

MICHIGAN STATE UNIVERSITY

February 6, 2009

Dear Colleague:

Over the years, MSU has dealt with a variety of financial challenges. You have been part of an important team effort to keep MSU among the world's leading universities and among the best values for our students, our state and our country. We now know that Michigan has been in a recession since 2001. The country is facing an extraordinary economic crisis that will likely get worse before it gets better. It may take years before our economic growth carries us back to the prosperity we have known.

During Michigan's long recession, we have calmed some of the budgetary rough waters with cost containment and program changes, with modest salary increases coupled with increased benefit cost sharing for some, with productivity growth, and with a successful capital campaign to which so many of you were generous donors. Through our team effort, the growth in health care costs has been held at or below the national average. But, the world around us has changed again since last fall; so, too, must we.

Access to quality health care based on the best available evidence and at a responsible cost is important for us all, and I am committed to providing that access to our employees and retirees. I am writing to you today, however, because I believe it is essential that all members of the MSU community understand that we must act now, even more aggressively than we have in the past, to tackle these health care challenges. These challenges are real and formidable, and we must meet them by devising a sustainable, affordable benefits model in the coming months that embraces access, quality and cost. This letter marks the beginning of a multi-month process during which we will research and study the best options available. We will share our findings widely across the MSU community and we will seek your input and your ideas. I am confident that, through our collective efforts, we will succeed.



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The Magnitude of the Problem

Over the past four decades, health care has grown from less than 1% of our general fund budget to more than 7.5%. Health care costs continue to increase at an annual average of approximately 8.5%. If this growth is not brought under control, health care costs will consume 10% of our budget by 2019. Health care cost inflation of this magnitude limits our flexibility and constrains our choices. To illustrate the effect of this growth, if MSU could have limited health care spending growth to 5%, we would be able to decrease our students' tuition bill by \$1,000 per year. For example, we could have used a portion of the saved funds for faculty and staff salary increases; we could have better staffed those areas that are now stretched; or we could have continued to enhance academic quality.

The magnitude of our health care costs can also be expressed in dollars spent. MSU currently spends more than \$110 million per year on health care benefits for faculty, staff and retirees. To put that number in perspective, we spend more than \$2 million on health care for our employees and retirees every week, or more than \$300,000 every single day. At the current rate of growth, projections indicate that our annual spending on health care could grow into the billions of dollars within a few decades.

Whether you think of these cost increases in real dollars or as percentages of the whole, health care for employees and retirees is the University's fastest growing expense, far outpacing inflation or funding increases at a time when belt tightening is critical.

Working Toward Solutions

We have created a Health Care Strategy Advisory Committee comprised of faculty, academic staff, representatives of collective bargaining groups, retirees and University representatives with expertise in finance, health care metrics and benefits administration. This committee is partnering with University leadership to address this critical issue.

We are also working with organized labor through the Joint Health Care Committee and with faculty and academic staff through the University Committee on Faculty Affairs and the Specialist Advisory Committee. These groups have been grappling with these issues for some time, and we will continue to work collaboratively with them toward a solution. Additionally:

- We are analyzing health care utilization trends to identify better ways to match our limited resources with our health care needs.
- We continue to review our benefit plan design options and vendors to ensure that we are getting the best value for the resources we invest in health care.
- We have engaged a national health benefits consulting firm that has extensive experience helping large employers analyze complex health care challenges to find unique, quality-driven, affordable solutions.

Our approach must strike the right balance between quality and cost; we must maintain access to high quality care while constraining expenses to achieve greater value. A sustainable approach will likely require shared sacrifice. It would be dishonest to suggest otherwise. But with our eyes firmly focused on the long-term viability of our great University, we must today face the difficult decisions that will allow us to maintain a strong and healthy workforce, provide quality and value to Michigan families and the students they entrust us to educate, and ensure the success of our society by adhering to our land grant ideals of quality, inclusion and connectivity.

Current Status

Open enrollment occurring in spring 2009 for 2009-2010 will be unaffected. Changes based on this work will be implemented in accordance with the bylaws for academic governance and the collective bargaining agreements.

How to Stay Informed

I know that this issue affects us all and that you will be keenly interested in keeping up to date on the status of these discussions. Rumors will abound. Proposals will be considered and rejected or modified. A Web site is being developed by MSU's Human Resources department to monitor the progress of, and provide feedback to, the various experts and committees mentioned above. Human Resources will provide all MSU employees and retirees information about how to access that site within the next two weeks. Thereafter, we expect to be adding new content weekly, and encourage you to visit often. A section of the Web site will be dedicated to soliciting your input, advice and feedback. I am committed to keeping you informed on our progress and ask for your ideas and support as we work together to develop a new approach to health benefits for MSU faculty, staff and retirees, an approach that will assure quality health care at a responsible and sustainable cost.

Grappling with these extraordinary challenges today will allow our great University to continue to prosper. Working together, Team MSU is capable of surmounting any challenge, even during these most difficult of times.

Very truly yours,



Lou Anna K. Simon, Ph.D.