Hudson College
Scenario E: Employee Benefits

By Steve Riccio, Ed.D., SPHR
PROJECT TEAM

Author: Steve Riccio, Ed.D., SPHR
SHRM project contributor: Bill Schaefer, CEBS, SPHR
External contributor: Sharon H. Leonard
Copy editing: Katya Scanlan, copy editor
Design: Terry Biddle, senior design specialist


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Please note: All company and individual names in this case are fictional.

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SHRM Academic Initiatives
1800 Duke Street Alexandria, VA 22314 USA
Phone: (800) 283-7476
Fax: (703) 535-6432
Web: www.shrm.org/education/hreducation
The case begins with introductory information about the organization and is then divided into five scenarios. Each scenario includes question sets for undergraduate and graduate students. A debrief is included with each scenario, but because management dilemmas can be resolved using a variety of solutions, expect that students may come up with solutions that differ from those included in the scenarios. This document contains only Scenario E: Employee benefits. The scenarios are as follows:

- Scenario A: Talent management.
- Scenario B: Employee engagement.
- Scenario C: Performance management.
- Scenario D: Title IX.
- Scenario E: Employee benefits.
Hudson College: Overview

Founded in 1881, Hudson College is a private liberal arts institution located in Beacon, New York. Hudson is a four-year undergraduate institution accredited through the Middle States Association of Colleges and Schools. Nestled in the Hudson River Valley in Dutchess County between New York City and Albany, Hudson College prides itself in its core values of creativity, collaboration and civility. One of its strengths is its strong partnership with the vibrant Beacon community. Many of Hudson’s employees serve on boards of local nonprofit organizations. Three years ago, the college helped improve the local transit system to provide better access to transportation for students and college employees. The college’s presence in the downtown region is evident with the recent construction of the college bookstore, a coffee house and three student housing complexes along the Hudson River waterfront. Students choose Hudson for a variety of reasons, but most often they point to the low faculty-to-student ratio (12:1), the variety of academic programming and the proximity to New York City (approximately a one-hour drive).

Dr. Sara Richards became the 13th president of the college last year. She replaced the popular Dr. Robert McNulty, who retired after a 12-year tenure, which included a 20 percent increase in student applications, the addition of 15 academic programs, a strong emphasis on global education (the college now offers eight study abroad programs), and an increase in the enrollment of international students from 3 to 7 percent of the total enrollment.

Richards came to Hudson after serving as the provost at a similar liberal arts institution in the Midwestern region of the country. The transition from McNulty to Richards has been viewed as positive, but for many, it is too soon to tell. There is a small number of students and employees who feel the college lacks the necessary leadership to take Hudson to the next level. Richards reports directly to the board of trustees.

Edward Coburn has served as the board chair for the past three years. He retired in 2011 after a long, successful career at Appalachian Trust Bank in Poughkeepsie, New York, where he was the chief executive officer during the last 11 years of his career. The board of trustees, who traditionally have not meddled in human resource (HR) operations, are deeply concerned about the rise in health care costs and have focused their attention on this and other financial challenges facing the college.

Like so many colleges and universities, Hudson has been challenged by the difficult economic climate, increased competition among schools within and outside its peer group, and external pressure from its key stakeholders. The college’s current strategic plan, now in its fourth year, outlined an ambitious agenda focused on diversity and inclusion, a reenergized commitment to increasing the school’s affinity among its
alumni, and a multiyear capital project initiative that includes new construction and renovations to support the academic and residential experiences for students.

Hudson’s endowment, despite losing 16 percent between 2008 and 2010 due to market conditions, has now reached $350 million for the first time in the college’s history. Despite serving as a positive performance measurement, most of this growth can be attributed to a rebound in the market. Large donations from alumni have been difficult to secure, making it a challenge to keep up with competitors.

David Bridges, vice president of human resources and risk management, has been in his current role for six years. He came to Hudson College from a university in New York City, where he was the director of human resources. Bridges has been described by his colleagues as a visionary who has lead several key initiatives since coming to Hudson, including increasing efficiencies through technology enhancements and offering a more competitive compensation model compared to the local market and its peer institutions. Bridges reports directly to Richards.

Janet Mullins, director of human resources, has worked in the human resources and risk management division for 19 years. She started her career as a benefits analyst and moved into her current role shortly after Bridges’ arrival. She reports directly to Bridges.

Elizabeth Guthry, director of organizational development, recently transitioned to higher education after six years as a corporate trainer for a Fortune 500 company. She has struggled with the cultural differences and has found it difficult to produce positive change in her short time at Hudson. She also reports directly to Bridges.

Hudson College has been named one of the “Top 100 Best Organizations to Work For in the State of New York” for four years in a row. Many attribute this ranking to the college’s strong sense of teamwork and employee loyalty to the institution. The human resources and risk management division has also been recognized by local surveys for its care for employees and family-friendly benefits. Despite these recognitions, some faculty and administrative staff believe recent retirements and resignations of individuals in key positions have affected employee morale and the college’s reputation of providing outstanding service to its students. Most of the open positions created by these departures were filled by external candidates, causing employees to question the college’s commitment to its own people.

IN DAVID’S OFFICE

Bridges has been putting together a summary document he planned on giving Richards to prepare for their annual meeting about the division’s goals for the upcoming year. As Bridges reflects on the past year, he notes a number of significant accomplishments that were made in the division. Despite these successes, he admits that it has been the most challenging year since he joined Hudson College.
REFERENCES


<table>
<thead>
<tr>
<th>INSTITUTIONAL DATA</th>
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<tr>
<td>Enrollment</td>
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<td>Percentage of students of color</td>
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<tr>
<td>Acceptance rate*</td>
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<td>Fundraising (fiscal year)</td>
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* Acceptance rate: The percentage of student applicants the college accepts.
** Discount rate: Institutional grant aid awarded to undergraduates as a percentage of the institution’s gross tuition revenue.

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<td>141</td>
<td>250</td>
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<tr>
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<td>167</td>
<td>273</td>
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<tr>
<td>Total</td>
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<td>401</td>
<td>729</td>
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<table>
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<th>Number of Employees</th>
<th>% of Total Employees</th>
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<td>18.2%</td>
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<tr>
<td>Asian American</td>
<td>34</td>
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<tr>
<td>Native American, Alaskan Native</td>
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<td>0.6%</td>
</tr>
<tr>
<td>White or Caucasian</td>
<td>448</td>
<td>61.4%</td>
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Walking across campus to meet with Chief Financial Officer Cathy Griggs at her office in Old Main, Bridges knew it wasn’t going to be an easy conversation. A few days ago, Bridges received a copy of the health care utilization report from the college’s third-party administrator (TPA) reflecting a significant increase in medical claims over the past year. A utilization report provides a detailed view of how medical costs are incurred by plan members. Hudson College was a self-insured entity, meaning that the institution set aside a portion of the operating budget to fund medical expenses incurred by participants (employees and their dependents). An organization’s decision to use a self-insured model is typically based on the number of employees. The majority of larger organizations are self-insured so they don’t assume the risk of the medical costs from other organizations. In addition to the report, Bridges received an estimated renewal rate of 23 percent more than the previous year from the TPA based on the overall expenses incurred. This means that Hudson College will have paid 23 percent more in medical expenses this year compared with the previous year.

During their discussion, Griggs and Bridges realized that the proposed renewal rate was going to have a large, unforeseen impact on next year’s budget, which could result in other college priorities not receiving appropriate funding. Bridges knew that yet another increase in health care premiums to employees was inevitable to help offset the costs. Hudson’s medical insurance is a PPO (preferred provider organization) plan, which is a managed care organization that agrees with the TPAs to provide services at a reduced rate. More than 90 percent of the employees are insured under the college’s medical plan, for a total of 1,512 participants, including employees and dependents. Hudson currently contributes 80 percent to the medical plan (down from an 85 percent contribution just three years ago).

“We can’t continue to see these trends without being proactive,” said Griggs. “I know the board is going to have a field day when we meet with them in a few weeks. We need to send a message to employees that we cannot be responsible for their poor health. I suggest we increase premiums significantly to address the substantial increase in costs.”
“We can’t overreact,” replied Bridges. “Besides, we have to be mindful that some employees will have an easier time paying higher premiums than others.”

“I understand that,” said Griggs. “But what are our other options?”

At the end of their meeting, Griggs and Bridges agreed that a special committee needed to be established to address the issue, which was sure to get a great deal of attention once the costs were made public. Bridges knew his next conversation needed to be with Janet Mullins, director of human resources, and Kelly Gould, assistant director of benefits, to establish a committee and articulate its mission. He also asked his executive assistant, Sally Thompson, to schedule a meeting with President Richards as soon as possible to inform her of the cost increase in preparation for the upcoming board meeting.

IN KELLY GOULD’S OFFICE

“Hi, Janet and Kelly,” Bridges began. “Thanks for rearranging your schedules to talk with me for a few minutes. I just had a conversation with Cathy Griggs about the increase in the health care budget. Cathy’s response was to just raise premiums again. We need to identify all the options that are fiscally responsible for the college without significantly affecting the livelihood of our employees and their family members.”

“I agree,” replied Mullins. “Are there some options that you are leaning toward?”

“Yes, premium increases are likely, but we also need to consider changes to our medical plan design. Whatever is decided, it has to be a college-wide decision,” said Bridges. Shifting his attention to Gould, he continued, “Kelly, you have been considering an employee wellness model. I can’t think of a better time to begin than now. Can you develop a proposal for us to review by early next week?”

“I certainly can,” replied Gould.
SCENARIO E: QUESTIONS FOR UNDERGRADUATE STUDENTS

1. Health care costs across all organizations (not just in the higher education field) continue to cause a major financial strain on operating budgets, with no sign this trend will end. In your opinion, what is human resources’ role in helping mitigate these costs?

2. Describe the benefits of implementing a wellness program. How can an organization measure whether the initiative is a success?

SCENARIO E: QUESTIONS FOR GRADUATE STUDENTS

1. Assume the role of Kelly Gould, the assistant director of benefits. Based on information provided in the case and the scenario, design a wellness proposal that can result in short-term and long-term benefits to the college.

2. Bridges is going to want to formulate potential scenarios to address the health care challenge before meeting with President Richards. Outline two scenarios for President Richards and Hudson College to consider, factoring in the economic needs of the institution without placing a significant financial burden on employees.
SCENARIO E: QUESTIONS FOR UNDERGRADUATE STUDENTS

1. Health care costs across all organizations (not just in the higher education field) continue to cause a major financial strain on operating budgets, with no sign this trend will end. In your opinion, what is human resources’ role in helping mitigate these costs?

A major role in any human resource department is to educate employees and family members about the cost of health care. Also, whether an organization is fully insured or self-insured, it is important to inform employees of the plan design and how it relates to each individual and to the financial health of the organization.

HR departments should consider promoting the concept of “medical consumerism”—helping plan participants become better consumers of medical services by educating them on how to maintain or improve their health. When it comes to our health, many believe it is not valued until sickness occurs. Developing a workplace culture where employees and their family members practice “self-care” places focus on prevention instead of treatment. Progressive organizations are bringing the concepts of medical consumerism to their employees through workshops, group discussions and in communications such as newsletter, intranets and at-home mailings.

This intervention is designed to provide individuals with the knowledge and tools to become a better health care consumer. The primary focus of medical consumerism is to implement preventative strategies, such as:

- Learning how to reduce the potential of common ailments such as colds, flu, infections and joint/muscle pain.
- Participating in preventative health screenings to check on baseline health measures such as body mass index (BMI), blood pressure, cholesterol and blood glucose levels.
- Incorporating healthy lifestyle behaviors—including exercise and proper nutrition—that focus on continuous improvement and consistency.

Employees and family members should be encouraged by employers to partner with their primary care physicians in all areas of their health, including managing medications being used to address chronic conditions that require further medical attention (WELCOA, 2012). Also, it is important for individuals to get information on the price and quality of medical services before seeking treatment.
Sixty percent of organizations in 2012 offered wellness programs, most of which were housed in the HR department. Although wellness programs were once considered an effective strategy to improve employee engagement, the primary reason that organizations today launch these programs is to address the continued rise in health care costs. A comprehensive wellness program that includes regular physical exercise, health screens, stress management, nutrition and smoking cessation activities will be more successful than focusing on one particular area of concern.

HR professionals should track health care cost trends on a scorecard. Using a scorecard is important, particularly for key decision makers and those responsible for the operating budget. The scorecard could track, for example, the costs of the most frequent medical conditions, emergency room visits, and trends in medical and pharmacy spending. If the trends have a negative impact on an organization, the organization could consider making changes to the current plan design or even putting the health plan out to bid to receive the best services and rates for the administrative fees charged by the third-party administrator.

2. Describe the benefits of implementing a wellness program. How can an organization measure whether the initiative is a success?

A wellness program can have a significant impact on employee engagement because a well-designed, comprehensive program sends a strong message to employees that the organization cares for their well-being. Several studies have been conducted that show the value wellness programs provide to the financial health of an organization. For instance, Highmark Inc., a Pittsburgh, Penn., based health insurance provider that serves a majority of the central and western parts of the state, conducted a four-year analysis from 2001 to 2005 to determine if employer-sponsored wellness programs had an effect on overall health care costs. Highmark found that health care expenses were $176 lower for wellness program participants compared with nonparticipants. In addition, the study estimated an overall return on investment of $1.65 saved for every $1.00 spent on the wellness program (Naydeck, 2005).

Wellness metrics to consider could include the following:

- Annual medical costs.
- Annual pharmacy costs.
- Annual health care costs (medical and pharmacy).
- Annual workers’ compensation costs.
- Employee assistance program (EAP) costs and utilization.
- Absenteeism.
- Presenteeism.
- Aggregate health risk assessment scores.
- Aggregate biometric screening results.
- Disease management participation and program savings.
- Modifiable health risks.

REFERENCES


**SCENARIO E: QUESTIONS FOR GRADUATE STUDENTS**

1. Assume the role of Kelly Gould, the assistant director of benefits. Based on information provided in the case and the scenario, design a wellness proposal that can result in short-term and long-term benefits to the college.

Development of a comprehensive wellness program takes significant time and resources before measurable results can be achieved. The Wellness Council of America (WELCOA) outlines seven steps organizations should consider when designing and evaluating a wellness initiative:

- Capture CEO support.
- Create a cohesive wellness team.
- Collect data to drive health efforts.
- Craft an operating plan.
- Choose appropriate interventions.
- Create a supportive environment.
- Evaluate outcomes.

For example, to capture CEO support, Bridges should talk with Richards about the value of wellness programs from a financial and employee engagement perspective, showing studies to support his point. As part of this discussion, Bridges should address the trend in rising medical expenses. To create a cohesive wellness team, Gould can identify individuals across the campus who will be supportive of the initiative. This support could be in the form of a wellness advisory committee composed of faculty, administrators and staff who are strong advocates for health and well-being and will be instrumental in designing a wellness program that meets the needs of employees, family members and the college.

Many human resource departments have a “if you build it, they will come” mentality. In other words, they offer a series of wellness programs without effectively identifying an overall goal to reach. This approach was most used when wellness programs rose in popularity before the recent economic recession. Today, with limited funding and executives’ desire to see a return on their investment, human resource professionals need to employ a different technique.

Collecting data to drive health efforts is similar to training professionals conducting a needs assessment before developing and delivering materials for a workshop. This
could include gathering data from a variety of areas, including a cultural audit, health risk assessment, and a needs and interest survey, to help define a specific strategy to use for the population. When the data are collected, HR professionals should next craft an operational plan. For Hudson, this plan could include identifying the mission and vision for the wellness program, the key program milestones to achieve during the next several years, and a breakdown of the overall operating budget.

Next, choose appropriate interventions. Based on the data collected, Hudson can identify programs that meet the wants of their employees (based on an interest survey) and their needs (based on the health risk assessment and cultural audits). To create a supportive environment, Hudson’s human resource staff should create and revise policies, procedures and incentives, and also look at how to enhance the physical environment to promote activity in the workplace.

After the program has been established for a couple of years, Hudson should carefully evaluate outcomes. Many experts suggest that it takes at least five years to realize a positive financial outcome of an organization’s wellness effort, but Hudson College could measure participation in specific initiatives, such as physical activity programs, preventative health screenings, and educational workshops, before the five-year mark. From there, Hudson can build on this base and measure the overall results. For instance, the college could annually compare the risk scores of its employees to determine what percentage of employees are in the low-, medium- and high-risk categories. If Hudson offers health screening on campus, it can measure whether the percentage of employees who were identified as having high cholesterol increased or decreased from year to year. Finally, once the program has been in place for several years (a minimum of four), Hudson can measure the overall health care costs for wellness participants compared with nonparticipants (WELCOA, 2013).

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**Retain the PPO Plan**

To continue with the current PPO plan, the college would have to raise premiums and/or consider making changes to the current plan design because of the increase in health care costs. This may include adding or increasing deductibles and requiring co-insurance for medical services. It also could include an increase in co-payments for office visits provided by a primary care physician and medical specialists. Depending on emergency room and urgent care utilization rates, the college may consider increasing these co-payments, and doing so could result in more participants choosing their primary care physicians for services. The co-payment for urgent care facilities is typically less than that of an emergency room co-payment to encourage visits to the former. However, the human resources and risk management
division must still communicate the importance of seeking care in both emergency room and urgent care facilities when needed.

Include a Consumer-Driven Health Plan
Hudson College could offer employees a consumer-driven health plan (CDHP) that includes a high-deductible option for employees in addition to the PPO plan. Depending on the number of individuals who opt-in to a CDHP, this option could lower health care costs for the employer because CDHP participants would assume more risk. Many organizations set up health savings accounts (HSAs), which are advantageous to the organization and its employees. For the employee, this arrangement is not subject to federal income tax, and account funds roll over and accumulate year after year if not spent. HSAs generally result in employees being more aware of their spending patterns for medical services.

CDHP advocates point to reduced premium costs for participants. In one study by the American Academy of Actuaries, costs associated with a CDHP were 40 percent lower than managed-care costs. Another study, conducted by AETNA, identified premium savings of $21 million per 10,000 employees who participated in a CDHP. Proponents argue that individuals become better health care consumers by selecting generic prescriptions or giving a visit to an emergency room a second thought (Kitchen & Klepper, 2009).

From the other perspective, those who oppose CDHPs note low satisfaction levels among participating employees. They believe costs are higher using the high-deductible approach, and that the consumers do not have access to resources necessary to make an informed decision. Opponents of this model believe it is ineffective because the plan benefits only a certain population that is healthy and financially stable (Kitchen & Klepper, 2009).

REFERENCES


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