

Making Benefits Positive Rewards ...Again

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What We'll Cover

Making Benefits Positive Rewards...Again

- Get benefits back on the “rewards” track ...or will we run off the rails?
- Sync up “say” and “do.”
- Add value to benefit communication.
- Overcome the huge health plan communication problem.
- Put the most powerful learning tool into your retirement education program.

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As a benefit professional,
what is the
most important thing
you can do to support
your organization's
business strategy?

Does this sound right?

Use benefits in a
highly efficient way to help
recruit,
retain, and
reward...

...**high-performing**
employees who are
committed
to achieving your company's
business goals, and
who have **essential skills**
to do that...

...your
Magnificent
Employees
– **ME**, for short.

Your Magnificent Employees - ME

Whether you count **ME**
as 100%, 50% or 10%
of your workforce...
shouldn't benefits be
a positive reward
for **ME**?

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Your Magnificent Employees - ME

For \$18,358
– the average annual, employers'
per-employee cost for benefits –
you could buy every employee
a new car each year.

(U.S. Chamber of Commerce)

Wouldn't that make
ME happy?

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Your Magnificent Employees - ME

Average employees' benefit satisfaction: a dismal **36%** (MetLife)

Average customer satisfaction for new cars: around **85%**
(they pay the full cost) (J. D. Power)

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Your Magnificent Employees - ME

Employers are paying too much for "rewards" that dissatisfy.

Why keep doing that?

Should we "stay the course"
...or start making benefits add value to **ME?**

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The Trend is in a Bad Direction

Warning...messengers may be shot

Senior management may be turning away from HR and benefits for “better ideas.”

- ...finance and procurement are becoming more involved in the choice of health plans. (Hewitt)
- 45% of large employers say financial executives are being given greater influence over benefit programs. (Towers Perrin)

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The Trend is in a Bad Direction

Does management believe HR “gets it”?

In a Six Sigma business world (less than 4 failures per million), benefit programs are off the charts. Out of 100 employees...

- **66** fail to understand their employer has a financial stake in the health plan. (Towers Perrin)
- **80** fail to believe there’s anything they can do save health plan costs. (Hewitt)

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The Trend is in a Bad Direction

Does management believe HR “gets it”?

Out of 100 employees...

- **55** of those age 64 and older fail to have any idea how much their retirement will cost. (Roper/Quicken)
- **26** fail to participate in 401(k)s. (Plan Sponsor Magazine)
- **69** fail to believe what employers say about health care plan costs. (Kaiser Family Foundation)

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The Trend is in a Bad Direction

Does management believe HR “gets it”?

Out of 100 employees...

- **69** fail to view their company's benefit communication as effective. (MetLife)
- **75** fail to value benefits as a reason to join the company. (MetLife)
- **64** fail to be satisfied by the company's benefits. (MetLife)

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The Trend is in a Bad Direction

In a couple years, will we be discussing...

With just some minor tweaks, how our benefit programs are pretty much the same as in 2008 ... or

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The Trend is in a Bad Direction

In a couple years, will we be discussing...

How quickly HSAs are doing to health plans what 401k(s) did to DB...how HSAs are being bundled with high-deductible plans as outsourced, "voluntary benefits"...how new Lifetime and Retirement Savings Accounts (via the "ownership society") offer employers an opportunity to shut off their 401(k)s and add a "defined contribution" to paychecks – reducing costs, legal issues and administration hassles?

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The Trend is in a Bad Direction

“Unsustainable”

- The word often associated with health plan costs.
- Are we naive to think benefits will continue mostly unchanged for a couple years...or will a few employers start “throwing in the towel?”

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The Trend is in a Bad Direction

If benefits:

- Are no longer rewards,
- Don't support the business strategy and programs, and
- Don't align with the people values...

Why not put the money into things that are seen as rewards by *ME*?

Or, start making benefits rewards... again.

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**Do What
You Say...
To Add Value
To ME.**

The Need for Alignment

Link benefits to organization's strategy

- Listen to what the company *says* it values in employees.
- Do you hear...*The company values personal responsibility...honesty...productivity...commitment...leadership...adaptability...self motivation...team work...and similar things?*

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The Need for Alignment

Link benefits to organization's strategy

- Look at what you **do** – the benefits offered.
- Do your benefits reinforce the values (not all benefits will link to each value).
- Are there gaps that benefit plans or features could fill? Are there benefits that **do** the opposite of what you **say** – the “say one thing and reward another course.”
- Can the gaps or contradictions be fixed?

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The Need for Alignment

Say one thing (business/people strategy) and do another (benefits and HR actions) kills trust and prevents commitment



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The Need for Alignment

Organizations usually “get what they pay for”...what gets rewarded, gets done.

If the company pays for and rewards individual performance...even though it says teamwork is key...it gets individual performance...and dysfunctional workforce behavior.

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The Need for Alignment

If the organization says...

We pay for
performance.

But pay and benefits do...

The across the board
increase will be 2.5%
this year.

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The Need for Alignment

If the organization says...
Speed is essential
to our success.

But pay and benefits do...
Your Health Spending
Account reimbursement
will be made within
45 days.

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The Need for Alignment

If the organization says...
Our people are our
most valuable asset.

But pay and benefits do...
Medical coverage
starts after 180 days
...disability coverage
begins after one year.

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The Need for Alignment

If the organization says...

We treat our employees
with respect.

But pay and benefits do...

To approve your
hardship withdrawal,
your detailed request
will be reviewed by
members of the HR
department.

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The Need for Alignment

If the organization says...

We are a family-friendly
company.

But pay and benefits do...

Dependent coverage
is available at full cost.

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The Need for Alignment

If the organization says...

Employee commitment
is one of our key
values.

But pay and benefits do...

Our service-based
pension plan has been
frozen...we've improved
the 401(k), which is
better for short-career
employees.

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The Need for Alignment

If the organization says...

We strive for simplicity.

But pay and benefits do...

Here's your new 280-
page summary plan
description. Please
read it carefully.

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The Need for Alignment

If the organization says...

We all share in our
shareholders' success.

But pay and benefits do...
Stock-based plans are
available only to
executives.

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The Need for Alignment

If the organization says...

We are all colleagues who
treat each other with mutual
respect.

But pay and benefits do...
Managers in band 8
and above do not
have to pay for LTD.

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The Need for Alignment

If the organization says...

Our employees are
empowered to make
decisions.

But pay and benefits do...

Before you are
hospitalized, you must
contact the review
agency to research and
approve the covered
services.

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The Need for Alignment

If the organization says...

We are
customer driven.

But pay and benefits do...

Bonuses are based
on volume produced
or sold.

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The Need for Alignment

If the organization says...

We trust our employees.

But pay and benefits do...

STD benefits are payable only with a doctor's signed and notarized form.

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The Need for Alignment

If the organization says...

Teamwork is what makes our company work.

But pay and benefits do...

Our pay program rewards each individual's contribution.

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The Need for Alignment

There is no universal right or wrong answer for what your strategy should “say” or what your benefit plans should “do”...just make sure they are in sync.

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Does Your Organization
Act Like
Health Plan Costs
Matter?

**Use Your Safety
Communication as a Model**

Act Like Health Plan Costs Matter

If you say health plan expenses are a business problem, do you act like it?

- Put signs in company cafeteria to show content of food...why offer poor choices?
- Remove high-fat snacks and candy from worksite.
- Post signs in smoking areas showing the cost to the plan for tobacco-related illnesses.

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Act Like Health Plan Costs Matter

If you say health plan expenses are a business problem, do you act like it?

- Health care professionals conducting onsite workshops.
- Consumer updates in employee newsletter
 - prices charged for services and Rx
 - success stories of employees acting like savvy health care consumers

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Act Like Health Plan Costs Matter

If you say health plan expenses are a business problem, do you act like it?

- Point-of-use reminders...at that moment.
- Wallet cards: things to ask your doctor:
 - for generic or non-prescription medicine
 - if similar, less expensive name brand would work (list possible exchanges)
 - for mail order Rx for long-term medications
 - about side effects
 - what foods/other medicines to take or avoid
 - how to avoid condition in the future

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**Say What
Matters Most
to ME**

Treat ME as a Valued Employee - Not a Cost

Employees who believe they are valued by their employer tend to be more productive. (Watson Wyatt 2003)

Does your benefit communication show how your organization values **ME**?

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Treat ME as a Valued Employee - Not a Cost

Top-performers say...

- Only 22% are satisfied with rich benefits when the value is poorly communicated ...and turnover of top performers runs **17%**.
- 76% are satisfied with less costly benefits when the value is effectively communicated ...and turnover of top performers runs **12%**.

(Watson Wyatt)

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Treat ME as a Valued Employee - Not a Cost

Good communication improves satisfaction and reduces turnover of top performers

- If you reduced turnover by just one or two top-performers, would that pay the cost of better communication?
- Estimated cost of turnover of non-exempt is 50% of annual pay...for exempts, 100% to 200% of annual pay. (Saratoga Institute)

Poor communication is very expensive.

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High-performing employees want to be **valued** by their employer for their work contributions.

Benefit communication should **make them feel valued...**
not like a cost or expense.

Show them, "What's in it for **ME!**"

Treat ME as a Valued Employee - Not a Cost

Show ME the VALUE...Health Plan Example

“One way ABCorp shows how it values the contribution you make to the company’s success is by providing an extraordinary high-level of financial protection through the ABCorp Medical Plan...coverage you have earned.

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Treat ME as a Valued Employee - Not a Cost

Show ME the VALUE...Health Plan Example

“Out of income ABCorp receives from the customers you serve, the company pays the majority of the cost of the ABCorp Medical Plan. Depending on the coverage option you choose and the family members you enroll, you share a portion of the cost.”

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Treat ME as a Valued Employee - Not a Cost

Show ME the VALUE...Health Plan Example

“Our Medical Plan provides you and each enrolled family member with \$5 million in financial protection from the potentially enormous costs of a catastrophic illness or injury during their lifetime.”

That’s the real value of the plan!

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Treat ME as a Valued Employee - Not a Cost

Show ME the VALUE...

“Our Medical Plan has protected our employees by paying:

(follow HIPAA privacy rules)

- \$ 44,000 for a knee replacement
 - \$ 55,000 for a heart attack
 - \$360,000 for a kidney transplant
 - \$960,000 for a premature baby
- ...and so on.”

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Treat ME as a Valued Employee - Not a Cost

Focus on wrong things is wrong message

- Deductibles and copays
 - ✓ copays are an unfortunate plan design
 - makes doc visits cheaper than haircuts
 - many employees think that's the entire cost
 - "The company must hate us...they doubled our prescription costs – from \$10 to \$20!"
 - ✓ emphasizing the small costs implies the plan is intended to cover all costs.
- Cost to the employer vs. value to employee

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Treat ME as a Valued Employee - Not a Cost

The cost is *not* the value

- "Last year, it cost the Company \$7,289 to provide your family's health insurance."
- Not a "*we value you*" message.
- May make **ME** feel like a cost...not a contributor who has earned a reward.
- Do benefit statements send positive messages to **ME** or just non-ME...ask them.
- Can create mistrust and misunderstanding.

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Treat ME as a Valued Employee - Not a Cost

The cost is *not* the value

Look at your medical claims...probably:

- 10%-15% people have **no** expenses.
- 10%-15% use roughly 70% of plan costs.
- 60%-70% have less **than \$1,000** in expenses.

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Treat ME as a Valued Employee - Not a Cost

The cost is *not* the value

- See why 77% of employees believe medical plans cost employers less than \$2,000 (MetLife) ...and 69% don't trust employers' health communication? (Kaiser Foundation)
- If putting price tags on things increased understanding, prices tags on art in museums would make us art connoisseurs.
- Showing per-person plan costs is not a panacea...or it would have worked by now.

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Treat ME as a Valued Employee - Not a Cost

Put costs into the big picture

“Last year, our Plan paid \$8 million in medical claims to protect our employees from major health care expenses. It also cost \$500,000 to administer the Plan. These expenses were paid with money the Company and enrolled employees contributed to our self-funded Plan. Of this, the Company paid \$6.8 million and employees paid \$1.7 million. The Company’s contribution averages \$7,289 for each employee.”

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Health Plan Business Issues

“What’s all the fuss about rising health care costs?

Isn’t that why we have insurance?”

(Focus Group Participant)

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Health Plan Business Issues

Huge Employee Communication Failure

- **Roughly two-thirds of employees say health costs do not or may not impact employers!** (Towers Perrin)
- **75% of participants in self-funded plans believe they are spending an insurance company's money.** (Medco)
- "I need to spend \$7,289 so the insurance company won't keep the money."

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Explain the business issues
of health plans...
and the limited choices the
business faces...
and kill "it's the insurance
company's money".

Health Plan Business Issues

<u>Sources of Costs</u>	must be balanced by	<u>Sources of Funds</u>
-------------------------	------------------------------------	-------------------------

- | | | |
|--|--|---|
| <ul style="list-style-type: none">▪ Claims paid▪ HMO memberships▪ Administration (5% - 8%) | | <ul style="list-style-type: none">▪ Employer▪ Employee |
|--|--|---|

Reduce costs...

- **cut coverage**
 - **lower benefit amounts**
- These increase amount employees pay for services



Company has less for:

- **expansion**
- **materials**
- **advertising**
- **pay**

Or increase employees' cost to enroll

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Talk In a Way
That Makes ME
Feel You Value ME

Better Communication Adds Real Value

Ask **ME** which...

- Benefits are valued the most?
- Techniques show the benefit value the best?
- Channels (print, electronic, or people) are most effective in communicating the value?

Best way to ask...

- Directed or coded surveys.
- Discussion groups and design team participation.

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Better Communication Adds Real Value

Do your benefits sound like rewards?

- Do your benefit materials read like high-value rewards...or a mix of legal documents and instruction manuals?
- Does your call center treat you like the company's most important asset?
- At new employee orientation meetings, are the benefits describe as high-value rewards (only chance at first impression)?

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Better Communication Adds Real Value

Do your benefits sound like rewards?

Kill the jargon

- “You pay the Member responsibility plus the bridge payment amount.”
- “...an Open Access Point of Service Plan.”
- “Your contingent annuitant must provide....”
- “Subrogated amounts are due....”
...on and on.

The communication should
make **ME** feel valued.

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Better Communication Adds Real Value

Do your benefits sound like rewards?

- Take your communication materials to the factory floor or break area...ask some employees to circle each word or phrase they think needs to be better explained.
- Show results to the communicator...ask for a jargon-free draft with a “rewards” tone ...retest it.
- Fire any communicator who suggests a definition section...ever see one in a rewards brochure?

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Better Communication Adds Real Value

Do your benefits sound like rewards?

- Use skilled employee communicators who are also benefit content specialists.
(you can't explain what you don't understand.)
- Test them on-the-spot – don't assume...
 - ✓ communication consultants know content.
 - ✓ content specialists (benefit administrators) are skilled employee communicators.
- Require good outcomes – more satisfaction and better understanding...and test for it.

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**Talk to ME About
What Matters to Me
...Telling Isn't
Teaching**

*What's the
Most Expensive
Purchase
You Will Ever Make?*

Homes
TVs
Boats
Clothing
Cars
Jewelry
Entertainment
Centers

The Big Secret

Apparently, it's a secret.

The answer is...

“retirement.”

You were told it was a house

*...did your house cost
more than 20 times your
current pay?*

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Here's Something
70% of Americans
Admit They
Do Not Have
...and Many Others
Won't Admit It.

The Big Secret

What's the estimated price of your retirement?

If you were "fast forwarded" to your last day of full-time work...and things cost the same as today:

How much do you want to spend each year...\$ _____

Compared to today, the same, more, or less?

How many years might your retirement last...X _____

Example: Age 65 to 90 = 25 years

Your personal estimate...\$ _____

***Congratulations! You have an estimate
of the price of your retirement.***

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The Big Secret

A couple that dreams of spending \$50,000 a year (**lifestyle**), wanting to retire at age 65 and expecting to live to age 85 (**time**), will need 20 years of income...

\$50,000 x 20 years = \$1 MILLION

Retirement lifestyle is a personal dream...time is reality.

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The Big Secret

Most people don't know the price, because retirement is **NOT** considered a consumer item

...and they haven't been helped to visualize their dream.

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Cost of Ineffective Retirement Education

Ineffective
retirement education
techniques will not change
how much people need...
only how much they'll have.

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Cost of Ineffective Retirement Education

What can employees do who reach
retirement age with too little money?

- Keep working.
- Lower their standards and expectations.
- Pursue “deep pockets”.
 - **Vote for government benefit improvements.**
 - **Sue previous plan sponsors.**

*70% of 401(k) participants believe they pay no
management fees. What will they do when they
find out?*

(American Express)

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Cost of Ineffective Retirement Education

Why do “retirement educators” ignore what’s essential to success?

- To build a fire, you need oxygen, fuel, and heat – skip one, no fire.
- To use a 401(k) to build a financial resource that supports your retirement dream, you need a good plan, contributions, and **knowledge** – skip one, no retirement dream.
- Every plan sponsor says **knowledge is essential**...but it’s rarely measured (so it doesn't get managed).

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Cost of Ineffective Retirement Education

Latest 401(k) trend – take advantage of employees’ lack of knowledge

- Automatic everything...enrollment, escalating contributions, fund selection, rollovers, and other provisions to trick them into doing the “right thing.”
- Not a bad approach...but unintended consequences could be more employees with no personal retirement dream...and less motivation to learn or act on their own.

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Cost of Ineffective Retirement Education

Adult learning-based approaches are needed to create more savvy retirement income consumers.

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Cost of Ineffective Retirement Education

Adult Learning—sequential steps

Step 1...**Awareness**—Help me see that I'm in control of my retirement destiny **now**.

Step 2...**Motivation**—Help me discover my good and bad choices, and see my penalty for not doing what's right for me **now**.

Step 3...**Understanding**—Help me acquire the knowledge I want to know.

Step 4...**Use and Appreciation**

Ask any teacher, "Can you teach the unaware and unmotivated?"

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Cost of Ineffective Retirement Education

- Nearly all retirement education approaches skip **awareness** and **motivation**...that's why they don't work.
- In teaching adults, a **personally motivated learner** an essential component of learning.
- However, retirement educators usually use the "expert approach"... "just have an expert tell them what to do."

Too bad telling hasn't worked.

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Why "Telling" Does Not Work

"Retirement educators" are eager to **tell** employees what to do for their personal retirement...but they'd never consider telling them what to do for a personal vacation (even though it's far less expensive and shorter).

But they rarely ask employees where they want to end up.

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Why "Telling" Does Not Work

Am I on the right track to get where I need to be to have an enjoyable...?

Retirement

"You should target 80% of your pre-retirement income."

Vacation

"You should take Interstate 70."

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Why "Telling" Does Not Work

What's the best vehicle for me to get there?

Retirement

"You should have a diversified portfolio of 60% equities and 40% bonds."

Vacation

"You should have a 4-door sedan."

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Why "Telling" Does Not Work

How much should I be putting away to have an enjoyable...?

Retirement

"You should save nine percent of your pay."

Vacation

"You should save \$185 a month."

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Why "Telling" Does Not Work

How much should I spend to have an enjoyable...?

Retirement

"You should withdraw 4% of available funds each year."

Vacation

"You should spend \$2,220."

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Why "Telling" Does Not Work

Stop telling...start
helping people use
their own values and ***their own projections***
...thus providing ***awareness***
...that creates ***motivation***
...all based on what is personally
meaningful and important.

***A motivated learner is the most
powerful ingredient in learning.***

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Destroy the Illusion of Planning Precision

"How much money will I need to retire?"

**If you're run over by the party bus
at your retirement celebration, you'll
need around \$0 retirement income.**

Or, it could be more than that, for example...

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Destroy the Illusion of Planning Precision

“How much money will I need to retire?”

If you want to have generally the same standard of living that you have now ...and you retire at age 60 and live to 102, you will need more money than you made in your entire working career.

One million Americans in their 50s today are expected to reach age 100. (National Institute on Aging)

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Destroy the Illusion of Planning Precision

“How much money will I need to retire?”

- It's your life and your dream.
- You have the opportunity to choose the retirement lifestyle you want.
- For example, do you want a fishing shack...or several beach condos. Do you want to stay put...or stay on cruise ships?
- Start with a picture of your goal...then you can begin estimating the cost of your dream.

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Join The Campaign

Join Ackley's
**Create Your Own
Retirement Dream Campaign**
to turn people into
retirement income consumers.

They get better consumer-oriented information when buying tires, refrigerators, or Snickers bars...because retirement is not considered a consumer item.

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Your Dream Campaign...It's a Start

Explain retirement like making a purchase
...using consumer-oriented terms:

- **Retail price** – total needed if “fast forwarded” to retirement today.
- **Discounts** – amounts already paid (current savings, projected pensions, saleable assets, Social Security and any pay while retired).
- **Layaway payment** – additional amount needed to purchase your retirement dream.

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Your Dream Campaign...It's a Start

Your estimated retail price of retirement

$$\begin{array}{rclcl} \underline{\$55,000} & \times & \underline{25} & = & \$1,375,000 \\ \text{annual spendable} & & \text{years} & & \end{array}$$

Your estimated discounts – what's already paid

- Current single sums (401(k), personal savings, etc.) – \$385,000
- Lifetime payments (pensions and Social Security at retirement)

$$\begin{array}{rclcl} \underline{\$30,000} & \times & \underline{25} & = & \underline{\$750,000} \\ \text{annual benefit} & & \text{years} & & \end{array}$$

$$\text{Your estimated additional layaway} = \$240,000$$

Not a panacea – simply a springboard to learning...
motivating them to use sophisticated projections.

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Your Dream Campaign...It's a Start

Get people to **think** like consumers and ask questions – **motivated to get answers**

- Future government-sponsored benefits?
- Future health care expenses/Medicare?
- Future taxes on sheltered income?
- Future investment performance?
- Future impact of inflation?
- Future home ownership arrangements?
- Outliving my retirement income?

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Summary

Summary

Make benefits rewards...again

If customer satisfaction and sales were falling, would management pour more money into producing and distributing a dissatisfying product, or...

- Conduct focus groups of key customers,
- Modify design based on key customers' needs and values, and
- Increase marketing to key customers?

Summary

Make benefits rewards...again

- Show **ME** benefits are rewards.
- Get the “say” of business and people values and the “do” of benefits in sync.
- Treat **ME** like a value...not a cost.
- Make the health plan a business issue.
- Help employees learn about their personal retirement dreams.
- Understand the cost of poor communication.

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