BUSINESS SERVICES: EMPLOYEE COMPENSATION & BENEFITS Special to the Business Journal
From the September 19, 2003 print edition of the Philadelphia Business Journal

Benefits managers learning to deliver bad news by Adam Stone

No one likes to be the bearer of bad tidings, yet with open enrollment season fast approaching, area benefits managers are painfully aware they may be called upon to deliver unwelcome messages to the rank and file.

With the stock market eroding pension plan values and double-digit inflation affecting health-care costs, someone has to break the bad news.

"It's very important to be direct and honest," said Nancy Kurtzman. "You basically put the news out and then you tell them why: This is what is happening. This is what others are experiencing."

As director of employee benefits at Universal Health Services Inc. of King of Prussia, Kurtzman has a slight advantage in that her company's 30,000 employees already know what is happening with health-care costs. They know the 'why' -- but that doesn't get Kurtzman off the hook.

"Regardless of what the news is, there is always trepidation when change is communicated," she said.

This summer, the Penjerdel Employee Benefits and Compensation Association called a meeting to help its members brace themselves for the upcoming round of rate increases.

While insurance-cost increases have become a regular feature of corporate life, "they are always looking for new ways to communicate that message," said the association's executive director, Marlynn Orlando. "Nobody wants their people to be upset."

As president of King of Prussia benefits administration firm Brokerage Concepts, Arnold Katz will be trying not to upset his 700 employees this year, but it's going to be a tough sell.

"As a firm, our costs have gone up dramatically, with medical rate increases of 6 to 8 percent and prescription drug increases of 5 to 7 percent a year for the past several years," he said, noting that employees have borne about 40 percent of those costs.

Katz will first send out notification in writing -- on paper, that is, rather than by e-mail.

"We have employees right down to the mail room and they don't always read e-mail, so I always send it out in writing. Then I make myself available in person to any employee who would like to discuss it," said Katz, who typically visits the firm's Warminster and Philadelphia offices when announcing rate increases.

Why the personal visits?

"Because I take responsibility for everything the firm does: Good, bad and indifferent."

In this case, taking responsibility means laying out the situation in detail, explaining not just what he's doing, but why it has got to be done.

"You open with: 'As you know, medical costs have risen dramatically over the past couple of years,' " he said.

And they do know, unless they have been hiding under a rock. Still, it never hurts to reinforce the message, explaining briefly about the scale of recent cost increases, laying out an overview of the reasons for the rate hikes.

"Then you tell the story about how you have modified your plan as a result of those increases," Katz said. "Maybe it is a higher deductible or a higher co-pay or a payroll deduction. You communicate that and you do it in a language the employee understands. Not annually, because they don't get paid annually. You give them the weekly figure or the biweekly figure."

Even this straight-forward approach will not satisfy everyone. The most common question, Katz said, has to do with the scale of the increase. Does it have to be so much?

"Flat answer: Yes," said Katz. Some might want the deductible changed, while others may complain about the co-pay. Here again, the hard truth is needed. "As individuals we cannot pick and choose what we want in the benefits plan. We have to have the standardization. That's the way it is."

But wait. Don't they already know the cost of benefits is going up? If everyone has been reading the papers, why are they complaining at all?

"It has to do with a workplace culture that has evolved over many years," said Carol Wellings, a vice president at benefits consulting company Aon Consulting in Conshohocken. "People have come to believe that they are simply entitled to a certain level of benefits."

If those benefits are changing, there is just no use hiding.

"People find things out, people know what's going on and any time you try to sugarcoat or put a slant, it just does not work," Wellings said. "We would advocate being honest as best you can. You tell them what is changing, why it is changing and how the decision came to be made."

How to tell them? It is best if the news comes directly from those who made the decision.

"For any of this, is has to come from senior management. If it is not coming from the top, people will know that you are not being genuine," Wellings said.

"*Have a CEO or a CFO conducting the meetings, answering employee questions*. That is the way you build credibility and build trust. Especially in the wake of Enron, people are really questioning what the motivation is from the top."

The stakes are high here.

Fail to communicate properly when it comes to a change in benefits and you run the risk of serious unhappiness in the ranks. And people do get this wrong, all the time. They may, for instance, over-think it.

"Sometimes clients want to craft the message so carefully," said Wellings. "*But you can't really anticipate how people are going to react*." Better to just get the news out there.

Worse still, a firm may flub the timing, telling people about a higher payroll deduction the day before paychecks go out.

"When people come in the door and say, 'Why did this change?' -- you have made a bad decision," said Katz.

And the very worst Katz has seen is blatant dissembling.

"Say a firm gets a 20 percent rate increase. They may call it a 47 percent increase to justify their actions," he said. "Obviously, lying to your employees is never good, because there are no secrets. But people do all sorts of dumb things."

Do it Right or Risk Getting Burned

Employers planning to hike their benefits costs or reduce their coverage must carefully craft their message to employees. Just look at what happened to Lockheed Martin, IBM and American Airlines when the benefit news got out of hand. By Douglas P. Shuit

Employees are never happy to learn that they'll have to pay more money for health care, pension and other benefits. And employers abhor delivering the news. Still, it's a problem that must be addressed, industry experts say. Recognizing the value of good, early communication can significantly smooth the way for benefit take-aways. Ignoring it can lead to misunderstandings, morale problems and even lawsuits.

The corporate landscape is littered with problems and bad headlines stemming from proposed benefit changes that blew up on the companies that made them. A strike early this year at Lockheed Martin is blamed in part on copayment increases in the company's drug-benefits program. A proposed change in IBM's pension plan has created a public relations nightmare. American Airlines, after extracting promises of wage and benefit cuts of $1.6 billion from its unions, nearly blew its strategy to escape bankruptcy when it was revealed that the airline was planning to give top executives bonuses and bankruptcy-safe pensions at the same time it was cutting other employees' pay. The ensuing uproar caused the airline to back away from the executives' perk package.

Softening the blow

Just how many of these problems could have been solved with better communication is uncertain. But what is clear is that better communication can soften the blow when it comes, if not eliminate harmful aftershocks. Experts say it boils down to this: Do it right or risk getting burned.

Attorney Bruce Schwartz, a member of the Jackson Lewis benefits practice group, says that because of a widespread retrenchment, communicating benefit changes is a constant challenge. And one often not given enough attention. The first step, he says, should be to run the changes by the legal department.

Although companies can debate whether to break the news during a town hall meeting or send a written message, Schwartz says, either way it boils down to good, clear communication. "Clarity is the most important thing," he says. Companies have to speak with one voice. And not just with a voice that makes all the necessary legal points. Schwartz has seen many cases of benefit-plan booklets or written announcements that contain all the necessary information but are almost impossible for anyone to figure out except those who are experts on the subject.

"It always comes down to a good written product," Schwartz says. "Good writing takes time, and I don't think people give it the time they should. There is nothing worse than an employee who has an expectation of something other than what the benefit is."

Consultant Mitchell Lee Marks, author of Charging Back Up the Hill, says that communicating benefit changes is similar to the challenges companies face when they are recovering from mergers, acquisitions and downsizing. At such times, employees are suspicious and cynical about management's intentions, and they crave information. At the same time, senior executives are wary of saying too much to employees. His advice to companies is to begin communicating with employees honestly and openly well before there is a need to transmit bad news. A crisis "is not the time to build your credibility," he says. "This is the time to ride on your credibility. If you've established credibility, you have a buffer."

"The truth is often less negative than the worst-case scenarios that employees imagine. You have to get out there, be honest, say what's going on, be as specific as you can."

Information, please

Failure to keep workers informed will only provide fuel for the rumor mill, Marks says. "First and foremost, be honest. Just say what it's about. It's amazing how well employees will listen," he says. "In most cases, the rumor mill is much worse than reality. The truth is often less negative than the worst-case scenarios that employees imagine. You have to get out there, be honest, say what's going on, be as specific as you can."

Marks encourages companies to tell workers what other employers in their industry or region with similar benefits are doing, an approach that he says is ignored too often. He also suggests periodic assessments to get a fix on whether the workforce hears the same message that management thinks it is sending. It's better to over communicate than under communicate, Marks says. "You've got to say it over and over again. There is no substitute for saying things over and over again."

Finally, Marks says management should let the workforce express its feelings. If employees don't have an outlet for their anger inside the company, it may be transferred to customers. "Give people a chance to vent internally instead of externally," he advises.

One of the companies most active in studying--and delivering--benefit changes is Medco Health Solutions, Inc., which generated $33 billion in revenues last year and is among the largest pharmaceutical-benefit managers in the world. Medco knows as well as any company the problems that can arise from delivering benefits. The company is battling two whistle-blower lawsuits and an investigation by the U.S. over claims, dating back five years, about drug pricing.

David Halter, a Medco vice president, says that information about plan changes is one of the most difficult messages to deliver. He compares the process to having a root canal. Figuring out how to communicate the change is just as important as the technical aspects of the plan itself, he says. Some companies rely on a one-time communication during their annual open-enrollment period, which he believes is a mistake. What is even worse is when employees hear about changes in prescription plans when they go to a pharmacy to have a prescription filled.

Letters are a start

Medco's research shows that employees would much rather learn about benefit changes in letters. But the company's internal research also shows that a multifaceted approach, including telephone calls and e-mails, is important. Companies that effectively communicate plan changes will get a significant return on investment, Halter says. Ineffective communication, on the other hand, leads to higher service costs, member dissatisfaction and delays in acceptance that can cut into potential plan savings.

As an example of a successful new plan, Halter points to a Fortune 500 manufacturing client that tripled copayments on its drug plan without an open employee revolt. The company realized an annual savings of $250,000. Facing big increases in benefit costs, the company hired Medco to come up with a plan for communicating the changes to employees. Under the old plan, workers could buy 100 pills at retail pharmacies with one copayment, enough for a three-month supply. The new rules limited prescriptions to a 34-day supply, effectively tripling the copayment.

But Medco developed a way to ease the pain. It told members of the prescription drug plan how they could achieve significant savings by having the drugs delivered to their home via mail. Using home delivery, employees could save $24 per brand prescription and $10 for each generic prescription. The home-delivery plan works best for patients with chronic medical conditions who have an ongoing need for daily medications, exactly the client group most likely to buy three months' worth of medication at a time.

The success of the plan depended on a significant change in employee behavior. Medco announced the changes through direct mail. "It was a fairly straightforward message," Halter says. The commonly held notion that plan members don't read written materials is a myth, he says. Letters announcing the plan went out during open enrollment. One selling point was that with home delivery, members would have to reorder prescriptions only four times a year. If they continued to buy medicine at a pharmacy, they would have to make 12 separate trips. "The plan was a complete success," Halter says. "The client said they did not receive a single complaint."

Workforce Management, September 2003, pp. 80-83 -- Subscribe Now!

Douglas P. Shuit is a Workforce Management staff writer. To comment, e-mail editors@workforce.com.

Will you have to ask employees to pay a great percentage of health-care expenses in 2004 as compared to 2003?
(689 participants surveyed.) **Result:**

1. Will you have to ask employees to pay a great percentage of health-care expenses in 2004 as compared to 2003?

Yes	67%
No	18%
Depends/not sure	15%

September 19, 2003 Atlanta Business Chronicle

Medical Alert Health-care cost increases may be flattening by Julie Bryant

There may be a bright spot amid news of fresh double-digit health-care cost increases for employers.

A recent cost trend survey shows the price of providing employee health benefits will increase slightly less in 2004 than 2003. Still, costs for health plans and prescription drug coverage are expected to rise by at least 13 percent, according to The Segal Co.'s 2004 Health Plan Cost Trend Survey.

Prescription drug benefits continue to rise at a higher rate than any other type of medical coverage, increasing at about 18 percent a year. Prescription drug costs for retail will increase at a rate of 18.2 percent in 2004, compared with a projected increase of 19.5 percent for 2003, according to the survey.

Medical coverage for retirees is projected to increase by 10 percent to 12 percent next year, compared with a projected 19 percent increase for 2003.

Segal analysts see the slowing increases as a sign that the hyper-inflation of health coverage costs could be flattening, the survey said. Even so, cost trend rates for health care are still three to five times the rate of the general consumer price index, according to the survey.

Health & Welfare Services Brochure

Medical Premium cost share amounts, opt-out incentive?
Alissah Joined: Jan 29, 2003 Posts: 6 Posted: 2003-09-23 08:26

Historically our company has paid 100% of the premium amount for our employees (for both medical and dental insurance). However, we're going to have to start shifting some of the cost to employees if we keep getting 15 - 20 % increases each year. Would anyone be willing to share what your employees contribute on a weekly basis for ee, ee/sp, ee/child and family coverage? Also, do you offer an opt-out incentive for employees who could be covered by a working spouse?

Use caution with opt-out. You should consider "financing" your plans as Defined Contribution plans via Flex-Cash so you can lock-into current costs.
You can retain vendors (ex: insurance carrier, if fully-insured) and still lower NET costs.
For an example see: www.HRAplan.com and at the bottom of the page, click on Sample Forms then click on **Health & Welfare Services Brochure**
Best Wishes,
Jim