

# FACULTY FINANCE COMMITTEE RECOMMENDATION ON SPOUSAL SURCHARGE

December 8, 2009

By a vote of 7 to 0 the Faculty Finance Committee recommends faculty do not support the proposal to implement a spousal health insurance surcharge. The spousal surcharge will apply only if all the three conditions noted below are met:

- 1) A JCU faculty member has a working spouse who is not employed at JCU;
- 2) The working spouse could be covered by his/her employer's health insurance and;
- 3) The working spouse is covered under JCU health insurance.

If all three conditions exist, a spousal surcharge of \$100 per month will be deducted from the faculty member's pay.

## **University Rationale and Estimates of Cost Savings:**

John Carroll University currently is facing a budget deficit of approximately \$1.8 million. Unlike last year's budget deficit of \$3.2 million, this year's deficit, although smaller, is more difficult to reduce.

In an effort to contain increases in University expenses now and into the future, JCU wants to encourage faculty who have working spouses who could be covered by their employer to switch the health care coverage of their spouse to the spouse's employer.

As the "disincentive" for not switching spousal coverage to the spouse's employer, JCU plans to impose on each eligible faculty member who fails to make this switch a surcharge of \$100 per month for as long as the eligible spouse receives health care coverage through JCU's insurance. By design and in effect, this surcharge is a penalty.

Note: the spousal surcharge would only apply in cases where the covered JCU employee's spouse is eligible for coverage through another employer's health

insurance plan. Spouses covered under Social Security, Medicaid, etc., would not be affected by the proposed surcharge.

Based on estimates provided by Mercer Consulting, JCU estimates that if 10% of faculty were eligible, the University could save \$89,274 (\$73,674 from lower premiums and \$15,600 income from the surcharge). If 20% of faculty were impacted, JCU could save \$184,000 (\$153,000 from lower premiums and \$31,200 income from the surcharge). These figures do not include any possible additional savings due to the reduction in health care claims from spouses who no longer receive coverage through JCU but instead receive coverage through another plan. Savings would be expected to continue to accrue across the years.

The proposal does not include an enforcement mechanism of any kind.

**Recommendation of the Faculty Finance Committee:**

The faculty finance committee unanimously recommends against the spousal surcharge.

**Discussion:**

The faculty finance committee's opposition to the spousal surcharge is unanimous. However, members oppose the surcharge for very different reasons.

Some members of the committee argue that the proposed surcharge is morally wrong on grounds that it is a mandate that does not treat all covered employees the same but instead is designed to negatively affect – in effect, punish – a particular subgroup of JCU employees. Moreover, and compounding its punitive effect, the surcharge is excessive. Fifty percent of JCU faculty earns \$60,000 or less. Although the Spousal Surcharge can be paid with pre tax dollars, if the surcharge passes the \$1200 yearly surcharge will approximate a two percent pay cut for affected faculty at that pay rate and below, a pay cut that, again, would continue for as long as their eligible spouse maintained health insurance coverage through JCU.

Some other committee members argue that all JCU employees have a legitimate interest in reducing JCU's actual exposure to potential claims by persons who already have health insurance available to them through their non-JCU workplaces. On this view, a spousal surcharge is not in itself morally wrong or unfair. However, the University's proposed surcharge has no enforcement mechanism. Without an enforcement mechanism, it will not work. It has no point.

All members of the faculty finance committee agree that the spousal surcharge penalty would not "cure what ails us" in terms of aggressively addressing the

underlying driver of unsustainably escalating JCU health care costs: an aging, somewhat unfit, and increasingly unwell workforce that, as it gets older and sicker, is generating more and higher health insurance claims that will before long put the financial well-being of us all at risk. *They strongly encourage the University to involve all parts of the JCU community in developing fair and effective ways to address the health-related factors that drive our health care costs.*