

Discussion of Potential Cost-Saving Strategies Pertaining to Employee and Dependent Tuition Remission Policy

Introduction

The University's tuition remission policy for employees and eligible dependents is a highly-valued employee benefit that contributes directly to the University's ability to recruit and retain top-quality faculty and staff. In recent years, however, program expenses have exceeded budget targets and a perception has emerged anecdotally that the program would benefit from the adoption of more careful administrative controls and reasonable program limitations.

Program Funding

For FY2010, tuition remission was budgeted at \$4.0 million (including \$2.3 million in general funds and \$1.7 million in restricted funds). Departments are charged \$91.51 per month per employee to support the tuition remission program, but these charges are "swept" from contract & grant accounts (since tuition remission is embedded in the overhead rate for c/g programs). Payroll charges generated \$6.261 million of which \$815,000 was credited back to contract & grant accounts. Concurrently, the University allocated \$334,000 in general funds to offset a portion of credits posted to contract and grant accounts. In total, payroll charges and direct funding provided \$5.78 million in available tuition remission funds.

Program Costs

Program expenditures for FY2010 totaled just over \$6.513 million, leaving a **fiscal year deficit of \$733,000, in addition to year-end transfer funding of \$334,000.** Among total tuition remission of \$6.5 million, employee tuition remission represents approximately \$2.2 million (or 34%) and dependent tuition remission represents approximately \$4.3 million (or 66%).

Charge to HRAC to Identify Potential Cost-Saving Strategies

The Human Resources Advisory Committee was charged by the Provost with responsibility for evaluating the tuition remission program and identifying potential cost reduction strategies to help ensure that this benefit is sustainable over time.

The strategies discussed in this document represent potential courses of action only and do not represent university decisions or a commitment to make any given decision. While HRAC members contributed to this discussion, this document does not constitute (nor should it be construed as constituting) the endorsement by individual HRAC members on behalf of the constituent groups they represent. Rather, this document was developed expressly for the purpose of soliciting review and comment by appropriate constituency groups including the Faculty Senate, Staff Senate, vice presidents, and deans as to the advisability of various courses of action to promote a more sustainable tuition remission program.

Employee Tuition Remission

Current Policy

Consistent with the State of Kentucky tuition waiver program specified at KRS 164.020(32), the University permits regular FT employees to take up to six credit hours per semester without charge and permits regular PT employees (including contract faculty) to take up to three credit hours per semester without charge. Tuition remission currently includes mandatory student fees. Tuition remission may be applied to undergraduate or graduation courses.

As noted above, employee tuition remission cost approximately \$2.2 million during FY10, roughly split 75/25 between undergraduate and graduate courses. Various concerns have been voiced during the review period which may contribute to excess spending. These concerns include: (1) that tuition remission includes mandatory student fees, prompting some employees to register for courses expressly to obtain student benefits, but who never attend classes; (2) that there is no performance standard; and (3) that graduate tuition remission pays 100% of tuition, regardless of tuition surcharges levied by select graduate programs.

Potential Revisions

- 1) Adopt a Performance Standard:
 - a) Require satisfactory course completion in the immediate preceding course in order for the employee to be eligible to continue in tuition remission for future courses; subject to the provisions noted below.
 - b) Satisfactory completion shall mean earning 2.0 quality points for graded courses or pass on pass/fail courses. In the event an employee attempts two courses in one semester, the semester GPA shall determine eligibility for future tuition remission, rather than a single course grade.
 - c) Withdrawal after the drop/add date shall be considered unsatisfactory completion, but shall be subject to regular student appeal processes for hardship withdrawals. Where withdrawals qualify for a refund of a portion of tuition, refunds should be credited back to the tuition remission program.
 - d) Allow three unsuccessful attempts without penalty for 1st time college attendees (defined as employees with no previous college-level course work at UofL or any other post-secondary educational institution).
 - e) It is not possible to quantify “savings” for this change; however, adopting a performance standard would reduce program “waste” by ensuring tuition remission expenses (over time) are consumed by employees who are capable of and committed to handling college level work.

2) Exclude Student Fees from Tuition Remission

- a) Consideration was given to limiting charges to the tuition remission budget for the actual cost of tuition only; excluding mandatory student fees, (with the incorrect assumption that employees could simply forego receiving student-fee supported benefits, as above, and would not be required to pay student fees). However, the VPF has clarified that because mandatory student fees are embedded in UofL's tuition rates approved by the CPE, fees must be paid either by the institution or by the employee.
- b) Undergraduate tuition is \$4,212 per semester (based on 12 credit hours), or \$351.00 per credit hour. Were student fees to be excluded from our tuition remission program, the gross charge for undergraduate courses would be reduced from \$351 per credit hour to \$333 per credit hour, representing a savings of \$18 per credit hour for undergraduate courses. Student fees for undergraduate courses represent 5.128% of the cost of undergraduate tuition. Assuming 75% of employee tuition waivers are for undergraduate courses, subject to verification, shifting the cost student fees for undergraduate courses would represent **potential savings of \$85,000 per year**.
- c) Regular graduate tuition is \$4,572 per semester (based on nine credit hours) or \$508.00 per credit hour. Were student fees to be excluded, the gross charge for graduate courses would be reduced from \$508 per credit hour to \$484 per credit hour, representing a savings of \$24 per credit hour for graduate courses. Student fees for graduate courses represent approximately 4.724% of graduate tuition. Assuming 25% of employee tuition waivers are for graduate courses, subject to verification, shifting the cost of student fees to employees would represent **potential savings of \$25,000 per year**.
- d) **Total Potential Savings: \$110,000 out of \$2.2 million (or approx 5.0%).** This cost would be shifted from the University to employees participating in the tuition remission program.

3) Exclude Graduate Tuition Surcharges

- a) While the regular graduate tuition rate is \$4,572 per semester, certain graduate programs include a tuition surcharge. Examples of common programs (with semester tuition and surcharge rates) include:

<u>Program</u>	<u>Tuition</u>	<u>Surcharge</u>
Urban & Public Administration	\$5,472	\$ 900
Prof MBA \$31,000 / six semesters	\$5,167	\$ 595
Law	\$7,800	\$3,228

- b) Historically, the University has paid 100% of tuition for employees participating in the tuition remission program, regardless of degree program.
- c) It would appear to be a reasonable constraint to limit graduate tuition remission to the regular, resident, graduate tuition rate of \$4,572 per semester and require that employees pay any embedded tuition surcharges. Stated alternatively, we would cap graduate tuition remission at \$508.00 per credit hour, regardless of program.
- d) Hard data is not available to estimate cost savings. However, for illustration, assuming 10% of graduate tuition remission is surcharged, excluding tuition surcharges could represent **potential savings of \$10,000 - \$15,000.**

Dependent Tuition Remission

Current Policy:

The University permits eligible children of regular FT employees to obtain their first undergraduate degree without charge at a current cost of \$4,212 per semester. Tuition remission does not apply to graduate programs. As noted above, dependent tuition remission cost approximately \$4.3 million during FY10.

Various concerns have been voiced during the review period which may contribute to excess spending. These concerns include: (1) that there is no definition of eligible children in our formal policy (other than financial dependence) which has resulted in significant variation in policy application over the years; (2) that enrollment process do not include verification of dependent eligibility; (3) that there is no employment-based waiting period (which is typical of both public and private dependent tuition remission programs), and (4) that there is no credit-hour limit for degree completion. There are also particular concerns regarding the provision that the minor children of employees who die in active service or become disabled has no vesting period.

Potential Revisions

- 1) Clarify Definition of Eligible Child.

The current policy does not include a specific definition of eligible child – distinguishing only between “emancipated” children (who are financially independent of their parents) and “dependent” children (claimed as dependents on the parent’s income tax return or for whom the parent provides more than half the child’s total support). In some instances in the past, employees have referred to the definition of immediate family member for guidance, which was designed for sick leave use (not tuition remission) and which include foster children, children living in the employee’s household, and grandchildren.

Following an internal audit in 2005, dependent tuition remission enrollment forms published by the Bursar's Office have included a definition of child to include natural, adopted, and step-children – so the presumption must be that historical costs associated with other groups who may have been enrolled in the past has been materially eliminated.

- a) Relationship: For the purposes of tuition remission, the definition of eligible child should include natural born children, adopted children, step-children, or a legal ward of the employee for whom the employee provides more than half of the child's total support.

Foster children and loco parentis relationships (such a grandchild, niece, or nephew living with an employee) appear to exceed the intended scope of the tuition remission program (and are not typical of tuition remission programs in public higher education institutions). These individuals are not currently included in our enrollment forms as being eligible, but the definition of eligible child should expressly exclude such persons for clarity. Foster children and loco parentis relationships currently encompass 7.7% of total households in Kentucky (based on 2010 U.S. Census data), so this is a material clarification to our program to contain future cost.

- b) Age Limitation: For the purposes of tuition remission, children should remain eligible only through the age of 26, with attained age being determined as of the first day of classes for which enrolled (equivalent to health insurance).

2) Verify Dependent Eligibility.

- a) To ensure effective program administration, Human Resources will verify dependent eligibility for all dependent tuition remission, upon initial enrollment of the student. Verification will occur in the semester of initial enrollment on a post-audit basis; subject to reversal of tuition remission charges from enrollment to date for the student and potential disciplinary action for employees if a student is fraudulently enrolled.

- b) There is no specific cost savings for this recommendation, but it will help ensure integrity of the program over time.

3) Establish Waiting Period.

- a) Most dependent tuition remission programs in higher education require a waiting period for the employee (similar to FMLA or Long Term Disability); while UofL does not.
- b) To preclude adverse employment decisions for the purpose of accessing dependent tuition remission, dependent tuition should be limited to regular FT employees only after 12 months of continuous service.

- c) There is no specific cost savings for this recommendation.
- 4) Establish Service Requirements for Death & Disability Benefit.
- a) Current policy provides that dependents of employees who become permanently disabled, who die in active service, or who retire remain eligible for tuition remission. While retirement requires seven years of service at age 60 (or that service plus age totals 75), there is no qualifying employment period to be eligible for the disability or death related benefit. This is an exceedingly generous benefit not characteristic of public higher ed.
 - b) The death and disability related tuition remission benefit should be limited to employees with seven years of creditable service (equivalent to minimum years of service to establish retirement eligibility).
- 5) Establish Credit Hour Limit.
- a) Anecdotally, some dependents have used tuition remission to accumulate up to 200 or more credit hours, without degree completion (in some instances accumulating a number of credit hours applicable to graduate degrees, before completing their undergraduate degree). Such practices are difficult to quantify, but are inherently abusive and should be curtailed.
 - b) Dependent tuition remission should be limited to 140 credit hours, regardless of enrollment date or degree program.
 - c) Hard data is not available for this recommendation. However, for illustration, assuming 2.0 – 3.00% of dependent tuition remission exceeds 140 credit hours, implementing a credit hour limit could represent **potential savings of \$86,000 -- \$129,000 per year.**
 - d) Regardless of cost savings, implementing a credit hour limit would foster more timely degree completion and ensure the intent of the program to support the 1st undergraduate degree is protected.
- 6) Exclude Student Fees.
- a) As discussed under the employee tuition remission section above, it would be possible to exclude student fees from the dependent tuition remission program – effectively converting this program into a modest cost-sharing program, with the University paying approximately 95% and the student paying approximately 5% of undergraduate tuition and mandatory fees.
 - b) Student fees for undergraduate courses represent 5.128% of the cost of undergraduate tuition. Excluding student fees from dependent tuition remission would represent **potential savings of \$222,000 per year.**

7) Exclude Distance Education Surcharge.

- a) Undergraduate tuition is \$351.00 per credit hour for on-campus courses; however, distance education courses include a 30% surcharge, increasing on-line course fees from \$351.00 to \$456.30. It is further notable that tuition for on-campus courses is capped at \$4,212 (at 12 credit hours) even if the student enrolls in more than 12 credit hours. However, distance education courses are charged by the course without limit.
- b) It would be possible to exclude the distance education surcharge altogether and realize a savings in the tuition remission program of 30% of the cost of on-line courses. Using a very rough estimate that 10% of total courses consist of on-line courses (subject to data verification), eliminating the distance education surcharge would represent **potential savings of \$130,000 per year.**

Potential Cumulative Savings

If all of the strategies summarized in this discussion document were adopted that can be quantified at present, the potential cumulative savings would be approximately **\$550,000 -- \$600,000 per year** – representing approximately **75% – 80% of the current budget shortfall** in the tuition remission program. Strategies for enhancing internal controls (such as waiting periods, performance standards, and verification of eligibility) would reasonably contribute to further cost containment over time, helping ensure a more sustainable benefit program.

Proposed Effective Dates

With the exception of KY tuition waiver provisions, UofL tuition remission benefits are a discretionary benefit for employees which do not constitute a term or condition of employment and which may be changed at any time, in the discretion of the University.

To realize savings in a timely manner, while providing a reasonable transition, Human Resources would recommend the following effective dates:

1) Employee Tuition Remission Changes.

Changes pertaining to employee tuition remission have little adverse impact on employees and should be effective beginning **Fall Semester, 2011.**

2) Dependent Tuition Remission Changes.

- a. The 12-month waiting period for dependent tuition remission for new employees should be effective for employees hired **on or after July 1, 2011.** The waiting period should not apply to any current employee.

- b. The 7-year service requirement to “vest” in death or disability benefits for current employees should be effective for all employees employees hired **on or after July 1, 2011**. The waiting period should not apply to any current employee. , regardless of date of hire, on **July 1, 2011**.
- c. All other changes pertaining to dependent tuition remission should be effective **Fall Semester, 2011**. Note: These program changes could affect “resources” available to the student under Finance Aid guidelines and influence the amount of financial aid available. Consequently, these changes cannot practically be implemented, unless approval and announcement precedes financial aid determinations for the next regular academic year.

Explanatory Note

During HRAC discussions, modest enhancements to program eligibility were also discussed. As program enhancements with minimal financial impact (and not cost-saving strategies, per se), these recommendations will be addressed separately.

This is a discussion document only distributed to university constituency groups for review and comment. Please direct questions or comments to:

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