Compensation, Benefits and Pension Committee Meeting

Rice Room - Eliot and Pickett
April 12, 2006

Present: Chair Vernon Blodgett, Dan Brody, Jerry Gabert, Paul Johnson, Howard McMahan, Ralph Mero, Robert Messing, Paul Rickter, Charles Sandmel, Glenn Solomon, Joyce Stewart, and Diane Teichert.

Regrets: Florence Einhorn

Guests: James Sargent UUA Health Plan Representative, Bill Thompson, Milliman Associates, via phone

Review and adopt Agenda
Review and accept Minutes
Check-In

Health Insurance Plan – Outstanding operational decisions:

Bill Thompson, via phone:

1. Key Elements:
    - The UUA's group is older than typical.
    - The UUA's group is largely female, and the unisex rate reflects that.
    - The insured are church employees – Highmark is uniquely qualified because they have this data from their experience with 165,000 enrollees from other denominations.

2. Gender Specific or Unisex rates
    - Thompson: from a risk standpoint, there is minimal difference. The unisex rate removes a variable, and is more in line with the UUA's philosophy.
    - The unisex rates reflect that the majority of the potential insured are female

3. Individual Stop Loss
    - Milliman has calculated the rates assuming a $100,000 attachment point. This means that all claims for an individual over $100,000 would be covered.
        - The monthly premium is $45 per employee per month; (not per insured participant, the partner and/or family is treated the same as an individual).
        - The rate for the $200,000 attachment point would be less than $45, but the plan has higher risks at this level.
    - What are the risk factors we have to address in the first year?
        - The biggest issue is getting at least 500 employees signed.
        - Next biggest is the number of sick people. Milliman's calculations assume one or two per year with claims over $100,000. Therefore the $100,000 attachment place would be a prudent place to be.

- Brody: we should use the $100,000 attachment point because we would not be able to cover the risks ourselves. Nor would we be able to lower the premium by the full amount of the $45 if we did not have the stop loss coverage.
- Sandmel: the first year seems to be the riskiest, and at the end of that year, we find that we're ahead of the game, will there be an lower administrative charge? Thompson: if we get to the end of the year, and there is a cushion or operating gain, we could stop or adjust the stop loss insurance. The following year's renewal rates will be adjusted based on the first year's claims experience, and when the premiums are set for the successive years we will be able to more closely refine the appropriate rates.

4. Aggregate Stop Loss
    - Aggregate stop loss insurance is coverage for claims in total that exceed the estimated amount by more than 125%. The actuaries have estimated the first year's claims to be $3,200,000. Should the actual claims exceed $4,000,000, (125% of $3,200,000) the aggregate stop loss will cover all future claims for that year. There is a very small chance that the claims will reach the 125% point. There will be no protection unless we have a very calamitous year.
    - The monthly premium for this coverage $4.50 per employee.
    - Sargent: What's the most common risk taken for companies the size of ours? Thompson: It depends on the experience of the company. After some experience, it gets easier to judge how much you need. The impact on the premium cost is the ability to enroll people. The more people enrolled, the less you need stop loss because it produces a broader experience.
    - Blodgett: What would the impact be if the claims were significantly less than expected? Thompson: the stop loss thresholds would not change, but the 15% load could be adjusted down to some lower number.

5. Ongoing work with Milliman
    - There is a need to review the plan and the claims experience each year for adjustments to premiums; McMahan: It is very important to have on-going actuarial support.

6. 80/20 Premium Split
    - Mero: It's very likely that some congregations will not be able or willing to afford the expected 80%. What would the actuarial impact if the employees picked up more than the expected 20%?
    - Thompson: The most important element is the enrollment of 500 employees; the 15% load built in on top of the expected claims should cover this situation. Less than the 80/20 split is not favorable, but the 15% load should still cover it.

Close of phone conversation

Resolutions Moved, Seconded and Passed:

1. Individual Stop Loss Insurance
   The plan should adopt Individual Stop Loss Insurance at an attachment point of $100,000 per employee per year.

2. Aggregate Stop Loss Insurance
   The plan should adopt Aggregate Stop Loss Insurance at an attachment point of claims greater than 125% of the estimated total. M/S/P

3. Unisex or Gender Specific Rates
   The Committee recommends that the Unisex rate be used. M/S/P

Mutual Funds for the Retirement Plan – Charles Sandmel

Sandmel looked specifically at the Fidelity Fund and the Domini Social Equity Fund.

The Fidelity Fund was originally included because we needed a large successful fund. It used to be a blended fund, but now has become growth oriented. We should look beyond that now.

George Melman (investment specialist with Fidelity) filtered 20,000 funds to identify Large Cap or Large Blend funds with low fees, decent performance, and a manager in place at least 3 years. He narrowed his search down to five funds in each category. Sandmel looked at each of the five funds qualitatively and found that looking at distinctions at the margin rather than at the core, they are all acceptable and appropriate.

The assessment is based on risk-adjusted return – the more risk the better the return. Each fund can be shown on a diagram with a line showing the risk and return, and you want the company to be above the line in terms of return.

Value Funds:

Looking at this way for the Value funds, the Van Kampen Growth and Income Fund was the clear winner on both 3 and 5-year returns. The expense ratio is the lowest of all at 0.81 basis points. The 5.3% load is often waived in a managed program. If the load is not waived, we should not use this fund.

Sandmel will check with Melman to find out if the loads are waived in our plan.

Blended Funds:

For the blended funds, Neuberger Berman Partners Trust was the winner, and while it's riskier than Fidelity Fund, the risk-adjusted returns have been outstanding. The Fidelity Disciplined Equity, a blended fund, is also a very attractive alternative to the Fidelity Fund.

Large Socially Responsible Investment (SRI) Funds

The Domini Social Equity has had 3 poor years' of poor performance. The alternative is Neuberger Fund, but it is not a good alternative. Domini's poor performance comes from the fact that in recent years the best returns have been from investments in energy, smoke stack industries and other non-socially responsible companies. The difference is that Neuberger uses stock selection and investing the best funds in SRI acceptable companies; Domini is based the Social Investment Index. Domini is not badly managed; it's the stock index that has invested in the SRI funds.

Notwithstanding the recent past performance, we should stick with Domini Fund.

Teichert: Because the Fidelity Fund changed, should we get out of it? Sandmel: It's probably better to get out of it from a performance perspective, but from client disruption perspective, it may not be worth it.

Bottom Line:

There's nothing drastically wrong with the investments we have. The little improvement we might appreciate from changing fund choices would be lessened significantly by the amount of client disruption.

Let's give it some time, and revisit later on. We'll look at it in our January 2007 meeting.

Health Insurance Marketing Plan – Jim Sargent

- There are some unanswered questions and potential problems:
    - The marketing universe is largely unknown. We know that there around 400 people who do not have insurance, but we don't know who they are.
    - Where do the people live?
    - Milliman tested the rates on paper, but not in the market
    - The 500 threshold is absolute; 450 won't do it.
    - We won't know about how UU loyalty, benefits and rates will impact the enrollment figures.
- There is also good news:
    - We have a pool of about 1,800 people who are receiving employer contributions into the retirement plan. We have their contact data – we know who they are.
    - There is a total pool of about 3,600 employees, but not work 1,000 hours. The 400 who have no insurance have a strong incentive to get insurance, but this means that their churches are not paying anything at this time.
    - The benefit plan is solid; both the PPO and the HDP are both good plans, and are competitive. The rates also look competitive; age banding is a good choice. Will be attractive to younger people.

- Ralph and Joyce have done good work to identify who the markets are; we don't have to start from the beginning.
- Highmark is a good company, and not the same company that pulled out in 1998 (that was BCBS of Massachusetts), and Highmark has high incentive to make this work because they don't get paid until the plan is up and running.

- The enrollment plan outline:
  - Make direct contact with District Compensation Consultants
  - There are 175 Fair Compensation Congregations who are already buying health benefits for their employees. They will be among the first to be contacted.
  - All the large congregations will be contacted.
  - The leaders of all professional groups will be contacted with a personal visit if possible. They will be able to spread the word. The message needs to be consistent from all constituencies. Same message – multiple sources.
  - Direct mail program is designed by the Office of Church Staff Finances of the UUA and coming from us – not the insurance company.
  - The congregations who are in search for new ministers: there are 44 in the past few weeks, along with 50 or so interim ministers. Because this is a self-insured plan, administered by a nationwide company, Blue Cross Blue Shield, the coverage is portable.

- **Subsequent to this meeting, the UUA leadership made the decision to enroll all eligible employees in the Plan.**

- What is the possibility of having a Health Savings Arrangement? Sargent: Highmark has one, but it's expensive and only available to large groups. The HSA's are good tax deferred instruments for retirement, and they can be invested in any vehicle. There are many available that individual congregations can contract on their own. The UUA may consider offering an HSA in subsequent years.

Philosophical Commitment to the Health Insurance Plan by the UUA. Is there anything that we're missing?

1. Declaration of Healthcare Interdependence –Healthcare is such a critically important issue that up until now we have been unable to provide. We now have Highmark and BCBS, and now we're ready to go. We're interconnected within the UUA, and we need to take care of our own. It's a justice issue that we need to support our colleagues. We need to come up with a philosophical statement that expresses our support. We have a good plan, that while it's not cheap, it's a plan that's available.
2. Congregations working together can share one another's burden.
3. We need to move from scarcity thinking to abundance thinking.

4. A question that this Committee can ask: Is there a plan in place at the UUA to help local congregations who seriously under fund their budgets? They don't get much help from the denomination for stewardship and fund raising.
5. Teichert: Blodgett should send a letter regarding supporting congregational fundraising to Tracy Robinson Harris and Harlen Limpert.

Adjourned 2:44 PM