

WKU Employee Health Plan Market Competitiveness Analysis

A Recommendation From the Employee Benefits Advisory Committee

Key Comparisons

Based on a recent survey of WKU's benchmark institutions and Kentucky's public universities, WKU is now at a major competitive disadvantage with respect to the *employer* contribution to the employee Health Plan. Just a few years ago, WKU took pride in having the highest employer contribution of any public higher educational institution in Kentucky. This is no longer true. In fact we are now **among the lowest**. WKU's contribution per employee is only 70% - 80% of the average (selected benchmarks, Kentucky's public universities and the State of Kentucky). Our employer contribution is also lower than the State's contribution for employees participating in the State Health Plan. The State's contribution is \$530 for "employee only" coverage and \$913 for "family coverage".

The table below presents survey results of plans offered at eight of WKU's benchmark institutions along with the State of Kentucky and other Kentucky public universities.

Surveyed Group

Coverage Tier	Average Employer Contribution
Employee Only	\$402
Employee + Child(ren)	\$544
Employee + Spouse	\$571
Family	\$794
Western Kentucky University	\$418

- The average available employer contribution across all plans and tiers is **\$604/employee/month**. When adjustments are made utilizing WKU's current enrollment by tier, the overall average is **\$523/employee/month**.
- If drawing general conclusions from all institutions included in the referenced survey, the case can be made that WKU's contribution should range from the extreme low end at \$403/employee/month (employee only coverage) to the extreme high end at \$749/employee/month (family coverage).
- The highest employer contributions available for "family" coverage at the surveyed benchmarks are at Northern Arizona (\$1,394), Oakland (\$1,137), and MTSU (\$1,075).
- At UK, the average employer contribution for "employee only" coverage is \$428/employee/month; the average employer contribution for "family" coverage is \$697.

- At U of L, the average employer contribution for “employee only” coverage is \$334/employee/month; the average employer contribution for “family” coverage is \$774.

While WKU Health Plan premiums have remained generally unchanged for a six year period, the cost changes made for plan year 2010 have resulted in an eroding employer benefit especially for dependent coverage, as a percentage of total premium. This trend would be expected to continue for plan year 2011 as we anticipate future premium increases. Furthermore, the increase in premiums does not reflect the recent substantial shifting of costs from the Health Plan to our employees through plan design changes (e.g., higher co-pays, higher deductibles, higher max out-of-pocket, etc.). The cost shift to employees is generally 5% - 10% of the plan value (when compared to 2009)—a substantial increase. The table below shows only the increase in premium costs (i.e., it does not reflect the additional cost shifted to employees through plan design changes) applicable to the High and Standard plans applicable to 2010.

High Plan

Employee + Family Year	Total Premium	WKU Contribution	WKU Contribution as % of Premium
2010	\$1,020	\$418	41%
2009	\$896	\$393	44%
Employee + Spouse			
2010	\$831	\$418	50%
2009	\$754	\$393	52%

Standard Plan

Employee + Family Year	Total Premium	WKU Contribution	WKU Contribution as % of Premium
2010	\$851	\$418	49%
2009	\$793	\$393	50%
Employee + Spouse			
2010	\$707	\$418	59%
2009	\$624	\$393	63%

Enrollment Statistics of WKU Health Plan

Overall enrollment statistics by tier are presented below for the WKU Health Plan as of January 1, 2010.

Enrollment by Tier

	Count	Percentage
Employee Only	1,018	52%
Employee + Child(ren)	262	13%
Employee + Spouse	316	16%
Employee + Family	382	19%

Total Enrolled	1,978	100%
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Enrollment by Plan

	High	Standard	Economy
Employee Only	541	477	n/a
Employee + Child(ren)	126	82	54
Employee + Spouse	68	92	44
Employee + Family	45	135	84
Cross Reference Couple	112	n/a	n/a
Cross Reference Family	52	66	n/a
Total Enrolled	944	852	182

2010 Premium Cost for WKU Employees

High Plan	Cost	WKU Contribution	Employee Premium
Employee Only	\$468	\$418	\$50
Employee + Child(ren)	\$641	\$418	\$223
Employee + Spouse	\$831	\$418	\$413
Employee + Family	\$1,020	\$418	\$602
Cross Reference Couple	\$831	\$836	\$0
Cross Reference Family	\$1020	\$836	\$184
Standard Plan			
Employee Only	\$418	\$418	\$0
Employee + Child(ren)	\$562	\$418	\$144
Employee + Spouse	\$707	\$418	\$289
Employee + Family	\$851	\$418	\$433
Cross Reference Couple	n/a	n/a	n/a
Cross Reference Family	\$851	\$836	\$15
Economy Plan			
Employee Only	n/a	n/a	n/a
Employee + Child(ren)	\$509	\$418	\$91
Employee + Spouse	\$628	\$418	\$210
Employee + Family	\$755	\$418	\$337
Cross Reference Couple	n/a	n/a	n/a
Cross Reference Family	n/a	n/a	n/a

Dependent Plans No Longer Affordable for Many

The table below illustrates the proportion of *monthly gross salary* that must be dedicated to paying for WKU Health Plan premiums for selected positions. For many employees, anything other than "employee only" coverage is simply unaffordable.

Position Title or Category	2010 Average Monthly Gross Salary	Standard Plan Family Premium	Portion of Gross Salary Dedicated to Health Plan Premium
Office Associate	\$2,243	\$433	19%
Building Services Attendant	\$1,456	\$433	30%
Professional/Non-Faculty	\$3,707	\$433	12%
Executive/Administrative	\$7,777	\$433	6%

Note: the Standard Plan was used in this illustration since the majority of WKU employees who select "family" coverage participate in the Standard Plan. It should be noted that the cost implications would be more adverse for the High Plan.

Conclusions and Recommendations

Given an analysis of WKU's competitive position in the higher education marketplace, the Benefits Committee has concluded that WKU's current funding level is significantly out of line with the compensation practices of many in the higher education community. Consequently, we are compelled to propose an adjustment to the University's contribution in order to ensure that WKU is able to effectively retain and recruit talented faculty and staff for fulfillment of its mission.

We recognize that this recommendation is being proposed at a time of diminishing budgets and severely stretched financial resources. At the same time, we believe that employee *total compensation* is a critical matter. Health care premiums have simply risen to a level such that both higher and lower income employees are adversely affected in such a manner that the issue can no longer be ignored.

It should be noted that this recommendation is in alignment with the revised 2010 – 2012 Strategic Plan priorities document which states that the recruitment and retention of faculty and staff remain key elements to our success as an institution. Compensation priorities are ranked in order of importance as 1) base salaries, 2) **benefits**, 3) market adjustment pools and 4) salary compression funding. Therefore, we believe that the funding recommendation contained herein is consistent with the institution's more immediate priorities.

It is recommended that the University's contribution to the Health Plan increase from a current rate of \$430 (this includes health and dental plan) to \$490/employee/month effective 7/1/2010 and then to \$540/employee/month effective 1/1/2011.

Budget Implications

- The E&G budget impact is estimated at **\$1.7 million** for FY 2010/2011.

This increase in funding is being requested not only to help make WKU more competitive, but also to cover our current cost. For the 2009 calendar year period, the WKU Health Plan operated at a deficit of (\$2.2 million). The **\$490/employee/month** should be viewed as the "minimal amount required" since this is the projected amount necessary to cover operating costs going forward so that the plan does not operate at a deficit. The **\$540** represents an amount that we believe to be competitive and reasonable based on WKU's enrollment patterns within each tier.

As clarification, the recommended increase effective 7/1/2010 would not modify employee paid 2010 premiums, but would simply go toward funding Plan operating costs.

A Point for Future Consideration

Since implementation of its self-insured Health Plan in 1999, WKU has practiced a *flat dollar funding philosophy* which allows for a *fixed monthly employer contribution* toward the premium associated with each benefit eligible employee's selected plan and tier of coverage. This funding philosophy has been fully supported by the Employee Benefits Advisory Committee as a fair and equitable approach to the allocation of University resources—with employees having the same “employer sponsored benefit” regardless of personal or family circumstances. The fixed dollar employer contribution approach has also made budget planning somewhat less complicated, simply applying the fixed dollar to the total number of eligible employees to arrive at an annual budget value. Human Resources' Plan administration has also been made simpler by the flat dollar approach.

Historically other institutions, including the Commonwealth of Kentucky, have used the flat dollar funding methodology as a competitive and cost effective employer funding strategy. There is now evidence that a *different funding philosophy* is being utilized by both Kentucky institutions and by WKU benchmark institutions.

While not the focus of the funding recommendation presented herein, the *variable employer contribution* matter will be an item for future analysis and discussion by the Benefits Committee.

Thank you in advance for your consideration of this recommendation. We are available to discuss in detail at your pleasure.

Recommended by:

Employee Benefits Advisory Committee

Jim Cummings, Co-Chair
Chief Financial Officer

Tony L. Glisson, Co-Chair
Director, Human Resources

February 2, 2010
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