EXPLANATION OF HOW INSURANCE PREMIUMS ARE DETERMINED

Occasionally, Human Resources or Payroll offices are asked about Baylor's method for determining how medical insurance premiums are determined. The Compensation, Benefits and Personnel Committee, a faculty/staff advisory committee, has also discussed this issue at length over the years. The committee concluded that Baylor's method is fair, reasonable and that additional communication of the method may be helpful. With input from committee members, the following explanation is provided.

Insurance premiums are recalculated each month and based on the current monthly salary times 12 to get a "benefit base" salary. For faculty and lecturers the "current monthly" is based upon the 10 month contract monthly amount. Receiving 10 months of contract pay over 12 months is an option but it does not change the way premiums are determined. Below is an example of how premiums are determined:

1. Faculty member's 10 month annual salary: $50,000
2. Faculty member's 10 month monthly contract pay: $5,000
3. Benefit Base: $5,000 x 12 = $60,000.
4. Faculty member's monthly medical insurance premium will be based on the salary range which would include a salary of $60,000. (Please note, because the "benefit base" salary and not annualized salary is used to determine medical insurance premiums, a higher medical insurance premiums salary range may be the result. Please keep in mind Baylor's charge for medical insurance is lower than most other higher education institutions. Thus, while your monthly premiums may be higher than your actual annualized salary would indicate, the amount you are paying is an excellent value.)
5. Faculty member's life insurance and long term disability insurance will be based on the monthly "benefit base" that annualizes to $60,000 (although actual annual salary is $50,000). Thus, faculty member has added benefits because of the higher benefit base salary. (Please also note the benefit base salary only pertains to insurance and not other benefits such as the retirement income plan).

It would be difficult to calculate an annual salary prospectively each year because of the variables that make the annual salary a changing number. The method of using the current monthly benefit base amount helps to resolve this issue. For budgeting purposes, a regular dollar amount of contributions per member is best in order to project and adequately plan for the costs of the plan. Using the annualized salary instead of the monthly benefit base salary annualized would be difficult because:

- Faculty and lecturers may or may not teach in the summer and thus annualized salary is unpredictable.
- Faculty or lecturers may be contracted to teach five or ten months. The monthly benefit base provides a consistent basis to determine member premiums for those here on a temporary basis and who also need medical insurance benefits.
- Faculty and lecturers are eligible for a merit raise and conceivably faculty could be promoted in various ways. This makes the annualized salary unpredictable. The monthly benefit base provides a consistent basis.

- Staff are eligible for annual merit increases, and can be promoted or demoted. This makes the annualized salary unpredictable. The monthly benefit base provides a consistent basis.

Because of these variables, the monthly benefit base salary is a way to provide a consistent basis to all members each month. This is especially true for faculty and lecturers who do not work in the summer because:

1. If faculty/lecturers and staff go on a Family Medical Leave Act leave of absence or a noncompensated leave of absence related to a health condition, the annualized benefit base salary provides a consistent method to determine insurance premiums.

2. For faculty or lecturers who do not teach in the summer and who return in the fall, the university maintains insurance benefits by continuing to subsidize the total cost of the premium for medical insurance and by paying for the employee dental benefit, life insurance, dependent life insurance and long term disability insurance. Group insurance coverage is effectively maintained 12 months per year to minimize disruption to the members.

3. For faculty or lecturers who do end up teaching in the summer, the benefit base salary could equal the annualized salary.

There are few higher education institutions that consider salary levels as a way to determine insurance premiums. Some institutions will automatically put faculty or lecturers who do not teach in the summer on a leave without pay and require payment of the total cost of the medical and dental insurance premiums. Baylor only requires the employee portion of the total premium cost while the university continues to subsidize the majority of the cost. By comparison to this method, Baylor's method is more generous as Baylor “carries” the faculty or lecturer member over the summer months.

Baylor's utilization of salary ranges to determine faculty/staff premiums makes the medical benefit more affordable for all. It is not a perfect method, but one that has served Baylor well for many years, all things considered. This fact is easily taken for granted if a salary increase moves a person into a higher salary range and or the method of calculating a benefit base salary is unclear. The higher premium can feel like a penalty, when in reality the actual cost charged to our members remains a comparatively good value as:

- Most higher education institutions and other employers do not subsidize the total premium cost for employee + spouse, employee + children, or employee + family coverage as does Baylor. The method for these institutions and organizations is that one set of premiums pertains to all faculty/staff regardless of their income levels. By comparison, the Baylor method undercharges for those at lower salary levels yet continues to provide a competitive charge for those at the higher salary levels. Baylor must remain

competitive at the higher salary levels as well as provide an affordable value for those at lower salary levels.

Baylor's method has allowed the university to have a consistent and fair way to administer benefits for all employee groups and continue to provide group insurance benefits for its members when they are off for the summer months.

If you have any questions about this explanation or the Baylor's method to determine medical insurance premiums, please contact Richard Amos, Director of Compensation & Benefits. Richard_Amos@baylor.edu