

Case Study

Implementing New Benefits For Employee and Retirees After Spin-off

PowerCo, a utility company in the Midwest, had recently spun off from a larger energy company with thousands of employees. After the spin-off, PowerCo's health and welfare plan covered 140 active employees, of whom two-thirds were union; and 338 retirees, of whom 65 were pre-aged 65.

As a new plan with no credibility and more retirees than active members, PowerCo faced numerous benefits challenges. These included finding a carrier who would cover them on a fully insured basis, determining how to cover the retirees, and addressing a rich plan design in a way that would satisfy the union and the Michigan Utility Board that regulated the utility. PowerCo had to do it all with far fewer HR resources than the company had before the spin-off.

PowerCo retained Veritas to help them meet these challenges.

The first step for Veritas was to sit down with PowerCo and develop a long-term strategy. Without the credibility of the larger employee base and resources of the parent company, we determined that the cost of PowerCo's current benefits offerings were not sustainable. Veritas recommended that PowerCo move to a fully insured funding arrangement and reduce their very generous plan design.

Through extensive negotiation on PowerCo's behalf, Veritas was able to get Blue Cross Blue Shield to provide fully insured coverage effective August 1 with a 17-month rate guarantee.

Next, Veritas worked to simplify a plan design that included seven options for four classes of employees: active administrative, active union, pre-65 retiree and post-65 retiree. Veritas modeled various options and illustrated to PowerCo that the current generous design was not viable over the long-term. We worked with PowerCo to implement a number of changes:

- Simplified the offering where possible for the August 1 move to the BCBS fully insured plan. We worked with PowerCo to eliminate a Consumer Driven Health Plan option. The CDHP included an HRA that was funded by the employer, so removing it saved the company a considerable amount of money.
- Replaced two very generous PPO options for union employees with a High Deductible Health Plan effective January 1, the earliest date permitted under the Collective Bargaining Agreement.
- Once that was accomplished, moved the post-65 retirees to a Medicare Advantage with Prescription Drug (MAPD) plan. The MAPD provided richer coverage than the prior Medicare Supplement with Rx plan at a lower cost to both PowerCo and the retirees.
- Finally, redesigned the PPO for the pre-65 retirees, raising the deductible and out-of-pocket maximums to bring it more in line with other plans we benchmarked.

As a result of these efforts, PowerCo emerged with a benefits plan that was simplified, feasible for the company to provide with its reduced resources, and yet still provided quality, affordable health care for employees and retirees alike.

Working with PowerCo to develop and execute a sustainable benefits strategy was one thing; getting the employees to understand and accept why their benefits had to change was a significant challenge in itself.

Veritas worked with PowerCo to develop and implement a benefits communications effort. The goal was to help the employees and retirees understand that since PowerCo was no longer part of a bigger organization, their health care costs couldn't be leveraged over a large pool of plan members, making the existing benefits offering unsustainable.

The keys to the benefits communications effort were to communicate early and often. Veritas worked with PowerCo to start educating employees and retirees on the changing dynamics even before the spin-off deal closed.

Veritas team members staffed numerous on-site educational meetings and open enrollment meetings. We developed custom communications and enrollment materials. We were there to walk employees and retirees through the changes, answer their questions and provide assurances, and make sure they were properly enrolled on the new plan. As a result of these efforts, employees and retirees understood the need for and accepted the changes to their benefits.

While the internal challenges of these changes were significant, there were also external challenges. As a highly regulated utility, PowerCo was required to demonstrate to the Utility Board that the proposed changes were financially prudent. Veritas developed and provided all of the analysis and reporting for PowerCo to present to the Board. The Board approved the changes as presented.