Case Study

Standardizing Benefits and Reducing Costs Across Multiple Business Units

Precision manufacturer OneCo's Japanese parent company directed it to integrate two parts of the organization: its manufacturing facility in California and its sales, training, and installation business, which was headquartered in Illinois with employees located in 26 states. As part of this effort, OneCo needed to standardize two very different benefits offerings.

OneCo faced a number of benefits challenges, including determining the financial impact of standardizing the two plans, replacing two very different plan designs and contribution strategies with one consistent design, and overcoming cultural differences between the two parts of the business.

With regard to the latter two points, the benefits plan for the California facility was generous to attract employees in the younger demographic that the company needed. The benefits plan for the Illinois unit, by comparison, was far less generous, due to recent cost-cutting initiatives at the business. As the company became more integrated, it was not uncommon to have two employees working next to each other but with significantly different benefits. This was harming morale.

OneCo retained Veritas to help them meet these challenges. The first step for Veritas was to work with OneCo to develop a long-term strategy to standardize the benefits offering. This strategy had three main components: move the plans to the appropriate carrier relationship and funding arrangement, make the plan designs more consistent, and implement the plan design changes incrementally to lessen employee resistance.

The Japanese parent required OneCo to document the strategy, the rationale behind major initiatives, and the financial results, which Veritas did for the client.

For dental benefits, Veritas consolidated coverage with the same carrier and moved both plans to self-funding year one. In year two, we moved employees onto the same plan, and in year three, we moved everyone on the same contribution strategy. The gradual approach enabled us to make the changes with little or no resistance from employees.

Veritas undertook a similar incremental approach with regard to medical benefits. OneCo's California facility had 200 employees on a variety of plans, including a Kaiser HMO. The Illinois business had 500 on a PPO. Given Kaiser's market presence in California, it was not feasible to bring all of the employees on one plan, so Veritas advised keeping the HMO for the California employees. We did, however, move it into Kaiser's large group block of business, where we were able to negotiate a 5% rate decrease.

In year two, Veritas implemented a HDHP along with a PPO across the company. OneCo was growing, and Veritas advised that as long as they remained fully insured, their premiums were almost certain to rise with the employee count. We modeled the impact of self-funding and plan design changes and determined it would save OneCo 20% per year, without reducing benefits.

Veritas then modeled various contribution strategies for OneCo. The California employees initially were not required to contribute anything. Moving everyone to a standard contribution all at once would have required a significant increase for employees on the California HMO. Veritas worked with OneCo to increase the contributions over two years until they were consistent across the company.

These changes took a significant amount of communication. At the top, Veritas provided OneCo's HR and finance teams with the strategic rationale and financial documentation required by the Japanese parent company. On the employee level, Veritas worked with OneCo do develop a multi-year communications program that included written materials as well as many on-site meetings. The focus of the program was to reinforce through ongoing communications that the long-term goal was to make benefits consistent across the organization.

As a result of this multi-year strategy, OneCo's benefits offering was standardized, the company improved its offering (with the addition of the PPO and HDHP options in California) to improve recruitment and retention, and overall benefits costs were reduced through self-funding the non-HMO plan.