



**Employee Benefits Advisory Committee
Western Kentucky University**

April 8, 2010

TO: Dr. Paul Markham
Chair, University Senate

FROM: Jim Cummings 
Co-Chair, Employee Benefits Advisory Committee
Chief Financial Officer

Tony L. Glisson 
Co-Chair, Employee Benefits Advisory Committee
Director, Human Resources

SUBJECT: Response to Report of the University Senate Ad hoc Committee on the Health Insurance Reserve

We are offering this response to the Report of the University Senate Ad hoc Committee on the Health Insurance Reserve, dated March 15, 2010. We will respond to the major items/questions in the report as we understand them and as presented in the Conclusions and Recommendations section.

Ad hoc Committee Observation

*The committee fully supports the decision to change the asset allocation of the Health Insurance Reserve to asset preservation, but we also think the Health Insurance Reserve should have adhered to that principle from the start. Therefore, **we recommend that there should be a clearly articulated investment strategy for the Health Insurance Reserve.** The investment strategy should be directly linked to the purpose of the reserve.*

Response- It is our view that the Benefits Committee should be asked to provide general input into the location and type of investment into which Health Insurance reserve funds are placed. However, the health reserve is, in fact, a part of WKU's unrestricted net assets. The ultimate authority and responsibility for investing university reserves must rest with individuals in the Division of Finance and Administration and should not be delegated to the Benefits Committee or any other such group.

Ad hoc Committee Observation

*Because presently there are no clearly established estimates on what the size of the Health Insurance Reserve should be, **we recommend that there should be a clearly stated target for the size of the Health Insurance Reserve.** Such a target is necessary to implement a meaningful investment strategy for it will establish how much of the Health Insurance Reserve should be shielded entirely from any financial risks.*

Response- A policy pertaining to the Health Insurance Reserve Account has been in place since December 2005 and is incorporated as an attachment herein as reference. You will note that the policy was most recently revised in October 2009, as we modified the reserve fund target to 25% of the average claims cost for the prior three-year period. This policy has a couple of primary purposes. First, to ensure that dollars contributed to the Health Plan by both the *employee* and *employer* remain designated for the exclusive purpose of funding the Health Plan. The Benefits Committee wanted written assurance that Health Plan dollars could not be targeted and used for other institutional purposes. Secondly, the policy established a minimum funding reserve target. At one time the target was stated as a range of 25 – 35% of the average claims cost for the prior three-year period. Most recently, it was determined that 25% was an appropriate reserve target. This number was arrived at through our experience over time and as advised by our benefits broker, Neace Lukens.

Ad hoc Committee Observation

We recommend that there should be a clearly stated set of rules under which the money can be withdrawn from the Health Insurance Reserve. Such rules are instrumental to transparency of governance.

Response- An established set of rules does exist, as recommended by the Benefits Committee and approved by the President. Please reference the above response which speaks to this matter.

For further clarification and to confirm what Dr. Minter shared at the last University Senate meeting, we believe there is no misunderstanding between the Benefits Committee and the administration of WKU regarding the process of withdrawing money from the Health Insurance Reserve. We believe the “misunderstanding” may have been a result of Dr. Minter and Mr. Cummings responding to two different questions. Mr. Cummings indicated that it was his responsibility to transfer funds from the **WKU Foundation** health reserve funds to the university health insurance operating account, if and only if “the university operating account balance was insufficient to cover health plan expenditures”. Dr. Minter, on the other hand, indicated that if someone (university administration) wanted to take reserve funds and spend them for purposes other than claims payments, administrative fees, and other direct health plan expenditures, then that type of withdrawal must have the Benefits Committee’s approval. Both statements are correct, and Dr. Minter and Mr. Cummings are in total agreement on those points.

Ad hoc Committee Observation

We applaud the hard work performed by the members of the Benefits Committee in overseeing WKU’s health insurance and other benefits. The efforts of the members who bring their expertise to the committee are to be commended. However, we strongly urge the Benefits Committee to make a greater effort in attracting individuals with expertise in finance, accounting and actuarial science. Having greater number of such individuals on the Benefits Committee will enhance its ability to understand the complexities of issues at hand. We also recommend a review of the composition of the Benefits Committee to

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make sure that the members of the university community (faculty and staff) have sufficient representation.

Finally, in our opinion, it is also important to establish a greater rotation of the membership of the Benefits Committee so that it is more consistent with the term limits of other decision-making bodies such as the University Senate.

Response- The Benefits Committee is comprised of a diverse group of individuals from various departments/units and having unique insight. Some individuals are members by virtue of their official position at WKU while others serve in a rotational capacity as recommended by the University Senate or Staff Council. Please reference the enclosed document which outlines specifics in this regard. While we are open to the appointment of an individual(s) having finance and/or actuarial skills we are comfortable with the current makeup of the committee and the skills acquired over time by such members as Dr. Claus Ernst and Mr. Warren Irons specifically related to matters of cost analysis. We would also add that WKU has as-needed access to financial/actuarial resources with Anthem and with our broker, Neace Lukens.

Concerning greater rotation of Committee membership, we welcome such change as appropriate. We have learned, however, that experience has a particularly high value when working employee benefit programs, especially the health plan. Of course, new individuals could offer some fresh ideas for consideration in our goal of relevant, competitive and need-based employee benefit programs.

It should be pointed out that historically we have had difficulty in attracting faculty members who had an interest in serving on the Benefits Committee. This is one of the major reasons for recurring reappointment of some individuals.

Feel free to contact us should additional information be required or to address any questions. Thank you.

Enclosures

Employee Benefits Advisory Committee Western Kentucky University

Purpose

The purpose of the Employee Benefits Advisory Committee is to serve in an advisory capacity to the Department of Human Resources concerning employee benefits and as advisor to the President specifically regarding health insurance and other significant employee benefit programs. The Committee reports its findings and recommendations directly to the President for approval.

Committee Membership

Leadership of the Committee is provided by Co-Chairs: Director of Human Resources and Chief Financial Officer. The Committee is comprised of 15 members. Certain members are permanent representatives because of their job functions and/or areas of expertise. Other members serve on a rotating basis and represent the University Senate and the Staff Council.

Permanent Appointees

	Voting Status
• Director, Human Resources (Glisson)	Voting
• Chief Financial Officer (Cummings)	Voting
• Manager of Employee Benefits and Retirement (Aikins)	Voting
• Internal Auditor (Irons)	Voting
• Manager, Employee Wellness Program (vacant)	Voting
• Director, Health Services (Greaney)	Voting
• General Counsel/Chief of Staff (Wilkins)	Voting
• Faculty Member, Mathematics (Ernst)	Voting
• Faculty Member, Economics (Zimmer)	Voting
• Secretary (Cornelius) (appointed by Human Resources)	Non-Voting

Rotating Appointees

The University Senate shall recommend three (3) representatives and the Staff Council shall recommend three (3) representatives. These representatives are *not required* to be members of their respective organizations. All appointees, both permanent and rotating, shall be approved by the President. Each appointee is a "voting" member. Appointees shall serve a three (3) year term on a calendar year basis and shall be eligible for reappointment.

Responsibilities and Expectations

Committee members are expected to attend and participate in scheduled meetings. Members are also expected to educate themselves and remain informed of relevant employee benefit topics and to complete any required Committee assignments. Members also have responsibilities to accurately represent, educate and to help inform constituents of relevant employee benefits information. Confidentiality standards are generally applicable in order to ensure the integrity of benefit proposal evaluations and to prevent the release (untimely or otherwise) of any inappropriate or sensitive information.

The Employee Benefits Advisory Committee's purpose and membership are subject to changes as directed by the President.

Approved:	(signature on file)	(1/3/06)
	Gary A. Ransdell	Date

Recommendation From the WKU Employee Benefits Advisory Committee Concerning Employee Health Plan Reserve Account

Employee Health Plan Fund Exclusivity

The President has assigned to the WKU Employee Benefits Advisory Committee the primary responsibility for management and financial solvency of the WKU Employee Health Plan. To this end, the following operating agreement is proposed:

All university and employee contributions to the Plan shall be specifically reserved for the exclusive use and purpose of maintaining viable health care coverage for the benefit of WKU employees, whether funds are maintained in a foundation account or a regular university account. University and employee contributions shall be used for expenses directly related to Plan operations including claims cost, TPA administrative fees, re-insurance cost, plan liability coverage, certain health/wellness initiatives and other similar costs.

A Health Plan reserve fund is required for the purpose of 1) ensuring adequate operating funds considering cost variation from one year to the next; 2) funding extraordinary unexpected claims cost; 3) funding IBNR (incurred but not reported) claims related to June 30 of each fiscal year; and 4) providing run-out funds should the plan be terminated for some reason. A minimum reserve fund target is established at 25% of average claims cost for the prior three-year period, as measured on June 30 of each year.

Health Plan reserve account funds shall not be used for any other purpose nor transferred to another university account without advance written notification to the Employee Benefits Advisory Committee by the President.

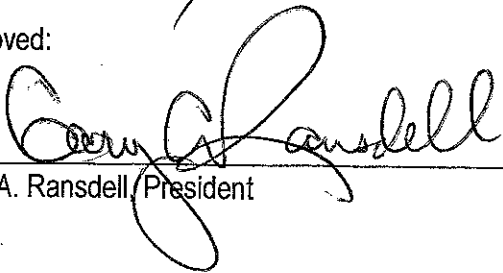
The President shall have final authority concerning account transfers.

Recommended by:

Jim Cummings
Co-Chair

Tony L. Glisson
Co-Chair

Approved:



Gary A. Ransdell, President



Date