

*Addressing the Global Benefits Crisis:
Pensions, Healthcare and
Demographic Change*

Proceedings of the 2006 Spring Meeting

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*Human Resources Policy Institute
2006 Spring Meeting
May 11 & 12, 2006*



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Human Resources Policy Institute 2006 Spring Meeting

Thursday, May 11, 2006

- 11:30 a.m. New Member and Guest Orientation
- 12:00 p.m. *Luncheon Buffet Begins*
- 1:00 p.m. **Welcome & Introductions**
Professor Fred K. Foulkes
Director, Human Resources Policy Institute
Boston University, School of Management
- 1:30 p.m. **Membership Roundtable Discussion**
- 2:45 p.m. *Coffee Break*
- 3:15 p.m. **Pensions: the Realistic Possibilities**
Professor Zvi Bodie
Norman and Adele Barron Professor in Management
Finance & Economics Department
Boston University, School of Management
- Ms. Karen Salinaro
Vice President, Compensation & Benefits
IBM Corporation
- 5:15 p.m. Adjourn
- 5:30 p.m. *Cocktails*
- 6:30 p.m. *Dinner*
- 7:30 p.m. **Living to 100: Lessons from Centenarians**
Dr. Thomas Perls
Director, New England Centenarian Study
Associate Professor of Medicine, Geriatrics Section
Department of Medicine, Boston University
- 8:30 p.m. Adjourn



Friday, May 12, 2006

- 7:15 a.m. *Breakfast Buffet Begins*
- 8:00 a.m. **Avian Flu Update: Planning for a Possible Pandemic**
Ms. Ann Brockhaus
Senior Consultant, Occupational Safety & Health Physicians Group
ORC Worldwide
- 9:00 a.m. *Coffee Break*
- 9:15 a.m. **Future of Employer-Provided Health Benefits**
Dr. Paul Ginsburg, Ph.D.
President
Center for Studying Health System Change
- 10: 15 a.m. *Coffee Break*
- 10: 30 a.m. **Panel: Company Responses**
Ms. Johnna Torsonone
Senior Vice President and Chief Human Resources Officer
Pitney Bowes, Inc.
- Ms. Judy Verhave
Executive Vice President, HR Services
Fidelity Investments
- 11:45 a.m. **Wrap Up**
Professor Fred K. Foulkes
- 12: 00 p.m. *Luncheon Buffet Begins*
- 1:00 p.m. Adjourn

Introduction

Addressing the Global Benefits Crisis: Pensions, Healthcare and Demographic Change

Perhaps two of the most vexing challenges facing HRPI member organizations relate to the cost of providing employee pensions and health care insurance coverage. Both threats are underpinned by global demographic shifts; more specifically, by aging populations in various parts of the globe. As life expectancy increases and segments of the world population reach retirement age, there is a need for financial resources to fund retirement plans and health care for retirees. In the United States, the crisis results, in part, from life expectancy increasing, the aging Baby Boomer generation, which started to turn age 60 in 2005, and the cost of new technology and new drugs.

The spring meeting agenda included expert presentations from Boston University School of Management Professor Zvi Bodie on the pension crisis; geriatrician Dr. Thomas Perls on the oldest segment of the population, centenarians; ORC Worldwide senior consultant Ann Brockhaus on HR's plans for a possible avian flu pandemic; and Dr. Paul Ginsburg of the Center for Studying Health System Change on the future of employer-funded health care. HR leaders Karen Salinaro of IBM, Johnna Torsonone of Pitney Bowes, and Judy Verhave of Fidelity Investments provided insights on how leading companies are grappling with retirement benefit and health care issues. While solutions to these issues are uncertain and complex, it was an inspiring conference as HRPI members shared positive actions taken towards the global challenges posed by employee benefits offerings today.



Membership Roundtable Discussion

Professor Fred K. Foulkes, Director of the Human Resources Policy Institute, moderated an engaging HRPI member roundtable discussion, which centered on the areas of *equity compensation, outsourcing, and leadership*.

Equity Compensation

How are organizations managing equity compensation decisions in light of FAS 123? What value do HRPI member organizations place on stock options as a compensation tool? Are companies administering surveys to ascertain what value employees place on various compensation vehicles? Do organizations use Black-Scholes or the binomial method to price options? What are organizational assumptions under both models about employee exercise behavior and stock-price volatility? The foregoing questions were on HRPI members' minds as they discussed how to develop compensation models that offer the greatest value to employees while aligning employee interests with those of their organizations and shareholders.

Member organizations reported using various compensation models to meet the needs of their employees. Some value options more highly than others. One HRPI member commented that her employing organization, a West-coast technology firm, has moved to restricted stock in lieu of options; "Silicon Valley employees today place little value on stock options," she said. Another organization, also from the technology field, grants options to all of its employees; the firm has not yet implemented a restricted stock program. A third member noted that restricted

stock is not aligned with shareholder interests. Member organizations similarly face considerations related to ensuring option value parity across global geographic locations.

HRPI member organizations are increasingly granting restricted stock to employees. One member explained his concern about organizational policies toward holding periods for restricted stock for retiring executives. Of utmost concern, noted another member, is consideration of building pay-for-performance into the compensation model.

Outsourcing Staffing

HRPI members reported varying degrees of success with outsourcing the staffing function. One member explained the company's decision to retain a core group of staffing professionals while eliminating some employees and shifting some responsibility for staffing to product research employees. Another member asserted the importance of using multiple vendors because of the uniqueness of each position. Yet another HRPI member suggested using a firm with whom an organization is one of only a few clients. Doing so enhances the likelihood that a staffing firm understands its clients and their respective hiring needs.

Another HRPI member described a disappointing experience with a staffing firm hired to recruit administrative, technical, and hourly employees. One organization outsourced the entire staffing function to decide six months later that the decision was a poor one. In contrast, another organization has a national contract with one staffing firm, the goal being to provide a pipeline of pre-qualified employees for its enormous hiring needs. In sum, HRPI members consider outsourcing viable to the extent that it allows a focus on their organizations' core competencies while not sacrificing the quality of the staffing process.



Leadership Assessment

Should leadership assessments be hiring and/or feedback tools for executive and other leadership positions? Which firms are HRPI members using for leadership assessment? How frequently should assessments be administered, considering their cost and the time it takes to administer them? HRPI members discussed how their organizations are addressing these and other questions related to leadership assessment.

Some HRPI members have outsourced assessments, whereas others have hired firms to help develop in-house competency profiles. In general, it seems that member companies use assessments more frequently for feedback, annual reviews and seminars, rather than as hiring tools. HRPI members named a number of different firms as having been hired as assessment specialists, including the Hay Group, Gallup, and Psychological Associates. One member noted that organizations should recognize that they know better than external assessment companies who best fits with their organizations. Therefore, organizations should neither weight assessments too heavily in the hiring process, nor defer hiring decisions to assessors.

HRPI members agreed that interviewing candidates during the hiring process is more of an art than a science. One member highlighted the importance of training interviewers so that the process is rigorous and meaningful. He further noted that interviews often are not grounded in candidate behaviors, and, therefore, lack a degree of substance. Another member asserted the need for “deep,” substantive reference checking during the selection process.

When using an executive search firm as an assessor in the hiring process, one member asserted, it is critical to consider that search firms have an inherent conflict of interest. Furthermore, the member stated, search firms are valuable for considering candidates' skills but not necessarily organizational/cultural fit. Whether used as a feedback tool or as a selection mechanism, assessments can present legal problems if their use is not appropriately tracked, one member noted. Members agreed that it is important to conduct assessment validity and reliability studies, and, more generally, to be aware in order to administer them with consistency.



Pensions: the Realistic Possibilities

Observations on Personal Pension Accounts

*Professor Zvi Bodie
Norman and Adele Barron Professor in Management
Finance & Economics Department
Boston University, School of Management*

Professor Zvi Bodie, chaired professor, laudable economist and pension expert, offered observations about the United States pension crisis, including steps that can be undertaken to alleviate its impact.

From an academic perspective, he explained, the topic of pensions is cross-disciplinary in that its boundaries overlap into fields of study such as finance, labor economics and human resources. The pension crisis is one of the most important economic and social issues currently facing the United States, as well as many other countries around the world.

The United States, while plagued with rising pension outlays resulting from an aging workforce, is not alone in facing a crisis from demographic shifts. Indeed, Japan, Italy, and other European countries are also experiencing similar crises. China, with its one child policy, will perhaps face a far greater challenge in providing livable retirement budgets for the elderly.

Observation #1: The pension system is relying more and more on personal investment accounts managed by investment companies. The shift in pension coverage away from defined benefit to defined contribution plans includes a move by investment management companies toward the use of personal investment accounts. The problem with this shift, according

to Professor Bodie, is that “people have no idea how to invest this money.” What is more, some investment software available to personal investors “does more harm than good.” The personal investment account system is currently stampeding in a direction of life cycle funds, which may not be the best alternative for all investors. Most importantly, the use of personal investment accounts suggests that individuals are equally competent as money managers in making personal financial decisions. Likening a money management decision to one of health management, Professor Bodie asked whether an individual is as equipped as a professional money manager—or a medical doctor—to make critical, sophisticated decisions. The answer, in short, is no.

Observation #2: The dynamics with investment companies creates significant principal-agent problems. The foxes are guarding the henhouses. To compound the problem, investment management companies have a conflict of interest in managing personal investment accounts. For every transaction that an individual makes, investment management companies earn money, sometimes a great deal of it. This conflict of interest leads to a situation in which the investment companies have their own interests when steering individuals to make certain financial decisions, regardless of whether the decision is in the participant’s best interest.

Observation #3: Some people are being advised to take more risk than they should. This, Professor Bodie explained, is the “Fallacy of Time Diversification.” Simply put, time diversification is the belief that risk declines over a long time horizon. This suggests that individuals should hold their investments over a long period, leading to greater gains, as returns in good years offset those in bad years. Nobel Laureate Paul Samuelson’s research showed that equity can be riskier in the long-term than the short-term. What investors should do is invest in securities



and bonds that fit with their financial needs and risk preferences, rather than rely on holding their money in a fixed portfolio over their lives.

Observation #4: Pension products have to get “smarter” and more user-friendly.

Life cycle funds are perfectly fine for “average” investors, but what if you aren’t average? Mutual funds, according to Professor Bodie, are a “dumb” (simplistic) product. Over time, pension products must evolve to meet the unique needs of investors.

Observation #5: The technology for producing these “smarter” products exists.

Finance academicians have developed models and software to provide more than a simplistic product. Professor Bodie cited, as an example, **T**reasury **I**nflation **P**rotected **S**ecurities (**TIPS**), which provide an investment vehicle that reduces inflation risk. Yet these securities are rarely purchased—people are not aware of them.

Observation #6: A useful role for the U.S. government is to provide “building block” securities. The United States government can aid investors by selling building block securities that will be efficiently priced by the market. Professor Bodie believes making TIPS more widely known would be a step in the right direction.

Beware of Investor “Education”

So-called educational material on investment management websites flatly contradicts the research in economic textbooks, according to Professor Bodie. Below are three myths of which investors should be aware in their investment decisions.

- **Educational Myth #1:** Industry websites state that “there is no such thing as a safe investment: what you think is safe is not safe in the long run because of inflation.”
- **Pension Reality #1:** Textbook economics, on the other hand, suggest that “there is a term structure of risk-free interest rates that anchors the investment opportunity set: TIPS and I-Bonds protect against inflation risk.”

- **Educational Myth #2:** Industry websites state that “diversification is the only way to reduce investment risk.”
- **Pension Reality #2:** Economic textbooks explain three ways to reduce risk: hedging, insuring, and diversification.

- **Educational Myth #3:** Industry websites state that “time diversification” reduces the risk of stocks in the long run.
- **Pension Reality #3:** Economic textbooks state that there is a tradeoff between risk and reward no matter what the time horizon.

Professor Bodie concluded that if the U.S. pension system is to meet investors’ needs, it must become more sophisticated. Individuals need to be better educated to make investment decisions that meet their needs and goals, not those of the investment management companies that house their monies. If the pension system (and specifically the U.S. government) utilizes available technology, then individuals stand a better chance of having financial security.



Pensions: the Realistic Possibilities

*Ms. Karen Salinaro
Vice President, Compensation & Benefits
IBM Corporation*

Karen Salinaro, Vice President of Compensation and Benefits for IBM, described the corporation's retirement strategy, the global context in which the strategy has been developed, and future challenges the human resources team faces going forward.

Key Strategic Principles

IBM's retirement program is guided by key strategic principles, including a move toward a defined contribution approach; sponsorship when a program is tax-effective for employees and the company; an IBM contribution at no more than the median of local business competitors; encouragement of employee contributions and shared responsibility; and no special treatment for executives.

The Global Context

IBM's global retirement strategy, with its predominant focus on shifting to a strictly defined contribution approach, faces "global forces of change," Ms. Salinaro explained. New business competitors in various markets and locations, unfavorable capital markets, accounting policy changes, ongoing legislative and regulatory activity, and demographic conditions lead to an uncertain, unpredictable global context. While these forces have created a pervasive challenge for all industries, established companies in mature markets are hit the hardest. The global context amplifies issues around the affordability of compensation increases in light of rising benefit costs.

A “G-localized” Approach

To meet the global challenge of managing retirement programs, IBM is implementing a “competitiveness challenge” at the local level, based on key competitors in each market. The challenge is to reduce costs in line with the median of their key competitors. While each location must be attentive to local conditions, the location’s program should remain consistent with IBM’s global principles. This dual focus allows locations to take a localized approach while achieving global goals—a “g-localized” approach to retirement program changes.

To date, the HR team has made changes to the legacy defined benefit and new-hire defined contribution programs, and, where possible, to retiree COLA programs. Thus far, the “competitiveness challenge” is meeting both local and global goals.

Pension Changes in the United States

IBM’s pension system in the U.S. consists of three benefit structures which vary in the level of benefits provided and their competitiveness. The legacy DB plan, according to Ms. Salinaro, is far richer than competitive mean. Roughly ninety percent of IBM’s employees are enrolled in the company’s 401K plan, and nearly ninety percent of those who contribute do so at a level that provides them the full company match.

The key objectives for the U.S. retirement redesign, which will go into effect in January, 2008, include achieving a lower, more predictable retirement cost; creating the least possible impact for those employees closest to retirement; ensuring a balanced approach; and providing ample notification so that employees can learn as much as possible about the new approach.



Through 2007, employees can continue to earn additional pension benefits. After 2007, employees will still be eligible for subsidized benefits (based on amounts earned through 2007) when they reach retirement milestones. Current retirees are unaffected by the pension plan changes. Beginning in 2008, IBM will roll out a new 401K Plus Plan with automatic contributions for those previously covered by the pension plan. The 401K Plus Plan will retain the attractive features characteristic of the current 401K plan, which offers flexibility (with over 23 investment functions) in addition to disability protection and an annuity rollover option at retirement. As a result of the global retirement program changes, IBM saved \$500M in 2006; these savings translate into costs that more closely mirror those of key business competitors in the U.S.

How can IBM employees adjust to changes in the company's retirement plans? According to Ms. Salinaro, IBM employees can adjust to the potential impact of retirement changes in three ways: adjust their savings rate, change their 401K investment strategy, and/or postpone their full retirement until later ages. IBM intends to roll out financial education and planning services to educate employees on how to make adjustments that best suit their investment needs.

Future Challenges

How can IBM ensure that its employees are comfortable with investment responsibility? What replaces the retention value of a traditional pension plan? How might the meaning of retirement change? How can an HR leader manage retirement issues in a complex, turbulent environment? These are questions that the IBM human resources team contemplates as it continues to grapple with global and domestic retirement challenges.

Living to 100: Lessons from Centenarians

*Dr. Thomas Perls
Director, New England Centenarian Study
Associate Professor of Medicine, Geriatrics Section
Department of Medicine, Boston University*

Dr. Thomas Perls founded and leads the New England Centenarian Study, the world's largest study of centenarians (individuals who live to be at least 100 years of age). The study is dedicated to understanding why centenarians live beyond the average global life span and delay or elude the onset of Alzheimer's disease and other age-related disorders or diseases.

As HRPI member companies grapple with demographic shifts that influence retirement payouts, healthcare, and delayed or phased retirements, among other issues, this after-dinner talk encouraged a lively discussion between Dr. Perls and HRPI members about why and how centenarians have increased longevity. (Of course, HRPI members displayed equal interest in how they, too, can live longer, healthier lives, asking questions about the impact of such factors as vitamins and red meat on aging.)

Who are centenarians? Centenarians represent the world's fastest growing age group, with over 50,000 people over 100 years old currently in the United States. In opposition to the theory that "the older you get, the sicker you get," Dr. Perls explained, centenarians epitomize the notion, "The older you get, the healthier you've been."

Centenarians are resilient individuals. Of those who have participated or currently participate in the New England Study, nearly all of them lived independently in their nineties.



Dr. Perls categorizes centenarians as *survivors*, *delayers*, and *escapers*. About forty percent of centenarians had health-related issues (e.g. heart attack, stroke) in their sixties and seventies; they are *survivors*. Another 40 percent had an illness around the age of eighty; they are *delayers* of age-related health issues. About 15 percent evaded major illness throughout their lives; they are *escapers*. Men, who represent only 15 percent of the centenarian population, tend to be delayers or escapers, rather than survivors.

What does the Centenarian Study suggest about centenarian characteristics that enable long life? Centenarians have an optimistic and enthusiastic outlook on life. Furthermore, they manage stress extremely well; they are not neurotic, they “let go of things.” Centenarians tend to have an excellent sense of humor, are gregarious, and surround themselves with family, friends, and acquaintances. Centenarians are also likely to be religious or spiritual.

One critical distinguishing feature of centenarians, Dr. Perls explained, is participation in cognitively challenging tasks. Engaging in learning a new language or a musical instrument provides cognitive stimulation that may curb the onset of Alzheimer’s disease, which afflicts 40 to 45 percent of individuals over eighty years of age.

How can individuals use the Centenarian Study findings to live longer, healthier lives? As a guide for individuals who want to “live well and better,” Dr. Perls has coined the acronym, AGEING. Below are some of Dr. Perls’ tips for improving one’s lifestyle and enhancing one’s longevity.

Attitude – Be optimistic and positive about life. Find healthy ways to manage and minimize your stress, including leaving earlier to get to appointments on time. Plan rewards for yourself when you accomplish things. Surround yourself with people you love and don't be hard on yourself¹.

Genes – An individual's life span is 30 percent determined by genetic factors; the other 70 percent is a product of behavioral and environmental factors. The latter is good news for individuals who want to take actions steps to live a longer, healthier life.

Exercise – Exercising for thirty minutes three times a week delays age related diseases. In particular, *strength training*—which builds muscle, enables lean body mass, and improves balance, sleep, and cognitive functioning—may be the single most influential intervention to enhancing longevity.

Investigate – Discover new interests and pursue new challenges in order to maintain excitement about daily life.

Nutrition – Eating the right foods in moderation is critical to a long healthy life. Over 60 percent of the country is overweight, posing a significant health risk. Avoid fast foods; get plenty

¹ A few of these guidelines are from Dr. Perls' Life Expectancy Calculator feedback.



of calcium in your diet; minimize the amount of meat in your diet relative to vegetable and fruit dishes; and moderate your dessert intake.

Get rid of stress and smoking – Centenarians naturally shed psychological stress. Stop smoking and avoid second-hand smoke, both of which contribute to accelerated aging.

Dr. Perls encouraged HRPI members to view www.livingto100.com, which posts an online “Living to 100 Life Expectancy Calculator” consisting of 40 questions, and results in an assessment of how old one can expect to be².

² (As your HRPI Research Assistant, I felt it was my duty to take the test to assess its value. I found it to be user-friendly and a quick endeavor. It costs \$5 and offers detailed feedback on how you can enhance your longevity. After learning I may live to be a “mere” 89 years old, I will likely reduce my coffee and Diet Coke daily intake!)

Avian Flu Update: Planning for a Possible Pandemic

*Ms. Ann Brockhaus, MPH
Senior Consultant, Occupational Safety & Health Physicians Group
ORC Worldwide*

Ann Brockhaus, Senior Consultant with ORC Worldwide, reviewed the Implementation Plan for the National Strategy for Pandemic Influenza, which was released by the White House in May, 2006, and described the results of ORC's *Survey for HR Preparedness for a Flu Pandemic*.

The Implementation Plan for the National Strategy for Pandemic Influenza

The National Strategy document emphasizes the importance of preparedness by individuals, communities, and the private sector. In announcing the Implementation Plan, the Federal Government again stressed the key role that the private sector will play in the event of a severe pandemic:

“The private sector, with targeted and timely guidance from the Federal Government, should develop plans to provide essential services even in the face of sustained and significant absenteeism. Businesses should also integrate their planning into their communities’ planning.”

Among the 115 human cases of Avian Influenza worldwide (206 as of May 5, 2006 and 225 as of June 6, 2006), more than 50 percent have resulted in fatality. With the exception of “sustained and rapid person-to-person transmission,” all of the preconditions necessary for a pandemic are present, among them widespread and spreading prevalence in migratory birds and continued outbreaks among domestic poultry.

The *National Strategy for Pandemic Influenza* was issued by President Bush in November, 2005. The *Implementation Plan for the National Strategy*, released on May 3, 2006, translates the *Strategy* into



more than 300 actions for Federal departments and agencies and outlines expectations for State and local governments and other non-Federal entities. The *Implementation Plan* addresses six functional areas related to preparedness for a pandemic outbreak: (1) international efforts to prevent and contain outbreaks abroad; (2) transportation and borders efforts to slow the arrival of a spread; (3) protecting human health to prevent the spread and mitigate illness; (4) protecting animal health to control influenza with human pandemic potential in animals; (5) law enforcement, public safety, and security efforts to ensure civil order during a pandemic; and (6) planning by institutions to protect personnel and ensure continuity of operations.

The Implementation Plan for the National Strategy can be downloaded at: www.whitehouse.gov/homeland/pandemic-influenza-implementation. Two additional online resources for more information include the World Health Organization (www.WHO.org) and an information resource website put out by the U.S. government, www.pandemicflu.gov.

ORC Survey Results

Eleven HRPI member companies are represented among the 100+ respondents to ORC's *Survey of HR Preparedness for a Flu Pandemic*. Organizations showed varying degrees of concern and planning for the possibility of a flu pandemic. Nearly three-quarters (72.9%) of respondent organizations, for example, have developed or are in the process of preparing plans for a pandemic. In contrast, seven percent reported no intention to make HR plans. Similarly, the number of employees involved in the planning process varies across companies. Two-thirds (67.5%) of companies have or are planning to establish cross-functional teams to prepare plans.

Diverse functional groups are involved in the planning process, including supply chain, IT support, facilities, legal, medical, security, internal audit, customer service, and operations. Human resources departments have developed new policies and revised others as preparedness measures. For example, some organizations have developed policies allowing special leave time for ill employees or employees whose children are ill, forced time off for employees who are exposed to the flu or are displaying symptoms, as well as policies related to alternative shift scheduling, telecommuting, re-hiring retirees, and new absence reporting procedures.

Organizations have broadly planned in five areas: (1) employee communications; (2) employee supports; (3) travel and expatriate assignments; (4) workforce planning and monitoring; and (5) prevention and protection.

Employee Communications: Efforts include issuing initial communications to employees about the possibility of a pandemic, the company's preparations, and possible implications; putting together communication teams at the corporate level; planning for alternative forms of communication such as podcasts, email, radio and television stations; and developing procedures for issuing pandemic-related statements to employees.

Employee Supports: Planning efforts include providing transportation for employees in the event of transit difficulties; offering financial aid to employees who experience unusual expenses due to catastrophic illness; and enhancing severance for employees who are laid off due to the impact of a pandemic.



Travel and expatriate assignments: Steps taken include identifying high risk regions; developing policies for essential and non-essential travel; establishing guidelines for how to travel safely; identifying alternative carriers and modes of travel in the event of shut downs or fuel shortages; and setting guidelines for evacuating or repatriating employees.

Workforce Planning and Monitoring: Coordination efforts include: identifying jobs that may face extreme shortages or surpluses of qualified workers; developing plans to shift responsibilities to other employees, countries, or offices; creating backup plans to replace incapacitated leaders temporarily; and conducting an analysis of essential and non-essential functions.

Prevention and Protection: Planning efforts include arranging vaccinations for employees (either at high risk or in all locations); modifying food services practices; stockpiling medical, safety, and health supplies; plans for distributing safety and health supplies to employees; and developing protocols to minimize the spread of the flu (e.g., not shaking hands, holding meetings via teleconference).

According to the survey, organizations desire more information about best practices for coordinating with local public health departments and agencies and key suppliers and service providers. Also, organizations need to know how to better manage different regions and appropriately divert resources from current business needs. Organizations' chief concerns include the difficulty in planning given uncertainties about the timing and severity of a possible flu

pandemic, the impact of large numbers of employees being ill, media “hype” regarding a flu outbreak, and how to better align with governmental planning efforts.

A summary of the survey results can be found on the ORC Worldwide website at:

http://www.orcworldwide.com/surveys/hr_pandemic_prep.html



Future of Employer-Provided Health Benefits

*Dr. Paul Ginsburg, Ph.D.
President
Center for Studying Health System Change*

Dr. Paul Ginsburg, a nationally known economist and President of the Center for Studying Health System Change, engaged HRPI members about the growing lack of health care affordability for employers. Dr. Ginsburg discussed issues surrounding providing health benefits and offered partial organizational solutions to rapidly rising health care costs. In spite of speculation by some that organizations will get out of the business of providing health care coverage, Dr. Ginsburg asserted, employer-provided health benefits are not going away.

Issues for Organizations Providing Health Benefits

Organizations face serious issues in their efforts to offer employees access to health care coverage while limiting the costs. While getting employees to be more prudent in their use of health services through patient cost sharing can contribute to a slowing of cost trends, Dr. Ginsburg believes that steps to increase provider incentives to improve quality and reduce costs are the areas of greatest potential.

The provision of health benefits by organizations allows the creation of pools for coverage, which enables affordability of coverage for lower-income employees and those in poor health. Group purchase by employers also creates substantial savings in administrative costs, avoids market failure from risk selection, and assists employees in obtaining a complex financial product.

The challenges posed to employers by rising premiums include high contributions on the part of organizations relative to the compensation for lower-paid employees and resistance by employees to choice restrictions. Proportionally high contributions by organizations employing lower wage workers distorts compensation structures and creates an incentive to outsource low-wage work to companies not providing health insurance, thus magnifying existing health care challenges.

Consumer-Driven Health Plans

To meet the challenge of the strained health care system, Consumer-Driven Health Plans (CDHPs) are gaining attention, but, Dr. Ginsburg noted, they have not captured high enrollments. A CDHP is a combination of substantial patient cost sharing and an account (e.g., Health Savings Account or a Health Reimbursement Account) from which to draw funds for out-of-pocket expenses. Patients are provided with informational support. In some cases, cost shifting is not a major component. The “losers” with CDHPs are those who have high medical needs.

A shift in medical benefits to CDHPs would reduce health care costs, but the magnitude of their impact is unknown. While health care demand is not highly sensitive to price, choice of providers and treatment alternatives may indeed be sensitive. CDHP usage is limited by the capacity of employees—particularly chronic disease and low-income workers—to take risks. How large a deductible can be offered to people with chronic disease or low-incomes?

The role of Health Reimbursement Accounts (HRAs) and Health Savings Accounts (HSAs) is to make large deductibles acceptable to consumers, but the accounts likely diminish



incentives for cost containment. At this point in time, it is unclear whether HSAs will ultimately become tax shelters for high-income people rather than a means for individuals to house money intended for health care expenses.

Improving the Health Care System

Dr. Ginsberg identified various means for improving the health care system, including reshaping the benefit structure, stimulating productivity gains by health care providers, expanding IT and improving quality, and leveraging the Medicare system.

- ***Reshaping the Benefit Structure:*** The health care benefit structure needs to be adjusted to: (1) emphasize incentives to use the most efficient providers; (2) avoid discouraging important services by penalizing those who need them (e.g., low cost sharing for essential care); and (3) focus cost sharing on services with unknown or marginal benefits.
- ***Stimulate Productivity Gains by Health Care Providers:*** Productivity gains can be stimulated through replicating the success of modern management techniques from other industries. The key is to use benefit design, such as High-Performance Networks, to develop competitive pressures on providers to improve their quality and become more efficient.
- ***Efforts to Expand IT and Improve Quality***
 - ***IT*** - In order for IT to be effective in improving the system, providers must be motivated to use the tools.

- **Quality** - With a “seat at the table,” organized medicine may be less inclined to block tools that promote competition on the basis of quality, such as “pay for performance.” Current initiatives to improve quality almost invariably ignore the need to contain costs.
- **Potential for Medicare to Improve the Entire Health Care System:** Medicare may enhance the system through its reporting incentives, which may stimulate widespread use of IT and provide quality data that other payers can use. Another potential for Medicare involves the likelihood that refinements to its reimbursement structure will be followed by private payers.

Dr. Ginsburg explained that while managed care has made access to health care more equal to citizens, market forces inevitably involve more uneven access. Proper health care design can minimize inequality in access by distinguishing important from less important care and varying deductibles by earnings.

Strategies to Use Individual Markets

Unfettered use of individual markets for health care does not achieve societal goals. A more effective approach will depend upon a strong regulatory framework that creates a pool of healthy and sick individuals and provides strong incentives to use a common pool. Dr. Ginsburg noted that a few proposals reflect the latter approach, including Senator Frist’s Healthy Mae proposal, the Massachusetts Connector, and S.627 (Durbin-Lincoln). A key risk in employer-based coverage posed by individual market strategies is the potential loss of young and healthy employees from employer pools, which would make the provision of group coverage more difficult.



In conclusion, Dr. Ginsburg stated, the major challenge to health benefits is rising health care costs. Approaches with the most potential involve a mix of spurring greater efficiency by providers and, ultimately, people getting fewer services than they would otherwise want. Key issues related to the crisis include what role the government should play in curtailing health care costs, whether competition can alleviate the problem, and how much equity should be demanded in the health care system.

Panel: Company Responses

Managing Health and Health Care Costs at Pitney Bowes

*Ms. Johnna Torsonne
Senior Vice President and Chief Human Resources Officer
Pitney Bowes, Inc.*

Johnna Torsonne, Senior Vice President and Chief HR Officer at Pitney Bowes, a \$5.5B *Fortune* 500 global provider of integrated mail and document management solutions, described the HR team's strategy and actions to manage employee health and the company's health care costs.

Pitney Bowes' Health Care Strategy

Chief among the team's strategy are efforts to *maintain and improve employee health, to maximize the utilization of health resources, to appropriately select health plans and programs, and, of utmost importance, to make health care affordable for Pitney Bowes and its employees.* Underpinning the strategy is the belief that a *healthy corporation, healthy work environment, and personal employee responsibility* are critical to engaged, productive employees. A healthy Pitney Bowes results from its culture and values, benefit plans, management practices, and employee resources. A healthy work environment includes such facets as on-site medical facilities and fitness centers, ergonomic workspaces, and healthy food options in cafeterias. Finally, personal responsibility on the part of Pitney Bowes employees includes accountability for personal wellness and disease management.



Strategic Action Steps

In order to build an environment conducive to its strategic goals, the human resources team has taken four key actions: *negotiate employee services; educate employees to improve health status; provide targeted direct delivery of health care services and engage and provide incentives for employees.*

Negotiating Employee Services: Pitney Bowes is attentive to its managed care vendors to ensure that employees receive the highest quality care at a reasonable cost. Currently, its “Best in Class” regional approach includes four national PPO vendors and 46 regional HMO plans, each selected on the basis of quality care at the most affordable cost. Annual reviews and re-evaluations, continuous due-diligence, and an annual quality assessment through eValue8 ensure that the best employee services are negotiated.

Educating Employees to Improve Their Health Status: In order to educate employees to be responsible for their health status, and thereby reduce medical costs, the company established its own Health Care University. The University is an incentive-based program emphasizing health behaviors designed to assist employees in improving and maintaining health status. The program components include educational seminars, web-based and print education tools, screenings, and behavioral change programs. The program emphasizes chronic disease conditions. In 2005, 24 percent of Pitney Bowes employees completed all facets of the program. A majority completed some part of it. As employees complete program elements, their health insurance premiums are reduced; the University stems employees’ and Pitney’s costs.

Provide Targeted Delivery of Health Care Service: On-site medical clinic visits average 31,000 a year. The medical facility is accredited with local health plans and the Accreditation Association for Ambulatory Health Care (AAAHC). Three-quarters (73%) of employees with access to a clinic utilize the clinic each year. Ninety-six percent of the people who utilize a clinic rank their experience as good to excellent. Pitney Bowes has established specialty clinics for allergy and asthma, sports medicine, gynecology, and gastroenterology. The clinics provide EAP counseling, physical and occupational therapy, chiropractic services, and prescribed massage therapy. The company also helps employees to manage their health through EAP—face-to-face and telephonic models—and managed behavioral health programs.

Engage and Provide Incentives for Employees: In designing health care plans, the human resources team considers affordability for the company and the individual. Programs are intended to provide meaningful choices for employees. Individual responsibility is supported through “consumerism” and health management. Affordability and individual responsibility encourage employees to take control of their personal wellness, thus reducing health care costs.

Applying a Comprehensive Approach to Managing Chronic Diseases

Ms. Torson explained the company’s successful action plan to better manage chronic diseases, such as asthma and diabetes, which contribute to high-cost claims if not managed appropriately. The company’s research showed a strong association between chronic condition progression and (1) low possession rates of medication used to treat these conditions, and (2) lack of preventive/screening utilization.



As a response to chronic disease management and associated health care costs, the company enacted an action plan that includes: health education using an E-health portal and a revised HCU curriculum; direct delivery through clinic screenings and disability department referrals; a reduction of access barriers for pharmacy and preventive services; and vendor specification for large case management and disease management.

The company's preliminary findings show an average annual cost of care decrease for asthma (a 15 percent decrease) and diabetes (a six percent decrease). Also, annual pharmacy costs decreased for both conditions; the decrease results from a drop in usage of drugs used to treat complications.

Strategic Results and Lessons Learned

As a result of the HR team's strategy implementation, Pitney Bowes is experiencing outstanding health care results. The investment strategy has lowered the infrastructure costs for its Active Health Care Plan. Since 2000, for example, Pitney Bowes' compound annual trend for active health care costs has remained below eight percent. For the same period, the external benchmark trend is 12 percent. Pitney's 2005 per-employee net cost was 20 percent below external benchmarks. Notably, employee contributions remain competitive.

The HR team has learned that the use of an investment strategy instead of a cost-containment strategy has resulted in a better ROI. The company estimated savings of \$27M in 2006, a five-to-one return on investment; these savings will be shared with employees in the form of lower contributions.

Panel: Company Responses

Health Management Center and Wellness Initiatives

*Ms. Judy Verhave
Executive Vice President, HR Services
Fidelity Investments*

Judy Verhave, Executive Vice President of Human Resources Services, presented Fidelity Investments' strategy to slow the growth of rising health care costs through its Health Management Center and Wellness initiatives. The bottom line: They're working.

Fidelity's Human Resources Profile

With over 37,000 employees, Fidelity Investments has a tall order in managing its health care costs. The company has developed a sophisticated array of health care programs to educate and encourage employees to manage their health, including on-site fitness facilities, biometric screening coverage, a nurse call center, health fairs, health risk assessments, and disease management programs. To date, the company does not have an on-site medical clinic.

Making the Business Case for Health Care Initiatives

Between 2000 and 2002, Fidelity experienced annual double-digit increases in health care plan costs, with medical costs close to doubling over a five year period. Faced with the goal of curbing spiking costs, the company aggressively pursued health management and wellness programs. Program changes produced significant savings between 2003 and 2005, dramatically reducing annual cost increases to three percent (in 2003), eight percent (in 2004), and as low as a



projected one percent in 2005. What program changes have influenced such significant cost reductions?

Health Management Center and Wellness Initiatives Overview

Fidelity's goal is to stem the growth of health care costs through thoughtful analysis and to influence supply and demand factors through various initiatives. For example, on the supply side, since 2004, Fidelity has closely monitored and managed Fidelity's network deal, made prudent strategic funding decisions, conscientiously evaluated its PPO vendors, and built a data warehouse. On the demand side, the HR team has enacted care management programs, a health care portal, a health care communications campaign, a rewards program, Health Savings Accounts, and health and wellness programs.

The Health Management Center is an online portal that is tailored to each Fidelity employee based, in part, on his/her health risk assessment. The user-friendly site allows employees to compare health plan and pharmaceutical options and estimate their respective benefit costs. A personalized Health Risk Assessment (HRA) report based on a custom HRA questionnaire includes employee actions to mitigate risk. The Center also promotes calling a Health Coach to discuss the results and work on a unique action plan. Health Dialog, a toll-free phone line, "houses" Health Coaches, and is available to employees 24 hours a day, seven days a week.

To motivate employees to participate in Health Management initiatives, Fidelity offers a Rewards Program. The program tracks employee participation and awards points that result in medical premium deductions. As examples, employees receive points for completing the Health

Risk Assessment, entering medication in the Medication Center, completing the “Cholesterol Tracker” and the “Blood Pressure Tracker,” and speaking to a Health Coach.

Off to a Good Start

Ms. Verhave shared data on the participate rate of the wellness initiatives. Four-fifths (80%) of Fidelity employees are registered on Health Portal. Two-thirds (65%) have completed an HRA profile. More than half of employees have compared plans using the CostCompare tool. Sixty-one percent of the High Risk Chronics have engaged Health Dialog and 50 percent of the employees contacted on an outgoing basis have responded to Health Coaches.

Next Steps for 2007 and Beyond

Fidelity Investments will continue to manage health care costs aggressively and thoughtfully to ensure the well-being of its employees. In 2007, the HR team will re-validate its long-term health care strategy, develop health and wellness guiding principles and short-term initiatives, continue to offer an HDHP/HSA plan (second year), and communicate year-round to support initiatives and business goals. The health and wellness principles include conducting program needs assessments based on HRA and screening data, and engaging Fidelity regions in its corporate wellness strategy and initiatives. Beyond 2007, Fidelity plans to continue to evaluate it’s HDHP/HSA strategy and may consider piloting on-site medical clinics, among implementing other health care initiatives.



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