such a cap. It achieves the same short-term goal while leaving room for the quality of benefits to return in better times. Under this plan, all of us, both current employees and retirees, take on additional costs for the good of the whole. It’s important we don’t turn our backs on this significant compromise; instead, let it be the first step into a future of joint labor-management benefits planning. This won’t guarantee that we can always get whatever we want, but without taking this step, the future will be out of our control.

Best to Negotiate . . .

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In the current round of negotiations, it is unclear whether the Board or the senior level administration is behind the “we gotta have a cap, nothing else will do” tactic. Regardless of its instigator, the District proposal seeks to compound the damage done to post-1997 hires not only by undermining the provisions of their meager bridge program but also by threatening the health benefits of all active and retired employees.

So, we have a real fight on our hands, but we’re ready for one. Collectively, we may have to make compromises, but the end product should be fair for all employees. The current bargaining units’ proposal is an example of a reasoned way to make meaningful and necessary changes without throwing the proverbial baby out with the bathwater, which, it appears, is the District’s goal. Success demands that we meet a tight schedule. To allow implementation time, the plan must be both negotiated and ratified by the end of Fall Quarter. If we fail to meet these goals and should the District move to unilaterally impose its cap, there will be a real price to pay for all involved.

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