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Big Picture

**Talent Tuneup**

By Karla Hignite

Retaining your best talent and grooming talent from within take on added importance during an economic slowdown. Workforce planning, leadership development, succession planning, and a host of other talent-management strategies can not only strengthen competitive advantage but also are critical to preserving an institution's capacity to maintain its teaching, research, and service missions in the face of budgetary constraints.

While tough economic times may translate into more employees staying put for fear of the risks entailed in switching jobs, more are apt to look elsewhere once the economy improves if they don't feel there are real opportunities to grow or advance in their current workplaces. A recent study released by Hewitt Associates and Human Capital Institute included feedback from nearly 700 senior-level business and human resource leaders about the talent-management practices in their organizations. According to the October 2008 report "[The State of Talent Management: Today's Challenges, Tomorrow's Opportunities](#)," significant talent-management struggles include consistency in executing practices and programs throughout the organization, addressing shortages in depth of management and leadership talent, and retention of high-performance workers. A key first step in turning around lackluster talent-development initiatives is recognition by senior leaders that they must become involved in their organization's talent-management strategies and held accountable for growing talent down the line.

The study identified common challenges to successfully executing talent-management programs. Among them:

- Inability to develop people within their current jobs.
- Failure to align talent needs with business strategy.
- Lack of meaningful metrics used to evaluate the effectiveness of talent-development programs throughout the organization.

Conversely, organizations effectively managing their talent needs tend to apply programs more deeply and broadly in their organiza-

tions and to view talent management as a shared business and HR responsibility. As more colleges and universities are taking serious aim at developing talent from within their institutions (see "Building Talent Internally" in this issue), the concept of talent calibration could serve institution leaders well by introducing consistency and accountability into talent-development efforts.

**Talent Calibration**

"Calibration is the sharing and adjusting of decisions across a group of managers, rather than allowing each manager to make decisions on his or her own," writes Jim Kochanski, a Sibson Consulting senior vice president and coauthor of "[Harnessing the Power of the Group: The Case for Talent Calibration](#)" published in Sibson's June 2008 Perspectives newsletter.

According to the article, which includes tips for how to introduce calibration methods into management decision making, primary applications of talent calibration include:

- Setting and aligning performance goals.
- Assessing performance and establishing ratings.
- Formulating development feedback and action plans.
- Developing job assignments and succession plans.
- Deciding base-pay increases, annual bonus awards, and long-term incentives.

Among the benefits:

- Talent becomes more visible organizationwide, at an earlier point, and with a greater degree of input.
- Errors in decision making are reduced because managers' ideas are tested and they know they will be held accountable for executing their plans.
- Feedback to employees is more consistent as a result of managers first sharing and refining their messages with their peers.
- Employees typically feel that performance evaluations and career-development and compensation decisions are more equitable and transparent because decisions are reviewed by peer managers and other senior leaders.

Exchanging thoughts about employee performance and goals helps managers standardize ratings and injects reliability and consistency

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into the process, notes Kochanski. “When sharing criteria for evaluation among pools of managers and administrators, leaders can also offer critical feedback on whether goals seem specific enough, have enough or too much stretch, and whether they are complimentary with institutional goals.” Some managers are critical of calibration because they may think it reduces freedom in decision making, acknowledges Kochanski. “In many ways, decisions about talent are far too important to leave to the discretion of individual managers operating in isolation and without comparison to what others are doing.”

Karen Hutcheson, a senior vice president at Sibson Consulting, believes talent calibration has great applicability for various functions in higher education because of the high levels of interactivity among departments and large staffs with similar job positions reporting to a number of different supervisors. For instance, calibration ensures that high-performance employees get greater exposure. “Especially at small institutions, career opportunities are not always in your department. With the kind of cross-departmental conversations that take place through calibration, the best employees have more opportunity to shine in front of a broader audience,” notes Hutcheson. Calibration not only levels the playing field for employees, but also focuses everyone on realistic goal-setting, adds Hutcheson. “You want to make sure that a manager setting high-stretch goals in the development area gets input from other leaders whose departments and divisions must support those development efforts.”

Performance calibration can be as effective in small institutions as in large institutions, notes Hutcheson. At Caldwell College, a small Catholic institution in New Jersey, leadership and HR have held “norming sessions” for many years. Sheila O’Rourke, executive director of human resources, joined Caldwell 16 years ago from a major retailer, bringing programs and principles not commonly found in higher education. She initiated these sessions as a way to get her leadership grounded on the same page. During the sessions, vice presidents and senior administrators review performance of the people who work for them within the context of the college’s strategy, needs, and expectations. The goal has been to make sure that expectations are realistic, performance evaluations are anchored in similar interpretations, and messages about performance are fair, appropriate, and consistent across the board, says O’Rourke. The process has the added benefit of raising awareness of talented staff and administrators from all areas of the college.

### Testing Talent Initiatives

The demand to grow talent is constantly on the agenda at Johns Hopkins University.

A little more than a year ago, JHU launched a new compensation system that encourages employees to develop within their current jobs. (See [“Compensation System Overhaul”](#) in the January 2007 issue of HR Horizons.) The new system provides a means for employees to be recognized and rewarded for increased skills and competencies in their current job over and above the normal annual salary increases.

“As part of revamping our compensation system, we developed universitywide core competencies and incorporated them into our new system. These competencies serve as a foundation for broader performance-management initiatives,” says Charlene Hayes, JHU’s vice president for human resources. “These include creativity and in-

novation, and the ability to manage change and work as a team.”

With the university’s compensation system fully rolled out, Hayes and her staff have turned attention to broad-scale talent development, encompassing competency development, performance management, and succession planning. JHU is working on all three simultaneously, with pilot programs in different areas of the university to develop guidelines and templates. “We ultimately want to have a university-wide approach to all processes, but we also recognize there will be different needs by school, department, and career family,” says Hayes.

For instance, a succession planning pilot is currently underway in JHU’s school of nursing to identify core competencies and qualities for leaders and future workforce needs. Other pilots include identifying functional competencies for development officers, HR staff, and finance positions at every level as a basis to create a blueprint for development initiatives for divisions, job families, and individual employees.

As part of the nursing school succession-management pilot, the leaders in each division or group were encouraged to get together to talk openly about talent needs and to identify the specific strengths of current employees and existing talent gaps. “Something that surprised me is how difficult it was to get leadership to engage in this kind of review. Especially for faculty who may manage a lot of people but who often are not completely comfortable in that role, they tended to feel they were talking inappropriately about employees behind their backs,” says Hayes. Ultimately, the School of Nursing leaders reported that the planning conversations were very rich and fruitful. They were able to use the competencies and succession management process effectively to think about individual development for both faculty and staff in new and creative ways.

After Hayes shared the results of eventual successes of the nursing school pilot with JHU’s council of deans and vice presidents, the provost has charged the group to consider how university leaders can begin a larger conversation to identify and develop talent across the institution, says Hayes. “Especially in light of the nation’s current economic crisis, it becomes even more critical that we focus managers on high-potential employees, including better management of salary increases to ensure we are doing whatever we can to retain our best performers,” says Hayes. “While we talk about merit increases, we typically have not been allocating increases based on true merit pay. These pilot programs are laying a foundation to help us really focus on high-potential employees and to build a system that rewards top talent.”

The pilot programs are likewise producing valuable tools that will assist the entire university in future talent-management initiatives. A new interactive performance-management system allows managers to complete evaluations electronically and get input from others about an employee’s performance. Employees can also add comments to their e-records. The system will help identify performance gaps in skills and competencies that employees and their managers can use to create a personal development plan. Employees will be able to pursue these development plans using a series of options offered through a newly installed software system to be rolled out in late January. Using a software portal called myLearning@JohnsHopkins, individuals will be able to register for online and instructor-led courses needed to fill any gaps in skills and competencies in their current positions or to build skills for promotion opportunities. This learning manage-

ment system will be complemented by a knowledge network, another portal-based system, that will provide access to need-to-know information at the time of need. A third component of the learning system includes regular webinars called FastFacts that are intended to provide employees with timely information that will allow them to perform their jobs effectively.

“Another surprising outcome of our pilots is the recognition of how little business intelligence we previously had access to for decision making,” says Hayes. When her division reorganized in July 2008, she made the development of HR metrics and analytics a high priority. Since then, a group of HR and HR Information System staff has been working on developing these in collaboration with stakeholders within and outside of human resources. “So far, they’ve identified 73 metrics that we will use to create a dashboard so that we can compare one school to another or universitywide with regard to demographics, retention, recruitment, compensation, and so forth.”

Significant progress has been made in the creation of a web-based online HR metrics and analytics system that will give JHU leadership direct access to these metrics, including the ability for individual leaders to customize reporting instantaneously, says Hayes. “When available, the system will also allow us to pull in data from outside groups such as the U.S. Bureau of Labor Statistics and our peer institutions, for example, so that leaders can also benchmark their divisions against relevant groups outside JHU,” says Hayes. “This will provide our leadership with the information they need for better decision making about compensation, retention efforts, and a host of other talent-management initiatives going forward.”

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## Snapshot

### Building Talent Internally

By Kathy R. Pharr

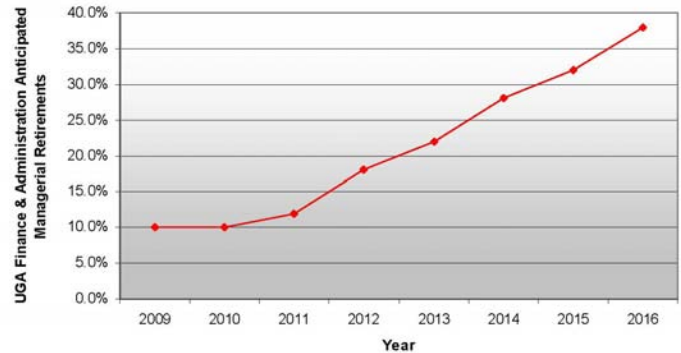
Several years ago, the University of Georgia’s (UGA) finance and administration (F&A) leaders looked in the mirror and saw what many of us in higher education face: a graying management team. Rather than view the pending exodus of seasoned leaders as a threat, we chose to see it as an opportunity—one that could lead to a stronger and more diversified administrative team in the future.

“As the senior leader for the division, I’ve always felt like one of the key indicators of a healthy organization is that it has people in place who are prepared, ready, willing, and able to move into ranks of further responsibility and leadership once those open up,” says Tim Burgess, UGA’s senior vice president for F&A. “I think it’s incumbent upon the leadership team to be focused on succession planning. The Finance and Administration Fellows Program is a key piece of our efforts to do just that.”



### Charting Leadership Needs

Nearly 20 percent of UGA’s workforce—more than 1,600 employees—serve in the university’s F&A division, spanning auxiliary and administrative services, budget, controller, environmental safety, human resources, physical plant, and university architects. The challenge of pending retirements looms on our immediate horizon. From 2009 to 2011, 16 leaders within the division who will reach 60 years of age and at least 10 years of service will be poised to retire. By 2016, 38 percent of the division’s assistant directors, directors, and assistant/associate vice presidents will be eligible for retirement.



In light of these sobering statistics, we established a divisionwide team of staff representatives to draft recommendations to improve our managerial diversity and develop the bench strength of the entire division. The staff development initiatives now underway are based on the team’s report. Senior staff determined that the programs should be directed centrally through the office of the senior vice president rather than human resources so that the initiatives would bear the endorsement of the ranking official in the division.

As the assistant vice president for F&A, a significant amount of my time is devoted to oversight of these efforts. They include:

- **New to F&A Day:** a daylong orientation program offered each spring to the newest members of the division. Setting and aligning performance goals.
- **Foundations of Leadership and Management Program:** a basic business skills program for new or aspiring managers. The division’s diversity committee recommended the content for this program, and training was offered to 40 division employees in FY08. The program was so successful it has been launched universitywide.
- **F&A Fellows Program:** an intensive training opportunity providing meaningful work experiences in other F&A units.

The F&A Fellows Program is the pinnacle experience of our staff-development programs. Since its inception in 2005, the program has helped us identify 10 rising stars throughout the division, test their aptitude, and expand their horizons through six-month placements in F&A departments other than their own. The results are impressive: four of the participants (40 percent) are minorities; five (50 percent) are female; seven of the eight graduates in the three preceding classes (the fourth rotation is currently underway) have assumed positions of increased responsibility; and half have either earned or are pursuing advanced degrees (two graduates already had master’s degrees).



## Fundamentals of the Fellows Program

At the heart of our fellows program is a “residential” experience. Fellows leave their departments to spend three months in each of two different F&A units. During these six months, fellows learn new skills, enhance their appreciation for the breadth of the division, and forge professional connections for future career growth. They are mentored by senior leaders in the host units and are included in management meetings to learn more about decision making. They also attend shadow days in other F&A units, as well as a day with leaders in academic affairs and external affairs. In addition, the fellows are paired with two campus business officers to develop appreciation for school- and unit-based perspectives, rather than purely centralized ones.

Work assignments for fellows are more than mere busy work; they are value-added initiatives for the host units. Several examples include an assessment of wireless communication devices in the physical plant and a recommendation for improved efficiencies; participation in the development of a bicycle master plan for campus (an idea pitched to the senior administration by the fellow and the chief university architect); and examination of a salary-incentive proposal for faculty researchers.

The nature of the fellows program necessitates that participation be small. No more than three fellows are selected each year, ensuring that the personal experiences of fellows will be meaningful and that their time away will not be overly burdensome on the lending unit. While fellows are evaluated on their performance in assigned tasks, most important is their attitude and aptitude. How do they react to new situations and new duties? Do they develop creative solutions to problems? Do they demonstrate initiative? Are their interpersonal skills strong? Likewise, fellows evaluate their own performance and provide valuable feedback about the program, which has been enhanced each year based on their suggestions. These evaluations are shared with the home departments for inclusion in the annual evaluation materials of each fellow.

Selection for the F&A Fellows Program is a highly competitive process. A screening committee narrows the applicants to a short list of finalists who are interviewed by the senior vice president and other cabinet-level officials. This high-level participation helps convey the status of the program to the entire university community. Once selected, placements are assigned by the senior vice president.

Rarely do fellows receive the first choice indicated on their applications, as these are often viewed as being too close to their comfort zones. The fellows generally begin their rotations after Labor Day, returning to home departments for the month of December. The second rotation runs from January until the end of March. The achievements of fellows are celebrated at an awards luncheon in the spring. In addition, the senior vice president has lunch with alumni once each year to catch up on their progress. Plans are in the works to engage participants in further networking and professional-development programs, and we are also considering ideas for continuing the involvement of fellows graduates, perhaps via divisionwide group projects for alumni.

## Shared Challenges

The associate vice presidents over each unit are responsible for either crafting a meaningful work experience as a host unit or, as a lending unit, for providing coverage of the fellows’ work duties during their extended absences. The sudden absence or addition of a high-performing employee for half a year can create a burden for the lending units as well as the hosting units and requires managing the expectations of the fellow as well as those left behind. Especially for a lending unit, it may be difficult for a leader to surrender an up-and-coming employee, particularly when the fellow might be hired by another F&A unit once his or her talents are seen by a broader audience.

“That’s truly a risk when you loan somebody out and they do such a good job that the person they’re working for wants to recruit that individual,” says Reginald Woods, senior human resources manager in the physical plant. “The good news is that, particularly in a learning environment, we should be open to those kinds of challenges. You really have to think about what’s best for the university, and that has to be foremost in our minds.”

Controller Holley Schramski has hosted and loaned fellows. “As a host of a fellow, you need to have a good game plan—what the fellow’s expectations are, what your expectations are—so sitting down and planning an agenda is priority No. 1,” says Schramski. “Make sure that everyone who will be interacting with the fellow understands his or her purpose and role in context so that there is complete buy-in.”

## Mutual Benefits

The fellows program offers benefits well beyond the selected participants. Fellows realize that there is more to the division, and to UGA, than the confines of the unit and department in which they work. They are able to apply their new knowledge and improved networking to enhance the operations of their home departments upon their return. Likewise, employees in the lending departments who step up during a fellow’s absence improve their knowledge and skills because they are cross-training and assuming new duties. Upon the return of the fellows, job duties do not revert to old norms. Rather, they reflect the enhanced skills and training of all involved. In fact, the entire F&A division is enhanced because the capacity of the overall workforce is strengthened. In addition, the hosting departments reap the benefits of value-added projects performed during a fellow’s tenure.

Another big plus of the program is that it costs very little to implement. Lending departments may hire temporary staff to help cover the workload in the fellow’s absence, although this option has never been utilized. On one occasion, a fellow was paid to perform 10 extra hours of work per week to keep critical initiatives in his home department underway. In all other cases, the work has been covered by cross-training and spreading the workload among existing employees.

Perhaps the greatest testament to the success of the program is the fellows’ determination to heed the advice of mentors to pursue advanced degrees. Fellows retain their current salaries and do not receive additional salary upon their selection or completion of the program, and no promises are made to them of a promotion pending the conclusion of the program. Instead, the fellows are informed that a successful experience will broaden their skills and be an asset in future consideration, but that the best step they can take to improve their prospects for career growth is to continue their educations.

## Key Lessons Learned

The F&A Fellows Program is one component of a multifaceted staff development program aimed at improving opportunities for advancement within the organization. Unfortunately, budget woes have hampered our ability to implement staff-development programs as fully as desired, except in the case of the fellows program. This program, which requires nominal monetary investment, has continued unimpeded. Thus, it is particularly advantageous in that it can flourish in downturns as well as in good economic times.

Lessons we've learned include the following:

- Don't be afraid to modify the program in response to feedback. It's an iterative process.
- Be flexible in developing the fellows' schedules and adapt these when the lender has special needs (e.g., a delayed start to finish a critical project).
- Manage expectations of all involved. Be clear and realistic about perceived outcomes—for instance, that there is no guarantee of a promotion upon graduation from the program.
- Establish unwavering support from senior leadership.

Regarding the final point, top-level support is critical. It must be present from the get-go and must remain steadfast for the program to persevere. In truth, it can be a challenge to maintain the support of unit leaders, particularly those in smaller units, who sacrifice a great deal when a fellow is selected from their departments. This is especially the case when budget constraints are tight and there is little money to hire replacement help to cover the workload. That is all the more reason why commitment to developing the next generation of leaders must be demonstrated from the top.

"This has clearly been a great success for us. We are developing a cadre of employees who have shown that they have the skills, abilities, and commitment to advance in the organization," says Burgess. "If you expect good people to work hard and do good things, then you ought to be willing to spend your own time to show them that this is important, that it really means something, and that this is worth everyone's valuable time."

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**UGA's F&A Fellows with Senior Vice President Tim Burgess and Kathy Pharr.**

**Front row (left to right):** 2005–06 fellows Chris Kwiatkowski, Kim Thomas, and Kim Eberhart; 2008–09 fellows Darlene Bradley and Heath Hardison. Says Thomas, who transitioned from a position as communications director in the police department to assistant director of services for the physical plant: "The fellows program allowed me an opportunity to develop my leadership skills and apply business principles in my rotations that I didn't have in my old position. Now I have moved from managing a group of 11 employees to assisting in the management of more than 300 employees, and I know that I have a group of peers and top administrators to call on if I have questions. I'm also pleased to be a positive example to others who aspire to advance in their professional careers."

**Middle row (left to right):** Burgess, Pharr, and 2006–07 fellows Brett Jackson and Rod Platt. Says Jackson, a former parking services senior accountant who now serves as assistant director of auxiliary services: "The fellows program demonstrates that leaders are open to new ideas; open to people taking the next step, showing initiative, and trying something new. There's definitely a feeling that you want employees to succeed here."

**Back row (left to right):** 2007–08 fellows Chenyao (Franky) Zhang, Al Jeffers, and Tomekia Wilson. Says Zhang, who transitioned from a contracts and grants accountant to an application analyst in parking services: "The fellows program has caused me to re-examine my career goals. It has broadened my exposure and network of colleagues, increased my visibility, and given me greater confidence and leadership abilities."

## Strategy

**The Pay-Off of Merit Pay**

By Kathy Hagedorn



The subject of merit pay can evoke strong reactions from many within higher education. Yet, as more campus leaders learn that they cannot achieve their teaching, research, and service missions with mediocre performance, they are realizing that it's their faculty and staff who differentiate their institutions and provide their competitive advantage. As more colleges and universities adopt a broad talent-management strategy to focus on retention of top employees, leaders are moving away from across-the-board pay increases toward offering performance-based pay or bonuses to highly productive faculty and staff.

**The Case for Performance-Based Pay**

Any large population of faculty and staff will typically contain the following mix of employees:

- Stars: top 5 percent
- Top performers: next 20 percent
- Solid core: middle 65 percent
- Consumers of resources: bottom 10 percent

With across-the-board pay increases, stars and top performers see no incentives for high achievement, since those who are under-performing benefit equally without contributing, thus rewarding and reinforcing poor behavior. Organizational productivity may actually decrease since there is no correlation between goal achievement and pay increases. Some institutions provide a cost-of-living increase and then have a small pool of money beyond that to reward performance. The difficulty with this approach is that low performers develop an entitlement mentality; subsequently, there is little money left to reward high performers.

One argument used against merit pay is that in hard times—*as most institutions are currently facing*—less than 2 or 3 percent may be available for salary increases. Thus, some argue that the money should be allocated across the board, since it is not worth the trouble to differentiate among employees. However, in an institution with 1,000 employees, that pool could be well in excess of \$1 million. That \$1 million becomes part of base expenses and increases benefits expenses. In tough economic times, any other investment of \$1 million would be highly scrutinized and leveraged to provide the best benefit to the institution. Why wouldn't an organization respond similarly in the case of performance-based pay?

Research extending back at least a decade suggests that merit-pay systems are worth the time and effort. In their 1998 published study, "High Performance Work Systems and Firm Performance" (Research in Personnel and Human Resources Management), Brian Becker and Mark Huselid compared human resources practices and outcomes in high-performing organizations with less successful organizations. They found that in high-performing organizations with advanced HR practices, 87 percent of the workforce received pay increases that were tied to performance. In organizations that were not as successful, only 23 percent of employees received pay tied to their performance

These data are consistent with the common-sense knowledge that people want their work efforts to be recognized; high performers believe they should be paid more than those who don't perform well; and everyone who is carrying extra workload due to a colleague who can't or won't do the job wants the inequity to be addressed. In a September 2003 Society for Human Resource Management white paper, "Effectively Managing Base Pay: Strategies and Programs for Success," human resources consultant Robert Greene notes that more than 90 percent of Malcolm Baldrige Award winners use merit pay as a primary tool to elicit and reward top performance. He also admits that an effective program can be "devilishly difficult to get right." Even so, says Greene: "Research has shown again and again that pay for performance can positively impact performance, but it must be seen as being tied to performance."

The fact is, developing, articulating, and successfully implementing an effective merit-pay strategy requires good planning, time, and hard work.

**Moving Toward Merit Pay**

Because the performance-management cycle involves multiple loops during a year, implementation of a merit-pay system can normally be achieved over the course of a one-year cycle. Key to shifting compensation strategies is ongoing communication about performance.

Performance communication is a continuous cycle of setting clear expectations, measuring performance, giving feedback, and rewarding positive results. A key distraction in the process may be the categorization of overall performance into ratings, such as outstanding, excellent, highly satisfactory, satisfactory, marginal, and unacceptable. In many places, no standards exist that would allow for such clear differentiation of performance. Likewise, once the rating becomes the point of the discussion, it is likely that the person whose performance is being rated will no longer hear any further explanations of how that rating was determined. And, because there is a natural tendency for managers to avoid conflict, many will give the highest possible rating allowable, thereby making the ratings devoid of any real meaning.

At least three key factors should be kept in mind when transitioning to a performance-based pay strategy.

1. Define performance expectations and set clear goals aligned with institutional goals. People generally perform at a higher level when they know the expectations. Time must be spent upfront to define what represents excellence for a faculty member, staff person, or administrator within given units. That dialogue occurs between the administrators and members of the department or school. The dialogue itself should advance the understanding of the unit's goals in relation to the vision and strategy of the institution. Standards should be clear and in writing. While they can be modified as circumstances change, it is important to have written standards and goals that are tied to the institution's goals. Once employees understand performance expectations and how their work makes a difference, they are more likely to derive satisfaction from furthering the worthy goals of educating people, conducting research, and performing service for the community. This direct link between individual efforts and institutional success can create a tremendous sense of employee engagement, further enhancing the retention of your best talent.



## Performance Communication Case Study

At Saint Louis University, where I previously served as vice president of human resources, we developed a staff advisory committee that collaborated with human resources on policy development and had frequent discussions about workplace issues. Since performance appraisals were used for many decisions, including pay increases, promotions, and reduction in force, HR and the advisory committee held focus groups to discern the views of staff and managers regarding existing processes. The focus groups and broader feedback indicated that managers often treated appraisals as perfunctory. In some cases, appraisals were not done at all. Ratings varied dramatically from unit to unit, with some managers assigning high ratings to all regardless of perceived performance. There was little actual communication about expectations, and virtually no communication on performance other than at the end of each year.

As a result of these findings, we formed a task force co-chaired by a manager from HR and the chair of the staff advisory committee. Since the key outcome desired was a genuine two-way dialogue about expectations and performance, the task force decided to use a multistep approach to performance communication. The first discussion was to establish clear standards and expectations at the beginning of the review cycle. Six-month and 12-month follow-up discussions were scheduled. To encourage candor in the process, the only document that was required to be sent to HR for each personnel file was a checklist showing that the discussions occurred and that the major topics required were all covered. Actual documentation was retained within each department. Training was provided to all staff and administrators, and entire departments were encouraged to come to the in-services together. It was important for staff and administrators to hear the same message and understand that performance dialogue is a two-way process.

Although considerable time was invested at the beginning, feedback from staff and administrators indicated that discussions improved after each round. People who had never been given clear expectations now were told what was required for successful performance. The turnover among low-performing staff increased dramatically as they were held accountable for achieving targets. High performers received positive feedback and were encouraged in their future development. When it was time to allocate pay raises, attention was given to rewarding the high performers, while poor performers often received little or no pay increase.

—Kathy Hagedorn, president, The Hagedorn Institute

2. Discuss performance regularly. Discussions about goals and performance should occur throughout the entire year, not only every six or 12 months. Discussions should allow for two-way communication and include how a supervisor can enhance an employee's ability to succeed and what adjustments, if any, should be made to an individual's goals. When discussing performance, an administrator should refer to the written standards and goals and be direct but constructive, distinguishing between his or her feelings about an employee's personality from evaluation of the employee's work.

3. Address compensation separately. Discussions about performance often take a detour once compensation is mentioned, since employees often view how they are paid as a measure not only of their performance, but also of themselves personally. Therefore, communication of salary increases should take place at a separate time. The reality is that managers do not have budgets that allow them to pay everyone at the top quartile of the salary market, so compensation decisions must also be communicated clearly to employees. Four factors must be considered when setting pay: the individual's performance; his or her current pay as compared to others with comparable experience; the person's potential in the organization; and the budget available for pay increases.

## Focus on Top, Core Talent

An organization can never make every employee happy, so it is important to focus on those people who are the stars and top performers as well as those who comprise the solid core of the institution. Those few whose work is marginal or unsatisfactory should receive a clear message to meet standards or leave.

Throughout the cycle, continue to question whether the institution's compensation practices support its larger talent-management strategy. For instance:

- What is the institution doing to attract, develop, reward, and retain the faculty, staff, and administrators who are critical to its success?
- Are appropriate systems in place to make clear what is expected?
- Are people held accountable for their role in achieving goals?
- Is excellent performance acknowledged and recognized?

Implementing a merit-pay system, or reforming one that has strayed from its initial course, can have a powerful impact on employee engagement, job satisfaction, goal achievement, and the success of an organization. The process serves to align employees' behaviors with the goals of the institution, and will be well worth the time and commitment to get it right.

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Perspective

## Retention in a Tough Economy

By Karla Hignite



Barbara Butterfield (butterfield@sibson.com) has more than 40 years of experience in higher education, including appointments as chief human resource officer at the University of Pennsylvania, Stanford University, and the University of Michigan. She currently is a senior consultant for Sibson Consulting, a division of Segal. In this interview with HR Horizons, Butterfield discusses talent-management opportunities in tight economic times. (See also Butterfield's recent article, "[Talent Management Strategies for Attracting and Retaining the Best and Brightest](#)," published in the Spring/Summer 2008 CUPA-HR Journal.)

### ***How would you distinguish between talent management and succession planning?***

If you think of talent management as the umbrella under which you implement particular strategies—human capital development, workforce planning, succession planning, and so forth—then one hallmark of a good talent-management program is to concentrate on all the various strategies at the same time, to consider them as a group of integrated possibilities. In my observations, succession planning has often been something of a sidebar issue, not necessarily integrated with everything else. Within the past five years, I've witnessed more advanced planning to determine bench strengths and come up with a growth and replacement plan. Even so, the succession planning I've witnessed within most higher education institutions tends to be more eclectic than systematic. Those executives who do realize its importance tend to know their organization's strengths and weaknesses, and that gives them an advantage in developing new leaders internally. Occasionally this takes place in a formal way, but in general I don't see a big push for formalized succession planning.

### ***How could you formalize this?***

For starters, as an executive or middle manager I would design an organizational chart showing every individual in my unit. Then, in addition to identifying overall strengths and weaknesses of particular departments or functions, assess the performance for every employee, including your estimation of an employee's commitment and engagement as well as his or her skills. I would even color code the chart to better see where to intervene. For instance, you might identify top performers and pair them with up-and-coming individuals. When you have attrition, use your chart to examine where you have opportunities to broaden someone's skill level. Not all growth is vertical, so look to where you might provide additional experience to a high-potential employee with a special project. Above all, make sure you conduct periodic retention interviews with those who already exhibit success.

### ***What exactly do you mean by a retention interview?***

Well first, I have to say that I don't think many leaders actually do this. But if you're going to be intentional about retaining your best people, you have to determine the best way to do this for each individual,

especially if what is important to an employee is not only the money but also the affiliation with the organization, recognition and inclusion, and opportunities to learn and to have leading-edge tools with which to work.

As I see it practiced most effectively, a retention interview is when you make a formal appointment with a high performer and you go to his or her office to make known your appreciation of the contributions he or she has made, providing specific examples of when you've recognized this excellent performance. You ask the employee why he or she came to organization, why he or she stays, and what the single most important thing is that you could do to make his or her work more rewarding. And then you conclude by agreeing to meet several times a year to ensure that the employee's assignments are interesting and rewarding. The intention is to make certain your best employees understand that if they make a commitment to the institution, you will make a commitment to them. Now, it could be that some leaders do this kind of thing more informally and perhaps have common understandings with high-performance employees about their future at the institution, but a formal appointment signals that this is important. Going to the employee's office says, "I respect you."

### ***How might the current economy pose changes for how higher education contemplates talent-management initiatives?***

I think the current economy does alter some options, but it also provides opportunities. First, I hear a lot of talk about broad-scale layoffs, and that concerns me. This may solve something in the short term, but it's not clear to me that this is the best choice in the long run. What I think is needed instead is a wide-scale rethinking of work itself. A bad economy allows an opportunity to obliterate and eliminate. Get rid of what isn't your core business and mission. Focus on high performance, and dedicate yourself to eliminating low performance at every turn. Use attrition management to your benefit. If you need to eliminate positions, commit to retraining high-performance and high-potential employees to fill in other gaps.

What tough economic times really offer is an opportunity to step back and consider how to increase productivity and capability even if you aren't able to expand overall capacity. It's also a time to evaluate your balance of internal versus external hires. With a tough job market, institutions will likely see significant increases in external applicants, some of whom will be quite skilled. At the same time, in order to hold on to your best people, it's imperative that high-performance staff are able to sense real opportunities for growth. A good rule of thumb is this: With less than 30 or 40 percent of internal promotions filling vacant positions, employees usually report disappointment and lack of commitment to the organization. If more than 60 percent of vacancies are filled internally, that could stifle the kind of new ideas and innovation that can come from external hires.

The current economic slowdown also presents the need to scrutinize and revise competencies and selection criteria for critical jobs to ensure that you have the best and most productive talent on board. For instance, do you simply need a benefits administrator who is proficient within a transactional role? Or do you need a benefits strategist—someone with a creative mind to help design an attractive benefits package that offers relevant services to a broad range of employees?



***In general, how should institutions budget for talent management?***

I wouldn't budget for it as an institution. Talent management should be a key component of every leader's responsibility within an organization. I would simply formalize this expectation. Now, more generic across-the-board training and orientation is great for helping new employees adapt to the institution, but this isn't the same thing as talent development, which must focus on the particular needs of a specific career group. Talent development is most effective when it takes place in the context of self-directed groups that assess how they can best build their own internal competencies and capability through training and mentoring initiatives. For instance, a group of accountants or auditors are best equipped to teach their own. Certainly there will be needs for conference attendance or for formal classes to fulfill certification requirements. Those funds should be factored into the budgets of individual departments or units or schools. In this context, HR can serve as an enabler to help career families identify and evaluate the external resources they might need, to assist with developing RFPs for facilitators, and so forth.

***In what ways can the value of talent management be quantified? What must be shown as evidence of return on institutional investment in talent development?***

One fairly straightforward measure is your vertical growth rate. What is your internal promotion rate? Does your selection rate show a good balance between hiring internal and external candidates? Another measure is what dollar amount you are spending. When institution leaders assess talent development, they tend to look at what is spent through the HR office, but they must also look at travel and conference fees paid, tuition assistance, certification programs, and so forth, to get the full picture.

Now, you can measure dollar investment, but does that tell you how much it advances the capacity of your organization? You can look at how many employees have development plans, but does that tell you they were executed? For instance, how do you arrive at a concise measurement of the value of developmental opportunities? Did what was learned get applied to the job? You can ask employees and supervisors and try to get their narrative or numeric response. In fact, one of the most serious gaps is reporting on realistic performance data. This is tough to assess and to standardize, but it's increasingly important to know. For instance, if your enterprise system can record performance data such that you can rate employees on a scale of, say, 1 to 5, in which 5 is your highest performance employees, then you can begin to analyze your success in retaining your best employees. So, if you lose 100 people in a given year, what percentage of those were high-performance or high-potential employees?

***How far out should institution leaders look when considering future talent needs of the institution?***

This really depends on the institution's strategic-planning process. If a university's planning efforts look out 10 years or 20 years, then you should assess talent needs based on the goals and objectives established in your strategic plan. What are your current strengths? Where do you need to invest to build staff capacities to meet future needs and goals identified? If your strategic plan calls for eliminating a program or adding a new school, that certainly impacts your talent needs.

***What is the biggest obstacle most institutions face in identifying talent gaps and their biggest mistake in implementing plans to fill those gaps?***

What most often trips up institution leaders is 1) failure to plan, 2) failure to align activities of supporting units to the plan, and 3) attachment to outlived programs.

Many institutions tend to grow by building instead of replacing. When you think back to 1999 when so many were working feverishly to avoid doomsday predictions of Y2K—when it was widely thought that computers systems might fail—how many were looking ahead to what should happen once we got through that? Would we simply fire all those programmers? Or did we look ahead and start planning to retrain these individuals for other needs? The point is that we must always be thinking not only about what is currently happening but how future talent needs may change. For instance, fewer organizations have a need for straight secretarial assistance, since these days most workers are already computer literate. In response, how should you change your hiring policies and position descriptions and competency requirements to reflect this? Which groups represent the institution's reputed strengths now and for the future? What programs will grow and evolve, which ones should be eliminated? And, most importantly, what can you do to bring along your best and brightest through those transitions?

***Finally, what about the internal development of organizational leaders themselves?***

It's important to repeatedly identify and develop cohort groups of high-performance, high-potential leaders. Several universities—including MIT, Minnesota, Duke, and Penn—are investing in developing their own cadre of leaders for the future. These cohorts study institutional and organizational effectiveness together. They investigate current challenges facing the institution and take on key or major projects ranging from new policy to capital development. By investing in internal development of future leaders, they avoid the on-boarding challenges of bringing leadership from the outside and at the same time incorporate high-potential leaders in current issues of the university. Members of the cohort become well known to other participants who may be part of the leadership team, and the respect that comes from being nominated to such programs and the inclusion felt by the members is palpable.

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## Resource

## 403(b) and FMLA Updates

### Coverage From the 2008 CUPA-HR National Conference & Expo SESSION: 403(b) Regs—Top 20 Compliance Concerns

By Tadu Yimam

**Author's Note:** With the issuance of Notice 2009-3 released Dec. 11, 2008, public schools, colleges, and universities and other tax-exempt organizations received an extension until Dec. 31, 2009, to complete written 403(b) retirement plan documents. This does not delay compliance with rules and requirements that an employer monitor contribution limits, loans, and distributions. The extension merely postpones the requirement that a plan document be signed as of Jan. 1, 2009—extending that deadline until the end of 2009.

For more than four decades, changes to pension and tax laws have dealt primarily with 401(k) retirement plans. For years, public institutions have been offering employees 403(b) retirement plans without much guidance from the Internal Revenue Service (IRS). Legislation such as the Employee Retirement Income Security Act (ERISA) and the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) changed the rules for many retirement savings programs, but the legislation had little impact on public institutions. Subsequently, confusion surfaced among plan employers and, over time, many 403(b) programs fell out of compliance. After conducting numerous audits, the IRS recognized it was time to provide guidance to make sure that 403(b) programs operate in compliance with these laws. As of Jan. 1, 2009, new 403(b) provisions went into effect.

The new regulations offer insight into the shifting views of the IRS and Treasury Department. Essentially, these changes intend to align the rules governing 403(b) plans more closely with those governing salary reduction arrangements such as 401(k) or 457(b) plans. (See a previous [January 2008 HR Horizons article](#) on this topic.)

During the 2008 CUPA-HR National Conference in St. Louis, Richard Turner, vice president and deputy chief counsel for AIG Retirement, offered a complete review of the changes and offered a step-by-step look at what your institution should do to comply with the new regulations. While your institution's compliance efforts should already be in place, you can use the following checklist to ensure your institution has not overlooked critical 403(b) regulatory concerns.

In general:

1. Establish a written plan that covers required elements and any optional features (e.g., loans, transfers, or hardships) that your institution may want to offer.
2. Provide to all eligible employees annual notice of the opportunity to participate in the 403(b) program and the rules for doing so.
3. Review the hours worked by your part-time employees and substitute teachers. If they are expected to work at least 1,000 hours within the coming 12 months, remind them that they can participate in the 403(b) program.
4. Review your 403(b) program administrative procedures. Identify those areas (e.g., eligibility, hardships, transfers, loans, and qualified domestic relations orders) that may need to adapt to the new IRS rules.

## Checklist of Top 20 403(b) Compliance Concerns

Many of the following tasks can be delegated to the party(ies) that your institution has selected to perform the list of functions. This checklist is a general source of information. Consult with legal counsel and/or a tax advisor to determine the action plan and time line that fits your institution's specific needs.

1. Identify all investment providers that your institution currently sends contributions to under the 403(b) plan and all investment providers that do not receive contributions but do receive contract exchanges as of Sept. 24, 2007.
2. Determine if your institution will follow a centralized, decentralized, or hybrid compliance approach.
3. Identify the types of 403(b) service provider(s) (e.g., investment provider, third-party administrator, common or volume remitter service, investment consultant, legal counsel, etc.) with whom your institution would like to work, and send out letters to request information or requests for procurement (RFPs) to obtain information and service-agreement provisions of such service providers.
4. Identify the current features of your institution's 403(b) plan and determine how you would like the 403(b) plan to operate going forward. Decide which optional features you will include in your plan. (You may want to include employee union representatives in this process if there are fewer features than previously available to their members.)
  - a. Who is eligible to participate in the 403(b) plan (e.g., all employees, those working less than 20 hours per week, etc.)? Remember that all common-law employees should be designated as eligible to participate if you wish to avoid the tracking of hours.
  - b. What types of contributions will go into the 403(b) plan (e.g., employee salary deferrals, employer contributions, post-retirement employer contributions, Roth 403(b) contributions)?
  - c. Will you require automatic enrollment in the 403(b) plan for all new employees? (Determine whether the statutes in your state will permit automatic enrollment.)
  - d. Will you allow participants to roll amounts into your institution's 403(b) plan from a previous employer's 403(b) plan or from other eligible retirement plans or from IRAs? If yes, will you require separate accounting of those roll-over amounts? Can your vendors accommodate separate accounting?
  - e. Will you permit participant loans from 403(b) plan assets?
  - f. Will you permit participant hardship withdrawals from 403(b) plan assets?
  - g. Will you permit contract exchanges to investment providers who do not receive 403(b) plan contributions?
  - h. What is your 403(b) plan year?
  - i. Who will make administrative decisions about your institution's 403(b) Plan?
5. Select 403(b) service provider(s) with whom your institution will work and negotiate service agreements with such service provider(s).
6. Consider board adoption of policy for selection of investment providers (subject to state law requirements).
7. Review collective bargaining agreements for any provisions



related to 403(b) plan and consider renegotiation of such provisions (if applicable).

8. Draft 403(b) plan document.

9. Draft standard 403(b) salary reduction agreement.

10. Negotiate service agreement with each investment provider who receives contributions from 403(b) plan. (Determine whether each of the providers you wish to offer to receive contributions under the 403(b) plan will share information with the institution for purposes of inclusion in your written plan.)

11. Negotiate information-sharing agreement with each investment provider who does not receive contributions from 403(b) plan but will receive contract exchanges from 403(b) plan. (Determine whether each of the providers you wish to offer to receive contract exchanges under 403(b) plan will share information with the institution for purposes of permitting contract exchanges under your written plan.)

12. Obtain copies and review specimens of all annuity contracts and custodial account agreements offered under 403(b) plan. Alternatively, be sure that written plan language properly references those underlying contracts and agreements.

13. Identify all employees eligible for 403(b) participation.

14. Prepare communication that advises employees of the investment providers who may receive contributions and/or contract exchanges under your written plan, any limits on contract exchanges under your written plan, and your institution's policy for adding or eliminating investment providers.

15. Prepare employee 403(b) enrollment packages and annual meaningful notice of eligibility.

16. Conduct 403(b) enrollment meeting and investment provider meeting for eligible employees. During meeting, describe employees' rights and responsibilities under new 403(b) rules, and educate employees about availability of 403(b) plan.

17. Develop 403(b) plan document file that includes:

- a. 403(b) plan document.
- b. Salary-reduction agreements.
- c. Copies of annuity contracts and custodial agreements (if applicable).
- d. Investment provider service agreements and information-sharing agreements.
- e. Third-party administrator service agreement and any other service provider agreements (if applicable).

18. Implement ongoing administrative procedures for reviewing and monitoring 403(b) plan operations regarding eligibility determination, contributions, distributions, contract exchanges, and so forth.

19. Implement annual process to review and amend, as needed, all documents and materials in 403(b) plan document file.

20. Implement process to select and deselect 403(b) investment providers subject to board policy (if applicable).

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## Coverage From October 2008 United Educators Webcast

### SESSION: FMLA Final Regulations Revisions

*By Tadu Yimam*

On Nov. 17, 2008, the Department of Labor (DOL) released final regulations on revisions to the Family and Medical Leave Act (FMLA), effective Jan. 16, 2009. The rules clarify the rights and the responsibilities of employers and employees and address issues such as the numerous definitions of "serious health conditions," requirements on medical certification forms, new FMLA military leave entitlements, and use of accrued paid leave. Higher education administrators are tasked with a difficult job of not only becoming familiar with the new regulations but also understanding how the Americans with Disabilities (ADA) and Workers' Compensation laws interact with the new rules in order to protect their institutions from costly lawsuits. This task is complicated by the fact that the ADA, Workers' Compensation, and FMLA laws overlap and in some instances contradict each other and state-based programs in terms of their requirements.

An October 2008 webinar hosted by United Educators (UE) offered guidance and detailed explanations of key definitions in each law. Participants heard from Caroline Hendel, associate general counsel at Yale University; Amy Schmidt Jones, UE select counsel and a partner in the Milwaukee office of Michael Best & Friedrich; and moderator Frank Vinik, UE senior risk analyst.

### Rules to Remember

"Many call the intersection of these three statutes the Bermuda Triangle laws, because it is so easy to get lost and confused," Vinik explained. Although administrators may be faced with one situation, each law has to be evaluated separately. Unfortunately there is no legislative guidance on how to coordinate the three statutes. Each law has different definitions, rules, and time frames. State laws must also be considered.

Jones emphasized three rules of thumb when analyzing a situation for which these laws might apply.

1. Evaluate the situation under each law separately. No matter which law is applied first, each law must be applied separately to determine the outcome under that statute.

2. Determine which law provides the most benefit to the employee. In some situations, one of the laws may dictate that an employer has no obligation to an employee, while another law may require a significant obligation. As a general rule, the law that is most favorable to the employee must be followed.

3. Reevaluate the situation under each law every time the employer receives new information on the employee's condition or a deadline passes under one of the laws. This task requires excellent coordination. Supervisors are usually the first to receive new information about an employee's condition, while the office of human resources typically monitors deadlines under laws such as the FMLA. In addition, legal counsel may need to review proposed actions before a supervisor can proceed.

According to Hendel, understanding the differences between the laws is critical. In general: 1) the ADA prohibits discrimination against



employees with a disability; 2) the FMLA sets minimum leave standards for workers; and 3) workers' compensation provides for payment of compensation and rehabilitation to workers injured on the job. Jones emphasized the importance of "starting the FMLA clock as soon as possible, and reevaluating the law each time the employee's health changes or time deadline passes." She also reminded employers/institutions of their right to request recertification of a health condition if a suspicious pattern of absences occurs.

### The New Revisions to FMLA

The final rule updating the DOL's regulation is designed to speed the implementation of a new law that expands FMLA coverage for military family members. For the first time, this final rule "gives America's military families special job-protected leave rights to care for service men and women who are wounded or injured and also helps families of members of the National Guard and Reserves manage their affairs when their service member is called up for active duty," says Jones. Military caregiver leave provides family members of injured service members with up to 26 weeks of leave in a single 12-month period. Qualifying exigency leave allows military family members to use the normal 12 weeks of FMLA leave to manage the affairs of the service member while he or she is on active duty or called to active duty. The rules also expand the definition of "next of kin" to include grandparents, aunts, uncles, first cousins, and any relative so designated by the service member (not only spouses, parents, and children).

### Developing a Useful Program

Speakers were emphatic about developing a proactive return-to-work program that is right for your institution, your employees, and for workers' compensation cases. The program should be in writing and be consistent and enforceable. Items to address in the program include:

- How the institution will assess whether the employee is able to return to work and can be reasonably accommodated in his or her current position.
- The process for finding other available positions on campus if the employee cannot be reasonably accommodated.
- Required fit-for-duty certification from appropriate health-care providers.
- Time limitations for the employee to remain on a light-duty position.
- How long it is reasonable for the institution to keep the employee on leave of absence if reasonable accommodation cannot be provided and no alternative positions are available.

Any return-to-work program must take into account applicable ADA, FMLA, and workers' compensation stipulations. "Be mindful that FMLA statutes, where applicable, may interfere with the institution's attempt to return an injured employee on workers' compensation to

### Additional Resources

For more information, check out the following links:

- FMLA—Federal Register:
- Department of Labor FAQs:
- United Educators Toolkit and registration link:

work if the employee refuses a light-duty offer and chooses to stay off for the full 12-week FMLA period," warns Hendel. If the employee is unable, at the conclusion of FMLA leave, to perform the essential functions of his or her former position or of an equivalent position, the employee has no right to restoration to another position under FMLA. "However," Hendel continues, "if the employee returning from a work-related injury is a 'qualified individual with a disability' under the ADA, your responsibilities as an employer are then governed by the ADA's requirement that the employer make a reasonable accommodation, barring undue hardship." This means that as an employer, you have an obligation to attempt to return an injured employee to work beyond the 12-week FMLA period.

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### Resource

### Guidance on Staffing Adjustments

Should layoffs become necessary at your institution during the current economic downturn, it is critical to become fully aware of employee rights as well the legal risks associated with staff layoffs. NACUBO has released "Staff Layoffs and Reductions in Force—Managing the Risks," a paper developed to help campus administrators and institutional managers formulate strategies for adjusting staffing levels.

The monograph, written by Martin Michaelson, an attorney at Hogan & Hartson, and Lawrence White, a higher education consultant, reviews the legal risks associated with staff layoffs and suggests practices institutions may use to effectively manage those risks. Not only does the paper discuss intelligent planning, well-designed procedures, and legally defensible operating standards, but it also considers the effects layoffs may have on remaining employees.

The paper, co-sponsored with the American Council on Education and United Educators, is not meant to provide legal advice; institutions should consult legal counsel experienced with the issues addressed.

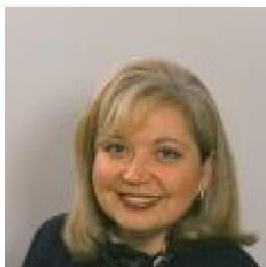
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## Big Picture

## Executive Compensation in Six Steps

**Editor's note:** The following article is based on a presentation at the CUPA-HR National Conference & Expo held in St. Louis in October 2008.

By Nancy Taylor



It's no surprise that executive compensation is a hot topic these days, with the excesses of corporate greed highlighted nearly daily in the media. However, the focus on executive compensation is not limited to the firms on Wall Street. Over the past several years there have been documented cases of abuse throughout the nonprofit community, including within academia.

In 2004, the Internal Revenue Service (IRS) launched a targeted audit program of tax-exempt organizations. The results, published in 2007, revealed significant levels of confusion regarding the instructions for completing Form 990 and identified other problems associated with excessive salary, incentive compensation, and perquisites not reported as compensation in the nonprofit community. In response, the IRS revised Form 990 and launched a compliance project that included a specific focus on the higher education community. In October 2008, the IRS issued a 37-page compliance questionnaire to approximately 400 colleges and universities inquiring specifically about their endowment and executive compensation policies.

While the amounts of compensation, bonuses, and perquisites found in higher education may pale in comparison to those in the for-profit world, they elicit mixed responses within the academic community. Their mere existence can spark controversy, especially in times of shrinking budgets and rising tuition costs. However, the ability to recruit, retain, and reward key employees is as essential in higher education as in the corporate sector, and is largely accomplished through the use of a variety of executive compensation arrangements. The issues surrounding the design of these arrangements in both the business and educational communities are similar.

Marketplace characteristics and competitive pressures, the public's demand for accountability and disclosure, and the changing legislative and regulatory environment all have an impact on the design of an effective executive compensation program. On the legislative front, the introduction of IRC Section 409A by the Internal Revenue Service has had a major impact on the design of executive compensation programs. IRC Section 409A governs all nonqualified deferred compensation plans, a key component of any executive compensation program. Independent colleges and universities also must determine executive compensation in accordance with IRC Section 4958 intermediate sanction provisions.

A sound executive compensation program begins and ends with good governance and a well-established compensation philosophy, policies, and practices in line with the institution's overall goals and objectives. Good governance practices must include peer-group analysis and a review of the total compensation package (including perquisites such as housing and car allowances along with business and entertainment expenses) and must provide for performance measurements that

clearly define success. Good governance practices should also be well documented and adhere to all legislative and regulatory requirements. Now more than ever—with the watchful eye of Congress and the public—good governance must include adherence to the three C's: compliance, coordination, and communication.

### The Three C's

Compliance with the legislative and regulatory requirements surrounding executive compensation and nonqualified deferred compensation plans is critical in order to avoid intermediate sanctions, fines, and potential disqualification of the plans themselves. Coordination of all arrangements established throughout the university—whether for a star faculty member, university president, or athletic coach—should be centrally managed and maintained to ensure all arrangements are in line with the overall executive compensation policies and practices of the institution. And, communication throughout the organization—faculty, administration, board of trustees—is critical so that no surprises or inconsistencies in policy and practice are present.

Development of a comprehensive executive compensation program should be looked at as a joint venture among key stakeholders. These include members of an institution's board of trustees and senior administrative officials such as the business officer, the human resources director, and the institution's legal counsel.

Executive compensation can be divided into four general components: base salary, standard employee benefit plans, supplemental short- and/or long-term incentive compensation plans, and perquisites. Focusing on the supplemental plans, tax-exempt and governmental institutions are limited in comparison to their for-profit counterparts in what can be provided key employees. There are several types of executive compensation arrangements commonly used in the higher education marketplace. (See sidebar, ["TIAA-CREF Fact Sheets on Executive Compensation Arrangements."](#)) In general, public institutions tend to have more options than private institutions because they are exempt from certain ERISA reporting and disclosure requirements and IRS coverage and nondiscrimination rules.

Designing an effective executive compensation program can generally be broken into the following six steps.

**1. Analyze existing benefit plans and executive compensation arrangements.** One of the first things you will want to do is review the benefits provided under the standard package of employee benefit plans that will be offered to the key employee. Analysis of the base retirement and tax-deferred savings plans is necessary in order to identify gaps in coverage and opportunities that maximize benefits provided under the available limits. In other words, do the math. Addressing what is needed or desired can only be accomplished after determining what is already being provided.

For existing executive compensation arrangements, you will want to determine if the programs still meet their primary objectives and remain in compliance with current regulatory and legislative requirements. You will also want to analyze the administrative requirements and costs of the benefit program to ensure that it remains affordable and efficient. Finally, as with any employee benefit plan, you will want to ensure that the executive compensation package that is being offered or considered is not only adequate, but also understood and appreciated by the key employee.



**2. Establish primary plan objectives for executive compensation program.** This step basically asks the question, why are we considering development of a supplemental executive compensation package?

- Is it simply to provide the key employee with additional retirement contributions above and beyond those provided by the standard employee benefit plans?
- Is it to restore benefits lost under these standard plans due to the IRS limits placed on compensation or nondiscrimination testing?
- Is it to provide the key employee with additional salary deferral opportunities?
- Is it to attract or retain the services of a key employee or to reward performance?

The answer to these questions will help identify the most appropriate executive compensation arrangement for the circumstance. “Yes” answers to the first three questions can, in many cases, be accomplished without complex plan designs and—depending on the amounts under consideration—within the established limits of eligible nonqualified deferred compensation plans. Plans with an objective of recruiting and retaining the services of key employees generally tend to be more complex in design and involve higher compensation limits.

**3. Identify optimal plan design features.** Once you have determined the plan’s primary objective, you will want to gauge the relative importance of certain design features from an institutional perspective. A common consideration is the issue of public disclosure and/or Form 990 reporting. In the case of a highly recruited athletic coach, these issues generally tend to get played out in the local media and are difficult to manage. However, the type of plan selected will determine when or how the compensation is disclosed. (Note: all public institution information is subject to state open records laws, and independent institutions must disclose all compensation in the Form 990.)

Other considerations include determining the importance of protecting the benefit from the institutions’ creditors, whether future service requirements are required, and when benefits are to be made available. (Some plans, such as 457(f) arrangements and 457(b) plans of tax-exempt organizations, must be “unfunded,” whereby the assets remain the property of the institution and must be made available to creditors until they are distributed.) Design features such as rolling risks of forfeiture, the use of non-compete agreements, or requirements for performance of consulting services following separation from service are generally no longer available.

**4. Determine tax and distribution strategy.** Of great importance to both the institution and the key employee is the tax liability and distribution strategy associated with the executive compensation plan selected. Although tax-exempt and governmental employers do not have the same tax incentives as for-profit organizations when establishing executive compensation arrangements, some plan designs have book-keeping requirements that must be considered. The institution also must determine the importance of employer control of the assets and benefit distributions prior to and after vesting or before retirement. Of particular concern to the key employee are the individual tax consequences of the benefits during the accumulation phase, upon vesting, prior to distribution, and following separation from service. Rules vary by plan type and must be analyzed carefully.

## TIAA-CREF Fact Sheets on Executive Compensation Arrangements

For a brief overview of various executive compensation arrangements, see “Executive Compensation Strategies for Academic, Medical, Research, and Cultural Institutions.”

Click on the following links for additional details regarding specific arrangements.

- Section 403(b) Contributions for Former Employees
- Section 415(m) Excess Benefit Plans
- Section 457(b) Private Nonqualified Deferred Compensation Plans
- Section 457(b) Public Nonqualified Deferred Compensation Plans
- Section 457(f) Nonqualified Deferred Compensation Plans
- Executive Bonus Arrangements (Section 162)
- Key Employee Life Insurance/Corporate-Owned Life Insurance (COLI) Arrangements
- Split Dollar Life Insurance
- Supplemental Executive Retirement Plans for Public Employers

**5. Select appropriate financing methodology.** Depending on the type of executive compensation plan under consideration, an institution will need to base its financing strategy on projections of future assets, benefit liabilities, and cash flows. Simply put, how is the institution going to pay for or account for the benefits promised? Common financing arrangements include:

- Cash/lump-sum settlement (pay as you go).
- Shadow account (defined interest and earnings assumptions).
- Institutionally owned annuity/mutual fund accounts.
- Institutionally owned life insurance policy.
- Use of Rabbi Trust, Employee Trust.

From the key employee’s perspective, various funding arrangements tend to involve a trade-off between the level of security provided on the underlying benefits and the amount of tax deferral that can be achieved. Certain executive compensation arrangements have maximum contribution limits placed on them with the benefit of spreading out the tax liability over time upon distribution while others provide for unlimited contribution amounts but are heavily taxed upon vesting or distribution.

**6. Establish guidelines for periodic review and evaluation.** As previously mentioned, a successful executive compensation program begins and ends with good governance and compliance with all legislative and regulatory requirements. It is critical to review these arrangements on an annual basis to ensure they remain consistent with the institution’s overall compensation philosophy, policies, and practices and are in compliance with applicable laws and regulations.

While the focus of this article centered on the types of executive compensation packages most commonly used in higher education, the

annual review should take into consideration the total compensation package: base salary, benefits, short- and long-term incentive programs, and perquisites. It is also important to ensure that all executive compensation plans are well documented, including the decision-making process and procedures that went into their development. And finally, good governance requires involving all of the key stakeholders (human resources, finance/business office, and legal counsel) and clear communication between senior leadership and the institution's governing body.

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Strategy

## New Transparency in Executive Pay

By Richard V. Smith and David M. Nygard

**Author's Note:** This article is the first of a two-part series addressing the executive compensation challenges arising from the new IRS Higher Education Initiative. The second article will shed light on the potential traps and examination triggers within the revised Form 990 and related questionnaire and discuss successful compliance strategies.

Changes to IRS Form 990 will have a profound effect on independent colleges and universities and foundations that support higher education public institutions. The IRS has redesigned Form 990 to shine a light on executive compensation at institutions of higher education. While the new form does not require the depth of discussion mandated for public companies, it will indicate the level at which trustees understand and are involved in and accountable for the process by which executive compensation decisions are made.

### Form 990 Background

IRS Form 990 must be completed and filed annually by tax-exempt 501(c)(3) and 501(c)(4) institutions, including independent colleges, universities, and foundations that support higher education public institutions. Developed in 1941, the form collects information on how these tax-exempt organizations operate and makes this information available to the public. Viewed as a stripped-down annual statement and proxy filing rolled into one, Form 990 allows easy access to publicly disclosed information and expansive amounts of information reported and has become a key research tool for potential students, alumni, philanthropic donors, the press, and government officials. In addition, the IRS uses Form 990 filings to identify institutions for examination.



Richard V. Smith



David M. Nygard

## Executive Pay Disclosure at Public Companies: A Model for Higher Education?

Public outrage does not appear to be contained to troubled financial institutions that have awarded substantial bonuses after receiving emergency public funding. A recent article in *The Wall Street Journal*, "Pay at Nonprofits Gets a Closer Look," prominently featured pay levels within higher education. Tax-exempt organizations are now being asked to provide a more complete description of what executives are paid and the value of the benefits they receive. The combination of enhanced pay transparency in higher education with greater IRS vigilance and public discontent are likely to have a profound impact on executive compensation within higher education in both the short term and long term.

### A Move Toward Transparency

The Securities and Exchange Commission (SEC) has a long-standing requirement that publicly traded companies must disclose the compensation paid to the directors serving their boards and to each company's top five executives. This requirement was addressed by compensation disclosures that were generally engineered by attorneys to both meet the letter of SEC disclosure requirements and limit the usefulness of the data disclosed. This changed in 1993 when the SEC altered its compensation disclosure rules to include more detailed disclosure guidelines and uniform disclosure table formats.

Public company compensation disclosure rules were modified again in 2006 to further increase the transparency of top executive pay in the wake of the Enron collapse and the new operating environment that followed the adoption of the Sarbanes Oxley internal control regulations. Proxy statement disclosures in public companies require an in-depth detailed discussion of compensation philosophy, compensatory elements, and decisions made regarding top executive compensation. The executive compensation disclosures of public companies also include detailed discussions of how performance incentive plans (i.e., measures, payout opportunities, participation breadth, etc.) and projected severance payments work in the event of an executive's termination or a change in corporate ownership.

In this, the third year under the new executive compensation disclosure rules, it would be difficult to argue that disclosure has played a role in slowing the escalation of executive pay levels. In fact, contrary arguments have been developed, especially for industries where boards routinely target pay levels at or above 50th-percentile observed levels. The recent changes in the economy and resulting political environment appear to have a much greater potential impact in capping executive pay in this and future years.

Executive pay transparency for publicly traded companies, however, has had a profound impact on incentive bonus design. The ability to analyze the incentive plan approaches and the mechanics used by direct competitors and aspirant organizations has prompted many companies to adopt and/or modify the incentive pay structures within their own companies.



## What's Changed?

New (2008) Form 990 compensation disclosure requirements for higher education institutions are more in line with what is required of public companies. (See sidebar, [“Executive Pay Disclosure at Public Companies: A Model for Higher Education?”](#)) The following is a high-level summary of Form 990 changes this year (2008, reported in 2009):

- Compensation for executives, officers, and directors (trustees) is now reported on a calendar-year basis, and more than one year will be presented in each disclosure.
- Disclosures of compensation and perquisites have been greatly expanded for officers, directors, and key employees.
- Disclosures will include compensation paid to officers, directors,

and key employees from related organizations.

- The definition of a related organization has been broadened.
- New disclosures must be made of board policies and compensation determination practices.

The new form attempts to serve two primary purposes in the compensation area.

1. It tries to simplify and make transparent the disclosure of executive compensation by obtaining more uniform basic compensation reporting from all organizations, regardless of type or size, in Part VII of the core form.

2. In some instances, it attempts to obtain additional detailed information regarding a listed person's compensation and the organization's

## Going After Improper Gains From Tax-Exempt Organizations

In 1996, Congress enacted IRC Section 4958, the intermediate sanction on excess benefit transactions (EBTs). This section of the tax code was finalized in 2002. Intermediate sanctions allow the IRS to impose excise taxes on individuals (termed “disqualified persons”), institutions, and managers in the event of a transaction or series of transactions deemed to have received an improper gain from a tax-exempt organization. The only way the IRS could address EBTs prior to the enactment of Section 4958 was to revoke the organization's tax-exempt status or ignore the problem. The excise taxes that apply to EBTs can be significant (from 25 percent to 200 percent of the excess amounts identified), especially in cases where these transactions are not corrected in a timely manner.

These intermediate sanctions also contain an important protection for disqualified persons and organization managers: a rebuttable presumption that compensation levels are reasonable. Once invoked, a rebuttable presumption has the effect of shifting the burden of proof that a transaction is an unreasonable EBT from disqualified persons and tax-exempt organizations to the IRS. (The structure and requirements in establishing this rebuttable presumption will be discussed in detail in the second article in this series.)

In 2002, the IRS' Tax Exempt and Government Entities, Exempt Organizations Division (EO) created an Intermediate Sanctions Committee to coordinate the interpretation and enforcement of the code. It launched an Executive Compensation Compliance Initiative in 2004 to review the compensation practices within tax-exempt organizations and identify potential tax administration concerns and areas of abuse. The EO also initiated compliance projects for credit counseling, hospitals, and community foundations. These initiatives have created a number of issues:

- The instructions for completing Forms 990 are difficult to understand, which can lead to filing errors.
- Many tax-exempt filers have experienced significant compensation reporting errors and omissions requiring the amendment of past returns.
- The favorable terms and lack of repayment of loans offered to officers and employees are a source of significant concern, since many could be considered EBTs.

The collective findings from these initiatives led to the collection of millions of dollars in excise taxes. These compliance initiatives and the prospect of collecting additional taxes is the foundation used by the EO to restructure the format and definitions of Form 990. These changes have also been echoed in the questionnaire used by the EO to launch its Higher Education Initiative.

### The IRS Higher Education Compliance Project

The EO launched the College and University Compliance Project in October 2008 when it sent a 33-page questionnaire (Form 14018) to approximately 400 small, midsize, and large independent and public four-year colleges and universities. The 33-page questionnaire contained 94 questions presented in four parts:

- Part 1 – Organization Information (22 questions; 6 pages).
- Part 2 – Activities (10 questions; 13 pages).
- Part 3 – Endowment Funds (27 questions; 5 pages).
- Part 4 – Executive Compensation (35 questions; 8 pages).

All executive compensation questions pertained to the six highest-paid officers, directors, trustees, and/or key employees for the 2006 calendar year. The questionnaire was essentially an expanded version of Schedule J in the new Form 990 and applies to the calendar year 2006. Nearly two pages (13 questions) of Part 4 (executive compensation) were devoted to loans and extensions of credit to officers. Significant attention was also focused on how compensation comparisons are conducted (if at all) and the filters used to select peer groups or survey data compensation comparison points.

The IRS recently published the results of a similar exercise for tax-exempt hospitals. A questionnaire was sent to a targeted group of hospitals, and an in-depth analysis was released on how these organizations serve public needs and on their executive compensation practices. The 178-page report of final project findings, which was released in February, stated: “Nearly all of the hospitals in the study reported complying with important elements of the rebuttable presumption procedure.” Average and median pay generally increases with revenue size. The top 20 hospitals had average and median total executive compensation amounts of \$1.4 million and \$1.3 million, respectively. This prompted calls in the media for the elimination of the “rebuttable presumption” safe harbor, increased executive pay legislation, and even increased action from state attorneys general.



compensation practices, particularly in those cases where the organization has compensated one or more persons above certain amounts.

With the exception of questions regarding the executive compensation decision-making process, Part VII of the core form is very similar in structure, layout, and content to the 990s of prior years. Most of the important changes in the 2008 Form 990 are in Schedule J, Compensation Information, which requires detailed compensation information for individuals whose W-2 income exceeds \$150,000 or whose compensation with nontaxable fringe benefits and expense reimbursements exceeds \$250,000 and for all former officer, trustee, key employee, and highly compensated employees listed on the core form. Schedule J requires a person-by-person breakout of the following:

- Base salary.
- Bonuses and incentive payments.
- Other compensation (i.e., severance, income earned in prior years paid this year, qualified and non-qualified retirement contributions, etc.).
- Deferred compensation.
- Select nontaxable benefits (i.e., housing, education, life insurance, gross-ups, etc.).
- Compensation reported in prior Form 990s.

Parts IV and VI and Schedule J have a series of yes/no checkboxes that require narrative explanations for “yes” responses. This is where the transparency of board policies and executive perquisite disclosure is greatly enhanced. Questions include:

- Does the process for determining compensation include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?
- Was there a loan outstanding to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person as of the end of the organization’s tax year?
- Are there interlocking business or family relationships with other organizations?
- Do you have a whistleblower policy?
- Do you have a conflict of interest policy?
- Do you offer reimbursements for first-class or charter travel, spousal travel, tax indemnification and gross-up payments, discretionary spending accounts, housing allowances, business use of a personal residence, health or social club dues, and/or the services of a maid, chauffeur, bodyguard, chef, and so forth?

## What’s Next?

This is not the first time the IRS has cracked down on tax-exempt organizations. (See sidebar, [“Going After Improper Gains From Tax-Exempt Organizations.”](#)) By redesigning Form 990, the IRS is beginning to take a closer look at executive pay practices at higher education institutions. Next month’s article will shed light on the potential traps and examination triggers within the revised Form 990 and the IRS college and university compliance questionnaire and discuss successful compliance strategies.

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## Snapshot

### Consumer-Directed Acceptance

*Editor’s note: The following article is based on a presentation at NACUBO’s Thought Leaders Program “Changing Demographics, Changing Workplace,” held in February 2009 in Scottsdale, Arizona. A white paper covering the ideas shared by presenters and participants at this event is also available. [“Harnessing Value from Changing Workplace Demographics.”](#) by Bobbie Dillon, examines how to bind different values, needs, perceptions, and work styles present in a multigenerational workforce into a cohesive, productive organization that can thrive in today’s challenging economic environment.*

An institution’s benefits program can provide flexibility in adjusting total compensation to attract and retain the best faculty and staff. At Michigan Technological University, we worked with campus leaders to introduce a high-deductible consumer-directed health plan with a health savings account (HSA) component and enrolled more than 35 percent of our faculty and staff population in the first year. These dramatic changes did not happen overnight, and they required a strategic, comprehensive review of our total compensation and benefits and a methodical approach to assess employee acceptance and education needs.

### Michigan Tech in Context

Michigan Tech is a small research university serving 7,000 mostly residential students with approximately 1,200 staff and 400 faculty members. Given that we are located in a somewhat remote part of the Upper Peninsula, our health-care options are somewhat contained. At the same time, this often affords our employees an opportunity to establish strong relationships with community providers.

Early in 2000, we honed in on what had become a steady escalation of health-care costs in recent years. As HR director at that time, I knew we needed to do something to better contain these costs. I began working with our university faculty senate specifically on the issue of our high individual stop-loss insurance coverage. Through the process of working on this common interest, we formed a strong partnership and decided to formalize this working group.

### The Benefit of an Advisory Group

In May 2000, we created a benefits liaison group (BLG) comprising key professional staff and university senate representatives. The mission of this advisory group is to provide the best possible benefits program within the university’s available resources. To that end, one of the group’s charges is to annually review the university’s benefits package in the context of current economic constraints and to provide recommendations for changes to improve the quality of benefits and reduce costs.

With double-digit increases becoming the norm in recent years, we knew we needed to gravitate to a model in which employees shared more of the costs. We also knew that we needed to create employee awareness and understanding about the true costs of their care if we were going to be successful in asking them to share more of the burden.

Starting in February 2001, one of the BLG’s goals was to “shift employees from unaccountable consumers into the role of informed consumers with the tools to plan and manage their own health care.”



One of the first actions we took to raise the cost-consciousness of employees was to switch from having employees pay a flat \$10 co-pay for office visits to paying a 10 percent co-pay. That one small change suddenly motivated employees to start shopping around and begin asking questions about fees for service.

In FY2003, the BLG recommended a reduction in projected benefits costs by \$750,000 based on the following:

- Share the burden for health-care cost reduction among employee, providers, and the university.
- Expand choices by replacing the current health-care plan with more options.
- Maintain accessibility by avoiding exclusive provider arrangements and retaining out-of-state access.

## Aetna's Consumer-Directed Success

Consumerism, also known as consumer-directed health care, is credited with helping to reduce health-care spending and making consumers part of the solution to managing costs by putting them in charge of their health care. According to Robert O'Brien, Aetna's national practice lead for higher education, consumerism operates on the belief that when employees share the cost of health-care services with their employer, they are more sensitive to the cost of care and more engaged in decisions about their care.

**"Take Your Institution to a Healthier Place,"** a recently published Aetna white paper authored by O'Brien, notes that up to 70 percent of health-care expenses are often preventable. When well designed and executed, consumer-directed health plans (CDHP) promote cost-consciousness and discourage inappropriate care without deterring consumers from seeking needed care. One contributing factor to a successful CDHP is offering 100 percent coverage of preventive care along with programs to help members take steps toward a healthier lifestyle focused on wellness and disease prevention, says O'Brien.

As for its own foray into consumerism, last month Aetna released results of a study of health care claims and use for members of its consumer-directed health plans. The study of 2.6 million Aetna members (410,000 in an Aetna HealthFund plan) demonstrates that Aetna HealthFund shows sustained savings for employers over a five-year period, with members getting the care they need. The results also show that Aetna HealthFund members are seeking increased levels of chronic and preventive care, using generic drugs more often, and accessing online tools and information at higher rates than PPO members while experiencing lower annualized medical cost increases. The results also show that Aetna HealthFund members had lower emergency room use than PPO members, suggesting that members are becoming better informed about where to access health care.

The Aetna HealthFund study included 200 plan sponsors who offered an Aetna HealthFund Health Reimbursement Arrangement (HRA) and/or an Aetna HealthFund Health Savings Account (HSA). The study looked at 2.6 million members across the spectrum of Aetna medical products, including 410,000 Aetna HealthFund members.

## Pairing Compensation and Benefits Strategies

Separately, in June 2008, we formed a compensation strategy task force consisting of faculty, staff, and academic administrators. The charge for this group was to make philosophical and tactical recommendations on the structure of total compensation and to benchmark our offerings with organizations with whom we compete for talented faculty and staff. One overarching goal for this group is to keep a compensation structure that is cost-neutral to the institution yet maintains total compensation for employees.

One realization stemming from the review of this task force was that the university needed to take steps to increase salaries to be in line with market values. The task force recommended that the BLG focus on increasing employee flexibility and choice to allow individuals of

Key survey findings include:

- For full replacement HRA and HSA plans, employers saved \$21 million per 10,000 members over the five-year period.
- For employers who offer Aetna HealthFund plans as an option, they experienced savings of \$7 million per 10,000 members over the five-year period.
- For employers who offer Aetna HealthFund plans as an option and implemented the strategies that Aetna identified as best-in-class, they achieved savings of \$23 million per 10,000 members over the five-year period.

Last year, Aetna identified several strategies that have proven successful for employers, including fostering a culture where employees and senior executives are engaged health-care consumers, implementing a focused and ongoing employee education campaign, offering wellness programs and incentives for healthy behavior, providing 100 percent coverage for preventive care, and carefully constructing a plan with the right mix of member responsibility. While these strategies continue to be successful, Aetna found another approach that can help employers achieve success: encouraging their employees to enroll in the consumer-directed plan option. This can be done by offering the consumer-directed plan option at the lowest cost, lowering the required contribution, or increasing the fund amount.

Survey results also show that Aetna HealthFund members:

- Seek preventive care more often than the control matched PPO population. Furthermore, Aetna HealthFund members had 10 percent lower primary care physician use for non-routine services and 15 percent lower use of specialist care.
- Access the same or higher levels of screenings for diabetes and breast and cervical cancer, compared to members in traditional PPO products.
- Use the prescription drugs necessary to treat chronic conditions such as diabetes, congestive heart failure, coronary artery disease, and high cholesterol at similar or higher rates than PPO members.
- Use consumer tools and information at twice the rate compared to PPO members.

For more information, go to [www.aetna.com](http://www.aetna.com). Or contact Robert O'Brien at 860-273-0794; e-mail: [obrienr@aetna.com](mailto:obrienr@aetna.com).

different ages, family status, and life stages the ability to customize salary and benefit packages to maximize their ability to meet personal needs and goals. The task force also charged the BLG with developing one or more scenarios to shift Michigan Tech's compensation from benefits to salaries, with a long-term goal of reducing the benefits rate from 45.2 percent to between 34 percent and 36 percent, a rate similar to other Michigan and national universities. This action would ultimately help Michigan Tech compete with other institutions in attracting and retaining world-class faculty, staff, and students, and would better position the institution to compete for external funding of its research and scientific initiatives.

In September 2008, the BLG presented its benefits recommendations to the executive team. The BLG proposed focusing on greater flexibility and choice by the individual, suggesting two choices in health care: the current health plan and the option of a high-deductible consumer-directed health plan paired with a health savings account for which we proposed setting our employer contribution at \$1,500 for families and \$750 for single employees. A key point of this second option is that all preventive care would be covered at 100 percent.

In October, our president accepted the recommendations and notified all employees of the change in benefits that would become effective as of January 1, 2009. In his letter, President Mroz stated: "We will conduct an analysis after all employees have selected a plan option to determine if there are increased costs to employees or a decreased cost to the university. If there are, we will likely proceed with a mid-year salary adjustment."

### Communication and Education Roll-Out

After employees received notification about the change in benefits and information about the different health-care options, representatives from the benefits office and Aetna were available to assist employees with making the health insurance plan choices that would best fit their needs. During the next several months we held campus forums to discuss the new health insurance plan options, ran articles in our staff and faculty newsletter, and developed a Web site to aid employees in making educated choices. After the enrollment period was completed and the analysis was done to determine cost changes resulting from the change in benefits, the human resources director notified all benefit-eligible employees that their salaries would be adjusted up by 1.45 percent—thereby making good on the president's promise to enact a salary adjustment based on the cost savings.

During initial planning stages, the BLG anticipated that only 10 percent of employees might switch over to the new option. Instead, an astounding 35 percent opted for the consumer-directed/HSA option from the start. Worth noting is that the individuals who opted for the consumer-directed plan were not our youngest employees only, but rather, reflected the breadth of our population, including some individuals with existing medical conditions. Perhaps our early steps of laying the groundwork to raise the cost-consciousness of employees had sunk in, allowing them to build confidence in making educated choices as health-care consumers.

What is too often missing in many employer-provided health plans is a focus on helping employees understand their benefits package. The whole point of a consumer-directed health plan is to get employees to take charge of making decisions that are in their best interests. While

as an employer you can offer the option, unless you explain the value of a consumer-directed health plan, employees won't realize the full benefits and employers won't achieve the full potential of employee acceptance. Working methodically to instill employee confidence and having a well-thought-out communication strategy for launching your plan are vital to its success for employees and employers alike.

*Ellen Horsch is vice president for administration at Michigan Technological University, Houghton. E-mail: eshorsch@mtu.edu.*

### Perspective

## An Influential Seat at the Table

By Elizabeth A. Neumann

*R. Kenneth Hutchinson, president of Hutchinson Consulting, and vice president emeritus for the University of Missouri System, served for 42 years in higher education administration. In his former role as vice president of human resources for the UM System, he served as primary contact for the system's governing board on human resource initiatives, policies, and programs. In this interview with Elizabeth A. Neumann, principal of Brill Neumann Associates, Hutchinson discusses the importance of a strong relationship between HR and finance and for HR to report directly to the president. He also offers his thoughts about how institutions should respond in light of the current economic recession. E-mail: HutchinsonR@umsystem.edu.*



R. Kenneth Hutchinson

### **How would you describe an optimal human resources–finance partnership in higher education?**

First, while there are natural differences between how chief finance and chief human resource officers may view matters affecting an organization, to best serve the short- and long-term objectives of the organization, you really need a strong relationship and line of communication between these two positions. Relationships are critical whenever you are shaping institution programs, and typically the two functional areas with the greatest leverage serving the president and board are HR and finance.

As for an optimal relationship—and this is not exclusive to higher education—HR executives must truly understand the financial implications of the organization, and finance officers must understand the priorities behind HR decision making. Specifically, HR executives should know how to read a balance sheet and income statement and should be conversant about economic opportunities and stresses. You can't be effective in your analysis of labor costs or productivity, for instance, unless you have a strong appreciation of and ability to understand the quantitative side of human resources. Likewise, finance officers must be able to go beyond income and expenses in their understanding of the greatest cost center to the organization, its people costs. When both have an appreciation and respect for the others' responsibilities, it allows for substantive, meaningful conversations to take place between finance and HR.



### ***And where does the provost fit in?***

Obviously HR and finance must also work closely with academic leadership. Most often the provost or vice president for academic affairs are not schooled in either HR or finance, so that makes it all the more important to have a strong professional relationship between the vice presidents of finance, human resources, and academic affairs. Where this is the case, much better decisions are made on behalf of the institution. One important point to make is that as finance and HR work closely with the provost in assessing decisions, there should be a clear understanding that neither administrative function is trying to take over academic HR decision making.

### ***What is the best starting point for these conversations?***

I think the best place to start is to look at the cost-benefit of every decision. For example, cost-cutting may be your objective, but if the organization is hampered in its ability to recruit and retain productive faculty and staff, severe cost-cutting or cost shifting may be short-sighted. Other important matters of discussion might be establishing a compensation policy for the organization that includes executive pay and incentive pay and defining how these are tied to organizational performance.

### ***Not all HR executives may be comfortable presiding over those conversations.***

That's true, but this gets back to understanding the quantitative aspects of HR. There may be a case where an HR officer doesn't feel comfortable working with actuarial reports or the nuances of executive pay and benefits, for instance. To me, these are critical responsibilities for HR, and it ultimately is not good for the organization if those are abrogated. The influential plate of responsibilities in human resources—compensation, executive development, executive pay, performance management, recruitment and retention, benefits—all those are so critical to the organization and those should all fall under the auspices of HR.

### ***You believe the chief HR officer should have direct access and direct reporting responsibilities to the president. How prevalent is that within higher education?***

Organizationally, higher education is in trouble if it doesn't begin to view management differently. Thirty years ago, the HR component within industry, retail, health care, and education all would have reported to the chief operating officer, not the chair and CEO. While the first three sectors have changed by elevating HR to the officer level, by and large higher education still has not. And yet, students are expecting more return on their investment, governing boards are questioning why modern principles of effective management are not more fully utilized, and legislators are asking new and probing questions about organizational and program performance and accountability.

To be effective and make the kind of contribution HR can and should make to the organization, HR executives should have access to the president on matters critical to the board. For instance, HR should be part of the senior manager working group and involved in substantive discussions of operating performance and strategy choices. HR should be completely aware of and understand business issues facing your college or university, and intervene as appropriate. HR should develop or assist in developing measurements of success that are unambigu-

ous and help identify serious or chronic shortfalls. And, HR should provide leadership in the development of the university's people systems that drive so much of an organization's effectiveness.

Perhaps more than any other organizational component, HR has the opportunity and the responsibility to assist the president in critical performance and cultural matters to help the university remain focused. In short, HR should be in the game—strategically, operationally, and also in terms of individual and organizational performance, effectiveness, and evaluation.

### ***Why is it so important for HR to have direct reporting status?***

The key word is access. To truly make a contribution and get to know the president and what his or her desires are so that you can effectively shape programs accordingly requires not having agendas filtered through someone else. Decisions will not be as good as they could be if you don't have the dynamic in place where issues are vetted directly with the president. Whenever a president decides to move in a different direction, the organization as a whole won't be as effective if HR is not included in the decision making.

### ***For an institution where this is not the case—where the HR officer is not “in the game”—how can he or she intervene?***

An institution's strategic plan is a good point of intervention for HR contribution. When I was involved in this process at the University of Missouri at the officer level, tremendous conversation took place about the people environment—faculty, staff, and students. These conversations became so significant that under the core values section of the plan, the first of three core values identified was “people,” stating that “human resources is the university's primary resource and principal contribution to society.”

### ***Turning to a very specific and timely subject—the economy—how do you think higher education should be working through this current economic recession from a financial and human capital perspective?***

There are roles that both HR and finance can and must play. If we go back to the cost-cutting example, let's assume the board and president tell the chief business officer and chief HR officer that they need to cut “X-amount” from the operating budget. A big part of the solution will revolve around those hard conversations about the cost-benefit issues of any of the potential decisions they may make. Because so much of an institution's strategy has to do with people, HR is in a critical role to articulate cost-benefit issues in financial and non-financial terms.

Now, some institutions are enacting across-the-board benefit cuts by cost shifting budget shortfalls to faculty and staff. These may have the desired effect for some institutions, especially if compensation is above average. Any cut requires taking a strategic look at how to balance organizational quality objectives with needed reductions. Unfortunately, in academia it is much more difficult, time-consuming, and politically charged to identify and carve out weak programs as opposed to making big cuts across the board. Again, the strategic process should fully evaluate the cost-benefit of the options under consideration. If recruitment and retention suffers and your total compensation package deteriorates, these are long-term implications and difficult to reestablish.



### ***How can an institution keep from falling into this trap—especially if leaders find they must make some quick and perhaps drastic decisions?***

Well, this again underscores the importance of having HR at the table and for decisions like these that are so critical to an institution to be considered on a long-term horizon—five years at an absolute minimum. Granted, something like an economic crisis requires going well beyond some of the routine decision making that must take place. But if you are in the habit of thoughtful planning processes and contingency planning, it is far less likely that you will make critical mistakes during a crisis. Foremost, no matter what situation an institution finds itself in right now, it is critical not to overreact. Before doing anything, consider what kind of long-term damage you may be inflicting with any short-term slashing of your budget or staffing.

### ***What should a president and his or her cabinet be focused on at this time?***

If I were a university president right now, I would concentrate on trying to recalibrate my institution. Take the opportunity to look at what you are doing and why. Any institution needs renewal occasionally, and I believe the current economic situation provides the opportunity for this. The timing is right to look at the organization, reestablish priorities or validate current ones, and determine where you want to invest or reallocate limited resources.

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#### Resource

## **Big Changes to COBRA**

*By Tadu Yimam*

A little more than 60 days ago, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Included in the bill is a little-noticed provision that may give the growing ranks of unemployed workers some relief with their medical bills. The impact on the institution side is much more significant, including provisions relating to institution-sponsored health plans, some of which require immediate action by plan administrations. Even more recently, the Department of Labor (DOL) and the Internal Revenue Service (IRS) issued guidance on how the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) subsidy should be handled, but also advised that more guidance is pending.

### **Eligibility**

Under ARRA, certain individuals who are eligible for COBRA will receive a 65 percent government subsidy of the premiums paid for health-care coverage for up to nine months. Those who can take advantage of the subsidy include workers who were eligible for COBRA continuation coverage between September 1, 2008, and December 31, 2009, and those who were involuntarily terminated during this period. Workers who can be covered under another health plan, such as one provided by their spouse's institution or Medicare, are not eligible for the discounted coverage.

### **New Enrollment Extension**

More importantly, workers who were laid off between September 1, 2008, and February 16, 2009, who did not elect COBRA coverage when it was first offered or who did elect it but are no longer enrolled have a new window to elect subsidized coverage, according to the DOL. This new window began February 17, 2009, and ends 60 days after the required notice is provided by an institution.

### **Tax Preparation**

It is important to note that ARRA does not provide the subsidy directly to eligible individuals. Instead, if an individual is eligible and pays 35 percent of the premiums charged for COBRA coverage under the plan, the plan is not allowed to charge the individual the remaining 65 percent. Instead the institution (or the insurance company if the plan is fully insured, or the plan in the case of a multi-institution plan) is reimbursed via a credit against its payroll taxes equal to that remaining amount, or a direct payment to the extent the credit exceeds its payroll tax liabilities. The subsidy is not available for COBRA coverage that consists of contributions to a health flexible spending account.

In terms of tax preparation, an institution will be reimbursed for the COBRA subsidy by claiming a credit on Line 12a of Form 941 Employer's Quarterly Federal Tax return, which has been revised to allow for this credit. The tax filer also needs to include the number of individuals provided COBRA premium assistance on Line 12b of Form 941. No extension will be provided for filing Form 941.

Expansion of Health Coverage Tax Credit (HTHC). Under ARRA, the HTHC increases from 65 percent to 80 percent from May 1, 2009, through December 31, 2010. It also expands the trade adjustment assistance (TAA) program in several ways, which in turn makes more employees eligible for the HTHC. Several changes related to the HTHC that directly affect institutions include:

- Modifying procedures for calculating creditable health coverage. For plan years effective after February 17, 2009, group health plans that impose preexisting condition limitations must modify their procedures for calculating creditable health coverage. The group health plan will have to disregard the period between when a TAA-eligible individual has a TAA-related loss of health coverage and seven days after the individual is certified by the IRS as eligible to have the HTHC sent directly to his or her group health plan in determining whether the individual has a significant break in creditable health coverage for purposes of applying any preexisting condition limitations.
- Determining when COBRA coverage will end. Some situations will require immediate changes to group health plans' procedures. For example, for an individual who loses health coverage under a group health plan because of a termination of employment or reduction in hours and was entitled to receive retirement benefits from the Pension Benefit Guaranty Corporation at that time, it extends the period during which the plan must provide COBRA coverage to the date the individual dies (or 24 months later in the case of the individual's family). For an individual who loses health coverage in the same situation and was TAA-eligible at that time, it extends the period for as long as the individual remains TAA-eligible (or 24 months later in the case of the indi-



vidual's family). Both changes apply regardless of whether the individual is actually entitled to or receiving the HTHC.

### Accounting Preparation

The accounting office at an institution will be faced with the difficulty of managing this new benefit and may want to meet internally with human resource and payroll staff to ensure that interpretation of the legislation is managed correctly. The Government Accounting Standards Board Statement No. 24 regarding on-behalf payments provides information on fringe benefits and is where institutions would record revenue and expense for the benefit. This statement requires employer governments to recognize revenue and expenditures or expenses for these on-behalf payments. Revenue should equal the amounts that third-party recipients have received and that are receivable at year-end for the current fiscal year.

Based on the Initial Implementation Guidance for ARRA from the Office of Management and Budget, it appears that institutions would record revenue and expense for the subsidy on the Schedule of Expenditures for Federal Awards (SEFA). The guidance also indicates that there should be new CFDA (catalog for federal domestic assistance) numbers added specifically for the ARRA programs ([see section 5.4](#)).

### Human Resource Preparation

Designing a termination program. Institutions should take the following two features into account when designing termination to either maximize federal COBRA assistance or determine ineligibility.

1. Simply speaking, the 35 percent and 65 percent amounts are based on the premiums that the plan would otherwise charge for COBRA coverage under the plan without the new subsidy. So, for example, if the plan charges the full 102 percent of the COBRA premium that it is allowed to charge in most cases, the individual must pay 35 percent of the 102 percent of premiums charged by the plan to qualify for the subsidy. The institution will be entitled to reimbursement for the remaining 65 percent of the 102 percent of premiums charged.

On the other hand, if the plan charges only 50 percent of that cost, the individual will be responsible to pay only 35 percent of the 50 percent charged by the plan, and the institution will be entitled to reimbursement for only 65 percent of the 50 percent charged. Similarly, if the plan charges nothing for COBRA coverage, then no subsidy or reimbursement is available. Institutions that are already subsidizing COBRA coverage for terminated employees might wish to consider whether the arrangement can be modified for the same purpose.

2. Although the ARRA does not define "involuntary termination," this is an essential requirement for the subsidy. Clarity on this definition is critical, and more language will most likely follow. For example, clarification is necessary in the case of employees who leave under institution-initiated separation window programs in downsizing situations or for good reason. Despite this uncertainty, an institution that is reimbursed for providing the subsidy must give the IRS an "attestation of involuntary termination of employment" for each employee for whom the reimbursement is claimed. Institutions should take this limitation into account as a potential benefit if employees are deemed to be involuntarily terminated.

### Resources

- [CUPA-HR Webinar](#)
- [OMB Initial Implementing Guidance for the ARRA](#)
- [IRS FAQ](#)
- [GASB 24](#)

### Managing Changes to Your Plan

Plan administrators will need to follow several key changes to effectively manage the new COBRA provisions. Changes include retroactive coverage, new language, temporary adjustments, new notices, and more.

**1. Retroactive coverage.** As explained above, an eligible individual who became entitled to COBRA coverage on or after September 1, 2008, and before February 17, 2009, but did not elect COBRA coverage at that time must be given a second chance to elect COBRA coverage. If the individual elects COBRA coverage, the coverage is retroactive to the first period of coverage that begins after the February 17, 2009, date.

**2. Temporary adjustment.** In addition, the plan must forget about the period between the original loss of coverage and the date the COBRA coverage begins in determining whether the individual has a break in creditable health coverage for purposes of applying any preexisting condition limitations. The institution may allow an eligible individual who has already elected COBRA coverage to change to a less-expensive enrollment option under the plan. These changes will require group health plans to make temporary changes to their COBRA election procedures and, if they impose preexisting condition limitations, to their procedures for calculating creditable health coverage.

**3. New language.** In a surprising turn of the legislation, the ARRA includes a model notice, "Request for Treatment as an Assistance Eligible Individual." The form provides a means for the institution to make a determination to approve or deny the request of eligibility. For instance, if an institution denies an individual the subsidy and it is unclear whether a former employee falls into the involuntary or voluntary termination category, the institution can either approve the subsidy and risk losing the money if the DOL decides the individual is not eligible, or deny the subsidy and let the individual appeal the decision to the DOL. The ARRA requires the DOL to make this decision within 15 days, and this form will be used as a part of the review process. More guidance is expected from the DOL with respect to this issue.

**4. Notices from the IRS and DOL.** It is important to note that the subsidy is not included in the individual's income. It is, in fact, similar to an institution-provided COBRA subsidy, which can often be provided on a pre-tax basis. However, unlike an institution-provided subsidy, it is eliminated via a special additional tax for individuals with modified adjusted gross income above \$125,000 (\$250,000 in the case of a joint return) in the year the subsidy is received. Two model notices and regulations from the IRS and the DOL will be provided to plan administrators.



**5. Refunds and credits.** The subsidy is available beginning with the first period of coverage under the plan that begins after February 17, 2009. It is available for up to nine months, but it ends if the individual becomes eligible for Medicare or another group health plan. **Note:** The plan administrator may continue charging the eligible individual the full premium amount through the end of the second period of coverage beginning after February 17, 2009, but must make arrangements to refund or credit the individual with the 65 percent that he or she should not have been required to pay.

### **Stay Tuned**

The changes listed in the ARRA to the COBRA are the most significant changes made since the inception of COBRA. Therefore, many new considerations have yet to be examined. Expect the regulations, notices, and expanded definitions to be clarified over the course of the next year. Meanwhile, higher education employers must act immediately and begin setting the stage for some retroactive changes that may need to be made quickly.



## Big Picture

**New Realities or Temporary Shifts?**

By Karla Hignite

Difficult times call for new catch phrases to convey altered circumstances. In the employment arena, these include “hiring chill” and “pay pause” to describe tactics implemented by employers to address the need to quickly cut costs across the board.

Amid tough actions like postponing sabbaticals and increasing teaching loads, higher education institutions are also taking the opportunity to think creatively about ways to combine programs and services, such as merging child-care centers and early childhood-development education programs. More are likewise looking to maximize use of their infrastructure through expanded summer programs to provide new revenue streams. In short, when it comes to cost-cutting and revenue-enhancing strategies, nothing is off the table for discussion.

Despite already deep cuts and consolidation, some say the worst is not over. The mood remains somber for many institutions as leaders wait on fall enrollment figures, state budget decisions, and for a stagnant market to regain momentum to mitigate endowment losses. As college and university administrators tackle the short-term need to enact dramatic change, the larger question may be whether some of these interim changes will stick.

Will employers and employees learn to operate within a leaner work environment? Will staffing cuts made today reveal that certain positions were never needed in the first place once priorities are clearly defined? What will change about the employer-employee relationship with regard to performance expectations and loyalty?

Even as new operational norms could be solidifying for business and industry, is a new mind-set among Americans also settling in with regard to work/life balance expectations and enhanced personal initiative to take charge of their financial futures? Highlighted below are overviews excerpted from three recent surveys that offer a glimpse of what may be shaping up as near- and long-term trends.

**Hay Group’s “Reward in a Downturn”**

A total of 2,000 organizations from 88 countries across six continents participated in Hay Group’s Reward in a Downturn survey in March 2009—the third in a series of surveys. (For more information or full survey results, go to [www.haygroup.com](http://www.haygroup.com).)

The March survey reveals a deepening recession that has become truly global—one that affects the pay, benefit, and job prospects for employees at all levels throughout the world. Salary freezes have become quite common, with 36 percent of organizations globally indicating such action. Around the world, 27 percent of organizations are decreasing their staffing levels, compared to 17 percent in November 2008. Many organizations that one year ago were having trouble filling vacancies are now resorting to job cuts.

Furthermore, training and development programs are being decreased or eliminated by 27 percent of global respondents. Organizations are also cutting overtime wages (19 percent) and the use of contract laborers (30 percent). However, most are keeping their benefits programs relatively intact for now. Few organizations are eliminating or decreasing health-care benefits (5 percent) or savings plans (3 percent).

Projected responses. Based on the trends in this and previous surveys, if the global downturn continues to deepen, then the following scenarios are real possibilities for the rest of 2009 and beyond:

- An increasing number of organizations will impose salary freezes.
- A growing number of employees will face the choice of either accepting pay cuts or facing job losses.
- Organizations will increasingly look to cut their contributions to pension schemes, and the trend away from defined benefit schemes will accelerate.
- Other benefits, such as medical insurance, which have been spared review so far will come under scrutiny.

Employee versus employer fears. Not surprisingly, the primary concern for employees is job security, with 88 percent of organizations reporting this as a concern. Specifically, 87 percent of organizations state their employees are concerned about salary levels and 85 percent about the cost of living and inflation. The two primary concerns for employers during these challenging times are the ability to retain top talent and employees with critical skills (89 percent of employers stating concern), and the ability of organizations to maintain an engaged and motivated workforce (91 percent).

U.S.-specific findings. Forty percent of U.S. organizations continue to expect business results to be significantly worse than targeted or budgeted levels. This is up from 16 percent in March 2008. As a result, organizations have significantly tightened the reins on wage increases, with executives taking the biggest hit. While 37 percent of organizations have instituted a wage freeze for their employees, more than half of the 511 participating U.S. organizations report that their executives will receive no increase.

In addition to wage freezes and modest salary increase budgets, organizations have also substantially tightened their belts on overall staffing levels. Of the U.S. organizations surveyed, 34 percent report decreasing their overall staffing levels, up dramatically from 19 percent in November 2008.

Within the benefits arena, significant changes to retirement programs are being made as a result of the deteriorating economic conditions. One fifth of organizations with either defined benefit or defined contribution retirement programs are reporting that they are considering making changes to the value of these programs. Of organizations making changes to their defined contribution plans, the vast majority (78 percent) report they are considering decreasing the benefits levels to this plan. Organizations making changes to defined benefits programs indicate the most common likely changes are closing membership to the plan (34 percent), decreasing benefits levels (34 percent), and moving members to a defined contribution plan (32 percent).

**EBRI’s “Retirement Confidence Survey”**

The headline of EBRI’s 2009 Retirement Confidence Survey executive summary may say it all: “Economy drives confidence to record lows; many looking to work longer.” (The full report of the survey, conducted in January 2009 through 20-minute telephone interviews with 1,257 individuals in the United States, is available at [www.ebri.org](http://www.ebri.org).)

Confidence hits a record low. Workers who say they are very confident about having enough money for a comfortable retirement this year hit

the lowest level in 2009 (13 percent) since the survey began asking the question in 1993. This continues a two-year decline from 27 percent in 2007. Retirees also posted a new low in confidence about having a financially secure retirement, with only 20 percent now saying they are very confident (down from 41 percent in 2007).

The survey sought to explore the reasons behind this loss of confidence by asking workers whether they had experienced various financial events over the past year. Roughly half of workers report that the value of their retirement savings decreased (53 percent of those who had saved for retirement), their day-to-day expenses increased (52 percent), and the amount they paid for health care increased (46 percent). Substantial percentages also indicate that the amount they were able to save (41 percent), the value of their nonretirement savings (38 percent), and the value of their home (30 percent) decreased.

Other negative financial experiences that workers report having in the past year include:

- An increase in the amount they pay in mortgage or rent (25 percent).
- A major illness or other medical event suffered by themselves or an immediate family member (25 percent).
- An increase in their level of debt (24 percent).
- A decrease in the level of retirement plan benefits offered by their or their spouse's employer (24 percent of those employed).
- Having to provide significant financial assistance to a family member or friend (23 percent).
- Losing a job or having to move to a lower-paying job (21 percent).
- Home foreclosure (1 percent).

The economy, inflation, and cost of living are top concerns. Not surprisingly, workers overall who have lost confidence over the past year about affording a comfortable retirement most often cite the recent economic uncertainty (92 percent) and inflation and the cost of living (88 percent) as primary factors. Workers who say they are very confident in having enough money to take care of basic expenses in retirement dropped to 25 percent in 2009 (down from 40 percent in 2007), while only 13 percent feel very confident about having enough to pay for medical expenses (down from 20 percent in 2007).

Retirement expectations are delayed. Given these uncertain conditions, workers apparently expect to work longer because of the economic downturn: 28 percent of workers in the 2009 survey say the age at which they expect to retire has changed in the past year. Of those, the vast majority (89 percent) say that they have postponed retirement with the intention of increasing their financial security. Almost two thirds of workers delaying their retirement age (63 percent) say that this change occurred after September 2008. Among the reasons cited for this change are:

- The poor economy (36 percent, up from 15 percent in 2008).
- The need to make up for losses in the stock market (28 percent, up from 3 percent).
- Job loss or change in employment (10 percent, not mentioned in 2008).

While the average age at retirement is likely to continue to increase and many workers may work until their planned retirement age, others could find themselves retiring sooner. The survey has consistently found that a large proportion of retirees leave the workforce earlier than planned (47 percent in 2009).

Workers are changing behaviors. In addition to changing their expectations about retirement, many workers who have lost confidence in their ability to secure a comfortable retirement are responding by taking certain steps to improve their situation. The large majority of these workers (81 percent) say they have reduced their expenses. Others are changing the way they invest their money (43 percent) and working more hours or a second job (38 percent). Steps taken by fewer of these workers include:

- Saving more money (25 percent).
- Seeking advice from a financial professional (25 percent).
- Moving to a less expensive home or area (11 percent).

Among all workers, 75 percent say they and/or their spouse have saved money for retirement, one of the highest levels ever measured by the survey. More workers are also planning to supplement their income in retirement by working for pay. The percentage of workers planning to work after they retire has increased to 72 percent in 2009, up from 66 percent in 2007 and 63 percent in 2008. (This compares with 34 percent of retirees who report they actually worked for pay at some time during their retirement.)

Financial ignorance remains a major factor. Interestingly, the percentage of workers who feel that preparing for retirement takes too much time and effort has increased (from 14 percent in 2002 to 21 percent in 2009). Many workers still do not have a good idea of how much they need to save for retirement. Only 44 percent of workers report they and/or their spouse have tried to calculate how much money they will need to have saved by the time they retire—and an equal proportion (44 percent) simply guess at how much they will need for a comfortable retirement.

One of the primary vehicles that workers use to save for retirement is an employer-sponsored retirement savings plan, such as a 401(k). Seventy-eight percent of eligible workers (44 percent of all workers) say they participate in such a plan. The large majority of workers participating in the plan (72 percent) state that they have not changed the percentage of their salary contributed to the plan in the past year. However, 16 percent say they increased the percentage contributed and 11 percent decreased the percentage. Furthermore, half of participants (49 percent) report that they last reviewed how their money is invested in the plan and made any necessary adjustments in the last quarter of 2008. Twenty-one percent say they last reviewed their asset allocation earlier in 2008, while the remainder admit they last reviewed their plan investments in 2007 (12 percent) or even earlier (13 percent).

The harsh reality is that many Americans have little money put away in savings and investments. Among survey respondents providing this type of information, 53 percent of workers report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than \$25,000. In fact, 20 percent say they have less than \$1,000 in savings. Approximately 1 in 10 workers each report total savings and investments of \$25,000–\$49,999 (11 percent); \$50,000–\$99,999 (12 percent); \$100,000–\$249,999 (12 percent); and \$250,000 or more (12 percent).

## MetLife's "Study of the American Dream"

In January 2009, MetLife commissioned its third annual survey among the general U.S. population. The purpose of the survey, which included responses from 2,243 individuals through online surveys, was to gauge whether the American dream is still alive and how it is being defined by the American consumer. (To download a copy of the full 2009 study, visit [www.metlife.com/american dream](http://www.metlife.com/american dream).)

In short, while the majority of Americans believes they can still achieve the dream, they have indicated that for the next year they'll concentrate on shoring up the foundation of their personal safety nets. For the one-third of Americans who believe they have already achieved the dream, being able to sustain the dream is becoming as important as achieving it in the first place.

Among the key findings:

**Half of Americans are living bill to bill.** Work—and the paycheck and benefits associated with it—is the linchpin holding together the American dream. With the number of Americans collecting unemployment benefits in early February 2009 at its highest rate since 1982 (according to U.S. Department of Labor statistics), few have cash reserves on hand to cover monthly expenses in the event of a job loss. A disturbing 50 percent of Americans say they are only one month or less away from not being able to meet their financial obligations if they were to lose their job. More than half of these, a startling 28 percent of the total respondents, couldn't survive financially for more than two weeks. Unlike previous downturns, the current economic crisis is cutting across all socioeconomic and political groups; no generation, political party, or racial/ethnic group is immune.

**Personal safety nets will play a more important role.** For many Americans, worries about their financial instability are intensified by weakening public safety nets and by inadequate levels of personal savings and insurance protection. Across all generations, 8 in 10 Americans say that having a personal safety net—made up of cash, savings, and protection products—will be more important this year than last. Despite this, nearly three quarters of the public admit to not having adequate protection. With uncertainty surrounding the future viability of traditional social and corporate safety nets (Social Security, Medicare, and defined benefit pension plans), three quarters of Americans say they are taking steps to put their own personal safety nets in place. And yet, only 35 percent of Americans are now confident that they will be able to go it alone. This is down slightly from 37 percent in November 2006 and 36 percent in 2008.

Americans also understand that a personal safety net should not only include a cash cushion to cover expenses for a period of several months, but should also contain a broad range of protection and savings products such as health and life insurance and retirement savings. Currently, Americans count auto insurance (60 percent), health insurance (57 percent), life insurance (46 percent), homeowner's insurance (45 percent), a retirement savings plan such as a 401(k) (40 percent), and cash on hand for three to six months (35 percent) as the top six components of their safety net. Among the top 10 items that consumers would most like to have in their safety net, most are insurance-related products such as long-term care insurance, health insurance, life insurance, annuities, or conservative investments such as cash or bonds.

**Americans put a premium on protection.** In this environment, Americans are putting a premium on protection and stability. Consumers are now eyeing more conservative investments and protection products for their safety nets. Americans are also more interested in guarantees today than they were in years past, with 80 percent of consumers now reporting that they favor stability over returns.

**Americans are redefining the American dream.** As far as the U.S. economy, the majority of Americans expect the road to recovery to be a long one. Most predict that it will take one to five years for the country's economy to improve, with 35 percent forecasting one to two years and an additional 34 percent saying three to four years. Almost half (49 percent) believe that the creation of new jobs is the action that will do most to jump-start the economy. Increased consumer spending is seen as less important (7 percent).

While the inaugural MetLife study first characterized the American dream as a never-ending chase, today's dream is much more closely aligned with the traditional view of the dream of previous generations, buoyed by American pragmatism rather than unbridled consumerism. While still defined first and foremost by financial security, the dream now also includes a much greater emphasis on personal relationships with spouse, children, and family.

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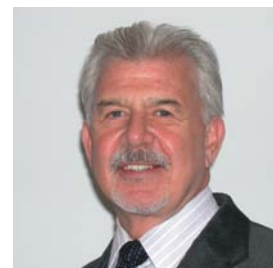
## Strategy

### Transparency in Executive Pay, Part 2

*By Richard V. Smith and David M. Nygard*

**Author's Note:** This article is the second of a two-part series addressing executive compensation challenges arising from the new IRS Higher Education Initiative. The [first article](#) which appeared in the April issue, reviewed changes the IRS has made to Form 990 and how disclosures by independent colleges, universities, and foundations may affect executive compensation at these institutions. This article focuses on the potential traps and examination triggers within these disclosures and explores compliance tactics and strategies.

The IRS has ratcheted up its ability to identify institutions that may have possible executive compensation compliance issues. College and university leaders must be aware of what has changed and take steps to protect their institutions from problems that may result from outsized compensation, benefits, and expense reimbursements made to executives, officers, directors, or other named employees. Chief business officers are in a unique position to assist trustees in this process.



Richard V. Smith



David M. Nygard



## Audit Yourself Before They Audit You

The IRS uses a multifaceted process to identify independent colleges and universities at risk of non-compliance in the area of executive compensation. The redesigned 2008 Form 990 provides clues to what will be scrutinized. A staff of more than 400 examination specialists will be selectively deployed to address potential compliance issues and determine what should be done to correct any problems they identify. The first, and least invasive, step in this process is a review of operations, which does not require the direct involvement of the institution in question because the IRS uses publically available information and data it already has on file.

A review of operations may examine disclosure data from the new Form 990 for calendar year 2008 in conjunction with other Form 990 information. This review may also use feedback and insights obtained from the survey conducted earlier this year by the IRS Higher Education Initiative and other information sources for institutions that do not file their own Form 990s. A review of operations may conclude satisfactorily, or it may lead to a compliance check, an examination, or a follow-up review in later years. This approach has increased the overall efficiency of IRS field examinations to a point where 80 percent (four out of five) of all examinations conducted in 2008 resulted in corrective actions.

Colleges and universities should consider a self-test using the same filters that the IRS plans to use to see whether they should expect anything more than a cursory review of compensation levels and practices. Specifically:

- Will disclosed compensation levels appear high relative to other colleges or universities of similar size using a compensation comparison tool on a position-by-position basis?
- Will the existing compensation arrangements with other former executives, officers, directors (trustees), or other named employees appear defensible given the levels or disclosed hours of service?
- Are there any sizable loans outstanding, forgiven loan principle, or forgiven loan interest payments to or for any executives, officers, trustees, or named employees? Are these arrangements documented and consistent with prevailing market rates?
- Are reported reimbursed expenses (e.g., private transportation, including planes; home renovations; employment of relatives; spousal travel, severance agreements; personal staff; second homes; multiple club memberships; and/or attendance at international events) defensible?
- Have the institution's compensation levels and policy been established or reviewed by an independent compensation committee? Were these deliberations documented?
- Was market data used to establish compensation levels and/or policies? Does this market data reflect the size and scope of the institution?

The relative size of compensation and dramatic expansion of or increases in benefits and expense reimbursements may attract unwanted attention from the IRS, especially in the absence of other governance and management procedures to address executive pay.

## Compliance Tactics and Best Practices

At colleges and universities, most executive officers, highly compensated employees, and trustees do not intentionally enter into agreements that result in paying compensation, funding benefits, or reimbursing expenses in a manner that would be characterized under IRS rules as an excess benefit transaction (EBT). It is more likely that an EBT is the result of a well-intentioned, one-time fix to a special employment situation. CBOs are uniquely positioned to guide an institution away from these situations and resulting problems. One of the best ways to avoid adverse attention from the IRS is for the CBO to educate the institution's officers and trustees about EBTs, the possible excise taxes that result from non-compliance, and how to create a rebuttable presumption of reasonableness defense under the intermediate sanctions guidelines. (See sidebar below, "The Rebuttable Presumption Guidelines Within Intermediate Sanctions for Tax-Exempt Organizations.")

Another key role for CBOs is to keep officers and trustees informed about the competitive market practices of other peer institutions. Most boards welcome and value their CBO's insight in selecting a peer group of institutions or identifying reliable survey data to test the reasonableness of their compensation levels and policy decisions. Once a formal peer group of institutions or survey data sources have been established, periodic updates on compensation levels and practices within this group of institutions or survey participants will be a valuable resource for the board and its committees in evaluating alternative approaches of addressing observed market trends and other compensation, benefits, and expense reimbursement issues.

Finally, one often overlooked way that a CBO can support trustees is by providing logistical support to the board and its committees by taking comprehensive notes and drafting meaningful summaries for the minutes of each meeting. While this may seem mundane, one of the three necessary components for establishing the rebuttable presumption of reasonableness is documentation. A sentence or two in the minutes of a committee can make the difference between the successful conclusion, and the continuation, of an IRS field examination.

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Perspective

## Automatic Diversification

By Dallas Salisbury

Target date funds are one option plan sponsors can use to provide age-targeted asset allocations and ongoing rebalancing to the respective target. In fact, this option is being adopted at the fastest pace by the broadest set of sponsors. Higher education institutions would do well to consider how a target date option can help employees prepare for their retirement, but institution leaders must also be prepared to communicate the benefits and choices of these options.

### What We Know

Three factors are dominant in defined contribution plans with regard to determining how much a participant will accumulate over time:

1. How much is contributed to the plan. We know from years of data that 8 percent is about the average amount flowing into private defined contribution plans from participants. At the median, another 3 percent is contributed by the employer, for a total of 11 percent. Higher education institutions have generally done better, with a total contribution closer to 16 percent at TIAA-CREF, for instance.

2. The real rate of return. We know that real rate of return affects the amount that must be contributed to achieve a goal. The average worker is paid about \$40,000. To keep things simple, let's assume the individual is 25 years old this year and will retire after a full career with that amount in final income in today's dollars. They will have "wage growth," but not "real wage growth"—something that has happened in recent decades for many workers. Social Security will provide a benefit of about \$16,000, or 40 percent. Assume the individual will have health costs in retirement and wants to engage in expense-related leisure activities, so he or she seeks a 100-percent replacement of income. Finally, assume the individual plans to live to age 95, which would account for 28 years spent in retirement.

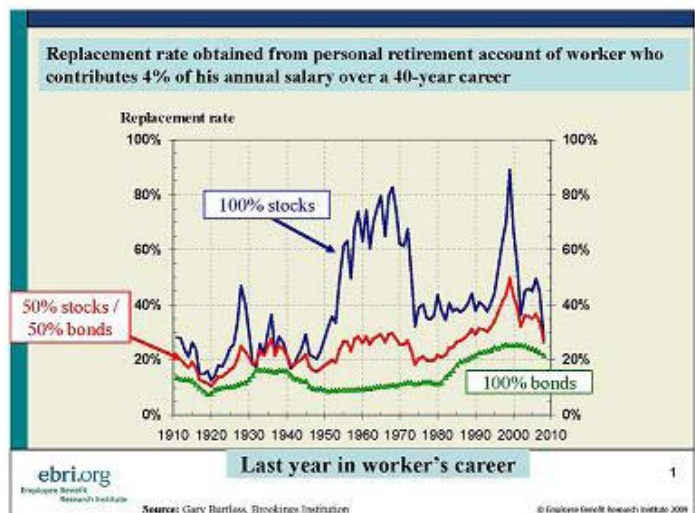
Using a TIAA-CREF calculator one can obtain rough guidance on the impact of rate of return. To get to that \$24,000 in today's dollars (the amount not covered by Social Security), at a steady 2 percent real return would require annual savings of 33 percent of salary to get to the required age 67 balance of \$1,815,546. At a steady 3 percent real return would require a constant 22 percent contribution to get to the required age 67 balance of \$1,621,148. At a steady 5 percent real return would require a 10 percent contribution to get to the required age 67 balance of \$1,318,245. (One can double-check these numbers, add in a precise Social Security benefit, and add any expected pension income or income from earnings into the equation with the Ballpark® Estimate.)

3. The asset allocation, which determines the real rate of return. We know from the data that asset allocation varies widely, and that participants have a strong tendency to leave their accounts alone once opened. Most do not change contribution rates, and most do not rebalance. As a result, the Pension Protection Act of 2006 provided clear guidance on automatic enrollment, automatic diversification and rebalancing, and automatic contribution escalation. Maintaining a set balance in the portfolio manages risk and makes achieving target returns most likely. As a result, the Department of Labor Qualified

Default Investment Alternative regulations provide alternative options that all seek to manage diversification. The target date option is being adopted at the fastest pace by the broadest set of sponsors.

### Charting Return Trends

Chart 1 below provides a picture of how diversification can help achieve higher rates of return and larger accumulations. With higher risk, movements up and down (volatility) of higher expected return assets like stocks will also be much greater. That volatility will also lead to very different results, depending on the market trends, for individuals hitting retirement age at different points in time. The result is more than 80 percent replacement for the 1999 retiree, but 47 percent replacement in 2001, and a mere 27 percent replacement in 2009. Conversely, an allocation of 100 percent bonds may allow one to sleep better at night, but it will require a higher annual contribution rate to get to the same level of retirement income. The balanced portfolio of stocks and bonds leads to variation over time, but far less variation than with 100 percent stocks. That balance provided 47 percent replacement in 1999, and the same 27 percent replacement in 2009 as did a 100 percent allocation to stocks.



As Chart 1 shows, a major decline in the value of stocks and bonds right before retirement can dramatically reduce total assets and achievable retirement income. While those who choose a path of 100 percent bonds must save a lot, have few life extras, and live on a budget, they also typically have little debt and experience few roller-coaster rides. On the other hand, those who choose something closer to the 100-percent equity investment path will undoubtedly have periods when they feel rich and giddy and other times when they are looking for a bridge and wondering how they will ever retire. These folks typically save less and borrow and spend more. As a result, their retirement years may feel like a cutback from how they once lived. In sum, account performance is one measure, but the true measure is what you have at the end of the day and how have you reacted to the ride along the way.

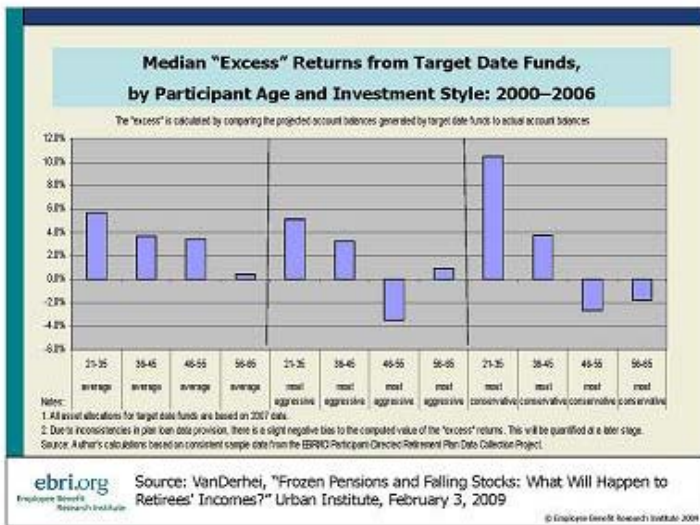
In reality, less than 20 percent of workers choose asset allocations at the low-risk end of the spectrum, and they do not typically save as high a percentage of pay as they should. Based on what individuals are known to choose on their own, target date funds accept that most participants want a higher risk, higher return, lower-required-savings-



rate approach. But, target date funds do seek to “rationalize” the asset allocation over time tied to age and regularly rebalance assets as the markets move to maintain the target allocation.

### Choosing an Appropriate Glide Path

For employers that choose to use target date funds, the single biggest factor to consider is what type of glide path you believe best fits the demographics of your workforce and what manager will provide that glide path. Very large institutions can create their own, with the aid of consultants, while most smaller institutions will want to purchase a set of funds off the shelf. Charts 4 and 5 show the difference in plan assets in target date funds depending upon whether it was the default into which persons were placed at the time of enrollment. Furthermore, these show that across the plan size and account balance spectrum, participants remain in the target date funds at very high rates, compared to self selection of the target date funds from among all available options.



In contrast to individually chosen asset allocations, Chart 2 shows how participants would have fared if they had been invested in target date funds. In this chart, the “excess” shows to what extent the average target date allocation outperformed most individual choices. While some would have fared worse in a target date fund, most would have been better off.

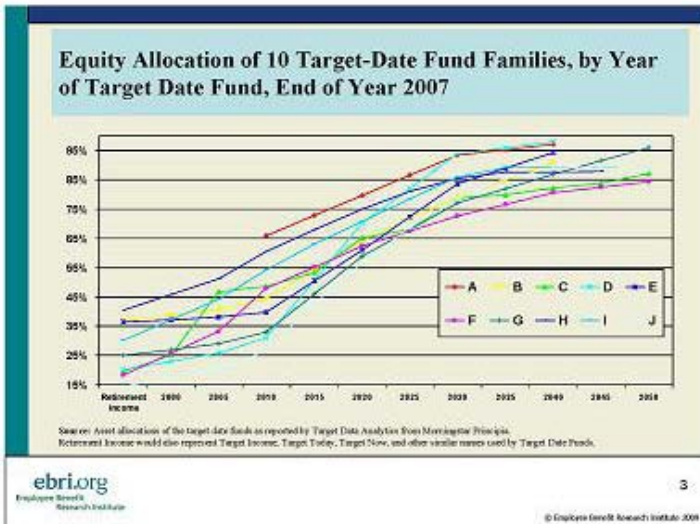
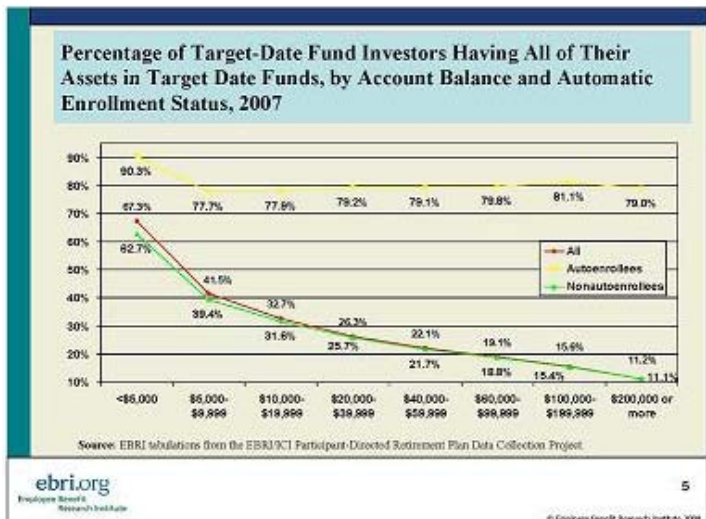
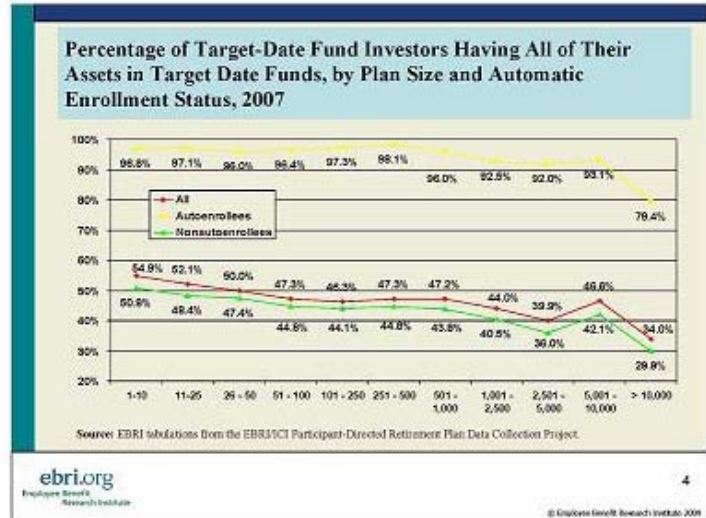


Chart 3 illustrates two things about target date funds. First, the longer away retirement is, the higher the allocation is to stocks; the closer the date of expected retirement, the smaller the stock allocation. Second, the decisions of individual target date fund managers about what the stock allocation should be at any given age vary widely. For 2010 funds, the stock allocation low is at about 25 percent and the high at about 65 percent. For the 2050 funds, the stock allocation range is between 85 percent and 95 percent. These alternative “glide paths” of dropping asset allocation are particularly important during the years right before or immediately after retirement.



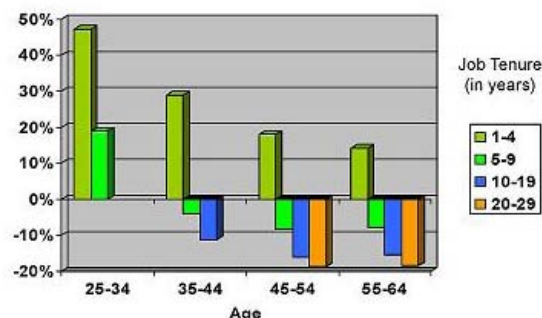
A new study from EBRI, [“Use of Target-Date Funds in 401\(k\) Plans, 2007”](#) (March 2009 EBRI Issue Brief #327), highlights the success rates of conservative and aggressive equity glide paths for meeting target replacement income based on when participants start to contribute. For instance, those who begin to contribute at age 25 for 40 years using a conservative equity glide path enjoy a retirement success rate of more than 92 percent—about 2 percentage points higher than the probability of success of the participant who takes an aggressive equity glide path to meet the target replacement income.



However, if participants start to contribute later in their working career (e.g., at age 45), the aggressive equity glide path has a higher probability of success over the conservative glide path in order to meet the target replacement income. The takeaway here is that the best equity glide paths for participants by plan demographics differ based on when participants start to contribute as well as on the target replacement income.

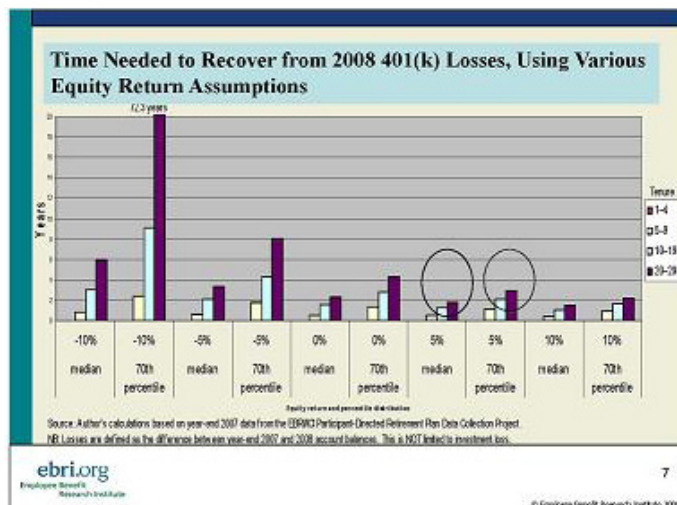
### The Effects of Age and Tenure

**Change in Average Account Balances From January 1, 2008 – May 5, 2009 Among 401(k) Participants with Account Balances as of Dec. 31, 2007**



Sources: 2007 Account Balances: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; 2008 and 2009 Account Balances: EBRI estimates. The analysis is based on all participants with account balances at the end of 2007 and contribution information for that year.

Chart 6 presents findings on defined contribution plan participants account losses from Jan. 1, 2008, to May 5, 2009. The results indicate how important age and tenure are to account accumulation, and thus to investment gains and losses. Short tenure participants have contributed enough during this period to cover account losses so that the statements they review appear to present good news: I have more than I did before. The oldest and longest tenure participants have large accumulations, such that new contributions are small compared to the total account. Investment losses overwhelmed new contributions. The data show how misleading a simple average can be, and how important it is to look at the participant population by age, income, tenure, and other demographics, to determine the long-term implications of what is happening in the markets for individuals.



Finally, Chart 7 presents a picture of how long it may take participants to return to pre-decline balances using alternative investment return assumptions. Should equity returns even be modest in the years immediately ahead, most participants will be back to where they were within three or fewer years. Viewed another way, those who had to postpone retirement will not have to postpone it that long if the markets begin to recover and stay on that path.

### Communicating Benefits and Choices

Participation, contribution rates, asset allocation, and investment returns matter. More than 80 percent of plan participants in most defined contribution plans choose some allocation to stocks and do not focus on rebalance. Target date funds are one option plan sponsors can use to provide age-targeted asset allocations and ongoing rebalancing to the respective target. However, because target date funds also come in many glide paths, careful selection and communication are essential. Employers must be prepared not only to communicate the benefit of these options, but also to help employees understand the selection choices they still face in determining which is right for them.

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## Resource

## Sharing Your Staffing Pain

By Tadu Yimam

In recent months colleges and universities have been scrambling to address a dire economic situation in a manner that places educational mission first while still recognizing the need to significantly reduce expenditures. On average, college endowments experienced a loss of 3 percent at the end of the fiscal year ending June 30, 2008, and an additional 20 percent from July through November 2008. First-quarter numbers for 2009 show an estimated loss of between 25 percent and 40 percent. In addition, public institutions are experiencing massive cuts in state funding, more students are vying for student aid, and foundations are having difficulty meeting pledge goals. Needless to say, institutions have been busy assessing strategies to cut costs and reduce expenses—including those directly related to staffing.

A recent NACUBO webcast, [“Difficult Choices: Strategies for Cutting Faculty and Staff Costs,”](#) identified options for reducing staffing expenses, developed a framework for managing layoffs, and examined potential legal risks of layoffs and how to mitigate them. The April 28 event was moderated by Andrew Evans, vice president for finance and treasurer, Wellesley College, Massachusetts. Presenters included Allison Vaillancourt, vice president for human resources, University of Arizona, Tucson; Frank Vinik, senior risk counsel, United Educators; and Martin Michaelson, partner, Hogan & Hartson. Cosponsored by NACUBO, the College & University Professional Association for Human Resources (CUPA-HR), the National Association of College & University Attorneys (NACUA), and United Educators, the event offered a unique perspective from various areas of campus administration.

### Modest to Deep Cuts

For its part, Wellesley College has reduced its administrative and union staff by 10 percent (95 positions eliminated). Other cost-cutting measures will reduce the institution’s FY2011 budget by \$20 million, including a further reduction in workforce, explained Evans.

During the webcast participants indicated the percent by which their institutions have reduced their budgets since the start of the recession:

- By as much as 5 percent (43 percent of respondents).
- Between 5 percent and 10 percent (28 percent).
- Between 10 percent and 15 percent (11 percent).
- By more than 15 percent (17 percent).

### Somber Moods

Vaillancourt described Arizona’s situation as “depressing, but in a better place now.” The state has endured two budget cuts since summer 2008, with more expected in coming months. As a result, UA has eliminated 600 state-funded positions (through attrition, layoffs, and contract non-renewals). The university also issued a hiring freeze for state-funded positions and recently formed a partnership among its

colleges of Science, Social and Behavioral Sciences, Humanities, and University College. The new academic unit, called the Colleges of Letters and Science, has been developed as part of UA’s transformation plan to build on interdisciplinary strengths and reduce administrative and business expenses.

According to Vaillancourt, the central question behind the merger was this: Is there a way to bring people together so that they work in a better way to advise and offer a consistent message to students from college to college? There was also strong interest in consolidating communication, development, finance, and other areas of administration to reduce infrastructure and save money.

Vaillancourt suggested a variety of options leaders can consider to reduce staffing expenses. Among them:

- Temporary furloughs.
- Permanent or temporary FTE reductions.
- Early retirement incentives.
- Phased retirement plans.
- Voluntary separation plans.
- Voluntary leaves of absence that allow time off while still providing health insurance.
- Hiring freezes or delays.

An option of last resort is layoffs and contract non-renewals, noted Vaillancourt. She also offered these cost-cutting measures:

- Eliminate faculty and staff raises.
- Renegotiate faculty workloads.
- Reduce or eliminate retirement contributions.
- Reformulate employer benefits contributions.
- Offer low- or no-cost work/life balance opportunities.

While the situation has at times seemed dismal, Vaillancourt and her team have successfully managed to harness employee morale while implementing staff reductions and streamlining expenses. Through the process, she and her staff have stood by the motto that treating people well during this difficult period will likely produce loyalty when the economy picks up. Conversely, when you treat your people poorly, expect a mass exodus of talent.

Among the lessons learned by UA’s HR staff:

- Don’t let your policies lock you into making bad decisions. Instead, modify your policies as needed to support good decisions.
- Implementing a number of change initiatives simultaneously makes it difficult for opponents to mobilize against a single action.
- Transparency is essential. Be forthcoming and honest, treat people like grown-ups by sharing difficult information, and invite feedback.
- People are willing to make sacrifices if they feel they are being treated fairly.
- Take the opportunity provided by a difficult circumstance to pursue change that was already needed.



## Minding the Law

In addition, institutions should have a clear understanding about the legal implications of any staffing-related actions they take. For instance, hasty layoffs can cost the institution almost twice as much as well-thought-out, strategic staff-reduction plans. Vinik stressed the importance of sound planning and deliberation. He and Michaelson combined their knowledge as attorneys in this arena to provide 10 useful tips for institutions to enforce during staffing-reduction periods.

**1. The Golden Rule is a strategy, not a tactic.** Reputation for integrity is the institution's most valuable asset, so above all, ensure credibility. Anticipate distrust, rumors, and second-guessing, and know and follow the rules.

**2. Document the institution's financial condition.** Develop a one-page summary for the public. Choose an administrator who can explain finances to the media and a jury. Retain documentation of all alternatives considered.

**3. Develop a team-based approach to decision making.** At a minimum, include your attorney, business officer, HR officer, and a communications specialist. Examine financial and legal implications of alternatives. Consult faculty even if no faculty are being laid off. And check collective bargaining agreements to determine which parties must be consulted.

**4. Examine cost-saving alternatives.** College employees often assume life-time employment. If you have to implement layoffs, make sure to show what alternatives have been considered or addressed, and solicit suggestions from faculty and staff.

**5. Use an attorney experienced with RIFs.** There are many tricky laws involved in reducing your workforce. The greatest risk for many institutions is age discrimination litigation. Most lawyers who do RIFs have good releases already drafted, so don't reinvent the wheel.

**6. Develop a communication plan.** Clear, consistent communication is critical. If employees get different answers from different administrators, they will quickly sense that something is wrong. Likewise, employees who read of their fate in the newspaper before they hear it from administration will surely resent the institution. Al-

ways stay ahead of the story. Establish contacts with local media, and keep them informed as appropriate. Don't wait for employees to go to the media with their version of the story. Anticipate questions from employees and the larger community, and be prepared with consistent responses.

**7. Make one-time cuts.** Multiple rounds of layoffs create paralyzing fear and talent outflow. It is better to conduct your RIF based on a pessimistic scenario. Properly done, laying off many is less risky than a poorly enacted layoff of a few.

**8. Use layoffs as an opportunity to restructure.** Don't look at short-term budget needs only. Downsizing can be a time to evaluate structural changes. Try to cut what you value the least, and strive for long-term efficiencies that reduce the likelihood of future layoffs.

**9. Coach supervisors who conduct terminations.** The exit interview can be a dangerous moment. Supervisors who feel uncomfortable can make key errors. Beware of stray remarks that could become evidence. Provide training and a script to supervisors involved in layoff conversations.

**10. Care for terminated employees and RIF survivors.** Often, the first thing people who are terminated worry about is health care and how they will find a new job. Invest in good outplacement services, and have information on COBRA immediately available. As for those who are left to stay, the experience can still be traumatic. Some institutions require all supervisors involved in laying off employees to attend a debriefing. While you don't want to move too quickly from conception of your plan to implementation, do think in terms of moving as quickly as possible toward the positive—the opportunity for institutional renewal.

Finally, while difficult choices are inevitable during a severe economic crunch, it is critical for institutions to know the facts. Consistent, open messaging and fair information can save chief business and HR officers ample time and painful headaches. As in every case, leaders should consult their legal and benefits counsel to determine the best approach for their institutions, since laws vary by state.

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## Big Picture

**Wellness That Works**

By Karla Hignite

Even as health-care reform undergoes rigorous debate across the country and within the U.S. Congress, something most employers won't dispute is that a stronger emphasis on wellness and prevention would do the entire nation some long-term good.

According to the "2010 Segal Health Plan Cost Trend Survey," in efforts to control health-care costs, more plan sponsors are monitoring wellness and disease management programs and putting in place more meaningful rewards to boost personal responsibility for improving individual health. More are likewise reducing or waiving co-pays for disease prevention screenings and using health coaching services to encourage plan participants to maintain healthy habits and follow through with recommended treatments and medications.

While wellness programs have assumed a more holistic approach during the past decade—going beyond physical fitness to also emphasize eating right, sleeping well, and decompressing from work/life pressures—employers are still faced with the challenge of getting employees involved in taking better care of themselves.

A recent study by the U.S. Centers for Disease Control and Prevention ("State Indicator Report on Fruits and Vegetables, 2009") found that most Americans still fall far short of eating the recommended daily amounts of fruits and vegetables despite years of research and volumes of studies that suggest the importance of these foods for maintaining a healthy weight and preventing chronic conditions like diabetes and heart disease. The CDC survey revealed that only 33 percent of adults eat two or more servings of fruit and only 27 percent consume three or more servings of vegetables daily. Children fare much worse, with only 9.5 percent consuming at least two servings of fruit and three servings of veggies daily.

With exponentially higher costs associated with chronic disease treatment versus disease prevention, more employers are recognizing the strategic and financial imperative behind motivating employees to adopt and maintain healthy lifestyles over the long haul. In the July 2009 issue of Sibson Consulting's Perspectives newsletter, authors Steven Cyboran and Zsuzsa Palotos outline the key components of a "health-focused enterprise." (See ["Is Your Organization a Healthy Enterprise?"](#))

Such forward-thinking organizations partner with employees to optimize health and fitness, not only to eliminate health risks. On the way to this enlightened understanding, most organizations progress from a treatment mind-set to a risk-management focus to advancing a full "culture of health," say the authors:

"Trying to achieve a culture of health right out of the blocks can be a daunting task that is outside the scope of HR. A more realistic strategy is for the organization to begin by determining how to optimize success within the current culture. Many organizations start promoting health and wellness by repackaging the programs and services they already have in place. They then add resources (e.g., health-risk assessments and screenings) to help employees understand their risks and conditions and to better manage them through behavior modification (e.g., using health coaches, education, and other tools)."

A health-focused enterprise maintains a culture of health evident at all levels of an organization. Distinguishing features include how an organization approaches its health plan, workplace support, behavioral health programs, and time-off programs as well as what it measures and how it communicates healthy lifestyle priorities, the authors argue. "While relatively few organizations have evolved into full-fledged healthy enterprises, the number is increasing as more leaders recognize the strategic benefits of leveraging a strong health orientation into improved productivity in support of financial success."

Within higher education, an increasing number of colleges and universities are implementing robust employee wellness programs or enhancing existing ones that had lost steam. What works best at one institution is not always a driving force for another campus population. For instance, financial incentives for employee participation are proven motivators at some institutions, while at others, not so much. Some attributes of a successful wellness program are universal. Chief among them are convenience and variety of opportunities for employees to take part.

Taking a broader view, a focus on employee wellness and health provides another opportunity to enhance employee engagement and satisfaction. And that's especially important at a time when higher education institutions are looking for ways to keep their best talent onboard. At the University of Kentucky in Lexington, wellness is one slice of a larger comprehensive approach to work/life balance.

UK's work/life program originally launched in 2002. From there it has gained momentum through employee committees and work groups that have helped the university establish specific policies based on employee recommendations. One of the latest additions has been development of breastfeeding and lactation guidelines. "As at many other universities, the majority of our workforce (58 percent) is women. Historically, women in particular found it especially difficult to balance work/life issues, but now it is an issue for all members of the family," says Kimberly Prather Wilson, associate vice president of human resources. Another program the institution piloted in summer 2008 was a reduced summer hours program. "For a limited time, some employees were approved for additional time off from work while keeping their benefits whole," explains Wilson. More recently, the university has been experimenting with ways to ease the financial stress impacting families by offering employee education sessions on managing household finances.

**Foremost is putting in place a program that invites participation. Foremost is putting in place a program that invites participation.**

However broadly wellness may be defined, the institution case studies highlighted in ["Happy, Healthy Employees"](#) in this issue of HR Horizons provide insights regarding which elements of a comprehensive program really do work.

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Snapshot

## Happy, Healthy Employees

By Karla Hignite

What makes for a great employee wellness program? Foremost is putting in place a program that invites participation. Certain key attributes seem to spell success for institutions that have developed popular programs, though interpretation of these attributes may vary based on your employee population.

**Convenience.** Do you want employees to practice preventive health? Make it easy. Schedule routine screenings on campus for everything from glucose levels and blood pressure to body mass index, and impress upon supervisors that all employees are allowed to take time during their workday to participate.

**Variety.** Nothing spells doom faster for a wellness program than dull or limited options. Not everyone wants to lift free weights. College and university campuses have a true advantage over other employers in the variety of physical and educational wellness options they can place at the disposal of their employees. In addition to state-of-the-art fitness and recreation facilities, many campuses offer unique activities like ballroom dancing and kickboxing as well as swimming, yoga, and racquetball. And nutrition and healthy cooking classes may capture the attention of more employees than you might imagine.

**Work/life balance.** In addition to a variety of activities, employees appreciate options for when they may participate. Employers that provide release time from work allow more employees to take in a class over their lunch hour. This approach also signals to employees that the institution cares about more than the job at hand. Programs that are fully open to family member participation likewise reinforce the value of work and home/life balance.

**Added value.** When employees have free or discounted access to special programs or groups, they are more likely to participate in something they otherwise might not join on their own. Many institutions are bringing Weight Watchers groups to campus and offer diabetes prevention and management and smoking cessation classes. For employees with specific health challenges like diabetes, access to counselors who can help them manage their routines can make living with the disease less daunting.

**Relevance.** To stay motivated, employees need to know they have a say in the changes they would like to see made to the program. In addition to dedicated staff, wellness advisory committees composed of faculty and staff can help ensure that employee input is heard and addressed. This may be as simple as changing the days or times that a particular class is offered to allow more to participate.

**Camaraderie.** Programming that encourages wide participation also builds relationships among individuals who otherwise might never interact. These friendships not only help to keep employees motivated to remain active and healthy, but they also add to a sense of team spirit and a cross-pollination of ideas that make the institution itself strong and healthy.

**Payback.** Not all employees are motivated by financial incentives or T-shirt giveaways. Some are inspired by pounds lost or lower health insurance premiums. Whatever the payback, communicating the what's-in-it-for-me can keep employees active in taking care of their health for the long haul.

Review the following mini-case-studies for additional strategies and lessons learned.

### RICE UNIVERSITY, Houston, Texas

*Details provided by Elaine Britt, director of benefits.*

**Catalyst:** We started our program about six years ago with few resources and a student worker. The tipping point came when we got a new vice president of administration several years ago who really got behind this and became our advocate. We currently contract with a local hospital to provide a wellness coordinator who works on our campus three days each week. Our hope is to extend this arrangement to five days a week and make the position permanent as we continue to expand program offerings.

**Key features:** We offer health-risk assessments, nutrition and exercise seminars, a full menu of health screenings, and personal wellness coaching. Screenings include everything from blood pressure to cholesterol checks and measurement of body fat index and flexibility. Employees get a comprehensive report including lab results with detailed feedback about areas they might focus on to improve. One special screening that we offer every year is for skin cancer. We bring a dermatologist on site during the summer when employees are more likely to be thinking about their skin. If a particular spot looks suspicious, employees are referred for follow-up testing. This past summer we conducted 255 skin cancer screenings, from which 78 employees were referred for follow-up testing. While that approximately 31-percent referral rate seems high, it's probably also the case that the employees who sought screenings were likely the ones most worried about a particular skin irregularity. We see this as a positive sign in that the convenience of bringing this service to campus means that fewer are putting off seeking assessment and treatment.

In total, we screen approximately 10 percent of employees each year, and we tend to get new people each time. While we don't receive specific data on individual employees, we get an overall profile of our population—for instance, what percentage of our population is overweight or whose cardiovascular health is questionable. Our contractor then looks for those employees with three or more “red flags” and invites them to participate in targeted one-on-one coaching to determine what changes the employee could focus on to mitigate certain health risks.

Another component that has been well received is something we intentionally put in place to reach our employee populations who have less flexible schedules, including custodians and our buildings and grounds crews. A disproportionate health risk we have identified among these employee groups is an increased prevalence of diabetes. In some ways this defies logic, because these employees are typically fairly active throughout the day. The real culprit for them is that their diets tend to be unhealthy. They may be second- or third-shift employees, relying on fast food or snacks from vending machines. In response, our contractor has developed a program to work directly with these managers and to meet with employees to talk about nutri-



tion. As a result of conducting special glucose screenings for these groups, we've been able to identify a number of individuals with high blood sugar levels and have intervened to get them to a doctor right away. Our vendor is now also stocking healthier selections in our vending machines and they have adopted a color-coded system for food choices to indicate healthy (green) items. While this doesn't keep employees from making bad food decisions, it does at least get them to think twice at the point of consumption about what they put in their mouths. We also installed a completely "healthy" vending machine, stocked with wellness-related items, in our new recreation center.

**Incentives:** We offer Weight Watchers on campus and subsidize 50 percent of the cost for employees. Early on we tried financial incentives of up to \$125 per semester for employees who kept journals and accrued points for healthy activities. While this was successful among a small group of employees, most found the journal-keeping too onerous, so now we focus most on providing convenience.

**Metrics:** Since we are self-funded and directly pay the costs of claims, we aren't in a position to negotiate lower insurance premiums per se. What we are doing is working with our health-care provider to bring benefits in line with what we're trying to accomplish on the wellness side. In July 2008 we initiated a program where for certain diagnoses such as diabetes or high blood pressure, when employees use the pharmacy for a needed medication, they are charged the co-pay upon the first visit. Thereafter, if they use a generic, they get their medications for free (or at half price for name brand drugs). Our ultimate goal is to remove barriers for proven clinical outcomes. For instance, we know that insulin helps diabetics stay healthy and that blood pressure medicine helps people maintain long-term cardiac health. If you remove the cost barrier, people are much more likely to maintain use of their medications. So as an employer, while we've seen our pharmacy costs rise, we're OK with that, because we believe that means that employees are taking their medications and are less likely to some day end up in the emergency room.

We also work to stay on top of the research and apply those findings to what we offer. For instance, there have been many more studies in recent years making the link between good dental hygiene and overall physical health. So now we're trying to encourage more employees to enroll in our dental insurance option and are offering subsidies to our lower-paid employees for dental coverage.

**Tips:** A real key for us with getting staff participation has been to offer activities at convenient times—but not necessarily during their "free" time. Instead of offering a lot of lunchtime sessions, we now target mornings or afternoons to provide more flexibility. Likewise, because most faculty spend a good portion of their day in classrooms, they are less likely to be attracted to the kind of brown-bag education sessions that other employees may be happy to attend. Another effective practice we've found for getting faculty and staff participation has been to send literature about our program offerings to their homes, since spouses are often key motivating forces.

## **CALVIN COLLEGE, Grand Rapids, Michigan**

*Details provided by Henry DeVries, vice president for administration, and Roy Zuidema, director of campus wellness.*

**Catalyst:** While we had some faculty member involvement in health and wellness for about 10 years with some limited wellness programming, the big impetus for us came about six years ago when our health insurance provider approached us and said that if we instituted a wellness program, it would rebate 1 percent of our health insurance premium annually. That amounted to about \$50,000 in savings per year. With that incentive from our provider, we moved forward to develop additional programming and dedicate staffing. We also have a wellness committee and about 45 departmental ambassadors from across the campus who serve as cheerleaders to get the message out to fellow employees about what we offer.

As a faith-based institution, we place special emphasis on being good stewards, and that has come to include an understanding about being good stewards of our personal health. To help show our priority, we've woven our commitment to wellness into our mission statement with these words: "We will maintain a workplace that encourages employees to balance the demands of work and personal life," and "We will enhance employee wellness." In this way, employee wellness can be viewed as important as our commitment to campus sustainability.

**Key features:** Within the past three years we've grown the program from three exercise classes and an annual health challenge to 12 exercise classes, four annual health challenges, 12 to 15 seminars, a monthly newsletter, personal training, an annual 100-mile bike ride, weekly special events, and periodic health screenings. A good example of our success was our "Walk to the Moon" challenge this past year. We gave out pedometers and had employees form teams to encourage each other to stay active during the day. This truly helped change the culture of the college. People continue to get out and walk during their lunch hour or at the end of the day before they go home, and some supervisors and their employees choose to hold their one-on-one meetings while they walk around campus.

Another popular challenge is "Hold it for the Holidays," which is as simple as it sounds. Employees who want to participate put \$10 down in advance. They weigh in before Thanksgiving and then again immediately after the New Year. Those who have maintained their weight get to split the cash pool. The amazing thing is that even \$10 has the power to motivate. Last year 80 percent of those who participated held to their pre-Thanksgiving weight.

**Incentives:** We offer a cash incentive of up to \$75 per quarter (\$300 per year) for employees who complete a minimum of two to four activities each quarter. In addition to physical activity, employees can earn credits in a variety of ways such as getting their flu shot, taking part in a preventive screening, visiting the dentist, giving blood, or attending classes on nutrition or other health-related topics. Additional incentives include t-shirts, iPods, towels, weekend getaways, and so forth.

**Tips:** Faculty in particular can be a difficult population to engage. One solution is to offer more options outside of the normal work day. When we opened our new fitness facility, we extended the hours from 6 a.m. to 9 p.m. These longer hours of operation also accommodate the needs of second-shift employees. We also leverage students from our various health programs such as physical therapy and exercise



science to serve as personal trainers. Every employee can sign up for four free sessions with a student trainer. Finally, the importance of supervisory buy-in can't be overstated. One thing we learned early on is that for hourly employees in particular, granting work release time can mean the difference for their participation. We allow all employees to take 30 minutes of paid time twice each week during their workday to engage in wellness activities. It's a small concession on the part of the employer, but it has to be backed up with supervisory support.

#### **MONTGOMERY COLLEGE, Rockville, Maryland**

*Details provided by Vivian M. Lawyer, chief human resources officer; Rowena D'Souza, human resources specialist; and Brenda Salas, wellness coordinator.*

**Catalyst:** Several decades ago, a small group of employees started meeting informally to work out together. As the numbers and interest grew, our board of trustees made the decision to formally support a wellness focus by approving policy that offers all employees 1.5 hours of wellness release time combined with other leave each week to participate in wellness activities. That was 20 years ago. About five years ago we dedicated actual staffing for our wellness effort, and the program has since taken off with great success.

**Key features:** We offer a full range of biometric screenings as well as full access to fitness and recreation facilities, and we place a strong focus on variety of program options and on creative programming. To keep the program fresh, we offer seasonal challenges throughout the year, including "Walktober" each October, "Health for the Holidays" during November and December, "New Year, New Rear" in January and February, "Spring Into Fitness" each April and May, and an "MC to OC" (Montgomery College to Ocean City) beach-themed challenge from June through August. We offer one-on-one wellness consultations with employees and an "ask the nurse" program, and we currently offer 18 traditional group exercise classes each week (body sculpting, spin, Pilates, step, cardio dance, Zumba, body conditioning, and more). We also encourage employees to come forward with suggestions for additional programming and have implemented some of these ideas in our current program, including a joint-exercise for arthritis program twice each week, yoga four times a week, and drop-in basketball three times weekly.

By listening to employees, we've also been able to identify some of the less visible needs and ailments that may be keeping some employees from full productivity. For instance, we have started conducting ergonomic assessments within the workplace to target factors that could be contributing to employee neck and back pain so that we can address these issues proactively before they result in injury.

**Incentives:** To make participation easier for those whose schedules don't coincide with hours of availability for our fitness facilities, we instituted a program three years ago to allow employees to participate in gyms outside our campus facilities. As long as employees attend a certain number of times each month, their fees are reimbursed by the college through our educational assistance program. We've also extended the wellness program to spouses and retirees to encourage family wellness and lifelong healthy habits.

**Tips:** While the program has always had high-level support, we are well aware of the fact that within a tight economy, even valuable programs face cuts. We protect this program as much as possible by

keeping it within the HR budget as a benefits program. We also are careful in stretching resources as far as possible and are always looking for freebies that we can offer. For instance, when we realized that our faculty and staff assistance program (EAP) provider offered us four free workshops each year, we've since made certain we use these to offer targeted topics such as stress management, smoking cessation, and pandemic planning.

#### **DICKINSON COLLEGE, Carlisle, Pennsylvania**

*Details provided by John Weis, vice president of human resource services, and Steven Riccio, staff development coordinator.*

**Catalyst:** We launched our wellness program in 2006, essentially from a blank slate. A primary reason for starting a staff development and wellness program was to enhance employee engagement with opportunities to encourage healthy lifestyles and around which employees could build relationships and camaraderie.

**Key features:** Our Holistic Health Program offerings span four categories of focus: physical wellness, nutrition, preventive health screens, and intellectual wellness. In addition to a range of fitness options and monthly screenings, we offer both stress and diabetes management classes, host on-campus meetings for support groups such as Weight Watchers, and contract with a registered dietician who is available to employees and students for one-on-one nutrition counseling. One unique feature of our program is a focus on professional development—the intellectual component of wellness that we emphasize through various workshops and certificate of completion programs on topics of personal and professional importance for employees. We believe that healthy employees are people who are not only physically fit but who also feel they creatively contribute in their roles to advance the mission of the institution.

**Incentives:** While some activities require a nominal fee, the college refunds fees in full based on an individual's 75-percent or higher rate of participation. Program participation also allows employees opportunities to earn gift cards of varying amounts based on how intensely they want to participate to accrue points. Engaged employees (100 points) receive a \$50 card. In addition to the \$50 card, energized employees (150 points) and elite employees (200 points) are eligible to receive a cash prize drawing for gift cards of \$250 and \$500, respectively.

**Metrics:** While monitoring the employer-related benefits of offering an employee wellness plan is not a perfect science, we are looking to track some key indicators over time. In addition to measures such as levels of absenteeism, hospital bed stays, and emergency room visits, as best as possible we want to monitor our progress in helping prevent or mitigate chronic conditions such as asthma, diabetes, and cardiovascular disease through screenings and early intervention and education. We are working with local providers to help us establish some baseline metrics.

**Tips:** We learned early on that you have to listen and respond to what employees want from your program. We made a classic mistake up front by going to great lengths to plan a grand kick-off of our wellness program, complete with a prominent guest speaker, only to have a disappointingly low turnout. The problem was that employees didn't see the value in attending the event. We now have regular focus groups and conduct routine surveys to get employee feedback about



what activities are of most interest and importance to them and what best meets their needs in terms of scheduling. This gives us a good framework for making ongoing adjustments. In one instance, we found out that employees didn't like the teaching methods of a particular instructor because too much time was spent reviewing basic techniques in his classes without offering something for those at more advanced levels. This was something very simple that we were able to address right away in efforts to keep employees engaged.

Finally, a primary intent behind any employee wellness program should be to keep people healthy so they don't end up with more serious complications later on. That may mean reviewing the overall structure of your larger health plan and its provisions. Two years ago we adjusted our premiums along a sliding scale based on income. Effective this past July, we made a financial commitment to keep health-care premiums flat for all employees so that they didn't have to pay more in health care at the same time that their earnings remained flat. We were also able to negotiate to hold the line on the cost of renewals on our vision and dental coverage.

#### **NORTH IDAHO COLLEGE, Coeur d'Alene**

*Details provided by Wade Larson, human resources director.*

**Catalyst:** Last year we implemented a comprehensive consumer-directed health-care program that raised employee deductibles from \$200 to \$1,000. That alone accounted for a cost savings for the college of \$500,000 with no reduction in health benefits for employees. Along with the higher deductibles, the college implemented an aggressive rewards and incentives program for employees engaging in wellness-related activities and healthy behaviors to allow them the opportunity to "earn back" the deductible gap (up to \$700) with contributions into their health reimbursement accounts or toward reduced health insurance premiums. Full participation by spouses and family members allow offsets of up to \$1,400 annually reimbursed to the employee. (Editor's Note: You can learn much more about the specific structure and cost savings of the North Idaho program in "Share and Share Alike," an article by Larson published in the Fall 2009 CUPA-HR journal, [The Higher Education Workplace](#). Log-in required).

**Key features:** The aggressive incentives program includes a tiered approach for reimbursing employees with real dollars for specific healthy behaviors. These include monetary payments for completing an annual personal wellness profile and biometrics assessment, completing annual physical and dental exams, and even payment for not using tobacco. In this way, all employees can easily earn at least partial reimbursement for taking part in routine preventive health. A variety of fitness, education, and support-group activities are available on campus or through our community partners.

**Metrics:** Specific measures are a challenge with regard to health impacts. Where we are best able to track the impact and value of our program is through the organizational report we receive about our employee health risk assessment (personal wellness profile), which employees participating in the plan must complete annually. Over the past two years we have identified momentum toward better nutrition, better fitness, and reduced weight and cholesterol levels.

**Tips:** Especially where significant financial incentives for participation are involved, you must communicate how employees can maximize reimbursement and why it's in their best interest to do so. Providing

context about the costs of health care and how employees directly impact institution costs overall helps them understand their own role more clearly while rewarding them for taking steps that are good for them and for the institution. Reward structures must also be carefully constructed so as not to penalize particular groups. For instance, in our first year of providing reimbursement incentives, we required that employees complete an affidavit that they don't use tobacco in order to participate in the reimbursement program. Unfortunately, that put some employees (smokers) at a full disadvantage. Recognizing that a smoker who goes to the dentist and is physically active is better off than a smoker who does not engage in such activities, we changed the reimbursement structure the following year so as not to fully penalize any employees for what they choose not to do—only for what they choose to do.

Another lesson we've learned is that there are certain behaviors you can't easily motivate. Last year we required fitness activity twice per week and attendance at two wellness sessions each month based on our desire to make education a key component of our program. However, we received more complaints about having to attend the wellness sessions than anything else we've required. So while we still offer these, we no longer mandate attendance in connection with employee reimbursement. One thing you don't want to do is to undermine the success of your program by inadvertently requiring a particular activity that provides a barrier to participation.

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#### Perspective

### **HR's Hand in Leader Excellence**

*By Karla Hignite*

Charlotte Fugett has served as president of Pima Community College, East Campus, in Tucson, Arizona, for the past two years. For nearly 30 years prior she held senior positions in human resources at University of Richmond and at PCC, most recently as executive vice chancellor of administration, which oversees the HR function. In this interview, Fugett discusses the key influence her human resources background has on the strategic decision-making required in her current role. E-mail: cfugett@pima.edu.

#### ***What lessons from your professional experience within the human resources arena have become embedded within your personal management or leadership style?***

Three lessons come to mind. The first is to respect the inherent worth of the contributions made by individuals and teams of individuals to the organization's success. Every employee can add value to the organization, but even the most talented can flounder without management's respect for their efforts. In addition, it is the role of leadership to provide an appropriate framework or structure in which work is performed, coupled with a strong administrative support system to nurture the employee's efforts. Doing so will leverage talent and will prioritize and focus collective employee efforts toward the goals of the organization. This will assist us in getting the best from our workforce in higher education and will support our number one priority—the success of our students.



A second lesson that has shaped my management approach is to make good decisions derived from reliable and relevant data, facts, and other information. It is my responsibility to ensure that the information I use to make a decision goes through a comprehensive, perhaps exhausting, analysis. This is important because it is incumbent upon management to be accountable for our decisions. We have to be honest with employees about the basis for our decisions, whether we are addressing a change to an employee compensation or benefits plan, or whether we are investigating a problem with an individual employee's performance. These kinds of decisions are highly scrutinized and require a level of forthrightness about the way we make our determinations. The same is true for decisions that we must communicate to the public and to other constituents to whom we are accountable.

Finally, my background has taught me the importance of communication. How you communicate decisions can make or break the success of any initiative. To get the most from your workforce, communication cannot be top-down only. It must also be bottom-up, and sideways, formal and informal, and you must employ a range of venues and media to make sure everyone receives, hears, and understands the message. That same focus on clear and comprehensive communication is critically important for conveying the strategic priorities of your institution and its mission.

***What additional insight do you bring to your current role as a result of your understanding of key HR issues and challenges such as talent development?***

I would characterize my contributions for nearly 30 years as being from “back room operations” so to speak. Now I am on the frontlines. But my background has given me heightened appreciation for how everyone within the institution is involved in educational delivery and student learning—no matter his or her role in the workplace.

On a daily basis, I also must address issues of conflict and interpret policies and procedures—all knowledge gleaned from my HR experience. Every day, part of my role is to develop the talent of the workforce at my campus, and once again, the knowledge gleaned from my HR days has been instrumental in these efforts.

Perhaps most notably, I also know from my insider's perspective what HR can do for me as a president—a luxury that not all my administrative colleagues share. As a result, I am not at all shy about asking for that department's assistance, knowing the expertise that HR can offer to achieve institutional goals and objectives. Particularly in the arena of talent development, HR professionals can partner with higher education administrative colleagues to achieve long-range planning efforts to build the kind of workforce we need to thrive.

***What do you think is most important for every institution leader to understand about the value of its people within an organization and what motivates them collectively and individually?***

I have been fortunate to work for two institutions of higher education, the University of Richmond and Pima Community College. At both, those in leadership positions hold a high regard for the value of people. That said, we cannot deny that we are all facing difficult times, and finding ways to motivate employees is essential. If I have one message to put out there, it's that now is not the time to shortchange

employees on professional development. Given the current state of affairs in our institutions, employees are being asked to do new or additional work for little or no additional financial incentive. This is occurring at a time when our employees and their families may be experiencing financial stress of their own. There are also a host of new challenges that institutions are facing beyond the impact of the economy. For instance, we are seeing an influx of returning veterans to our campuses, many of whom have special needs we must meet. Our workforce needs to be equipped to respond to these new demands. Rather than minimize staff development, we should emphasize it and equip our employees with cutting-edge knowledge and skills. The more employees feel equipped to do their jobs, the more motivated they will be to work hard.

Leaders must also be mindful that efforts to motivate employees should take center stage because so much of our success depends on our faculty and staff. Large monetary rewards are problematic right now, but even smaller rewards and gestures can make a huge difference in motivation. It may be as simple as taking time for a personal thank-you or a public acknowledgement of a job well done. I know that, for instance, when I send a personal “thank you” e-mail to an employee, he or she will often tell me how much my time to acknowledge them was appreciated.

As leaders, we can also remove the barriers that keep employees from doing their best work. This could mean getting employees the equipment they need to work more efficiently, or developing processes that are more effective and removing work that is redundant. We also need to be open to employee suggestions and include employees in discussions about the big picture of the institution. What I tell myself and my administrative staff is that especially right now, we cannot afford to retreat to our offices and hunker down, despite the fact that we, too, are feeling increased pressure. Rather, we need to be present and particularly visible to employees, visiting them on their turf, and exhibiting empathy and support for what is on their plates. In that process, we start building a respectful relationship that also serves as a source of continued motivation for employees.

***Within the context of the current economy, when many institutions are facing significant budget cuts or faculty and staff reductions, how do you balance being financially responsible with being fair to your institution's people?***

This is a hugely important question. Finding the right balance of fiduciary responsibility and fairness to employees is critical to any organization at any time. But I do think you can make a reasonable argument that fiscal responsibility, accompanied by transparency in operations and systems, actually encourages respect for employees and results in an organization's fair treatment of them.

Pima Community College has had to take action to address the fiscal constraints of the current economic situation. As a result of the current economic climate, we have had to reduce discretionary spending, reduce administrative travel, and delay filling vacant positions. Our unfilled FTEs are up from what is normally about 5 percent to about 14 percent. At the same time, we have double-digit increases in enrollment and declining revenue from the state of Arizona. Still, we have managed to sustain our operations and we have not had to enact mandatory furloughs or layoffs of college-funded employees, nor have



we eliminated instructional positions—something for which we are all grateful. We have already reduced the number of administrative positions by about 15 percent through attrition and elimination of vacant positions. We recently announced that we will be reducing the number of staff positions by 7 percent, through attrition and elimination of vacant positions—again, not through layoffs.

Of course, all of this is of genuine concern to our employees. The approach we have taken is to avoid surprising people. We have communicated the state of our budget to employees on a regular basis in small group meetings, through newsletters, and through special e-mail messages from leadership. What is key to us is to include employees in discussions in advance. We prefer to err on the side of being overly informative. As a leader, I am convinced that if you take the opportunity to prepare employees and invite their input, your employees are more likely to become invested in helping you find a solution.

Let me give you an example of how PCC seeks to balance financial responsibility and fairness to employees. Earlier I spoke of how much PCC values employee professional development. I also mentioned that Pima has reduced travel funds, and we all know that face-to-face, instructor-led training is expensive in both direct and indirect costs. To offset some of the expense in providing professional development, about two years ago the college invested in securing a learning content management system: a desk top solution that delivers professional development, on-line training, and library-type resources electronically to our employees. In addition, we are developing conference rooms that we can use for on-site webinars and group learning. So, at the very same time we must deal with the financial realities before us, we have found a fiscally responsible way to maintain a commitment to employee development. Therefore, we continue to have a skilled and trained workforce to meet our student and community needs.

***What do you see as the biggest HR challenge facing institutions today that also carries potentially significant financial concerns or risks, and how can this challenge be addressed by institution leaders?***

It's hard to single out one thing, but two of the biggest are the driving influences of the economy and the demographics of the workforce within higher education leadership positions. Enough said about the first, so let me elaborate on the second item. We have the potential of soon facing a significant knowledge and talent drain within the leadership of higher education. Research by the American Council on Education shows that more than half of college presidents are 60 years of age or older and only about 8 percent are under 50. Those within the second tier of leadership positions are similar in age. If we don't address this key concern in quick order, it can have real financial implications for our institutions. When you lose a key talent base, systems tend to break down. When institutional systems break down, it costs the organization time and financial resources.

I believe it is incumbent on every leader to nurture effective leadership in others. Obviously HR has a critical role to play here as well. While we still replace most of our top leaders from within higher education, those recruited from outside higher education have a tremendous learning curve. And even from within the system of higher education, there are knowledge and skill gaps depending on whether you've followed a largely administrative or academic career path. The reality is that we need to do a better and more comprehensive job of nurturing

the entire pipeline of leaders.

Since many leaders of retirement age have, in fact, delayed retirement due in part to current economic conditions, once the economy does turnaround, we could see an even larger number deciding to leave all at once. This scenario makes it all the more important that we act now to begin analyzing current skill sets and addressing institutional plans to identify likely talent gaps. It's not a simple matter of tapping someone to let them know they are next. We need to start having conversations with employees to understand where their interests lie and then give them opportunities to explore new roles and develop new competencies. Strategies can include creating a leadership academy on campus, giving faculty and staff opportunities to temporarily fill higher-level vacant positions during recruitments, or establishing mentorship or job-coaching programs. While education is a key component of talent development, just as important are those "hands on" active assignments and projects that really give people experience and an opportunity to test and fine-tune their leadership skills.

***What do you think is most important for chief business officers to understand about HR priorities and concerns, and how can these two functions best complement and support the other?***

First, I think we should turn this question around to ask: What do I think is most important for HR to understand about the priorities of the institution? To that question, I would respond that I think it is critical that HR understands the business of higher education and how the role of HR can enhance student success. I don't think we always draw a direct connection from HR functions and activities to a student's academic success, but we should do exactly that. Placing the work of HR in that context can influence how we see our work and can increase the value of the work that we do for our organizations. Sometimes HR professionals become engrossed with such matters as legal liability and costs of employment. All that is important, but you can become so mired down that you become disconnected from the institution because your focus is too narrow. The HR function has to see itself as part of the fabric of the business of higher education, and HR professionals must understand their role in academic progress and student success. For instance, at PCC, our employees are trained that each of their roles are embedded in our student learning outcomes. This reinforces that each of us influences learning regardless of the capacity in which we serve—whether as a cashier, financial analyst, or human resources manager.

As to your original question, an astute business officer will connect the intrinsic value of the HR function to the business and academic goals of the institution and will encourage a meaningful and productive partnership. After all, HR is usually the place we turn to for resolving internal conflicts within our organizations. HR staff typically have a highly honed communication skill set. HR is where employees go to seek trustworthy, reliable advice on matters that are often highly confidential. HR staff know how to develop talent, understand employment law, and have strategies to increase productivity and reduce waste in staff operations. And HR can assist in breaking down barriers and silos and facilitating change within the organization and its workforce. All this opens the door to real value for employees and supervisors alike.

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## Resource

## Is Your Campus H1N1-Ready?

By Tadu Yimam

It does little good to speculate about when and where an outbreak of the 2009 H1N1 ("swine flu") virus may occur. A chief concern is whether your institution is prepared to function normally if the virus hits your campus.

To address the many operational challenges a pandemic raises for higher education institutions, NACUBO, CUPA-HR, and ACHA recently presented the webcast "[H1N1 Campus Management: Perspectives from Human Resources, the Business Office, and Student Health Services.](#)" James E. Lyons, Sr., secretary of higher education for the Maryland Higher Education Commission, moderated the September 15 event, which featured three Carnegie Mellon representatives: Anita Barkin, director of student health services; Barbara Smith, associate vice president and chief human resource officer; and Deborah Moon, vice president and chief financial officer. All three offered recommendations for managing and maintaining a safe and healthy campus and emphasized the need for effective communication across all levels of campus management.

### H1N1 in Context

Barkin provided general background and historical context surrounding pandemics. On average, the seasonal flu causes approximately 36,000 deaths in the United States each year, with older Americans and children comprising the highest at-risk groups and accounting for a chart of infection that is typically U-shaped. By comparison, a pandemic occurs in waves and generally accounts for millions of deaths worldwide with disproportionate effects on young and healthy adults. Previous pandemics have taken their toll on the U.S. population:

- 1918 H1N1 (Spanish flu): 675,000 U.S. deaths.
- 1957 H2N2 (Asian flu): 75,000 U.S. deaths.
- 1968 H3N2 (Hong Kong flu): 34,000 U.S. deaths.
- 2006 H5N1 (bird flu): unknown; less than 100 deaths worldwide.

The 2009 H1N1 has all three criteria of a pandemic: It is a new or "novel" virus to which the general population has no immunity, it crosses species (bird, pig, and human), and it can be transmitted from human to human. While experts are uncertain about the potential impact of the current H1N1 virus, they contend that it appears similar in characteristics to the 1918 H1N1 virus. The first signs of the current H1N1 occurred from outside the United States, there was little time to act, and within three weeks there were simultaneous outbreaks throughout 42 states across the nation, resulting in two deaths among 849 probable cases.

Widespread concern exists that the outbreak during the summer (accounting for 477 deaths during a non-flu season) does not bode well

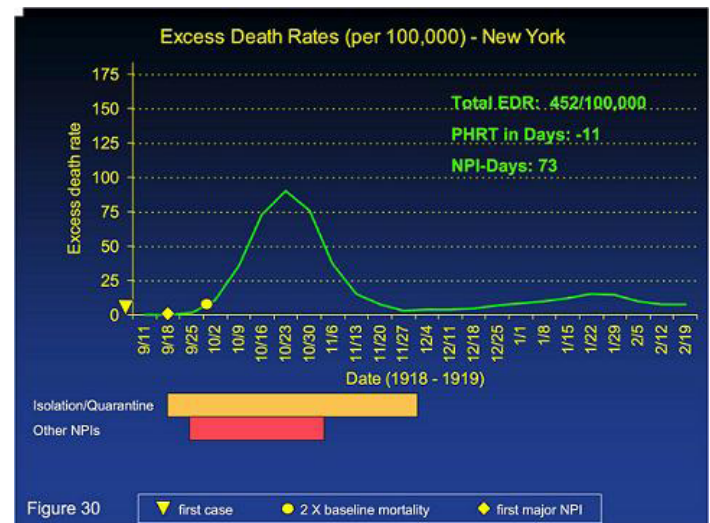
for the 2009-10 flu season. Many campuses with camps, summer courses, and other events experienced outbreaks. Barkin noted that the World Health Organization and Centers for Disease Control will not give prescriptive guidance but instead are encouraging colleges and universities to make decisions based on local circumstances.

Availability of a vaccine that should be effective against the virus within eight days began its rollout during early October. A projected 40 million doses—a mix of sprays and shots—was to be available by mid October, with an additional 10 million to 20 million doses targeted for availability each week thereafter, eventually reaching a total of 250 million doses.

### Social Distancing Practices

To help contain the H1N1 virus, Barkin encouraged postponement of large social gatherings where possible and offered techniques for social distancing practices such as refraining from hand-shaking and modifying work and classroom spaces by moving desks further apart. To make her point regarding the importance of early intervention, she cited examples of different responses taken by various cities during the 1918 outbreak and the effects of those decisions.

**New York City's** early and sustained response, as advised by the NYC Public Health Response Team (PHRT), included strictly enforced isolation and quarantine and staggered business hours over a 10-week period, resulting in the lowest excess death rate for any city on the East Coast during the time period reviewed. Although the city did not officially close schools, absentee rates were greater than 45 percent during the peak of the pandemic.



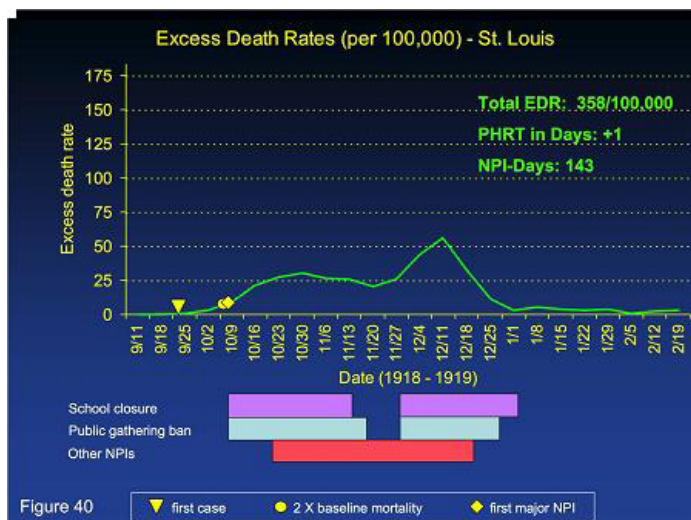
EDR = excessive death rate. PHRT = public health response team.  
NPI = non-pharmaceutical intervention.

**St. Louis** had a positive effect in lowering the total death rate through non-pharmaceutical intervention (NPI) and layered and sustained interventions early in the pandemic, including school closures, public gathering bans, quarantines, and so forth.



EDR = excessive death rate. PHRT = public health response team.  
NPI = non-pharmaceutical intervention.

**Pittsburgh**, by contrast, was well into its outbreak before implementing interventions. As a result, it experienced the highest excess death rate of any of the 43 cities reviewed. While city officials executed a public gathering ban on October 4, 1918, they delayed implementing school closures until October 24. A week later the state rescinded the public gathering ban.



EDR = excessive death rate. PHRT = public health response team.  
NPI = non-pharmaceutical intervention.

## The Case for Isolation

Barkin underscored how critical it is for students and faculty to understand the rationale for isolation and self-isolation, which is to flatten the surge of the illness. Campuses nationwide should prepare to offer sick students accommodations on campus with alternative, isolated living quarters and access to meals and health care, argued Barkin. Students who live in non-university housing should isolate themselves from others, including their roommates, but ask roommates or others for assistance in securing food, fluids, and over-the-counter cold medications. At Carnegie Mellon, ill students who live off campus have been asked to stay home and avoid contact with others, while students in residential housing who do not come from areas near Pittsburgh are being taken care of by staff members in student health services, housing, dining, and student affairs, explained Barkin.

Among other tips offered for caring for ill students:

- Determine a screening protocol for use by emergency personnel, and set up an H1N1 dispatch alert system with resident life employees.
- Make sure students and staff have documented fevers before isolating them.
- Secure a location for an infirmary and identify who will staff it.
- Determine if there are additional areas and resources within your community that can be used.
- Establish plans and procedures for remote learning.
- Develop a dining protocol and meal delivery method, and create simple, healthy menus for those who are ill.

## Staffing Protocols

Smith noted that the impact of H1N1 on faculty and staff may mean an increased workload for all employees coupled with a reduction in the staff available to accomplish the work. She encouraged campuses to identify essential functions and key staff members, begin "depth charting" to determine backup staffing, examine short-term staffing solutions and the possibility for employees to work outside their job descriptions, and develop return-to-work requirements.

Smith also encouraged campuses to review internal policies surrounding emergency closings, flextime, working from home, and the family medical leave and fair labor standards acts. With regard to FMLA and FLSA in particular, are HR staff equipped to monitor and document these situations? Finally, campuses with child-care facilities require special protocols to limit exposure to young children and must establish concrete expectations among family and staff regarding the institution's response in the event of an outbreak.



## Facilities and Financial Functions

Moon emphasized the need for sound facility planning, including developing temporary, permanent, or leased infirmaries for isolated students and making sure facilities are available for quick and deliberate repurposing. On the financial operations side, key areas of continuity (e.g., payroll and accounts payable) should be addressed sooner rather than later along with systems infrastructure. For instance, do students, faculty, and staff have remote access to university information? Who can replace the roles of functional and technical staff if they become ill? Practices regarding use of vendors must also be established to keep payments and payroll running and to meet regulatory and contractual obligations.

Moon also discussed the process for determining when deadlines may need to change, the impact on international operations, and the role of communication. Identifying critical staff roles and making sure staff are cross-trained during pandemic planning is vital. Don't leave important decision criteria to the last minute. Ask yourself early on when your institution should no longer stay open due to a high mortality rate or other factors (i.e., your tipping point).

Who should sit at the decision-making table during pandemic planning?

- Representatives from HR, student affairs, health center, business office, and environmental health and safety office.
- Content experts and external consultants who understand public health issues.
- Campus and community security personnel.

Ultimately, communication between your campus staff, students, and community remains essential for restraining a pandemic. Ensure that campus police and emergency personnel have the proper commu-

nication tools, training, and equipment. Create a phone bank using social media tools such as Twitter and Facebook. Develop strong messaging early, and distribute ongoing messages about good hygiene and emergency planning.

It is also extremely beneficial if your institution becomes a partner with the larger community in an effort to mitigate the spread of the virus. For instance, your campus can become a flu surveillance site and a point of distribution for the vaccine. Contact your local health department to find out how.

Finally, Barkin reminded participants not to overlook the obvious. Secure surgical masks, hand sanitizers, and other important supplies, since these items tend to become scarce once an outbreak hits, and since the prices only inflate with demand. For example, within days of the first H1N1 case, suppliers were out of the flu treatment Tamiflu, which immediately increased in price by about 20 percent.

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## Resources

- [CDC Guidance for Higher Ed](#)
- [ACHA Tracking Resource](#)
- [NACUBO Resource Page](#)

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