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[Volume 3, Issue 1, January 2008](#)

Work/life benefits may be the best low-cost strategy for keeping employees satisfied, loyal, and motivated while on the job. This issue of *HR Horizons* explores reasons why flexibility is increasingly important to employees. Also in this issue: an interview with *Beyond HR* coauthor John Boudreau on how to identify your institution's pivotal talent, and a University of San Diego case study on how the institution standardized its administrative compensation program.

[Volume 3, Issue 2, April 2008](#)

Institutions are implementing new approaches to assess risk, promote wellness and prevention, and encourage employees to prepare for post-payroll health-care expenses. This issue of *HR Horizons* highlights Duke University's focus on creating a healthier workforce and the move by Rollins College to cover 100 percent of preventive care. Also in this issue: an interview with Human Capital Source CEO Jac Fitz-enz on human performance metrics.

[Volume 3, Issue 3, July 2008](#)

A growing pool of research points to employees working longer to compensate for retirement income shortfalls. This issue of *HR Horizons* explores how employers can help employees save and strategies they can use to manage employee transition into retirement. Also in this issue: evaluating your HR function's capacity to identify challenges, build staff competencies, and quickly adjust as institutional needs change.

[Volume 3, Issue 4, October 2008](#)

How does an institution develop a robust relationship with its unionized workforce? This issue of *HR Horizons* highlights Princeton University's commitment and attention to improving conditions and opportunities for union employees and managers. Also in this issue: a look at what shape health-care reform might take under an Obama administration, critical skills needed by leaders charged with implementing change, and a recap of NACUBO 2008 Annual Meeting sessions on HR competencies and executive search.



Volume 3, Issue 1, January 2008

BIG PICTURE
Limber Up

By Karla Hignite

How far will higher education institutions bend in giving faculty and staff more control over their work schedules? A growing body of evidence suggests that work/life benefits including flexible work arrangements may be the best low-cost strategy in the coming decades for keeping employees satisfied, loyal, and motivated while on the job.

According to the Society for Human Resource Management's *2007 Benefits Survey*, "As other benefits such as health care and retirement benefits become more difficult to guarantee to all workers due to rising costs, more emphasis may be put on work/life balance and flexibility to offset the dissatisfaction that reductions in other benefits could bring about."

Kathleen Christensen founded and directs the Program on The Workplace, Work Force and Working Families at the Alfred P. Sloan Foundation, which has for the past decade played a vital role in creating and supporting a range of work-family scholarship. A clear gap still exists between employee demand for, and the availability of, flexible workplace benefits, notes Christensen, adding that nearly four out of five American workers want more control over their work schedules and arrangements, according to the foundation's studies. "This desire cuts across age, gender, and income levels," she adds.

Flexibility for All

Research from AARP and other sources suggest that while a majority of baby boomers anticipate working beyond age 65, most do not want to or plan to work full time or year-round. Many colleges and universities that understand the value of retaining access to this transitional worker segment have already begun implementing phased retirement programs for faculty.

But it's not only older workers who will begin to place greater demands on employers for flexible workplaces. The SHRM survey suggests that while work/life balance will grow in importance as a recruitment and retention tool for workers of all ages, the benefits offered will increasingly be most influenced by women and younger workers, since these two segments are most concerned about work/life balance and will also comprise the majority of the workforce in the coming decade.



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For colleges and universities in particular, younger women faculty may present the biggest challenge. Much of the Sloan Foundation's research points to a loss of human capital when highly educated mothers exit the workforce for lack of career-continuous and part-time work arrangements. Christensen acknowledges the added challenge of implementing flexibility within higher education institutions, where work arrangements for faculty are largely governed separately through the provost and faculty senate.

Her program at the foundation has spent significant time during the past five years supporting research of faculty needs with regard to flexibility. "Not surprisingly, we've found that while women are completing degrees at the same or higher rates as men, fewer women are likely to take faculty positions, often because they cannot see how to pursue both a university academic career and a family," says Christensen. For those who do take positions, female faculty are less likely than their male faculty counterparts to be married or to have children or as many children, adds Christensen. "Women faculty are consciously engaging in avoidance behavior in which they fear facing a bias if they have too many family demands," says Christensen.

Progress is being made, notes Christensen. "In the past several years we have seen a growing awareness that the traditional tenure track career no longer fits a diverse and changing academic workforce." The foundation, in partnership with the American Council on Education (ACE) and Families and Work Institute, introduced an awards program several years ago to recognize institutions that are advancing family-friendly practices for faculty that include reducing workload, extending the tenure track time line, allowing for leaves for different periods of time, or working part time on a transitional basis. This partnership is intended to encourage all higher education institutions to foster flexibility in their institutions. One outcome of the partnership is an ACE report entitled [*An Agenda for Excellence: Creating Flexibility in Tenure-Track Faculty Careers*](#).

While at first glance such measures might appear costly, institution leaders also understand the large investments they have made in many cases to bring faculty on board and the value of keeping them in place, says Christensen.

Faulty Assumptions

Yet, having policies on the books does not necessarily mean organizations have useful flexibility practices or that employees feel free to take advantage of them, notes Christensen. Employers must also instill a culture of flexibility where employees feel free to use these benefits without repercussions, she argues. "Where face time remains the focus as a measure of productivity, employees are unlikely to take advantage of flexibility options available to them."



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Another faulty assumption made by employers is to view flexibility as merely a perk or an employee accommodation. In truth, employers gain considerably in terms of boosting employee productivity and morale. A report by The BOLD Initiative (Business Opportunities for Leadership Diversity) entitled [*Flexible Work Arrangements: A Productivity Triple Play*](#) highlights case studies of 10 companies from various industries that conducted pilot tests of a team-based approach to flexible work arrangements. In many cases, when teams were given the freedom to determine when, where, and how to accomplish their work, productivity and performance were enhanced while project cycle time and the need for overtime or additional staffing resources were reduced.

"Based on this and other data, we are now starting to see a shift in the conversation from flexibility as a personal accommodation for individual employees to a strategic business tool for enhancing recruitment, increasing employee engagement, and improving performance," says Christensen.

Flexibility for Fitness

Other surveys and research have begun exploring the connection of flexibility to reduced absenteeism and employee health. A study published in December 2007 in the *Journal of Occupational and Environmental Medicine* by lead author Joseph Grzywacz of Wake Forest University School of Medicine explores the effects of workplace flexibility on health behaviors of employees. The study's premise: Those who perceive that they have flexibility in their work lives will exhibit healthier lifestyles through greater frequency of physical activity, participation in health education and stress management programs, healthy sleeping habits, and other positive lifestyle choices.

The study reviewed health-risk appraisals from employees of a large pharmaceutical company recognized as a national leader in family-friendly work practices. Those surveyed included the full range of employees—from executives to support staff to warehouse workers—tracking changes in behavior over a one-year period. In fact, overall results did indicate that nearly all health behaviors taken by the employees were associated with their perceptions about flexible options available to them.

Christensen cautions that while many have noted a likely connection between workplace flexibility and effective health-promotion programs, to date there has been only modest systemic research to support this theory, and more studies are needed. However, if a strong connection can be made between providing workplace flexibility and improved employee health and behavior, employers will have to take notice because of the very real opportunity for reducing employee health costs, says Christensen.



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The annual [CCH Unscheduled Absence Survey](#) survey has for the past 17 years measured the rate, cost, and reasons associated with workplace absenteeism in the United States across industry sectors. Findings from the 2007 survey reveal that 66 percent of employees who called in sick at the last minute were in fact taking time off to deal with personal or family issues, including stress. Direct payroll costs and lost productivity associated with unscheduled absences are only part of the story. The survey notes that *presenteeism*—the flip side of absenteeism where employees show up for work sick or not fully engaged because of nonwork-related distractions—carries additional, often hidden costs for employers.

One red flag raised by the 2007 CCH survey came from this finding: 79 percent of employers fail to recognize how the changing workforce demographics—most notably, retiring baby boomers and an onrush of millennials—might affect the work/life balance or absence-control programs that they currently have in place. On a concluding note the report suggests that a new generation of employees with a significantly different outlook requires organizations to act now to address the diverse expectations of young employees as well as older workers who plan to remain in the workforce.

Free to Care

While women will comprise the larger percentage of U.S. workers in the coming decades, men in generations X and Y may begin to bridge the gender gap with regard to valuing work/life benefits. The SHRM *2007 Benefits Survey* report notes that not only is child care a role that has become more acceptable for men, but men are nearly equally affected by adult care responsibilities. The report cites statistics from the National Family Caregivers Association and the National Council on Aging, respectively, indicating that 44 percent of an estimated 54 million Americans with care-giving responsibilities are men and that by 2020, as many as 40 percent of American workers might be caring for their older parents. "With both men and women pushing for more flexibility, companies will be under much more pressure to provide it in an equitable way," the report concludes.

Christensen is convinced that issues of adult care will present the next big work/life challenge for employers. The Sloan Foundation's supported research indicates that at least one in four employees currently have some level of responsibility for adult care. This care may take a variety of forms, whether managing a parent's finances, researching in-home care options, or providing actual physical care to family members, says Christensen. While focus has been on elder care, long-term care may also take the form of a child or returning veteran son or daughter with a severe physical or mental disability for which the burden of care may go on for decades, notes Christensen. "Given the changing structure of families and an increasingly tight labor market, those who will provide care will be those



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who are *in* the workforce," says Christensen. "Addressing the needs of employees to provide adult care will become a major work/life issue for employers in coming decades."

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Work/Life Resources

The following Web sites offer a sampling of sources for further research regarding workplace flexibility.

Through its [Workplace, Work Force and Working Families program](#), the Alfred P. Sloan Foundation plays a vital role in developing work-family scholarship and supporting effective workplaces that meet the needs of working parents and older workers. In 2003, the foundation launched its [National Initiative on Workplace Flexibility](#) to make flexibility a compelling national issue. Among the foundation's numerous funded projects and research initiatives are the Sloan [Work and Family Research Network](#) and the Center on Aging and Work/Flexible Work at Boston College.

The [Families and Work Institute](#) is a nonprofit research institute that studies changes to the workforce, workplace, family, and community. [When Work Works](#), a project of Families and Work Institute, is a nationwide initiative to highlight the importance of workforce effectiveness and workplace flexibility as a competitive advantage in the global economy. Among the resources available is [Making Work "Work": New Ideas from Winners of the Alfred P. Sloan Awards for Business Excellence in Workplace Flexibility](#).

Georgetown University's [Workplace Flexibility 2010](#) supports development of a comprehensive national policy on workplace flexibility at the federal, state, and local levels.

The [National Clearinghouse on Academic Worklife](#) at the University of Michigan Center for the Education of Women provides resources to support promising best practices and policies for faculty career flexibility.



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PERSPECTIVE
Mission-Critical Talent



By Karla Hignite

John Boudreau, coauthor of Beyond HR: The New Science of Human Capital (Harvard Business School Press, June 2007), is professor of Management and Organization at the Marshall School of Business and research director of the Center for Effective Organizations at the University of Southern California, Los Angeles. In this interview, Boudreau discusses the concept of pivotal talent and how to identify it, and why most organizations have difficulty measuring the real value of their human resources.

You talk about the need for every organization to identify its pivot points and its pivotal talent. What do you mean by these?

Boudreau: To find your organization's pivot points, start by searching for those places in your institution that provide great leverage. One metaphor is to think in terms of a manufacturing process. You first identify all the individual components or machines involved in the process. Now, your inclination may be to say that all of them are important to the process—and they are. But, if you ask where improvements would make the biggest difference to what you want to accomplish, that reframes the question to help you find the bottleneck machine. And that's where you put your investment, because you realize that if you don't improve the process at your bottleneck, it won't make a difference anywhere else.

What then pushes organizations to think more pointedly about talent is when a visible limitation develops. This may come when leaders realize they can't increase activity in a certain area or embark on a new initiative because they lack the talent to do so. Whether that gap is the result of an inadequate pipeline from within or an external shortage due to market competition, this specific talent suddenly becomes pivotal to your organization and you understand it as something you must obtain to move forward.

Can you offer an example from higher education?

Boudreau: If you think about the evolution that took place for many institutions as they moved into delivering education online, what struck many of us involved in this process was how different it was



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to produce learning in a virtual format versus in-person. Many of us quickly realized that it was not as simple as taping a stand-up lecture. We had to start picking apart the essential elements. For instance, you must have faculty willing and motivated to deliver content, the technology platforms and Web presence required for delivery, and the technology people to make this happen. What many of us had to figure out was the need for a content producer—someone in the middle of the process who understood how to take our good content and repackage it to make it relevant and engaging in this new delivery mode. This was the missing, pivotal talent. In many cases, institutions did not yet have a job description for this role. Thus began the process of looking to Web companies and film companies to better understand how to create compelling content in this new format.

Once you determine your pivot point—in this case, the need for compelling online content—the next step is to ask whose job that is. Do we already have that capability internally? Do we need to hire or develop that talent? Within a university, there may be many who can do a fine job of reformulating content, but then you have to ask whether those people are seen as credible and can work effectively with faculty. This may lead you to focus on a much smaller pool of talent. If you determine you have that talent within, how might you need to change your reward system? For instance, you might assess that a month spent working on content may be worth a semester spent in the classroom. How do you educate those making resource decisions to understand this endeavor and the kinds of flexibility required such as potential changes in reporting relationships?

In your book, you suggest that the current HR function must undergo the same kind of evolution in organizational understanding that previously took place within the fields of finance and marketing. Can you explain this for readers?

Boudreau: My coauthor, Peter Ramstad, talks about the historical turning points of these two fields in great detail, which I will try to paraphrase. In essence, with regard to the world of finance, there was a turning point in the early 1900s when, as a country, we developed a collective realization that decisions about money were critical to our economy. We came to understand that the scarcity of financial resources could quickly bring our economy to its knees. And so we learned as a nation and as a world economy how to use money. Over the decades that followed, we developed sophisticated frameworks for financial analysis. We created systems and models that have evolved into our modern approaches to investment management and developed concepts and practices for mitigating risks, seeking the highest rates of returns, and so forth. All of this is now standard thinking and practice, but none of this was common knowledge around the turn of the century.

A similar evolution took place in the realm of marketing. Today's modern marketing practices grew out of the advent of mass messaging in the 1940s and 1950s, when television made it possible to



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communicate with millions of customers simultaneously and when we developed a stronger understanding from the field of psychology about how people think and respond to messages. If you consider today's sophisticated approaches to customer segmentation, it seems so obvious, but there was a time when this knowledge was rudimentary.

How must this same kind of breakthrough thinking take shape within human resources?

Boudreau: Human talent is analogous to money and customers in that it requires a sea change in our thinking as a business culture about how to view this resource so that we can optimize our investments in this area. This may take some time, because we've only recently entered an era in which conditions have emerged to produce a decision science related to talent. As the process matures and frameworks are developed to help us evaluate talent in nontangible ways, leaders will begin to approach talent investments in a more strategic manner.

The challenge is that our decisions about talent are much more important today because expertise is increasingly based on intellect and not only on what we do. The paradox is that while virtually everyone within an organization understands that the budget-related costs of talent—that is, compensation and benefits—represent only part of an employee's true value, the systems that we have in place to measure talent are primarily accounting-based. We are awash in numbers that measure our investments in talent, from turnover rates to the ratio of HR staff to total staff. While this kind of analytic capability and data would suggest that we have ample fodder to make better decisions about investing in talent, such measurements on their own might lead us to make the wrong decisions.

Can you give an example?

Once you become aware of the very tangible budget-related costs of turnover, you might believe that you should strive for the lowest possible turnover rates of your employees. But reducing turnover too far may actually hurt your organization. Sometimes you may want people to leave—happily, of course—so that their replacements can help take your organization in new directions. Trying to minimize the financial costs of talent does not capture how to optimally invest in talent. If you don't recognize this key point, you will inadvertently miss key opportunities in your decisions about talent since much of the value of human resources is intangible, involving attributes such as attitude, motivation, cognitive abilities, and relational and communication abilities. These don't show up on paper but turn out to be what matters significantly. Accounting systems were never intended to capture the nuances of human talent. Yet, in our very good-natured and well-intentioned attempts to evaluate talent, we turn to systems that may be efficient but are myopic to the talent equation.



STRATEGIC
HUMAN RESOURCE ISSUES
IN HIGHER EDUCATION

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How can chief business officers help others in the institution better understand the value of human resources beyond benchmarks and line items?

Boudreau: CBOs are routinely involved in discussions about institution strategy. They often come to these discussions with models to help others make sense of financial resource strategies and implications. This same kind of logic can be helpful for discussing talent implications. In addition to financial pivot points, every organization has people pivot points. The challenge is how to help a group think beyond the tangible financial implications of talent. This may require a CBO to recognize that this is territory where he or she may not be an expert. In cases where leaders identify a talent bottleneck, they need someone at the table qualified to say what the institution must do or do differently to acquire that talent. Part of the difficulty is that most institutions haven't had models in place to think deeply about talent. As institutions begin to unearth their pivot points, leaders can begin to discuss how to differentially invest in those critical areas and in the specific talent required to move forward.

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STRATEGY

Compensation Consistency

By Janie Carolin and Gregory Pogue

While the University of San Diego has for many years maintained a salary structure and position classification process for nonexempt staff, we had never developed a parallel structure for our administrative compensation program. The process we undertook at USD to create and implement an administrative compensation system in conjunction with our overall HR strategic plan is outlined in this article. This same broad approach can be applied at other institutions no matter what type of comprehensive compensation redesign is sought.



With the full support of our president and vice presidents, we began by hiring a compensation consultant to bring credibility and objectivity to the process and to allow HR staff to assume various roles as needed—at times as resource, catalyst, and advocate for members of our campus community. Our first task was to review our compensation philosophy to ensure that it accurately served as a blueprint for developing an appropriate salary structure. The other major pre-project task for our consultant was to review the FSLA or exempt classification of more than 400 administrative positions. Where there were concerns about the validity of an exempt classification, we conducted interviews with the supervisor to discuss the position in detail.



This review took several months and resulted in reclassifying several exempt administrative positions as nonexempt staff positions. Because we included supervisors in these decisions, we experienced little resistance when implementing the changes. We also held one-on-one meetings with each affected employee and his or her supervisor to ensure that all understood the reasons for the change and effects on employment.

To ensure that employees whose status had changed were not penalized, we created an interim "nonexempt administrator" classification that grandfathered in these individuals as administrators for employment-related purposes, including benefit levels, performance evaluations, and annual pay increases. The only difference was that they would now be paid as nonexempt employees, submitting time cards and becoming eligible for overtime pay.



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Setting Goals and Ground Rules

In July 2006, once we felt comfortable that our exempt positions were correctly classified, we introduced the project to the campus community through our five divisional vice presidents. Our primary goals were to:

- Create a salary structure based on market data to provide the foundation for applying consistent strategies in hiring and retaining qualified employees.
- Ensure positions are valued in relation to other positions, therefore improving internal equity.
- Develop and implement a process for classifying new and/or revised administrative positions.
- Obtain and maintain buy-in and support for the project among campus stakeholders, along with developing effective communication and educational components.

During this introduction phase of the project, we also reviewed background information about job evaluation and classification with our president and vice presidents. We considered two methods of evaluation for determining the relative value or size of jobs.

1. *Factor comparison*, based on an analysis of the degree to which various defined elements or factors are present in the form of demands made on the job holder.
2. *Whole job slotting*, based on comparing whole jobs with one another or against some form of scale such as job ranking or job benchmarking.

We identified the latter as the most efficient and cost-effective method. Whole job slotting is also the most flexible for system maintenance in terms of ease of classification of new or updated positions.

Steps Toward a New Salary System

Working in concert with our compensation consultant, we developed USD's new administrative compensation structure following these seven steps.

1. Identify nearly 100 benchmark positions and conduct a market analysis using salary data from major national and local surveys. Surveys included the CUPA-HR National Survey, CUPA-HR Survey of USD Peer Institutions, AICCU Survey (Association of Independent California Colleges and Universities), CompData Survey, San Diego Comprehensive Salary Survey, West Coast Conference Athletic Survey, and AALL National Survey (American Association of Law Libraries). To reduce consulting expenses, USD staff completed the market analysis and our consultant reviewed the results for accuracy and reasonableness. We completed this step in approximately four weeks.



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2. Develop a draft exempt-salary structure consisting of seven pay grades, each including a minimum, midpoint, and maximum. These pay ranges are designed to accommodate the university's wide range of exempt positions, grouping positions into broad job families. The midpoint of each salary range is based on the 50th percentile of the market data. The spread (minimum to maximum) is 60-80 percent and midpoint to midpoint is 25-35 percent, with the higher pay grades kept broader for maximum flexibility.

3. Review and analyze the job descriptions of approximately 430 exempt positions, slotting positions into proposed salary ranges. Once the benchmark positions were slotted based on market data, our remaining administrative positions were evaluated against the benchmark jobs. In our job evaluation review we looked at the whole job, including job requirements and qualifications, reporting structure, and internal as well as external job worth. This portion of the project involved HR staff meeting with our consultant approximately two times per week for about six weeks to review and slot all positions.

4. Identify positions to exclude from the administrative salary structure. Through discussions with our president and vice presidents during the introduction phase of this project, we determined that it would not be appropriate to include all administrative positions in an administrative salary structure. For example, we recognized that academic personnel who take on administrative assignments but retain faculty/tenure status should not be included, as their salaries continue to be determined through the established faculty process. This group includes deans, associate deans, associate provost, and some of USD's librarians who have faculty status.

Other key management positions were excluded where salaries for these positions tend to be highly market driven and are individually negotiated. In addition, several within this group of executives assisted HR with validation of the classifications. Their input was very useful to us because they did not have a personal vested interest in the outcome. Finally, athletic coaches were excluded from the salary structure review, due to their unique and extremely varied position requirements and highly market-driven salaries.

5. Obtain feedback on the preliminary structure and classification of positions in each division. By November 2006—five months into the project—we had a draft salary structure. We provided each vice president with a listing of the titles and proposed pay grades for exempt positions in their division only, asking each to review and validate these listings and identify any questions or concerns they had about the preliminary job groupings. We pointed out that, in a broad structure such as this, there are a wide range of positions in each grade, and all positions in a particular grade are not exactly equal but are generally in a similar job family. We also noted that due to a wide variation



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in job titles, including many cases of title inflation, we did not group positions by title. One goal for our administrative salary structure is that over time it will assist the university in developing better title consistency.

In some cases several of the vice presidents were able to clarify relationships between positions to improve the accuracy and fairness of the classifications. In one instance, a vice president shared plans for a major divisional reorganization. This allowed us to lay the groundwork for future reclassifications of positions to meet the division's changing needs.

Actual revision of assigned pay grades due to input from the vice presidents resulted in fewer than a dozen changes. Limited salary adjustments were required as a result of the project. In all cases where salaries were below the minimum for the proposed pay grade, the divisional vice president agreed that the position was underpaid, and these salaries were addressed as part of the annual increase process. For a few positions for which current salaries were above the maximum for the proposed pay grade, each was discussed with the appropriate vice president. In all cases there were reasons for the high salaries and the decision was made not to redline employees at or above the range maximum but to allow them to remain eligible for annual increases.

6. Develop a process for classifying future positions. While the vice presidents were reviewing the proposed pay grades and classifications, HR staff worked on developing a standard process for classifying new and/or revised positions into the new salary structure. In the past, when departments needed to add a new administrative position, they would develop a job description; determine the salary and obtain budget approval from the appropriate vice president; and submit the requisition, job description, and salary budget to HR for recruitment. Furthermore, individual departments determined titles and salaries based on limited comparisons to other positions within their department or school and with little or no consideration of similar positions elsewhere on campus or of broader market salary data. In addition, positions often were not formally evaluated to ensure that they met the requirements to be classified as exempt under state and federal wage and hour regulations. In some cases, the department's budgeted salary was inadequate to attract the caliber of candidate desired, and additional funding was required before a job offer could be made.

Needless to say, the lack of a centralized process to monitor development of new positions could potentially lead to inconsistencies in job descriptions and job titles, as well as internal and external inequities in salaries. Our new process is as follows:



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- The department develops a job description and submits it to our HR compensation unit for classification in the salary structure. This may include a recommendation from the department regarding the proposed salary range for the new position.
- The compensation unit works with the department to finalize the job description, evaluates the position for exemption status, reviews available market salary data, classifies the position into the salary structure, and recommends a proposed hiring salary range to the department.
- The department submits the job description and proposed hiring salary range to the appropriate vice president for approval. In the case of budget requests for new positions, the lead time is often more than one year, requiring careful planning by departments.
- The department submits the approved requisition, job description, and hiring salary range to our HR employment unit for recruitment.

An administrative position-review committee—consisting of members of the HR management team with experience in job analysis and evaluation—is responsible for classification. The committee meets as needed, up to two times per month. New positions are compared to the original benchmark positions and to other positions already classified and assigned to the grade providing the closest match to the job. Comparison factors include scope and complexity; interpersonal focus and customer orientation; communication; leadership responsibility; education, knowledge, and skills; financial responsibility; and job worth.

7. Submit the full structure for cabinet overview. In March 2007 we provided the president's cabinet, specifically the president and each divisional vice president, with copies of the full salary structure for their review, including titles and pay grades for all administrative positions, though not salary information. Overall, there was a high level of acceptance at the cabinet level, and minimal changes were made based on their recommendations. At the request of our budget and treasury division, we agreed to move the implementation date for the new structure to July 1, 2007, to coincide with the beginning of the new fiscal year. Actual budgetary implications were minimal, with only a handful of positions requiring immediate salary increases to bring them to their pay-grade minimums.

Selling the New Structure to Employees

We developed a variety of communication materials to introduce the administrative compensation program to the full campus community. Additionally, each administrator was provided with individual written notification of his/her position's pay-grade classification. Pay-grade information for each



position was uploaded to the HR Web site. Employees could view their personal pay-grade information online as well as the pay-grade information for any administrative employees they supervised.

For the first time in USD's history, we now have a formal process for developing and valuing administrative positions. While we still have issues of title inconsistency, and while we need to further improve the quality of some of our job descriptions, over time, we are confident that this new process will assist us in identifying and correcting these issues.

Our administrative compensation program also provides the basis for several future projects planned by the university. One such project is to implement an electronic position-control feature that links our finance and HR modules so that we can more accurately track and monitor the status of positions in the budget and that will assist us in planning for additional positions. We also view our new salary structure process as the beginning point to develop more standardized job descriptions, which will then lead to determining standardized skills and competencies that will ultimately allow us to develop relevant career paths for all of our employees.

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RESOURCE

Final 403(b) Regulations

By Tadu Yimam

With the arrival of the final 403(b) regulations, NACUBO hosted a webcast December 5, 2007, to address plan sponsor concerns and the potential impact on their responsibilities. Robert J. Architect, senior tax law specialist, Internal Revenue Service, (IRS) and Richard A. Turner, vice president and deputy general counsel, AIG VALIC, presented the most up-to-date information available. The good news is that many requirements in the final regulations are not new; and many that are new are not effective until January 1, 2009, or later.

Other key highlights include the following:

- The final regulations preserved most, if not all, of the flexibility described in the proposed regulations, permitting plan sponsors to structure their plans and allocate responsibilities as most appropriate for their specific plans.
- Governmental plans (including plans of public school districts, public colleges and universities, and public hospitals) and non-electing church plans are exempt from Title I of ERISA.
- The regulations restrict transfers to three types: transfers within the plan, transfers to another plan, and transfers to a state retirement system to purchase defined-benefit plan service credits.
- Voluntary 403(b) plans of private tax-exempt employers, which do not enjoy the governmental plan exemption from Title I of ERISA, may still be maintained with very limited employer involvement.

History of the Regulations

The IRS and the Department of the Treasury released final 403(b) regulations on July 24, 2007, which were published in the Federal Register on July 26, 2007, more than 2 ½ years after publication of proposed regulations in November 2004. The final regulations essentially follow the course set forth in the proposed regulations, with some modifications that were generally favorable to plan sponsors, plan participants, and plan providers.

Coinciding with the release of the final 403(b) regulations, the Department of Labor (DOL) released a Field Assistance Bulletin (2007-02) addressing the impact of the regulations on a private tax-exempt



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employer's ability to continue to maintain a non-ERISA voluntary 403(b) program. DOL guidance confirmed that agency's belief that it remains possible to satisfy applicable IRS requirements without causing the plan to become subject to the requirements of Title I of ERISA.

Plans already subject to the requirements of Title I of ERISA, and other larger plans with centralized administration, may need very little change as a result of the final regulations. Many non-ERISA plans, including plans sponsored by public colleges and universities, as well as voluntary non-ERISA 403(b) programs of private tax-exempt employers, likely will require more significant changes to comply with the new requirements.

Flexibility of 403(b)

The final regulations do not set forth a "one size fits all" approach. Rather, they preserved most, if not all, of the flexibility described in the proposed regulations, permitting plan sponsors to structure their plans and allocate responsibilities as most appropriate for their specific plans. Responsibilities can be allocated among the plan sponsor itself, the plan providers, and, if desired, additional service providers.

All 403(b) plans must be maintained pursuant to a written plan. This brings 403(b) plans in line with similar employer-sponsored plans but also retains much of the typical flexibility for governmental plans. The written plan must include basic provisions, such as:

- eligibility,
- benefits,
- limitations,
- available contracts and accounts,
- time and form of distributions, and
- roles and responsibilities under the plan.

Common concerns include whether multiple plans can be sponsored and if multiple documents will satisfy the written plan requirement. According to Architect, "While the regulations anticipate a single document per plan, they allow for the possibility that an employer may sponsor multiple 403(b) plans. They also allow that a collection of documents may potentially constitute the plan." This collection of documents can include the following:

- a formal plan document,
- state statutes and regulations,



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- administrative procedures,
- annuity contracts and custodial agreements,
- lists of authorized providers and products, and
- service agreements setting forth the administrative responsibilities of authorized providers.

Even employers seeking to establish a single written plan document are likely to rely on outside documents as part of the plan, including the contracts and accounts authorized under the plan as well as the lists of authorized providers. Architect adds: "In any event, the key to satisfying the requirement with a collection of documents is, simply, to actually collect the documents into one place to demonstrate to concerned parties (and to the IRS in the event of an audit) that the requirements are satisfied." Employees can expect many plan providers to offer up sample plan documents.

Title I of ERISA

One critical question that arose during the webcast was whether the written plan would subject the arrangement to Title I of ERISA or to similar fiduciary obligations. Architect pointed out that governmental plans (including plans of public school districts, public colleges and universities, and public hospitals) and non-electing church plans are exempt from Title I of ERISA. Moreover, while state-defined-benefit pension systems are frequently subject to fiduciary standards under state law, those specific pension system statutes rarely if ever apply to voluntary 403(b) programs available to employees who participate in those same state pension systems. (Plan sponsors should always consult with legal counsel for guidance on specific state and local laws and regulations applicable to their plans.) In the case of private tax-exempt employers, the DOL has released guidance on the application of Title I of ERISA to plans sponsored by those organizations in light of the final 403(b) regulations.

What about transfers?

The regulations restrict transfers to three types.

1. **Transfers within the plan, referred to as "exchanges."** These transfers may be made only to contracts and accounts identified under the plan. These may include contracts or accounts to which contributions may also be made and may also include contracts or accounts for which the provider has an agreement with the plan sponsor to provide compliance support, including relevant data sharing between the employer and the provider.
2. **Transfers to another plan, referred to as "plan-to-plan transfers."** These transfers may be made to another plan maintained by a current or former employer of the participant.



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3. **Transfers to a state retirement system to purchase defined-benefit plan service credits.** These already exist in current law.

It's important to understand that the first two transfer types listed above are subject to specific requirements including:

- The sending and receiving plans must *both* permit the transfer (in the case of an intra-plan transfer, or exchange, both are the same).
- The transferred amount must be subject to distribution restrictions that are not less than those imposed under the previous plan, contract, or account.
- The entire "accumulated benefit" (full or partial, and adjusted for applicable surrender charges, as appropriate) is transferred.

Employer Involvement, Fiduciary Responsibilities

Nothing in the final 403(b) regulations states or implies that employers are fiduciaries with respect to the 403(b) products purchased for their employees. To the contrary, the final regulations confirm that even voluntary 403(b) plans of private tax-exempt employers, which do not enjoy the governmental plan exemption from Title I of ERISA, may still be maintained with very limited employer involvement.

The DOL confirmed this point in a Field Assistance Bulletin that discussed plans of private tax-exempt employees, noting that the continued availability of an existing exemption for voluntary deferral plans depends on the extent of the employer's involvement. However, depending on state law and the scope of the responsibilities that a public employer has elected to assume under the plan, that employer may take on new responsibilities (whether or not characterized as fiduciary responsibilities) that are greater than those imposed under the 403(b) regulations.

Of course, public institutions are free to voluntarily assume fiduciary, or fiduciary-like, responsibilities under their 403(b) plan, assuming there are no restrictions on the assumption of such responsibilities under state law. However, it is important to distinguish between a public employer's tax compliance responsibilities, its legal responsibilities to employees under state law, and whatever nonlegally mandated actions it chooses to take to provide a quality program for its employees. Fiduciary status would increase a plan sponsor's potential liabilities, and an employer should not take action that assumes or implies that it has such responsibilities without careful consideration and unbiased legal advice.



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Other Changes

- **Life insurance.** Life insurance and similar incidental benefits are no longer permitted in 403(b) plans. The final regulations include a transition rule for policies issued before February 14, 2005.
- **Nondiscrimination rules.** The rules that went into effect in 1989 also apply to employer 403(b) contributions and nonelective employee 403(b) contributions made to plans sponsored by private tax-exempt employers (other than churches).
- **Clarification of universal availability.** All 403(b) plans other than church plans are subject to the universal availability requirement, which provides that if the employer permits any employee to make elective deferrals to the plan, the employer must allow all employees to do so, with certain limited exceptions. Examples of exceptions include employees who normally work fewer than 20 hours per week, employees who are not willing to contribute at least \$200 in a year, and employees eligible to defer to another qualifying plan of the same employer.

Additional Resources

- Request IRS publications 4482, 4483, or 4484.
- Visit the [IRS Web site](#).
- Visit NACUBO's [Tax Page](#).

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BIG PICTURE

Taking Health Care Head-On

By Karla Hignite

While worries about the economy might currently trump health care as a concern for most Americans this election season, the two issues remain closely intertwined. And health care continues to be top of mind for employers.

According to Centers for Medicare and Medicaid Services estimates released this February, the U.S. workforce can expect average annual increases of 6.7 percent in health-care spending for the next decade, a pace that will double national health-care spending by 2017 to more than \$4 trillion. The center's forecast factors in higher prices, an aging population, and an increased demand for care.

Meanwhile, the February 2008 report by the Center for Retirement Research, "*Health Care Costs Drive Up the National Retirement Risk Index*," notes that escalating health-care costs are also putting more retirees at risk for not being able to maintain their standard of living in retirement. When rapidly rising health-care costs are factored in to national retirement risk index calculations, the number of households deemed "at risk" swells from 44 percent to 61 percent.

While estimates vary as to how much an individual or couple may need to have saved to cover medical expenses once retired, the figures are sobering. A study by Fidelity Investments released in March 2008 states that a retiring couple would need savings of about \$225,000 to cover medical costs once retired. A more conservative, albeit still daunting, figure released in February by the Center for Retirement Research at Boston College put the cost at \$206,000 for a couple to ensure health-care coverage. A 2006 study by [Employee Benefit Research Institute](#) eclipses both those sums. The EBRI study showed that a couple, both age 65, retiring as of July 2006 and living to average life expectancy might require \$295,000 to cover health insurance premiums and out-of-pocket expenses. Live to 95 and those required savings jump as high as \$550,000.

Low Consumer Confidence

What's a worker to do in the face of health-care cost increases that continually surpass the rate of inflation and usually outpace pay raises? According to EBRI's 2007 Health Confidence Survey, a significant percentage of workers with health insurance who have had to shell out more for their health care report specific actions they've taken to help cope with higher costs.



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- 81 percent said they try to take better care of themselves, up from 57 percent in 2005.
- 66 percent talk to their doctors more carefully about costs and treatment options, up from 57 percent in 2005.
- 64 percent visit the doctor only for more serious symptoms or conditions, up from 54 percent in 2005.
- 50 percent delay visiting the doctor, up from 40 percent in 2005.
- 28 percent either don't fill or skip doses of prescribed medications, up from 21 percent in 2005.

The survey also indicates that this group reported negative impacts on household finances, most often resulting in decreased contributions to savings (52 percent) and retirement (30 percent), but also difficulty paying bills (36 percent) and buying basic necessities (29 percent).

EBRI's just-released 2008 Retirement Confidence Survey draws an even stronger connection between health-care concerns and economic woes. According to the 2008 survey, the 18th annual survey, nearly half of retirees (44 percent) have spent more than they expected on health-care expenses, and more than half (54 percent) say they are more concerned about their financial future today than they were when they first retired. That's up 14 percentage points from only one year ago. As for current workers, the percentage that expects to have access to employer-paid health insurance in retirement dropped from 42 percent in 2007 to 34 percent this year. Concerns about health costs combined with worries about the economy and falling home values have resulted in the lowest level of confidence in seven years, cutting across all income groups and age levels. This year's survey also saw the biggest single-year drop in the survey's history with regard to the percentage of workers who say they are very confident about having enough money for a comfortable retirement, down 9 percentage points from 27 percent in 2007 to 18 percent in 2008.

Employer Response

How are institutions responding? As colleges and universities continue to grapple with the challenge of remaining competitive with an attractive benefits package for employees, more are focusing on specific measures to benefit the institution and its employees. Approaches include gaining a better understanding about employee sub-populations and their specific needs and potential risks, educating employees about their benefits, pushing wellness and prevention to avoid large and unnecessary claims down the road, using norms and data to adjust coverage, and helping employees understand their need to save for future retirement medical costs.



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1. Segmentation

With the boomer generation slowly rolling into retirement and a younger demographic of employees moving into the higher education workforce, there is good reason why communicating health benefits to employees may seem a lot more complex these days. At Aetna, customer segmentation is a first step to understanding the specific health-care needs of various worker segments, including best ways to communicate benefits to different groups of employees.

Segmentation is also necessary to understand how to attend to higher-risk populations. For instance, along with an aging workforce comes greater numbers of employees who may have one or more chronic conditions. Knowing your audience and claims history allows you to focus on specific areas that are most prevalent and costly to your institution, whether that is diabetes, hypertension, or high cholesterol, says Bob O'Brien, Aetna's national practice lead for higher education. "Taking a census of employees can help institutions provide better messaging about wellness measures that employees could take to mitigate the prevalence of common illnesses and disease." (See companion article, "[Segmenting Risk](#)," in this issue.)

Understanding the prevalence of certain illnesses and conditions among your employee population also allows an institution to develop programs and tools to help employees manage a particular condition. That may take the form of access to online programs to assist with weight management. Or it could mean setting a plan design so that if there are certain medications critical to an employee's condition, you eliminate any financial barriers for an employee to stay on top of his or her disease or illness, since individuals who don't take care of conditions early on can become seriously ill, notes O'Brien.

Targeting messages to your youngest cohort may be just as important, notes O'Brien. "If you can get them engaged early in good nutrition and exercise, over time that can have a dramatic effect on lowering your overall risk profile, which can translate into lower rates for all employees."

2. Communication

Also important to understand is that different benefits within your package will appeal to different employee segments. The importance of segmentation in this regard is to target messages to specific groups based on what they most need to know to be healthy by making better use of their benefits. "The goal is to engage employees to be active in their own health care," says John Cheng, Aetna's vice president of marketing.



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"It's not about changing the benefit being offered to the collective group but customizing your message to appeal and engage different groups," adds O'Brien. "Ultimately, you want all groups to understand the value of their benefits."

When an institution engages in segmentation and begins thinking about tailoring specific messages to different audiences, it may help to focus first on either your largest segment or your most at-risk group of employees, says Cheng. Since most employees aren't aware of their full range of benefits and probably use only 20 percent of plan offerings on average, you may want to target a particular benefit for improvement and then communicate the incentives for employees to participate, adds Cheng.

Part of any message should include communicating the value of the benefit to help employees understand drivers that increase costs, including lifestyle choices, diet, and exercise, says O'Brien. "There should be full transparency around costs, for employers and employees, so that everyone has a better understanding about costs and can make choices accordingly." (See companion article, "[Modeling Costs, Pushing Prevention](#)," in this issue.)

3. Wellness and Prevention

One message getting more attention on college and university campuses these days centers on wellness and prevention, since a healthier workforce is also more productive and less costly to insure. Yet, one obstacle for many employees may be the convenience factor—having time to schedule fitness into their hectic days.

As part of its wellness program, Texas A&M University-Corpus Christi instituted a lottery system to award 25 employees each academic semester with 30 minutes of additional excused time off during their lunch hour, three days a week, to exercise or attend a fitness class. Employees spend one-on-one time with personal trainers and also meet as a group to talk about wellness issues, monitoring progress toward personal goals throughout the semester.

"We try to make wellness opportunities as convenient for employees as possible to encourage more to participate," says Kathryn Funk-Baxter, associate vice president for finance and administration. The university also offers an annual health fair at which all students, faculty, and staff can be tested for glucose levels and blood pressure. On-campus disbursement of annual flu shots is offered at minimal cost at the beginning of each flu season. And, space is provided for various support programs such as Weight Watchers to meet on campus at a convenient location and time for employees.



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4. Risk Management

From a strategic-planning standpoint and from a health-and-wellness perspective, it's important to look to industry norms and how your employees compare, says Brian Gutierrez, vice chancellor, finance and administration, Texas Christian University, Fort Worth. TCU has entered a new level of strategic health-care assessment, applying a risk management approach to health care and using metrics and annual loss runs to drive decisions about benefits.

"We've spent the past two years working with our broker and carrier to identify cost drivers to determine where we are in relation to national norms and where our claims tend to cluster within our population so that we can better address the specific health-care needs of our workforce," explains Jill Laster, TCU's associate vice chancellor, human resources and risk management.

By comparing data sets that include claims drivers, average age of employees, and so forth, the university can better assess if what it currently provides in its underlying coverage to help employees with diabetes, high blood pressure, high cholesterol, or other conditions is adequate for them to stay well. In some instances, data mining has led to specific adjustments. "In reviewing needs specific to faculty, many of whom are engaged in international travel, we realized that while our coverage provided care if employees became sick while overseas, it did not cover preventive inoculations before they left. After pleading our case to our carrier, we were able to update our coverage to include this important benefit," says Laster.

"Our approach is not to focus on amount of claims but on national norms and compliance of care," adds Gutierrez. In taking this direction, TCU first looked at the percentage of its employees that receive annual diagnostic exams, such as mammograms, or annual eye exams for diabetics. "We found we were below the national norm," explains Laster. Now, by trying to increase compliance with national norms and doctor directives, TCU focuses on optimizing around the cost driver elements associated with health care. "Currently we are taking a hard look at maintenance drugs to ensure compliance at early stages so that employees won't develop complications that later become disruptive to their health," says Laster.

5. Early Intervention

For many employees, financing general retirement security may seem challenge enough, but the reality is that workers must become more aware of the limitations of Medicare and more proactive in saving for their own future share of health insurance coverage and out-of-pocket medical expenses. While the message may have time to sink in for younger employees, some nearing retirement may



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have tough decisions to make about whether to retire before or after Medicare eligibility and lifestyle changes that may be required post payroll. This is already being evidenced within higher education, with more faculty members choosing to delay retirement or transition to a phased retirement.

Research from [Emeriti Retirement Health Solutions](#) shows that individuals at institutions with a significant post-retirement health insurance benefit retire 18 to 36 months earlier on average compared to peers from institutions that do not have a substantial post-retirement benefit. Emeriti, a three-year-old consortium of 52 member higher education institutions and related tax-exempt organizations, represents approximately 19,000 active employees and 1,900 insured retirees nationwide. The Emeriti program offers a comprehensive defined-contribution retiree health-care arrangement for higher education faculty and staff, combining tax-advantaged investment vehicles with tax-free distributions for group retiree health insurance plans integrating with Medicare and tax-free reimbursement of other out-of-pocket medical expenses.

According to Emeriti President Kenneth Cool, the current system in the United States doesn't do an adequate job of preparing employees to plan for the difficult decisions they will need to make about benefit coverage and other health-care costs once they retire. These include understanding differences between medical insurance options, how to coordinate supplemental coverage with Medicare, how to estimate prescription drug and other out-of-pocket expenses, and how to make informed decisions about long-term care.

"Most retirees face enormous sticker shock because they haven't been trained to understand the totality of health-care costs. People nearing retirement often don't understand that health care is such a large and increasing component of their overall retirement spend and are sometimes stunned to learn that health expenses might consume one quarter to one third of their retirement savings, especially as life expectancies continue to expand," says Cool. What tends to exacerbate the problem is that traditional defined-benefit plans don't prepare employees to think in terms of coming up with their share of overall costs, adds Cool.

In trying to control their exposure to rising insurance premium expenses, institutions tend to focus on that one item and don't often consider the strategic role of education in preparing individuals to plan and set aside assets for their comprehensive health-care needs in life after work, argues Cool. "That will need to change, for the benefit of employees and employers," says Cool. "Health care is always a partnership."

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By Karla Hignite

Editor's note: Clint Davidson will be copresenter of a webinar sponsored by CUPA-HR on the topic, "ROI of Wellness Programs," on May 29, 2008. For more information, go to www.cupa-hr.org.

More than half of the nation's cost for health care stems from chronic disease, resulting primarily from the high risk behaviors of individuals. Recognizing that one of the best remaining options for controlling health-care costs was to create a healthier workforce, thereby reducing the number and per-person cost of filed claims, Duke University launched a new employee health-care program, Duke Prospective Health, in 2003. The program is designed to help identify an individual's risk for developing a disease or chronic condition before it is known or occurs. While Duke expects to see lower claims costs in the future as one measure of success, the program represents an ideological shift in that Duke didn't go into this with cost savings as the sole priority, but rather, with the intention of improving employee wellness and productivity.

Prescription for Success

In identifying an approach to address the needs of the Duke workforce relative to health and wellness, Duke had to figure out an effective strategy for engaging individuals and their health-care providers to work together on preventive practices and disease management. "Duke's strong emphasis with the program is to engage with faculty and staff regarding health and health care," said Clint Davidson, the university's vice president of human resources. While disease-management programs have become prevalent, what is often missing is a sense of partnership between patients and their care providers. One primary focus behind Duke's Prospective Health program centers on ongoing communication with employees and health-care providers, creating compelling arguments for why it is in the interest of employees to be involved in their health care and for providers to become more involved with their patients.

Since many patients often don't get the opportunity to spend quality time with their physicians, Duke developed the concept of health-care coaches and care managers to play an intermediary role with employees and their providers. These health-care coaches and care managers are employees of Duke Prospective Health, a third-party administrator. This relationship ensures employee privacy regarding matters of personal health and treatment. Coaches and care managers are clinically qualified



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individuals who assist patients with understanding diagnosis and treatment options and who can accompany patients on doctor visits. Their participation helps foster a strong patient-doctor relationship and helps ensure patient follow through on treatment or preventive health management that is tailored to an individual based on his or her current or predisposed risk for developing a condition.

Engaging Employees

Duke's Prospective Health is voluntary, open to all employees covered by a Duke health plan and offered at no additional cost to employees. As a first step, employees must complete a health risk self-assessment. This is a simple questionnaire about lifestyle and daily habits including exercise, nutrition, and stress. In combination with other health-care information, the assessment helps identify potential health risks and is used to develop a personalized health plan.

Depending on an individual's specific health-care needs, support may include assignment to a health-care coach who works on specific issues with a group of participants. An employee might also work one-on-one with a care manager who coordinates care directly with a team of health-care professionals or helps connect the individual with specific Duke health-and-wellness programs that focus on fitness, weight loss and nutrition, cholesterol and blood pressure, or smoking cessation, among others.

Developing a Health Census

Depending on their potential health risks, participants are grouped into one of three categories.

Intensive. These individuals are considered high risk and already have one or more chronic conditions. In addition to working with health-care coaches, they receive monthly calls from their care managers, who coordinate with the individual's primary care physician to help them reach specific goals.

Enhanced. These participants include those at risk for developing chronic conditions and disease. They work with care managers to reduce their specific risk factors.

Core. These participants have the lowest risk for developing chronic conditions or disease. As part of their care plan, these individuals remain connected to their primary physicians and receive regular educational materials, participate in Duke's wellness program, and keep track of progress toward their personal health goals online.



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While the intensive and enhanced groups represent the minority of Duke employees—roughly 4,500 among 30,000-plus employees—they account for a much greater percentage of per-person medical claims costs. For instance, costs for the intensive group total more than seven times the cost of participants in the core group, and costs for the enhanced group are more than twice that of the core group. For this reason, Duke focused its initial efforts on increasing the participation of those in the intensive and enhanced groups.

Measurable Outcomes

Duke invested more than \$2 million to launch its Prospective Health program. "We soon will reach the five-year anniversary of the program, at which time we plan to engage in a more aggressive analysis of the program. However, early indicators suggest the program is already having a dramatic impact," says Davidson.

- Overall medical expenses of Duke's original intensive population have decreased by more than \$1 million since 2003.
- Claims expense for the past four years has been less than the university budgeted and less than the national average. Claims costs have gone down significantly within the intensive group. Per-member, per-month claims costs for these individuals decreased from approximately \$510 in 2003 to \$377 in 2007.
- Hospital admissions have decreased by 17.9 percent since 2003, at an average savings of \$4,343. The overall length of a hospital stay has also decreased by one day since 2003, at an average savings of \$1,083 per day. Likewise, emergency room visits, at an average cost of \$966, have decreased appropriately in proportion to a rise in urgent care visits, which on average cost only \$80.
- Since the program was rolled out, 56 percent of Duke's employees have completed the health risk appraisal. Approximately 50 percent of individuals within the intensive and enhanced groups are actively engaged in care management programs.

To encourage all employees to participate in Duke's Prospective Health program, gift certificates and financial credits are provided for prescription drug co-pays to individuals who are active in the program. In attempts to further create a high level of involvement and focus on wellness, the university plans to introduce financial incentives for employees to remain healthy when they engage in a range of activities to manage their health. These may include going through a tobacco cessation course, or establishing certain goals such as losing weight or reducing cholesterol.



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Duke will continue to monitor the success of the program based on various measures, including the percentage of employees who are actively engaged with health coaches; active in preventive care through routine physicals, mammograms, and so forth; and by various utilization metrics such as office visits, hospital and emergency room visits, and total medical costs.

As a result of successful early interventions and engaging all employees in healthier habits, Duke expects to continue to see reduced claims costs from higher-risk employee groups. University leaders believe that will translate not only into greater savings for the institution, but also improved health and productivity for its employees.

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SNAPSHOT

Modeling Costs, Pushing Prevention

By Maria J. Martinez and Dawn D. Peterson



Editor's Note: *Related Business Officer articles about the Independent Colleges and Universities Benefits Association appear in the July-August 2006 issue, "Battling Health Care Costs: Round Two," and in the September 2003 issue, "Coming Together to Cut Health Care Costs."*

Five years ago Rollins College joined the Independent Colleges and Universities Benefits Association, a consortium of 11 Florida institutions that currently covers more than 6,500 employees. One immediate benefit of joining ICUBA was better purchasing power that translated into lower premium rates for the college and our employees. While we experienced higher than normal claims this past year, requiring us to adjust premiums accordingly, for the previous four years, the college's premiums have been below national averages.

Three years ago, the consortium redesigned the health benefit to offer a consumer-directed health-care plan that gives participants discretion over how to spend an annual employer-provided allotment designated for health care. The plan includes individual health reimbursement accounts (HRAs) for each employee. Each institution in the consortium is free to offer different options for its employees with regard to premium strategy and employer funding levels of employee HRAs.





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Spending Scenarios

A big part of our success in getting employees enrolled in this new consumer-directed model at Rollins has been an aggressive education campaign to help employees understand what the plan offers and how it works. In addition to group presentations, HR staff will meet with employees one-on-one to walk through a modeling program that staff designed to show employees what their out-of-pocket costs would be if, for instance, they had three doctor's visits, a dozen prescription co-pays, and one X-ray during the course of the year. We can show the spending scenario for each of the various deductible options offered, calculating an employee's premium, HRA allotment, and maximum out-of-pocket costs.

In total, 580 of the college's 660 employees are currently enrolled in one of our four plans. This year during our open enrollment period we moved about 50 percent of employees in our high-premium plan into a lower-premium, higher-deductible risk/reward plan for which we also fund the employee HRA at a higher rate. One thing we've found through this education process is that many employees tend to equate higher-premium plans with better coverage. When we actually sit down with employees and explain how the consumer-directed model and health reimbursement accounts work, they begin to understand that all our plans offer the same covered benefits and that this model allows them to better control their costs based on choices they make. We also emphasize another important point about the HRA—namely, that once employees meet a three-year vesting period, the account is portable if they leave Rollins.

All of our materials are available from our Web site, which also includes cost comparisons for all plans as well as health plan calculator tools.

Free for All

A key benefit of the consortium's plan includes 100 percent coverage for all preventive services for all covered employees and family members. These services include mammograms, bone mineral density screenings, colorectal cancer screenings, colonoscopies, glucose testing, lipid panels, EKG/ECG, pap test, prostate cancer screenings, and adult immunizations and well-child exams, among other services.

As a consortium, we've begun to amass data for each institution that includes employee demographics, claims costs, and use of services so that we have a better understanding of how individual institution populations compare to the whole. This allows participating institutions to see where they may need to spend more time in education efforts. One thing we learned about our



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employee population at Rollins is that, despite our aggressive education campaign promoting wellness, many younger workers, particularly male employees, are not taking full advantage of the preventive services offered. The implication is that we need to continue to push the message to employees that these services are free and could help prevent future illness.

For instance, for the 2006-2007 plan year, the percentage of Rollins employees below the recommended number of free preventive services was dramatically higher for all male categories:

- Males 20-39 are missing out on 69 percent of services.
- Males 40-49 are missing out on 57 percent of services.
- Males 50-64 are missing out on 56 percent of services.
- Females 20-39 are missing out on 21 percent of services.
- Females 40-49 are missing out on 46 percent of services.
- Females 50-64 are missing out on 35 percent of services.

Comparing Co-Pays

Another education challenge we've faced involves our prescription drug benefit. In addition to full coverage of preventive services, all plans offered through Rollins include the same prescription drug co-pay rates. We've made a big push to try to help employees understand that name-brand drugs are not necessarily better for them. We explain that many advertised drugs have a generic component or formulary in the same family and provide Web sites for employees to cross-check the chemical composition of name-brand prescriptions with generics. We emphasize that not only does choosing available generic options help save the plan money, but that doing so can also save the employee significant out-of-pocket expense, since generic co-pays require a \$10 co-pay versus a \$55 co-pay for name-brand drugs.

Collective Costs

At Rollins, we believe that helping employees understand the true cost of health care includes showing them how their individual costs are impacted by the health and decisions of the group as a whole. Our presentations include sharing with employees information about what the college pays versus employee costs, total claims costs for the year and how these factor into premium adjustments, total prescription drug costs, and so forth. This bigger-picture breakdown gives employees a better sense of how their own choices impact overall costs for the college and their own annual premiums, and it underscores the important role they can play in helping to keep health-care costs under control.



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PERSPECTIVE

Return on People

By Karla Hignite

*Jac Fitz-enz is chief executive officer of [Human Capital Source](#), San Jose, California. Fitz-enz founded the Saratoga Institute, the first organization that collected data for providing benchmarks to effectively measure human capital. He is the author of more than 200 articles and eight books, including *How to Measure Human Resource Management* (McGraw-Hill, 2001), *The ROI of Human Capital: Measuring the Economic Value of Employee Performance* (AMACOM, 2000), and *The 8 Practices of Exceptional Companies: How Great Organizations Make the Most of Their Human Assets* (Amacom, 1995). His current work focuses on connecting human capital investments to financial, marketing, and operating outcomes. In this interview with HR Horizons, Fitz-enz discusses the people measures that are most important.*

What is the most important thing for an organization to measure in terms of its human talent resources?

Fitz-enz: The single most important metric is turnover. However, simply recording the change in turnover rate is not enough. We need to look at secondary questions such as who is leaving, why, and at what point in their tenure. Also key is to look at mission-critical positions, since turnover there can cause major problems.

What is the best way to ensure stability of key talent in key roles?

Fitz-enz: Do an employee survey focused on engagement. Any evidence of disengagement is the beginning of turnover. A survey can also point to what you may need to do to remedy the situation. Often the three biggest root causes of disengagement relate to an employee's supervisor, pay, or lack of growth opportunities.

In what area or on what measurements do organizations place too much emphasis?



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Fitz-enz: Transactions—how much did we do, what did it cost, how many people received training, and so forth. All these are cost metrics. In the beginning, we did this first to defend HR and show how much we did. Second, measuring transactions is easier than measuring strategic-level activity and results. Today, we need to look for effects of our work in terms of improvements in skill (test for it) and gains in productivity, quality, or service.

Put another way, we spend too much time measuring process and not enough time measuring the value of results.

What is the most important thing for leaders to keep in mind as they work to balance a strong focus on human assets and on institutional financial health?

Fitz-enz: Nothing happens without people. All other investments are passive assets: equipment, buildings, and so forth. These only depreciate. Only people appreciate through learning and experience.

And how can you measure your return on people investments?

Fitz-enz: Again, many get stuck using transaction metrics. How much on average does it cost to hire? On average, what does an employee's compensation and benefits package cost? These are ongoing measures of efficiency that are easy enough to track and adjust up or down depending on the type of job. But they remain transaction metrics until you look beyond costs to value. So, even if you spend \$X or X percent per employee on training, what does that really mean? Why not spend 10 times that amount? What you need to do is to get to the value of that investment as it translates to greater productivity, reduced turnover, or improved customer service. The problem is that many organizations don't go beyond the pure cost measurements. And the problem of overemphasizing cost is that you become a cost center, not a value center. What you want to do is to measure value added as opposed to cost incurred.

What have you learned from your years of observing how to measure performance that has been contrary to what you had predicted at the outset?

Fitz-enz: I thought people would embrace sophisticated measurement much sooner than they did. It took about a dozen years from the time I introduced metrics in 1978 until a substantial number of people started measuring human capital. Then most got stuck in transaction metrics. Only within the past several years have a significant number of people started applying value and return-on-investment measures.



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What force will have the biggest impact on human resource management in the next decade?

Fitz-enz: Outsourcing is changing the way organizations are structured. This changes communication patterns and power bases. It forces people to become program managers as opposed to doers, and this requires different skills. HR is gradually turning into a center for program management. Soon, the only thing left will be strategy, and if HR doesn't learn to be strategic, it will cease to exist.

As changing demographics bring forth a more diverse generation of leaders, how will these new leaders likely reshape the focus on human capital?

Fitz-enz: Education and the shift to service over manufacturing are changing how people think and what they value. Now the value is on discretionary thought as opposed to manual labor. Also, with the invasion of technology, leaders have to learn how to leverage technology through human skill and knowledge. This is quite different from teaching people how to use a stamping press or a cutting machine. As technology takes over more of the manual processes, people are now free to think more deeply about the effects and attributes of human behavior and how to leverage those as they consider making further investments in people.

How do you measure the value of technology-related investments versus people investments?

Fitz-enz: This depends on what the job is, since there are different outputs depending on whether you are a bank teller or a systems programmer. Bank tellers are concerned about quality. They don't want to make errors that cause accounts not to balance at the end of the day. A strong second is customer service, since you want the repeat business of those who may buy additional services. And third, you want to retain the customers that you do have.

With technology, we can automate the teller line. Because you still need to train that teller to use the new technology, there is a people investment. The goal is by investing in technology and in people to use the technology, you will see errors reduced. As a result, tellers can process more error-free transactions more quickly, plus spend more time serving and selling to the customer.

Where technology is involved, you first need to separate technology investments from people investments, but then you must bring those back together to gain a better understanding of the value added by combining these two different types of investments. To get the full picture, you also must



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measure value based on more than pure costs. In all cases, you can apply five basic measures to help assess the value of your investments. These include:

1. Cost—for instance, cost per unit of whatever you are producing.
2. Time—the cycle required to accomplish a task or produce a product unit.
3. Quantity—how much you produce with a given amount of input.
4. Quality—what the error rate is or how much rework is required.
5. Human response—how the customer feels about the product quality or service.

What do you envision as the next big challenge for successfully managing human capital and tapping human potential?

Fitz-enz: Predictability. We know how to measure the past through accounting, sales, and production variables. But now the advantage shifts to those who know how to anticipate the return on investments. We are already using leading indicators and measures of intangibles such as leadership, engagement, culture, and readiness and turning lagging information into visions of the future. We are doing this now using a new management system that is future-focused and integrated for greater effectiveness.

In one simple example, if we survey employees about the leadership of their company and they say they are not happy, then you have a high predictability rate that the company will experience significant employee disengagement and turnover, and likely a drop in customer service levels. All soft issues are what is at the heart of any people-centric organization and are ultimately what make a difference. You might equip an office with cutting-edge equipment and technology, but if employees don't like their supervisors or coworkers and are unhappy with what they are paid, then your technology investments are a wasted effort.

For instance, let's say your organization's turnover rate is 18 percent. That's a lagging indicator that tells you what the case was. The fundamental question to any lagging indicator is "So what?" You can't change the 18 percent because that is already history. But what is driving the 18 percent? When you take that lagging indicator to determine what the cause is, you turn this into a leading indicator through further analysis to find its cause. This goes back to the value of surveying employees to determine causes of disengagement: why do employees leave, at what point (6 months or 6 years or 10 years), what was wrong when they left, where did they go, what outside inducement such as compensation caused them to leave, and so forth. This predictive model measures these key leading indicators to allow leaders to circumvent problematic trends and make necessary investments to change course or to invest further in positive outcomes.



STRATEGIC
HUMAN RESOURCE ISSUES
IN HIGHER EDUCATION

HORIZONS

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Volume 3, Issue 2, April 2008

RESOURCE

HR: The Next Chapter

The seventh edition of NACUBO's *College and University Business Administration*, the association's core reference work for higher education management, includes a soon-to-be-released chapter on human resources. (Prior to publication of the full 1,000-page hardbound book, individual chapters are available online as they are completed.)

As stated in the chapter's introduction:

Higher education has become increasingly competitive in its quest for faculty, students, research dollars, and external support. At the same time, colleges and universities are being asked to be more productive and efficient, and to do so within a more complex risk and regulatory environment. No longer ivory towers, higher education institutions now acknowledge that while they may not be businesses, they must pursue their markets with a business-like orientation and discipline. They have come to appreciate that all personnel, whether faculty or staff, must perform at optimal levels of effectiveness. And this, in turn, opens up new demands and opportunities for the human resources function to increase the value it contributes to their institutions.

Specific topics covered within the chapter include human resources as a strategic resource, the employment cycle, compensation and rewards, employee relations, legal aspects of human resources, employee benefits, and retirement programs. The chapter is sponsored by Fidelity Investments. To order, go to www.nacubo.org/bookstore. Cost is \$7 for members and \$10 for nonmembers; item No. NC4053.



BIG PICTURE

Will They Stay or Go?

By Karla Hignite

According to the 2007 [TIAA-CREF Institute](#) Faculty Generations Survey, "[Do Great Minds Think Alike? Faculty Perspectives on Career and Retirement](#)," 40 percent of faculty are very likely to accept an offer for phased retirement, versus only 22 percent who would very likely accept an early retirement buyout.

Delaying retirement isn't a growing phenomenon among faculty only. A May 2008 report of an [Urban Institute](#) study indicates that 14 percent of income on average for adults ages 65 to 74 in 2003 was spent on out-of-pocket health-care costs. Those aged 85 and older spent 22 percent for health care. The ripple effect showed older men and older women who expected high health-care costs for their spouses or for themselves delaying retirement by about 13 months and 12 months, respectively. The report, "[Rising Health Care Costs Lead Workers to Delay Retirement](#)," suggests that this greater out-of-pocket spending for health care may signal a growing threat to the long-term financial security of more Americans.

The resulting trend toward delaying retirement may be viewed as a two-pronged strategy by individuals: letting employers pay a greater share of health-care costs while also allowing employees to increase their retirement nest egg to make future health-care costs more affordable.

The Part-Time Pull

Meanwhile, a recent [Gallup Poll](#) has found that more Americans are already thinking differently about how they will fund their retirements, which includes plans by more Americans to work part time. "[A Shift in How Americans Plan to Fund Their Retirement](#)," released on May 8, 2008, reports that while only 3 percent of today's retirees indicate that a significant source of their retirement income is coming from part-time work, approximately 20 percent of future retirees say they expect part-time work to fund a major portion of their retirement.

Future retirees also have lower expectations about relying on Social Security for their financial security. Only 31 percent of future retirees look to Social Security as a major income source, versus the 56 percent of current retirees who indicate the benefit is a substantive income source. Conversely,



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while only 20 percent of current retirees rely on tax-deferred investment accounts, 54 percent of future retirees anticipate having such accounts provide significant retirement income.

The poll suggests that providing opportunities for more future retirees to engage in part-time work or to delay retirement could benefit all: the federal government, through reducing some of the pressure on the Social Security system; employers, by helping fill projected labor shortages; and future retirees, by providing additional income to help them retire more comfortably.

Fears of Personal Financial Decline

That message of a more comfortable retirement is on the minds of future retirees. Another Gallup Poll, "[Fewer Americans Expect a Comfortable Retirement](#)," published on May 6, suggests that even while Americans are barraged with economic woes—from steadily rising gas prices to projected surges in food and health-care costs to declining home values and job losses—a chief concern centers on a fear that they won't be able to retire comfortably. Only 46 percent of Americans polled who have yet to retire expect to live comfortably in their retirement, down 7 percentage points from one year ago and down 13 points since 2002. Worries about having enough money for retirement (63 percent) outpace anxiety about an inability to pay medical costs in connection with a serious accident or illness (56 percent). While 69 percent of Americans say they currently have enough money to live comfortably, that number is down from 75 percent in 2002. Summed up bluntly: One in four Americans is currently "very worried" they won't be able to enjoy their current standard of living once retired.

Big questions for employers going forward include not only how to better accommodate more older workers on their payrolls—whether through jobs that are less demanding physically or through more part-time and flexible work arrangements—but also how to help all employees prepare for their eventual retirement.

Smart About Retirement

Numerous studies point to a much greater need for improved financial literacy among all Americans. Among them is an Urban Institute study published in May 2008, "[Capitalizing on the Economic Value of Older Adults' Work](#)," which highlights the conflict for workers between the lure of early-retirement incentives and early access to Social Security benefits on the one hand, and on the other hand, a lack of financial literacy among many who may not understand penalties for early retirement and the future financial security they may forsake as a result. "With the decline in defined benefit pensions, more responsibility for retirement planning is shifting to the individual, so society needs to better



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educate people about savings opportunities and risks," conclude the study's participants, which included researchers, employers, and policymakers.

While Americans arguably need short-term relief stemming from a national economic downturn and higher consumer prices for almost everything, they may also need help with their long-term savings outlook. In a TIAA-CREF Institute report published in February, "[Adjusting Retirement Goals and Savings Behavior: The Role of Financial Education](#)," authors Robert Clark and Madeleine d'Ambrosio conclude that "Inadequate financial knowledge may cause workers to start saving too late in life or save too little to realize their stated retirement goals. As a result, they are unlikely to achieve an optimal balance between consumption while working and consumption in retirement."

In truth, many Americans may not possess the knowledge they need for developing realistic retirement goals and the strategies to reach those goals. Employer-sponsored education programs not only provide a great savings vehicle but also disseminate information that can increase the financial literacy of their employees, the report's authors argue. They suggest that government regulations might also be needed to stimulate broad-based programs aimed at financial education, such as requiring companies that provide pension plans to offer financial education.

The study likewise stresses the need for ongoing monitoring and evaluation of financial literacy programs. While some employers offer financial information about retirement saving options, or have hired outside financial advisors to assist employees with developing retirement savings plans, or are instituting automatic enrollment in employer-provided savings programs, most of these practices are still voluntary.

Prepping Pre-Retirees

The bottom-line finding: Financial education matters. "Quality educational programs encourage workers to reassess their retirement goals, to make more realistic plans, and to change their behavior in order to achieve their objectives," conclude the study's authors. "As members of the baby boom cohort near and enter retirement, providing financial education programs for pre-retirees should become more of a national priority. First, pre-retirees need to have a better understanding of many of the one-time, irreversible choices that they must make in the next few years. These include whether to annuitize some or all of these retirement savings, when to start receiving Social Security benefits, and when to leave their career jobs. In addition, pre-retirees should develop investment plans about how to manage their assets during their retirement years. Employers interested in their older workers moving smoothly from full-time work into retirement should consider offering pre-retirement planning



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programs, evaluating these programs, and then modifying them to best fit the needs of their workers."

Whose responsibility is it to ensure that employees save enough for their retirement? Employers, or employees? According to TIAA-CREF Institute's faculty generations survey, responsibility rests with both parties. When asked, "Who has primary responsibility for ensuring that someone has enough money for a financially secure retirement?," 63 percent of faculty surveyed responded that it is the responsibility of the individual; 32 percent put the onus on the institution. Those most likely to name the institution as the key bearer of responsibility were early boomers (41 percent), who are also those most likely to have a defined benefit plan as a primary source of retirement funding.

Regardless of who bears primary responsibility, most institutions could likely do more to help employees sort through their retirement income worries, including what they might realistically expect from Social Security, and by how much they may need to increase their personal savings.

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PERSPECTIVE

Maintaining A Healthy Flow

Dallas Salisbury is president and CEO of [Employee Benefit Research Institute](#) and chairman of [American Savings Educational Council](#), a national coalition of public- and private-sector institutions committed to making saving and retirement planning a priority for all Americans. ASEC partners collaborate on financial security initiatives that include national educational and public service campaigns, fact sheets, and retirement planning worksheets and calculators. ASEC educational materials are available at www.choosetosave.org.

What is the biggest challenge for higher education institutions with regard to ensuring employee financial preparedness?

Salisbury: A critical challenge facing colleges and universities is managing employee transition into retirement. One component of that relates to health-care expenses and whether individuals who would like to retire prior to Medicare eligibility are able to do so. This will depend in large part on what is available to them in the way of supplemental health coverage and how affordable that may be. The



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strategic question any enterprise must first answer is: What is our role in the marketplace relative to workforce flow?

For instance, is your objective to get people to a point where they are able to retire with adequate incomes and health coverage by a particular age—perhaps by age 66 when they are then eligible for full Social Security and Medicare? Once you identify your objective, the next question centers on what this will require of the organization and of the individual.

Are there specific considerations for colleges and universities?

Salisbury: There are many sub-objectives to sort out for higher education institutions. For instance, you may determine that age 66 is the desired end point. Yet, if you hired someone at full professor at age 50, do you believe you have an obligation to get that individual to adequacy at age 66 relative to the faculty member you hired at age 25 who has been with the institution for 41 years? You may decide that you want to provide adequacy to 60 percent income replacement for those with 35 years of service—with a cap at that percentage so that the person with 41 years of service still gets only 60 percent replacement—versus 27 percent income replacement for the person you hired at age 50, based on adjustments for time of service. Or you may decide your objective is to provide the same level of income replacement for all faculty no matter when you hired them. All this is relevant to a defined benefit plan sponsor.

It becomes more complicated for the institution that sponsors a defined contribution plan only. What if the person you hire at 50 comes from outside higher education and had no savings? How much would the employer and the employee have to contribute to get to adequacy after 16 years? The chief business officer can play a central role in the cost analysis and income projections of alternatives. Then, whatever the objective, it's the primary role of the CBO to help the institution determine how to pay for that.

How do institutions balance the significant cost implications of making sure employees are ready to retire?

Salisbury: For too many organizations, what has frequently come into play during the past 10 years is far greater focus on making changes based on a desire to spend less. Private-sector employers have spent years redesigning retirement programs to match a cost target almost without reference to what level of financial preparation this will give someone. In this way, the strategy itself becomes one of spending less as opposed to achieving specific objectives surrounding workforce exit or income and health-care security, and then figuring out how to finance those objectives. This has begun to change



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a bit in the past two years, and I expect it will change more in the years ahead as more workers decide they cannot afford to retire and private employers find that they have workforce management problems. The Supreme Court, for example, recently tightened again on the age discrimination front.

In general, higher education has continued to contribute far more than has been the pattern in the past 10 to 15 years in the private sector. Yet, with all the changes in accounting standards and increasing health-care costs, I think we're seeing more higher education institutions turn to these cost-driven and liability-driven scenarios as opposed to focusing first on workforce objectives. The key going forward will be to stay focused on strategy and maintain a holistic view of balancing financial and workforce objectives as opposed to getting drawn into a mentality of cost reduction without regard for long-term consequences. While you can always decide to spend a lot of money at some future point in time to encourage employees to move on, very frequently when in a period of economic decline as we are now, that is tough to do.

Unfortunately, for some colleges and universities, boards may be the culprit for pushing an institution to stop being strategic and start being a copycat. If you have a number of private-sector trustees, they may say, "We don't do that in our company," or "The private sector stopped doing that 10 years ago, so why are you spending so much?" This creates a pressure for institutions to follow what everyone else is doing, and these days, every sector seems locked into a cycle of looking at a shorter and shorter time frame and viewing things increasingly in terms of immediate expense and immediate effect. It is incumbent on chief business and human resource officers and institution presidents to focus strategically and present the rationale for how cutting costs now may present huge problems down the line relative to the institution's workforce management goals of getting people to a level of preparation at which they can voluntarily leave.

How can institutions stay focused on their workforce management goals?

Salisbury: If an institution wants to be strategic about this issue, its leaders must set aside cost considerations for the moment and first ask what they want to achieve and what role the institution must play. Once you determine your objectives, plan design becomes clearer. That's not to say there won't be tough decisions about the possibility of having to spend a larger percentage of compensation on benefits than do some of your competitors, or of requiring employee contributions rather than making these voluntary. The latter is always unpopular, since in general, telling employees they must do something tends to produce kickback. But it's really a question of what is your foremost objective. If it's to get employees to a point of retirement readiness based on when the institution wants them to retire, then you have to be prepared to make difficult choices. Clear articulation of objectives and the



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changes needed to finance those objectives must be addressed head-on if you want to take a strategic long-term approach to managing your workforce.

Are there additional challenges for the higher education sector?

Salisbury: Within higher education, this formula becomes more complex because workforce needs are also impacted by what happens to student enrollment trends. The demographics are pretty clear about the pool of college-age individuals for the next 20 years. What may vary is assumptions regarding how many of those will go to college. In theory, an institution can do a reasonable job of estimating future enrollment. What is harder to guesstimate is in which specific areas institutions may need fewer faculty, or to predict when faculty may voluntarily leave compared to when you may want them to leave. The challenge of managing to slower enrollment growth or to the potential of decline will present tough challenges for human resource and finance officers.

All this becomes even more difficult for small institutions because the issue of affordability hits smaller entities in more real terms. Different strategies may be required, such as an annuity-only philosophy to ensure that you always have the maximum amount of money in your plan, or to establish higher contribution rates and to plan to always be overfunded, or to take a more conservative investment approach to mitigate the effects of market swings.

Regardless of institution type, every college and university must also grapple with the question of balance between what kind of plan the individual may want versus putting a plan in place with the best likelihood of providing the certainty of outcome the institution needs. Ultimately, whether public or private sector, institutions must make decisions about what benefit program best serves the interests of the institution, following objectives that produce that end result.

What is the role of the chief business officer?

Salisbury: The CBO should work in tandem with his or her human resources officer to push the institution to clarify what it wants to achieve and then force articulation of institutional objectives geared toward those goals. Then it becomes a matter of analyzing the most cost-effective way to get from point A to point B, factoring in what level of participation can realistically be expected or required of employees.

This discussion takes on similar qualities of the cost objectives and considerations regarding an institution's health-care benefits. Some companies have been very careful in the way they have moved to lower-cost, higher-deductible plans by making up-front payments for wellness and



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prevention and disease management. They've done the research and know about the long-term expenses associated with employees who have to pay for preventive care, since many won't do so and will therefore require more expensive treatment further down the road.

The employer that isn't careful and settles for a low-cost plan without regard to funding wellness and prevention will end up with employees who are less healthy and less productive, because the focus was on cutting immediate costs and not on avoiding longer-term costs and the resulting negative effects on workforce health and productivity. High-performing institutions start with the goals of presenteeism and productivity and then determine what kind of health-care program will get them there. Managing your workforce so that employees can make a financially healthy transition into retirement must embrace this same approach of starting with the end goal in mind.

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PERSPECTIVE

Undoing Retirement Unease

Tim Lane is managing director of institutional relationships for TIAA-CREF in New York City. In this interview, he discusses shared trends that have been developing and have been a focus for TIAA-CREF and The TIAA-CREF Institute, which generates research and information on financial security and higher education issues and disseminates this knowledge through reports, conferences, webcasts, and other forums available at www.tiaa-crefinstitute.org

Issues of financial security and retirement preparedness are on the minds of many these days. How might this shake out within the higher education employment arena?

Lane: There is a rethinking of old standards of what people thought comprised good basic financial planning. For instance, more are coming to understand that the new norm surrounding financial preparedness includes factoring in increased medical costs after retirement. In part this is the reality of people living longer in retirement, but employers and employees alike are trying to get their arms around what may be a key long-term employment trend—that of more employees delaying retirement. So the retirement health-care issue is something that will continue to impact employers and employees. For the employer, this will include the question of whether they should carry certain financial liabilities.

From the employee's perspective, it used to be that you could retire and look ahead to receiving a pension to cover a number of costs in retirement without a focus on the cost of other benefits as a major factor—and certainly not in your early years of retirement. That's no longer the case. A big



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question for many employees now is how much will I have to save for medical expenses when I retire, which is something we've collectively never talked much about before as a retirement expenditure.

For some employees, their retirement savings expectations may also be inflated from the huge stock run-up during the 1990s when they saw an incredible increase in value of their investments. Some had made their plans for when and how they would retire based on those increases. Now they must face the fact that they may no longer be able to count on that rate of return. I do think employees generally are becoming more aware. The message may be a bit hackneyed in terms of the three legs for building a financially stable retirement—that of Social Security, an employer pension, and personal savings. Yet, with increasing concerns about the first two, I think more are starting to realize that any additional costs in retirement must primarily be covered by employees creating additional personal savings.

As a result, I think another trend we are seeing is that more employees want more help with managing their retirement, whether that is through high-touch advisors or greater simplicity through streamlining of investment options. And I think those simpler investment options are especially appealing to younger employees who typically are not as engaged in retirement investing, as well as for some entering their pre-retirement years. A key question for employers will be how to help employees transition into this new economic reality of retirement, which may be shocking for some.

How can colleges and universities do a better job of helping employees prepare for these new economic realities?

Lane: One question for institutions is to what degree they want to get involved. Ensuring longer-term financial health of their employees is not the sole responsibility of an employer, but I do think that in some sense it could become a valuable business practice for them to adopt. Institutions of higher education are ahead of a lot of other employers in America in terms of focus and commitment to employee financial health and security, but they may benefit by going further. This could take the form of better program design with more structured savings plan options offered to appeal to their full range of employee segments, providing greater access to objective advice, and perhaps a greater push for automatic enrollment and automatic savings programs. This might also include a stronger focus on education and promotion of savings plans and offering other targeted vehicles such as health savings accounts.

Another issue employers must face is the volume of choices that have cropped up in many plans. Over the years, this proliferation of choices may have created a little paralysis by analysis for employees. If an employer offers too many funds, employees may simply throw up their hands in confusion. After



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years of adding investment options—with the prevailing notion that more or unlimited choice is better—I think we now realize that too much choice may be a disincentive to participation. Employers probably don't need to offer five different money market or international funds. They must still offer broad choices, but they need to balance choice with plan simplification. Going forward, organizations also have to do a better job of helping employees make sense of what is offered.

How will the trend toward delayed retirement impact higher education employment practices?

Lane: From an HR perspective, institutions must continue to consider their overall staffing mix, which is a large part of the brand of any institution. Retirement has a huge psychological impact on most people, and it affects when employees are comfortable "letting go." Then there are the financial factors—for instance, whether the institution will continue to cover retiree medical expenses.

Within higher education, we have already seen new arrangements to address workforce balance challenges related to faculty, since there is no longer a mandatory retirement age. Some institutions have moved to offering phased retirement and other flexible work options for faculty as strategies for maintaining a healthy balance of continuity and turnover. I think a key challenge going forward for higher education employers will be the continued integration of flexible work arrangements across the board. This is emerging from a demographic shift we're seeing even among younger workers who want more flexibility. The standard practice of working full time straight through until you are 65 and then retiring is not what is happening now and will not continue as the norm. There is greater need for more flexible approaches to careers not only for faculty but also for administrative staff. To maintain a healthy balance of committed employees, employers must embrace this reality and understand the related cost and workflow implications.

So, as I see it, three primary challenges going forward for higher education employers will be facing the implications of retiree health care head-on, simplifying employee savings plans and helping employees prepare for retirement, and integrating more flexible work arrangements for all employees.



By Karen Hutcheson

Author's note: *Business officers who have responsibility for the human resources function have a vested interest in ensuring its effectiveness and alignment with institutional priorities. Since HR has multiple touch points—staff, supervisors, university leadership, faculty, potential candidates, and vendors—its impact is considerable, and its institutional knowledge is often broad and deep. Sibson Consulting has found that the most effective HR assessments are conducted proactively by HR or through a highly collaborative process with business officers.*



Higher education is undergoing unprecedented change that is more rapid and complex than academia is accustomed to experiencing and that will continue in the foreseeable future. What has not changed is that an institution's mission to educate cannot happen without the collective, deliberate efforts and expertise of faculty, administrators, and staff. People remain the drivers of any institution's achievements.

As the leaders of the function responsible for handling workforce issues, human resources professionals have a unique opportunity to play a key role in leading organizational change, fostering innovation, and mobilizing talent to sustain or enhance the institution's reputation, operations, and culture. Given the investment typically required to support an HR organization and the cost of salaries, benefits, and other rewards of work provided to employees, it makes good business sense to maximize HR's impact on the institution.

How can HR make the most of its potential to add value to the organization? To be truly effective in driving and supporting the institution's workforce, HR must constantly assess the organization's needs and challenges, honestly evaluate its own capability to support those needs, build staff competencies, and demonstrate the agility to adjust as institutional needs change.

The first step is to conduct a rigorous diagnostic of the institution's expectations and its HR needs followed by an honest assessment of how well the HR function meets those expectations. This type of gap analysis must be performed before any changes can be made. Structure, staffing, systems, and



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metrics should then be developed to support the direction established for HR. What follows are suggested steps for undertaking this important evaluation.

1. Understand the people issues associated with the institution's strategy, and evaluate HR's role in contributing to the strategy.

As HR professionals know, the HR function cannot succeed in a vacuum. To work effectively with the institution's leadership, HR professionals should understand the implications of its strategy on its faculty, administration, and staff. It must identify the means by which it can support, facilitate, and drive the accomplishment of the institution's business goals. This includes deepening its knowledge of the issues and challenges facing the institution and higher education in general and looking outside the traditional HR lens for opportunities to add value.

Questions to ask:

- Which jobs and functions are mission critical? Which are basic but essential? Which no longer meet the institution's needs and should be restructured?
- What type of talent is required to accomplish the institution's objectives? Does that talent already exist internally? Do we need to buy it or grow it from within?
- How can HR support the provost's office in issues related to faculty?
- Do we have a culture that will draw the talent we need to attract, engage, and retain?
- What barriers does HR need to overcome? Are some so deeply entrenched that HR will need to work with or around them?

HR's traditionally transactional role has become more strategic, multidimensional, and complex. Certainly executing transactions and ensuring legal compliance are essential practices, but those are only the basics. To truly add value and drive excellence, HR must build its credibility with the institution's leaders. Doing so requires being able to speak their language, to understand what keeps them up at night, and to look beyond traditional roles for opportunities to develop creative solutions. For example, HR has traditionally had little if any role in faculty pay benchmarking, which is usually handled by the provost's office or institutional research. Increasingly, HR leaders are reaching out to offer insights, guidance, and analytical help in this essential work. In the process, they are building partnerships with academic leaders.

For HR to understand how it can most effectively begin influencing change, it is important to know how faculty, administrators, and staff—including the HR staff—perceive the HR functions, its programs, and its service delivery. This requires asking tough questions about how stakeholders value HR's work and what they need now and in the near future. This insight will give HR the information it needs to build its credibility as a business partner.



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Once HR staff understand the institution's perspectives, they can take a hard look inward. Staff need to evaluate what is being done, how it is being done, and the value-add and efficiency of its transactions. In the end, efforts to become a strategic partner and trusted advisor can succeed only if the basics are handled efficiently, accurately, and expeditiously.

2. Identify and prioritize HR's service delivery and offerings. Strategic HR begins with impeccable execution of the basics and flawless service delivery—that is, getting processes and services right and making them quick and efficient. Without this solid foundation, HR will struggle to establish credibility as a knowledgeable business partner and a change leader. The means by which services are delivered and each of the major functions of HR should be examined for their impact on achieving institutional strategy. Administration and technology, reward systems, career and performance management, training and development, and employee relations must all be assessed.

Questions to ask:

- Does HR understand how its customers perceive its service delivery? Does it know what needs are unmet? Do the customers know what HR can truly do for them?
- Does the service model enable HR to truly understand the issues facing its client groups?
- To what extent are the major functions of HR organized to respond to the unique needs of high-impact segments of the workforce? Does HR try to be "all things to all people"?
- What structures, systems, processes, and practices need to change?

3. Develop and implement HR mission and strategy, structure, staff, and services to support the institution's strategy. Once HR understands what others expect, where it currently stands, and what it needs to do to become more closely aligned with the institution's needs, it is time to focus on the HR function and build a framework for success.

Steps to take:

- Develop an HR mission statement and a strategic plan that aligns with broader institutional needs.
- Brainstorm the functions and services HR needs to provide, what can and should be outsourced, and what is no longer necessary. For larger institutions, determine if those services can or should be provided centrally or within the academic and administrative units.
- Develop the organizational structure to deliver those services. Establish role descriptions and skill and competency requirements. (Strategic HR is not only about what is accomplished, but also—and as important—how it is accomplished.)



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- Identify and prioritize any positions that should be added and begin to build the case for funding those positions, either immediately or over time.
- Align staffing decisions with role definitions. For example, a major research institution recently defined its HR leadership roles to better respond to increasing globalization. The institution is creating programs in a variety of countries and sending faculty and staff on international assignments at a rapidly accelerating rate. It could not afford the time to build expertise internally, so it targeted its search efforts on HR professionals in large multinational corporations—in effect, "buying" the technical expertise.

4. Build a scorecard to measure HR's effectiveness and progress towards meeting its

objectives. It has become essential to measure HR's effectiveness, not only for its own planning purposes but also to demonstrate to leadership how HR adds value and contributes to the institution. The right set of metrics can help HR understand whether it is effective in achieving its goals and start building a database to ensure that future actions are effective.

That said, measurement for the sake of measurement is not appropriate. Many HR metrics are already in play, but unless HR is measuring what is strategically important, the numbers are meaningless. Common metrics are "cost per hire" or "time to hire," but what do these reveal? Unless they are linked to overall strategy and are segmented, the information may be misleading. Consider a year when several key positions are in search mode. Both cost and time metrics will increase, but the ultimate value to the institution will be significant. A metrics scorecard should be developed to reflect the HR strategy and key indicators that the institution values. Metrics should be relatively constant over time to build an understanding of progress but should be regularly evaluated for continued effectiveness.

Traps to avoid:

- **Limiting the metrics to what is currently measurable and trying to get metrics perfect out of the gate rather than understanding this is an iterative, learning process.** As institutions enhance their enterprise management systems, more and better data will become available. Proactive institutions do not wait for perfect or complete data. A private institution recently created a metrics scorecard to measure the effectiveness of its new performance management system, leaving "placeholders" for metrics that are not currently available. This will keep its priorities in the spotlight without holding up the measurement process.
- **Using external benchmarks as a requirement for measurement or as a baseline for tracking success rather than the institution's own priorities.** External benchmarks are best used as a source of information rather than a model to strive for.



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- **Developing metrics without the involvement of leadership.**
- **Connecting metrics to financial or quantitative outcomes only.** Qualitative outcomes are essential but can be more challenging to measure. Returning to the "cost per hire" and "time to hire" example, since high-quality hires who are effective and engaged is what most institutions strive for, this would be an ideal metric, although it would be challenging to collect the data. Consider conversations with hiring managers, division leaders, and incumbents; review key performance indicators for the job, the function, and so forth. Supplementing quantitative with qualitative metrics will provide a more complete picture.
- **Treating metrics as a program rather than the way HR manages its function.**

These are exciting times for the human resources profession within academia. Increasingly, institutional leadership understands the potential for HR to be a trusted, strategic advisor. HR professionals have an opportunity and obligation to step up to the challenge.

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STRATEGY

Labor of Love

By Karla Hignite

How can colleges and universities institute a proactive, team-based approach to labor management? For starters, lay the groundwork for good relationships between union leaders and management and implement programs that motivate and move employees forward. That's the approach Princeton University has taken during the past two decades, where continuous focus on labor relations is paying off in worker productivity and commitment.

At Princeton, where unionized labor accounts for upwards of 20 to 25 percent of the institution's employee population, the focus has been to develop the framework and capacity for everyone to accomplish their roles in an environment that provides a sense of fairness and satisfaction for all, says Lianne Sullivan-Crowley, vice president for human resources. She and Pierre Joanis, director of labor relations, are quick to note that they aren't necessarily breaking new ground at Princeton. Many of the same strategies they've enacted are likewise in place at peer institutions. Yet, Princeton's holistic approach has gained a reputation and kudos within higher education circles, evidenced by ongoing requests from other institutions for Sullivan-Crowley and Joanis to share their expertise and practical experiences. Among the critical factors they cite for building an environment of trust and cooperation with unionized labor is to focus on transparency at all levels and to equip managers to be proactive partners in relationship building and negotiations.

Turning Challenge to Opportunity

One hallmark of Princeton's success has been to take on key labor challenges faced by many institutions and respond full force with real solutions.

Challenge: Underemployment. Colleges and universities have traditionally hired some workers for uneven time frames because certain business functions do not operate at full capacity year-round. Dining facilities offers a prime example. When students go home for the summer and the need for kitchen staffing trails off, these employees are often left to fill in their employment gap elsewhere. During the past decade, more institutions have begun to recognize that if they're going to provide a top-notch living experience for students, then the kind of service-level people they attract to these positions is critical, says Sullivan-Crowley. "We need to find ways to transition employees to 12-month positions or create programs to enhance their employment experience so that we not only attract customer service-savvy employees, but also keep them."



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Solution: Transition jobs to year-round. This concept continues to gain momentum at Princeton, notes Joanis. Whereas in past years, the institution has converted a handful of jobs each year to 12-month positions, during the past 24 months he has supported the conversion of another 24 jobs to year-round employment. "This has required partnership and commitment with department managers and thinking creatively with them to assess their work needs, workflow, and how to address the skill deficiencies of employees who are offered an expanded role," says Sullivan-Crowley.

Challenge: Underutilization. Related to the problem of underemployment is the number of lower-level positions filled by employees with higher-level qualifications that go underutilized, says Joanis. "The nature of some back-of-house operations in particular, such as dishwashers, is that these jobs are often filled by new immigrants who may have little or no English skills. In some cases, these were high-level professionals in their home countries, but here they take whatever positions for which they can qualify." The dilemma for some institutions may be that they haven't figured out how to engage recent immigrants or don't have programs in place to help them grow into higher-level positions or to excel with new skill sets, says Joanis.

Solution: Training and apprenticeship. This challenge requires a commitment from top leadership to provide development opportunities to help workers transition to more suitable employment within the institution, says Sullivan-Crowley. The university's "Excelling at Princeton" program is one example of how the institution seeks to move employees forward. The program allows employees to take paid time off during the workday to attend math, writing, ESL, and business communications classes on campus through a partnership with Mercer County Community College. Workers who complete the program are presented with a diploma by Princeton's president and provost. Princeton also offers a three-month summer transfer/internship program that creates a pathway for lower-level service workers to obtain higher-level skills to transition to skilled trade jobs such as electricians and plumbers. According to Joanis, the university is looking to enhance the institution's summer transfer program by adding more opportunities for workers to spend time in other departments and units within the university as a way to learn new skills and to complement the summer transfer program with full-year apprenticeship programs.

Challenge: Undercompensation. Among the issues that can ignite students and faculty groups are concerns about paying employees a living wage, notes Joanis. "Institutions that are proactive on this front and on work-life balance issues will head off many complaints."

Solution: Fair wages, merit pay. Unlike many institutions, Princeton has implemented a merit pay system in its union contracts. Union employees get personnel evaluations and performance-based increases in the same manner as non-union employees, explains Sullivan-Crowley. As of July 2008,



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the university raised its minimum wage for regular employees from \$11.96 to \$14 per hour. Merit pay increases are on top of that new base wage, notes Sullivan-Crowley. Joanis argues that the university's commitment to fair wages and a merit pay system are cost effective because these are tools that keep employees motivated and improve attendance, timeliness, and commitment to the institution. "We start with market-leading pay, which sets us apart, and then provide employees with opportunities to further grow and earn additional monetary recognition." The well-above-market compensation is on top of the same health and retirement benefits plan offered to non-union faculty and staff.

Coaching Management

Foremost, employers know that employees who are happy will be more loyal and productive. A second linchpin of a successful labor relations business model is developing strong relationships between union leaders and university managers, says Sullivan-Crowley. She and Joanis attribute Princeton's successful program to current institution leaders and to Joanis's predecessor, Fred Clark, to whom they credit years of proactive work to build strong relations with unions and to foster frequent and healthy communication between union leaders and university managers.

During his tenure, Joanis has seen labor-management interaction move beyond talking about positions to discussing mutual interests and the best approaches for accomplishing common goals. Developing strong and productive relations does not require a large budget, but it does take time and ongoing commitment, notes Joanis. Sullivan-Crowley and Joanis offer several recommendations from their experience for institutions looking to strengthen their relations with labor leaders and employees by bolstering involvement of university management.

- **Encourage managers to hone or acquire additional language skills.** In the same way that ESL programs may be important for some employees, multiple language skills for supervisors and HR personnel prove highly beneficial in communicating with non-English-speaking employees.
- **Work with managers to explore how transitioning nine-month positions to year-round employment could benefit workers and the department alike.** At Princeton, as more managers have witnessed these successful transitions, others are jumping on board, notes Sullivan-Crowley. For those managers who need convincing, suggest they begin by tracking something specific such as employee timeliness and attendance, says Joanis. "Establishing some baseline metrics can provide a foundation for managers to see what would improve with stronger employee commitment."



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- **Consider bringing managers and union leaders to conferences to participate and learn together.** For Princeton, this has proven to be a great way to reach common understanding about a range of issues, such as what constitutes a grievance, says Joanis.
- **Institute a joint labor management system.** At Princeton, union leaders and university managers take turns setting the agenda and leading the meetings in alternating months. HR participates solely as a resource to both parties.
- **Address issues before they become problems.** Joanis implemented an annual retreat with university managers and the union leadership to track workforce metrics, discuss grievances, and brainstorm approaches to improving labor relations.
- **Leverage external resources.** Too often institutions may turn to external mediators when relationships are at the point of breaking down. Instead, Princeton has assumed a proactive stance, routinely tapping external sources to help maintain positive relationships through facilitated discussions about alternative dispute resolution and effective listening as well as employee engagement and development.
- **Provide managers with the training and development they need to lead.** Two specific opportunities in place at Princeton include a class on managing in a union environment and a class about the legal rights of union stewards and how to interact effectively with them. In addition, the university offers a management certificate program open to anyone who wants to learn or retool with regard to the skills needed to effectively manage people.

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BIG PICTURE

Is Health-Care Reform Coming?

By Karla Hignite

While national conversations in the closing weeks of the 2008 presidential election have focused primarily on the U.S. and global economic crisis, still top-of-mind for many employers is how the nation's current health-care system might be overhauled in either a McCain or an Obama administration.

The two plans are dramatically different. In a nutshell, McCain's plan would eliminate the tax exclusion for employer-provided coverage, which would be treated as taxable income to employees. The revenue generated would be used to provide tax credits directly to individuals and families to purchase insurance within a free-market model. Obama's plan would require employers to continue providing employees insurance or pay fees to the government to help finance coverage for the uninsured through new public and private insurance programs or a newly created government health plan, with a focus on providing universal access to health care.

Jonathan Oberlander is an associate professor of social medicine and health policy and administration at the University of North Carolina at Chapel Hill and the author of *The Political Life of Medicare* (University of Chicago Press, June 2003). In his recent article published Aug. 21, 2008, in the *New England Journal of Medicine (NEJM)*, "[The Partisan Divide—The McCain and Obama Plans for U.S. Health Care Reform](#)," Oberlander compares the proposals of the two major presidential candidates. While both plans have elements that have not been tried and tested before, it's difficult to identify whose proposed health-care plan would be better for employers for at least two reasons, says Oberlander. "First, we don't know the key details about each plan, so we don't know with any real precision the impact of each for employers; and second, anyone who tries to project the outcomes of either plan if implemented would be making an educated guess at best."

What Oberlander can say with certainty is that employers themselves are not of one mind on the topic. "Typically, employers do not like mandates, so one logical conclusion is that businesses would prefer the McCain plan," notes Oberlander. Yet, while some employers may not be completely happy with the current system because of the drain of escalating costs, proposals for a bold departure from an employer-based system may be outside the comfort zone of many, says Oberlander. "Businesses may fear what the McCain plan would do to the current employer-sponsored insurance system." For instance, there are concerns that moving toward an individual insurance marketplace would encourage



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younger, healthier employees to drop their employer-provided coverage as they shop around for less expensive plans, says Oberlander. That could leave employers to cover higher-cost, higher-risk employees, which would introduce additional cost pressures to these plans.

Obama's plan is likewise problematic in the view of some employers. While certain elements of his plan may appeal to employers, such as provisions for reinsurance, Obama doesn't specify a threshold for when the government would step in to cover those individuals who are most sick, says Oberlander. The Obama plan also proposes a play-or-pay mandate: Either employers offer health insurance to employees or they pay a fee to the government to use to provide coverage for individuals who are uninsured. "On the bright side, it's a mandate with an option," notes Oberlander. "The bigger question is what the threshold would be for small employers who would be exempt from the mandate."

A "Better" Plan for Higher Education?

Oberlander doesn't give either plan high marks at this point, in part for their lack of proposed cost controls for implementing new initiatives for electronic medical recordkeeping, chronic disease management, and other programs. As for which plan might be better for higher education employers, that's also difficult to judge, says Oberlander. To the extent that higher education shifts to more flexible and part-time workers—including a trend toward more part-time faculty—an Obama plan may offer more options for coverage, notes Oberlander. Another barometer that may be important to higher education and larger employers in particular is how each plan would address coverage for the uninsured. While a number of reports suggest that the Obama plan would result in coverage of many more uninsured than would the McCain plan, Obama's plan would come at the cost of a bigger role for government, reminds Oberlander.

In the end, both plans likely face an uphill battle, given the budgetary weight of the recently passed \$700 billion economic rescue plan. "On the other hand, in times of recession when more Americans are at risk of losing health-care benefits as a result of losing their jobs, that kind of national pain may create the needed impetus for change and provide the political will for reform," argues Oberlander.

The next administration will preside over the first test at health-care reform when S-CHIP (State Children's Health Insurance Program) legislation comes back to the floor this coming spring, notes Oberlander. "The larger question will be whether we can get beyond this initial attempt at reform—and how much further beyond?" Doing nothing seems beyond comprehension to many within the health-care industry, argues Oberlander. "When costs continue to go up, then you are faced with a lot of unpalatable choices of passing along higher premiums and raising co-pays, or cutting dependent-care coverage, or curtailing employee wages—or all of the above."



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What can't be denied is that, as a nation, we are at a crossroads and need to decide whether to take a chance on reform even if we don't know exactly how it will work or what it may look like, says Oberlander. He suggests keeping an eye on big business. "If they come over to the side of health-care reform en masse, that could change everything."

Watching Corporate Support for Reform

In his article, "[Still in the Game—Harnessing Employer Inventiveness in U.S. Health Care Reform](#)," published in the Oct. 2, 2008 issue of *NEJM*, Robert Galvin notes that employers are taking a keen interest in current health-care reform debates at a time when costs are growing faster than wages and the pressures to contain expenditures must be balanced with attracting talent. Galvin is director of global health care at General Electric, Fairfield, Connecticut, and professor adjunct at Yale School of Medicine in New Haven.

While there may be no single voice within the business community, Galvin argues that most employers agree on three issues: They are concerned about the high and escalating costs of providing health-care benefits, they want healthy employees, and they want predictability and to maintain control of their destiny. "It is in the DNA of business to be wary of sacrificing authority over that for which it has responsibility," writes Galvin. "Employers believe that consumer choice is essential to improving value, but given the complexity of health-care information, most are convinced that managed consumerism is preferable."

Something else about which employers agree, says Galvin, is that innovation is critical to improving the current system. His message for policymakers is clear: Provide solutions that reflect the heterogeneity of the business community, offer employers alternatives, and address cost containment with policies that dramatically reduce waste while encouraging new approaches. Finally, says Galvin, policymakers must educate businesses about the financial impacts that caring for the uninsured will have on companies and must identify what shared responsibility for the uninsured would mean for employers.

Oberlander agrees that the impact of a growing number of uninsured Americans is an issue that requires greater attention. "A decade ago, 69 percent of employers provided health-care insurance to employees. That figure is down to 60 percent today," notes Oberlander. "If we do nothing, our current employer-sponsored system will continue to unravel, and then in a decade we won't be talking about 46 million uninsured Americans, but many more."



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What Employees Think

Given the recent economic news, it's not surprising that, according to findings from the 11th annual Employee Benefits Research Institute's (EBRI) Health Confidence Survey, released October 8, health care is not the issue most Americans consider most pressing today (13 percent compared to 33 percent for the economy and 24 percent for energy and gas prices). Yet, dissatisfaction with the U.S. health-care system is widespread among Americans. Half (51 percent) agreed that the statement "there are some good things about our health-care system, but major changes are needed" best represented their views. Roughly the same percentage responded that the U.S. health care system should be completely overhauled (20 percent) as felt the system needs minor changes, but works pretty well (24 percent).

Concerns of respondents focused primarily on health-care costs, with 42 percent saying they are *not too or not at all* confident about the affordability of health care, up from 36 percent in 2007. (Separately, a 2007 Health Tracking Household survey by the Center for Studying Health System Change reported that the percentage of Americans who had difficulty paying medical bills increased from 15.1 percent in 2003 to 19.4 percent in 2007.)

With regard to health-care reform, nearly all respondents indicated that *extremely* or *very* important goals should be providing high quality health care (93 percent) and making care more affordable (90 percent). Among other priority goals, survey participants responded overwhelmingly that priority goals should include ensuring the system supported development of new medical technologies (87 percent), allowing individuals to select the hospital or doctor of their choice (84 percent), and providing coverage to all Americans (79 percent).

There was also strong support from participants for tax incentives that would help people pay for coverage purchased on their own (87 percent) and to help individuals pay for employer coverage (84 percent). The majority likewise said they would support allowing uninsured Americans to buy into Medicaid or Medicare (78 percent) or to purchase coverage offered to government employees (83 percent). Seventy-five percent of respondents are in favor of requiring employers to pay toward employee subsidized health insurance, while 68 percent supported requirements for all Americans to participate in some form of health-insurance plan.

Despite dissatisfaction with the nation's current health-care system, most say they would not be willing to trade employment-based benefits for cash under the current system. For those respondents with health coverage, when given the choice between \$7,500 in employment-based insurance or \$7,500 in additional taxable income, 76 percent chose the health-insurance coverage. Of those, 25 percent said their employer would have to offer \$10,000-\$14,999 in taxable income for them to



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willingly forsake their coverage. Another 25 percent would require \$15,000 or more, and 11 percent indicated that no amount of taxable income would be sufficient to give up their employer-provided coverage. According to the report, these findings are consistent with results of similar questions that were asked in previous years.

Full results of EBRI's 2008 Health Confidence Survey-which examines a broad range of health-care issues including American confidence in the future of the current system and the Medicare program and attitudes about health care reform-appear in the October 2008 [EBRI Notes](#).

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Health Care Comparisons

For additional comparisons between the health-care proposals of presidential candidates John McCain and Barack Obama and how each plan might impact employers, check out the following links.

- From Kaiser Family Foundation: [2008 Presidential Candidates' Health Care Proposals: Side-by-Side Summary](#)
- From Hewitt Associates: [2008 Presidential Election: Candidates' Health Care Proposals](#)
- From Buck Consultants: [The Obama and McCain Health Care Platforms: A Guide for Employers](#)

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PERSPECTIVE

Chief Change Officers

By Elizabeth Neumann

[Michael Useem](#) is the William and Jacalyn Egan Professor of Management and Director of the Center for Leadership and Change Management at the Wharton School, University of Pennsylvania. He is author of a number of books on leadership and change including *The Go Point: When It's Time to Decide* (Crown Business/Random House, October 2006). In this interview with Elizabeth Neumann, principal of Brill Neumann Associates, Useem offers his thoughts on key leadership attributes of those in charge of change management, drawing on his extensive research within the corporate sector to make comparisons to higher education.





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What does your research suggest to you about how most of us generally view the importance of leadership?

One of our conclusions is that leadership is more consequential when an organization is operating in an uncertain and evolving environment. Leadership is arguably as important in times of calm as in turbulent circumstances. Yet, research evidence indicates that a leader's impact is greatest when an organization is facing an unpredictable and fast-changing world. This is very evident at the moment as the country faces an extraordinary period of political ferment and financial stress, and we have become particularly concerned about whether the nation will have the right leadership to carry us through both.

By way of a well-known company example, prior to its breakup in 1984, AT&T faced a relatively calm and predictable market since it had virtually no competitors and demand for plain-old copper-wire telephone service had been growing steadily. Today, by contrast, the company faces unprecedented challenges from both domestic and international carriers, and from rapid turnover in telephone technologies. Arguably, the AT&T chief executive of 2008 is having far greater impact on the company's future than did his counterpart a quarter-century earlier, since the bets are so much bigger and the judgment calls so much more difficult.

Many colleges and universities are facing more fast-changing environments as well. Many institutions are seeking to globalize their offerings and diversify their student bodies at the very same time that the country's financial crisis is threatening public budgets and private donations. As a result, college and university presidents and the decisions they make are likely to have substantially more impact on their institutions than were the actions of their predecessors in less turbulent times past.

What are the implications for the kinds of skills that are needed to lead change?

When we think of leadership in higher education, we tend to think of the president, but I believe it is also critical to focus on the leadership of the entire top team. This team would of course include the provost, deans, and other top administrators who either report directly to the president or are a step removed. We would want to know not only if they are individually talented but also if they share the president's vision and strategy for change, if they are pulling together or against one another, and if they are effective at leading change in their own arenas. We would want to know if they all have a steely determination to succeed but also a warm heart that can appreciate the private toll and even pain that change can bring.



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Ultimately, the CEO of any institution is also the CCO—the chief change officer. While change often bubbles up from below, significant institutional change, whether revamping a curriculum or globalizing the classroom, will ultimately be driven by the president and the top team.

What are the attributes needed in a president to bring out the best in his or her team?

In my view, leadership usually boils down to five key skills. This is not a complete list, but it is helpful to think of it as the absolutely essential list for taking any institution to a better place. And it is useful to treat the five skills as a kind of "leadership template," a set of guidelines for leading whatever the circumstance, whether walking into a trustees meeting; addressing the faculty senate; or negotiating with students, alumni, politicians, or donors.

1. Articulate a clear vision and strategy for achieving that vision. People want to know your vision for the future and how you're going to get there, and they cannot hear it too often.

2. Honor the room. It is essential to express your appreciation for what your people have done for the college or university, and to frequently and openly acknowledge the great value that they bring to the institution.

3. Communicate your character. It is also vital to let people come to know who you are as a person, what you stand for, what principles you abide by, and how you operate. You can't expressly tell people that you are a person of integrity and transparency, but you can effectively communicate those qualities by the way you carry yourself, the stories you tell about yourself, and how you follow through on what you've said you will do.

4. Make good and timely decisions. Tough decisions are a defining part of any leadership position. All the easy decisions have been resolved at levels below you; only the thorny ones reach you. And those around you expect and deserve timely resolution of those tough calls by you. Making good and timely decisions is thus a critical capacity of anybody's leadership. Put differently, anybody in a leadership position who can't make timely judgment calls has chosen the wrong vocation.

5. Shape the culture. For those who lead a small college where everyone knows one another, your direct personal leadership of the academic community can serve you well. But most colleges and universities are far too large for a hands-on style to succeed, and then the campus culture becomes the vital medium. The institution's heritage, values, and mission are



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all encoded in the culture in ways that those you rarely see or even never meet will understand the direction in which you want all to go.

On the topic of leading change, how does a corporate model of change management translate to higher education?

Academic communities are often suspicious of the corporate world, and the corporate world frequently returns the attitude. I think this is a big mistake by both sides, since each can learn much from the other's successes and failures.

Consider a leadership challenge in the corporate world that can provide helpful insight into what is important for leadership in the academic world. Louis Gerstner had joined IBM as its chief executive in 1993 with a mandate from the board of directors to transform the company from a dying enterprise back into one of the icons of American business that it had once been. After taking careful stock of how the company operated, he concluded that its shortcoming was not an absence of technical talent or valuable technology. The problem instead, Gerstner found, was one of culture, an inward focus on social form among its thousands of managers rather of an outward focus on the fast-evolving needs of thousands of customers. "I came to see, in my decade at IBM, that culture isn't just one aspect of the game," he said. "It is the game."

Once the source of IBM's tailspin had been fully appreciated, Gerstner set out to remake the culture, and over the next several years he successfully did so. In doing so, he has also written a useful road map for one of the most daunting challenges for anyone with leadership responsibilities: how to change an organization's culture. In his 2002 book *Who Says Elephants Can't Dance?* Gerstner offers a set of pragmatic methods for cultural change that anyone in higher education with an interest in change would find useful.

How can an institution's HR function contribute to a president's change agenda?

Historically, the human resource function had often been narrowly conceived as a largely technical personnel office for effective hiring, promotion, compensation, and benefits. All these are of course essential for any institution, but at many companies in recent years, HR has become far more. It now also plays a role as strategic partner of top management, working directly with the chief executive and top team on everything from succession planning to leadership development.

One illustration that comes from my current research concerned a CEO succession process at a major pharmaceutical company. Under the guidance of the retiring CEO, the senior vice president



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for human resources helped orchestrate a two-year evaluation of three strong internal candidates. By the end, the HR officer knew as much about the quality of the candidates as nearly anyone in the company, and he served as a trusted advisor to the CEO and company directors throughout the process as they reached their final succession decision.

Just as at this pharmaceutical company, senior HR officers at colleges and universities can seek to take direct responsibility for helping to evaluate, develop, recruit, and place the institution's senior administrators. That of course requires that they have acquired a deep understanding of what the senior positions require of their occupants. And for this to happen, the HR directors will have to build a strategic partnership with the president and top leadership team.

Another area ripe for expansion is leadership development within the institution. Two decades ago, few companies other than General Electric had built any kind of explicit leadership development program. Today most major firms have such programs in place. Colleges and universities have done little in this area yet, but I believe much will be done in the years ahead. This would include the building of learning programs and experiences for new department chairs, program directors, and school deans.

Within higher education, might this agenda be driven in part by board members from the corporate sector who begin to vocalize the need for a stronger presence by HR within the institution?

Yes. *A sixth important capacity for your leadership template is to listen to your board.* Board members often bring a vast range of experience in how to run organizations, including people management and leadership development. Greater engagement of board members in the HR issues of the day can be an invaluable way of bringing seasoned thinking into a strengthening of the strategic role that HR can and should be taking place at any college or university.

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Photo of Michael Useem by John Carlano.



Coverage from NACUBO's 2008 Annual Meeting in Chicago

SESSION: HR Excellence Essentials

What competencies should a chief human resources officer possess? What questions can administration leaders ask when evaluating the effectiveness of their institution's HR function? Kathy Hagedorn spoke from experience when offering her thoughts on "Ten Ways to Know You Have a Great Human Resources Department" during NACUBO's 2008 annual meeting in Chicago. Now president of The Hagedorn Institute, she recently retired as vice president of human resources at Saint Louis University. In addition to naming indicators of excellence, Hagedorn shared how to assess the presence of these attributes.

1. Strategic. HR programs, actions, and policies are aligned with the institution's mission, vision, values, and goals.

Ways to know: Does HR actively participate in the institution's strategic and budget planning? Are HR goals woven into these plans, and do HR policies support one or more institution goals?

2. Efficient. Service is prompt, competent, and reliable; compliance standards are met; technology is highly leveraged so that processes are as paperless as possible; and HR staff are not buried by routine transactions.

Ways to know: What do the results of an HR audit, business process reviews, customer satisfaction surveys, and transactional metrics tell you about the department's performance?

3. Trusted. Staff demonstrate integrity and respect for confidentiality; communication is regular and excellent; advice is wise and on-target based on asking the right questions.

Ways to know: Do managers and employees seek the department's advice and assistance? Is confidentiality explained and maintained?

4. Vocal. People issues and strategy are viewed as integral to the institution's success, and HR is known for providing solutions.



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Ways to know: Does HR have a seat at the president's table and membership in key university groups? Do units include people strategy in their financial and technical plans?

5. Objective. Staff understand that their function is a management function and that they serve as a conscience for the institution to do the right thing. Staff balance their role as an employee advocate with serving the institution's needs.

Ways to know: Are lawsuits and discrimination charges kept to a minimum? What do surveys indicate about employee satisfaction for how employees are treated? Does evidence indicate that HR staff researches institution policies before vetting responses?

6. Savvy. Staff not only know the business of their own department but also exhibit knowledge about the business of higher education and understand each unit's mission and goals.

Ways to know: Do HR staff get out of the office? Do they possess a strong knowledge of the institution's enrollment, financial, and academic issues and data? Are they effective problem solvers?

7. Forward-thinking. The department serves as a catalyst for change and sets an example in innovation and creative thinking while keeping institutional goals in sight.

Ways to know: Do HR staff facilitate change in other units? Do they assume leadership roles in professional organizations within higher education?

8. Data-driven. The department measures what matters and provides good data for sound decision making.

Ways to know: Are the metrics employed not only transactional or historical but also ones that can forecast change? For instance, are surveys structured to measure true employee engagement versus happiness or satisfaction levels only?

9. Caring. HR staff remain positive and caring during their many interactions with administrators, faculty, staff, and students—some of which include sensitive and painful situations of death or disability.



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Ways to know: What do customer surveys and informal feedback suggest regarding how each of these groups feel they are treated?

10. Effective. The HR function builds organizational capacity through supporting a culture of lifelong learning and development for staff, faculty, and administrators and uses a consultative approach with the campus community to help individuals and teams learn from past experiences.

Ways to know: What do measures of retention of key people suggest? What percentage of administrators and staff are in formal training and development programs? Is there evidence of active succession planning throughout the institution?

As for key competencies to look for in a chief human resources officer, Hagedorn noted that even more important than a solid grasp of HR technology and delivery methods are the strategic contributions, business knowledge, and personal credibility that an individual in the top HR spot can bring to the table.

SESSION: Executive Search Pointers

While every executive-level search varies, certain ground rules apply to all. In their annual meeting session in Chicago "The Art of Executive Search: Best Practices for Successful Searches," Long Island University Vice President for Planning Daniel Rodas and Brill Neumann Associates partners Nicholas Brill and Elizabeth Neumann explained some of the finer points of executive search.

Overall, today's recruiting environment poses greater competitive challenges than ever before. In addition to institutions pursuing a more diverse faculty and staff, most higher education jobs continue to increase in their complexity, requiring a greater breadth of skills. Boards and senior leaders have higher expectations, and despite a steeper learning curve, there is often less time allowed for on-the-job training, noted Rodas. Within this market context, institution leaders would do well to bear in mind some important nuances of a good executive-search process.

Be intentional about your approach. One fundamental decision surrounding the search process is whether to keep it in-house versus partnering with an external search firm. Both approaches can work well, though often internal committees underestimate the time required to do the job, said Neumann. For instance, it usually takes six to eight months to complete a senior-level search—and that's if you are moving along at an efficient stride, she added. "Be realistic about the time frame that may be



required to get the right person. What is often unforeseen is the great deal of time spent on process-related activities such as scheduling interviews."

Organize and commit. A successful search-and-recruitment strategy includes identifying the hiring authority and clarifying the roles of the search, selection, and screening committees, said Neumann. Likewise, preparing an effective position announcement goes beyond the actual description to decisions about how and where to advertise to reach the right candidates, including those who are outside the higher education community. Preparation is also paramount, noted Neumann. Search committee members must do their homework and commit to studying candidate resumes carefully.

Assess fit. One critical question search committees must address is whether a candidate is a good fit. How well will he or she perform? How effectively can he or she create the change that is needed? Conversations surrounding organizational culture and personal fit are usually the first and final part of the discussion in any search, said Brill. "Once you narrow the candidates based on skill and expertise, it really comes down to who you think will be the best fit."

Identify priorities. Any successful hire must be goal-driven, not merely based on a set of skills. While identifying experiences, capabilities, and personal attributes are important, a common pitfall of any search is failing to clearly identify what a candidate's priorities will be once he or she takes the job, noted Brill. One of the most important things to articulate is the three or five results you want a new candidate to achieve in a significantly short period of time. And these priorities should be clearly communicated to each candidate, added Brill.

Ensure a smooth transition. Always be mindful that you are not done once you make the hire. The successful transition of a candidate is critical in bringing him or her along quickly. So much energy and time go into building the actual network of a search committee that it makes sense to keep those relationships active beyond the conclusion of a search, said Neumann. These same individuals can serve as a great resource to help a candidate transition to his or her new role.

Understand barriers out of your control. Reasons vary for why a candidate declines an offer or does not work out once hired. Some of these are fully out of the institution's control, such as when a family move proves too difficult. In fact, relocation poses challenges on a number of fronts. For many candidates, decisions to make a major move go beyond considerations of children in school to include aging parents, for whom a growing number of workers are assuming responsibility. Likewise, the



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current real-estate market is making it harder to sell a home without the offer of a generous relocation package, noted Brill.

Engage in succession planning. Something all organizations do have within their control is talent development. Yet, the kind of mentoring and career training present within the corporate world for years still has not caught fire within higher education, said Neumann. While some institutions are doing an impressive job of developing a reservoir of talent ready to move up within the institution, most still are not. Increasingly, strong succession planning will give an institution a key competitive advantage in future hiring by preparing current employees for multiple opportunities that may arise and simultaneously enhancing the overall competencies and performance of the institution.

HR RADAR

What's on Your Horizon?

What specific concerns would you like to see covered in this newsletter? Do you have an institutional success story to share? Send questions, comments, and article queries to Tadu Yimam, policy analyst, tadu.yimam@nacubo.org