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# EMPLOYEE BENEFIT DESIGN FROM A HUMAN RESOURCES MANAGEMENT PERSPECTIVE

Moderator: RONNIE SUSAN THIERMAN
Panelists: CHARLES R. CHRISTIAN*
WILLIAM JENKINS**
WAYNE E. PAGE***
BRUCE D. ZIMMERMAN
Recorder: RONNIE SUSAN THIERMAN

- How do corporations plan an employee benefits program?
  - Management and philosophy
  - Use of actuarial consultants
  - Use of non-actuarial consultants
  - Use of corporate staff
    - Administration
    - Communication

MS. RONNIE SUSAN THIERMAN: We are very lucky to have a distinguished panel. Our first speaker is Mr. Bruce Zimmerman. He is a senior consulting actuary at Miller, Mason & Dickenson, an enrolled actuary, and a member of the Academy. Bruce formerly worked at Joy Manufacturing.

He currently consults in the pension, investment, administration, and communication areas. He will be giving a philosophical overview of plan design from a consultant's point of view.

Our second speaker is Mr. Wayne Page. He is senior manager and health and welfare benefits practice director for Ernst & Young in Atlanta. Wayne holds chartered property and casualty underwriter (CPCU) and CLU professional designations. He was formerly Vice President of Human Resources (HR) for Transamerica Insurance Group where he directed benefits, compensation, employment, employee relations, and organizational development activities. Currently, Wayne spends a great deal of time in the flexible benefits area, the retiree medical plan design area, and the employee benefit management strategic planning area. Wayne will be discussing specific benefit design issues in merger and acquisition situations and in collective bargaining arenas.

* Mr. Christian, not a member of the sponsoring organizations, is Corporate Director of Benefits at Johnson & Johnson in New Brunswick, New Jersey.

** Mr. Jenkins, not a member of the sponsoring organizations, is Vice President-Human Resources at General Accident Insurance in Philadelphia, Pennsylvania.

*** Mr. Page, not a member of the sponsoring organizations, is Senior Manager-Benefits at Ernst and Young in Atlanta, Georgia.

Our third speaker is Mr. Randy Christian. He is the corporate director of benefits for Johnson & Johnson. Randy is also a member of the board of directors for the New He York Business Group on Health. He is a member of the Council of Employee Benefits, and he is on Johnson & Johnson's Health Policy Task Force. Prior to becoming corporate director of benefits, Randy was corporate director of compensation. Currently, his responsibilities include the design and operation of all health care, disability, and retirement income plans throughout Johnson & Johnson's worldwide operation. Randy will be discussing the recent redesign of Johnson & Johnson's retiree medical plan.

Our final speaker is Mr. William Jenkins. He is the Vice President of HR at General Accident Insurance. Bill is a member of the Association of Systems Management, a member of the American Society of Quality Control, and the former President of the Society of Hospital Management Information Systems. Prior to becoming Vice President of HR, Bill held various systems and operations positions. Currently, he's responsible for compensation and benefits, corporate training and development, employment and employee relations, and HR systems and development. Bill will be describing how General Accident (GA) designs and develops its benefit programs.

As you can see, our guest speakers bring a wealth of experience and knowledge in the employee benefit design area.

MR. BRUCE D. ZIMMERMAN: When I was first asked to speak at this session, I wasn't exactly sure what I would be talking about or what the topic entailed. As I attempted to flesh out the topic, I found it very helpful to me in crystallizing how the client-consultant relationship should work and how consultants should and should not be used.

I have experience as an in-house actuary in a Fortune 500 company. I think this has given me a little bit of a different perspective on how employee benefit plans are designed. In that role I think back to when I worked in-house and remember an older employee named Joe. I'd always see Joe in our benefit administrator's office getting forms and thought maybe he had some type of health problem because he was constantly getting all these forms. Finally, I got a little bit curious and asked the benefit administrator, "What's going on? Why does he need all these forms?" And she said, "He's getting beneficiary forms." I thought about that for awhile and pondered why anyone would need tons of beneficiary forms. Finally my curiosity got the best of me and I asked Joe, "What's going on here? Why do you need all these forms?" Joe said he was getting older, and he wasn't that attractive to the women anymore. Then he winked at me and said, "You know how many women you can get to go to bed with you if they see their name on a beneficiary form?" The point of the story is . . . in the redesign of benefit programs, we try to anticipate employee behavior. Sometimes we're doomed to fail.

I am going to discuss how consultants should and should not be used. Just to give you a little bit of an overview of what we'll be talking about, we'll talk about the different roles a consultant can play, the dynamics of the consultant-client relationship, how and by whom the process should be controlled, the manpower philosophy of the corporation and how this impacts the use of consultants, some of the design-specific considerations in using consultants, and, finally, we'll take a look at the political aspects, from the benefit manager's point of view, of using consultants versus in-house staff.

As I started out to define the roles that we play as consultants, the list got quite long. The more traditional aspects of the consultant's role are certainly not going to change. I mean, we are and always will be advisors who give expert advice, who listen to our client's needs and wants, who analyze or recommend the best approach to the problem, and who then coordinate the solution to the problem.

But I see a whole other level of roles that in many cases takes us out of the actuarial arena that's becoming critical for us to be able to handle if we are going to be good consultants. We must be communicators. I don't think the actuary can sit up in his ivory tower doing cost calculations and then walk away from a project. More and more we must take our analysis, distill it down, and make it understandable for our clients, and certainly we've always been required to do this, but with the complexities that we see in the benefits arena today, there's a significantly greater emphasis on this aspect of what we do, of interpreting our analysis and making it understandable to the client, putting it in a form that he or she can readily use.

One of the things we'll be talking about later is the downsizing in corporate America, with one of the ramifications being that we are called on to implement benefit programs. This has traditionally been an in-house function where the benefit manager took the responsibility, and more and more the benefit manager does not have the time. All their time is taken up with administering current plans, and the consulting firm is being brought in on a SWAT team approach to implement all aspects of the program. I think more and more we're being asked to be educators, to take the complex regulatory environment and break it down to an understandable level. Certainly, the consulting actuary has always had some degree of marketing responsibilities, and in our firm, and I think most other firms, that responsibility is getting greater and greater. And, finally, we must be jugglers. We must juggle our client needs, our firm's needs, billable hours, marketing, computer systems databases, and I guess as I step back and look at all the things we do, I'm very impressed with how multifaceted they are and how demanding they are of our skills.

How do we best make the client-consultant relationship work? I think the key to it is to clarify responsibilities up front. Pieces of the project must be delineated. Who should be doing what? And what's the most cost-effective way to do them? Every once in a while I get upset when I hear a client say, "Well, I think the consultant is doing this study because he's trying to generate fees," and I think about how absurd that is. What we do by nature is try to find cost-effective solutions for our clients. That also means trying to use consultants in the most cost-effective manner. By doing that we will build up the trust of our clients, the confidence of our clients, and in the end our clients will recommend us to other potential clients and will turn to us more often, and in that way we will generate greater fees, but in a professional, appropriate manner.

I think it's important for us to balance out our client's needs. Too many times we get a project, and we just take care of it, and that's not the appropriate way to use consultants. Consultants should be used for their expertise and not in any clerical-type capacities, and

I think we have an obligation and a duty to turn back to our clients various aspects of the project that they can be handling if it falls within their capabilities.

Certainly when deadlines come up, we're the ones who have the manpower that can be brought in to meet the difficult situation. It's interesting, when I'm with clients, talking about difficult situations, I always refer to them as challenges and not problems. It's not until we get back to our offices that they become problems.

I think it's critical, too, that we be tuned into the project management. Again, the complexity of designing a new benefits program calls for a degree of expertise that we can't expect the in-house benefit manager to have, and in that regard, we must be the ones to jump in and help manage the project and to a large degree do many things and participate at a level that doesn't really call on our actuarial skills, but, we must build up an expertise in all aspects of plan design so we're not just good actuaries. Certainly I say that with tongue in cheek, because I know how hard it is to be a good actuary, but we must be aware of computer systems and databases.

The field has gotten very complex, I think, because of three primary factors. Certainly we're all familiar with the complex regulatory environment. I think the popularity of flexible benefits has brought a complexity into the picture, as well as the record-keeping requirements of individual account plans. Juxtaposed against these complexities are the capabilities and systems available to us that will allow us to do amazing type things. I think we must be knowledgeable about databases and computer systems and know about flexible enrollment through a telephone and be aware of a Joint Application Development (JAD) session where the user and the systems programmers get together and develop the most efficient solution to a problem. Again, we're being called on more and more to step out of the actuarial arena to handle all aspects of an employee benefits plan design.

In speaking about our roles, I will refer to us as consultants and actuarial consultants because that's what I think we need to be; I don't think we can continue to be just actuaries and be successful. In looking at the type of needs that we can serve for our clients, I've broken them down into four categories that we refer to in my firm as the four Ps.

First of all there's the people aspect. We must be aware of how the plan design impacts the people who are administering the plan. Again, we need to be able to implement the complexities and the systems that are needed for our clients, because they do not have the abilities and/or the time to do that.

There are the political aspects, the evolving regulatory environment, and I don't think it's enough for us to just literally interpret the regulations. I think after doing that we need to step back and ask, "What's the intent of the regulation?" Yes, we can put in this provision that follows the literal letter of the law, but that's not good enough. If that's not going to meet the intent, and the laws are going to change, we must cue our clients into those possibilities.

**Profits.** Actuaries have always been very involved in cost calculations, and we always will be, but one thing we've found we've been able to do for our clients is we'll go ahead and run the primary calculation on our mainframe, download the results to some type of spread sheet, and then give it to our clients and allow them to play the what-if analyses. Certainly, we have to be careful that these programs are not misused, but, again, we will not be functioning to do a piece of the project that can just as easily be handled by the client, and at times the client can handle better. They know how they need to format the results, and it doesn't make sense for us to fill that need.

We also should and can be used to analyze the competitive position of a plan design, and, again, that's only a limited part of what we can do. I've done a lot of work redesigning retiree medical plans, and I think in that type of situation, it's not enough to just rank the plan up against other plans today. We must look to the future and say everyone's changing their retiree medical programs. It's a moving target that we're shooting at, and we don't want to just plan a program for today, but we want to look five and ten years into the future and plan the program to meet those needs.

I think the key to the process is to exchange information and to discuss the roles up front. Too many times I've seen clients ask a question that they think will take the consultant 15 minutes to answer, and then a few weeks later, when the consultant comes back and delivers a 20-page report and charges them $10,000, they go into a state of shock. These things need to be discussed up front. Find out where the client's coming from. Does he need to have a precise estimate or does he want to know if it's bigger than a breadbox? Find out what the budgetary limitations are, and then design your study to meet those needs, or tell your client you cannot meet the needs within the budgetary restrictions. By talking about it up front and setting the parameters up front, there won't be any surprises, and the relationship with the client will be a successful one. Again, this must be a shared responsibility. It's an open communication system. You have to go back and forth with your clients.

The consultant's role in the process is certainly dependent on the client's needs and wants. Within that, I think we are the objective outsiders who are not influenced by corporate pressures. We're the ones who must maintain the integrity of the program and should be used as a sounding board to the benefit manager so that the true objectives of the program are not lost. Certainly, we must explain the ramifications of their requests and keep them on track so that the program they put in is the program they want and not let it get lost within the corporate changes and influence and pressures that are put on them.

Certainly, the client has a role in this process, and he or she must control the consultant. Clients must stay actively involved. I don't find anything as frustrating as knowing I have a deadline to meet for the client, and come to a crossroad, and I can't communicate with the client. I can't reach them. And, either I don't meet the deadline or I do three or four variations that get very expensive. So, it's critical that the client stay involved, and it's critical that we take the lead in forcing them to stay involved, in educating them, in explaining what needs to be done and how important this is. And it's critical that the client inform the consultant about internal changes and what's going on internally to make the process a successful one.

We've seen a real change over the last 10 years in manpower philosophy in corporate America. We've seen a downsizing, a focus on a sleeker, smaller, internal staff, and the ramifications of that are that clients are turning to consultants to a greater degree. If corporate America has done this to contain costs, I find that hard to believe when I look at the bills I send out to my clients. I think more and more they've done it to retain a certain level of flexibility. When they have the down cycles they don't use consultants. They don't spend money on plan design. And when times get better and they can afford it, they do use consultants but don't have that large, fixed staff that costs so much.

I think also that this wave of merger-mania we've gone through in the last few years has caused corporations to look internally and see if they have dead wood, and get rid of that dead wood. One of the ways they've been doing that is through early retirement windows, and again, this has caused the loss of quality staff and caused them to need our services to a much greater degree.

I think there are certain design-specific considerations when a client decides how to use a consultant. I think we, as consultants, are in a better position than anyone else to help a client in understanding whether they need our services. If someone's looking at putting in a fairly simple profit sharing plan (if there is such a thing nowadays), certainly they don't need to make use of much of our services, and it's incumbent on us to let them know that; to give them the guidance they need, but also to let them know that a significant portion of the work can and should be done by them. Again, by doing that they will trust us. They will know we are looking out for their best interest, and in the end we'll generate the proper relationship that will be a successful one.

I juxtapose that simple profit sharing plan to a complex change in retiree medical benefits where the client needs our expertise. They need us to do all the cost calculations and redesign considerations. So, I think that's a very important aspect of whether clients should or should not use consultants.

Finally, there's the risk/reward in the relationship. We're dealing today in a complex regulatory environment where benefits have a very high price tag. No longer does a benefit program change just fall into the province of the benefits department, but the accounting department is involved, finance is involved, legal, tax, and the whole level of visibility of employee benefit plans is much greater. I think one of the considerations that a benefit manager has is what's the risk/reward here? If I do this in-house and it goes wrong, I'm in big trouble. If I use a consultant and it goes wrong, I can blame the consultant. And certainly having something go wrong when you're the benefit manager, even if the consultant does it or even if you say the consultant does it, doesn't make you look good, but that's a lot better than you making the mistake yourself. So, I think there's the whole scapegoat aspect to the relationship.

I also think, for lack of a better word, we can be used as strawmen. If we have two departments involved (treasury and benefits) in the plan design change, there are the political influences. There are the underlying corporate motivations that cause a natural friction between these departments, and we, as the objective outsiders, can come in with a validity and bridge the gap between the departments. Also, if there's a disagreement philosophically between the two groups, we can go and argue a position, and the two departments have never argued with each other. We're the ones to fill that role. And I see us being placed in that position more and more.

When a benefit manager comes down to a choice between going over budget or designing a bad plan, he or she will always go over budget. Again, what it comes down to is the benefit manager will use the consultant to make sure things go right. They can live with being over budget, but they cannot live with a bad plan design.

To conclude, I think the key to the relationship is confidence. We need to foster a level of confidence and trust, meet our client's needs, and that makes the relationship a successful one.

MR. WAYNE E. PAGE: For the past 20-odd years, and most of my friends think most of those years were quite odd, I've either directly managed corporate HR issues or consulted with those who do. In my previous life, that's previous to Ernst & Young, I was the chief HR officer for Transamerica Insurance Group. In my present life, I work closely with clients on a full range of employee health and welfare consulting projects.

I'd like to share some of the special project situations and client stumbling blocks that consultants encounter as they enter the inner sanctum of an HR department. We will briefly review some of the challenges in working with clients involved in mergers and acquisitions and the ever-entertaining area of consulting with those involved in collective bargaining. We will then take a look at a sampling of the characters who lie in wait for the unsuspecting consultant.

First, let's take a look at some special project situations. Most organizations request some form of actuarial consulting as they review merger and acquisition opportunities. Most of our actuarial benefits and compensation consulting practice experience with mergers and acquisitions is the result of a due diligence project. Due diligence reviews always have a completion deadline of yesterday. Because of the time pressure, it's critical that the consultant quickly identify project objectives and obtain the cooperation of the target HR department. While data request, valuation of unfunded retiree medical liability, and plan design issues certainly take center stage, the consultant should keep eyes and ears open to the cultural and philosophical issues that may be present. In many organizations, it's these employee relations issues that require the most postmerger attention. The astute consultant will identify these issues and suggest a strategy for addressing problems before they are out of control.

It's important to remember that the surviving organization has a window of opportunity to affect change and begin anew. The time to address plan design funding and employee communications issues is now, not next year. We've consulted with a number of organizations where a new CEO may be on the scene, and he decides to become comfortable, and says, "Let's wait six months, nine months or a year before we make major structural changes in the environment." It's not at all surprising at the end of that year that new CEO has become part of the old environment.

Supporting an HR executive in the collective bargaining process can be a very stressful consulting assignment. The prenegotiation analysis is generally straightforward. The client always has an agenda of plan design and pricing changes that he wants to present at the bargaining table. The HR executive also anticipates the agenda of the union and wants your analysis as a consulting actuary of the alternatives and the cost for each of those alternatives. It's a fairly standard kind of consulting. Let's get the approvals, and let's proceed immediately to implementation. Well, we've only begun to fight. The approval process is like no other. Just when you think things are under control we enter the realm of actual negotiations. The HR executive sits at the negotiating table for three straight hours, cigarettes, cigars, coffee, cokes, and is hit with six union proposals that were not anticipated. Our client takes a break and calls our actuary-in-waiting. The actuary's first reaction is, "Why is he mad at me?" Consulting with an HR executive in the heat of battle takes a heavy dose of thick skin and tact and diplomacy. Your response time will be less than zero, and you will have absolutely no data. However, your client wants numbers and some guidance on plan design costs. We wish you good luck.

What makes consulting a challenge is the need to manage the wide variety of personalities and characters thrown at us by the client. Most executives at some point have been heard to say how much fun running a company would be if it weren't for the employees. Well, consultants work with these same employees. Let's take a tongue-in-cheek look at some of the project management stumbling blocks we might encounter when working with HR management projects. We will briefly outline some approaches that might be successful in managing each of the outlying stumbling blocks. Please note that any resemblance to actual individuals or clients, either living or dead, is purely coincidental.

First, the top executive. Let's assume, for the sake of argument, that we have been retained to help the client revise mental and nervous plan design features and implement drug and alcohol cost-containment measures. We need the approval of the top executive. To no one's surprise, every executive, whether marketing, operations, or CEO, is an authority on medical plan design. Additionally, our executive friend may have a personal bias due to a family experience with the subject at hand. Also to no one's surprise, the top executive many times sets policy based on how the change will directly impact him personally. What to do? First of all, listen. Secondly, determine what the personal agenda is for the executive. Clarify the objectives. Focus on market competitiveness and share other company experiences and practices. We found this to be most successful because if you can make it a straight business decision and not a personal decision, you can make the top executive feel much more comfortable. Also, if you can assure the executive that Company A, Company B, and definitely Company C down the street have implemented similar kinds of cost-containment measures in their plans, you will make the decision a business decision, not a personal decision.

Our second situation is the board member. Let's assume we are reporting to the board on the results of Phase 1 of a major implementation such as a flexible plan or a pension plan revision. Many board members are unfamiliar with issues this detailed and are usually overly cautious. Our friend may also have a different agenda, and, worst of all, he may have idle time on his hands with nothing better to do than to take an overly active role in company management. What do you do with this kind of a board member? First of all, it's too late. You should have clarified the approval process early. Identify the agenda for each link in the approval chain. You might have been hired by the benefits manager. You might have been hired by the HR executive. But if it's the

CEO or the board member that you need to obtain final approval from, you need to find out what that board member's personal agenda is and how to deal with that individual. We would also recommend that you involve, inform, and educate all decision makers at a very early stage in the process. I would also recommend that you strive for project ownership. If you can get the most obstinate board member on your side in the team and involve him or her in the input stage very early in the process, that board member will feel as though he or she owns the recommendation.

**The bureaucrat.** Assume we are revising retiree medical eligibility and Medicare coordination of benefit claim methodology for a public sector client. Not only did we have to clear the bid process hurdle to get the consulting assignment, but there may be a bid process to implement the change. The public sector environment also exposes us to committees, boards, bureaus, mayors, and unions. What do we do? Determine who is driving the issue. It's also important to remember what you were retained to do. There will be many issues that will be outside your area of influence. Recently, we were having discussions about medical plan design, particularly retiree medical with a major U.S. city. In the course of the discussions it was discovered that the City provides lifetime medical for employees who have logged as little as five years of service, regardless of age at the time they terminate. So, we had a number of employees who were 27, 30, 35 years old who were no longer working with the City but were promised and were receiving lifetime medical. The ongoing cost for that, for individuals who were under the age of 55 years, was in excess of $1 million. When we broached this issue with one of the boards and bureaus of the City, it was determined that the City was not particularly interested in that issue because the chairman of that board was a political appointee. Mayors are only in power for up to eight years, assuming that they are reelected, and the policy was specifically put in place so that at reelection (at five years), political appointees could receive this kind of a benefit. Obviously, our recommendation never saw the mayor's office. Remember what you were retained to do. Encourage input from all the players early and find out how the decision process is going to work.

**The attorney.** Assume we are ready to embark on the rollout of an employee communications for a major project such as a 401K implementation. Again, to no one's surprise, at the last minute the corporate general counsel wants to revisit the plan design. Our attorney friend also wants the employee communications to read like a law journal. And while we're at it, let's get an opinion from an outside law firm that just happens to do employee benefits consulting. What do we do? Again, early involvement is essential in any area where you feel that the general counsel has the authority or the ability to stall the process. I've also found it helpful to review previous implementations that have been conducted in that environment and review the materials. You can gauge the content and the format of how those materials were put together and find out if the same tone is required for this implementation and if the same approval process will be required for this implementation.

The demoted manager who just happened to end up on your steering committee, this is my personal favorite. Let's assume that the guy who managed employee benefits in 1960 when it reported to the controller's division is now on the steering committee for the new pension project. Everything he established is changing. While he hasn't read anything about pensions since 1960, he still knows it all. Our friend didn't need a consultant in 1960, and as far as he's concerned, little improvement in the species has taken place in the last 30 years. Worst of all, the steering committee tolerates him. What do we do? First of all, confirm our friend's role with the client. Ask the client to inform our friend of what this role is. One of the things that I found most frustrating is if there is no role, what do I do? If there is no role, you might suggest that this individual be removed from the steering committee, if you can politically manage that in the environment that you are in. It is very important also that you advise the client when the process stalls or the budget becomes an issue.

To conclude, working with HR departments and the variety of client personnel we see every day is no different than consulting with any other functional area. If we turn to page 1 of the consultant's manual, we find a straightforward process in effectively working with the HR department. First of all, listen. Clarify the objectives. Clarify the expected results or the client expectations for the project, and clarify the participant roles. Also, clarify the approval process. Keep the client involved. And, again, listen.

MR. CHARLES R. CHRISTIAN: What I want to do is take you through an example of how an employee benefit program was designed. Our thinking here is that a real-life example will give you a good sense of the dynamics of the various factions involved. The sometimes comical references that Wayne used are, to some extent, not so comical. They are real. The program in this example is retiree medical. Names, of course, have been changed to protect innocent corporate staff members. There are no innocent actuaries, however, in this example.

First, a few words about Johnson & Johnson. Our sales in 1989 were a shade under $10 billion. In the health care business, we produce products in three segments. One is consumer products, such things you're familiar with like Band-Aids and Tylenol. In the pharmaceutical products sector, we make things such as birth control pills and anti-depressants. I'm not sure if they're connected or not. In the professional products sector, we make products such as artificial hip replacements, blood diagnostic equipment, and sutures. From an organizational perspective, we consider ourselves a decentralized enterprise. We are composed of what we call a family of companies, each company having its own President and a managing board with Vice Presidents of finance, personnel and so forth. Worldwide, the operations include about 175 companies in 53 countries outside of the U.S. We have 83,000 employees, with about 35,000 of those in the domestic operations (that's U.S. and Puerto Rico) found in about 30 major companies. Those 30 major companies, however, are spread across about 150 locations in the U.S. and Puerto Rico.

We have a benefits philosophy that is the primary determinant of our plan designs. When we design benefit plans, we do so within the context of health life-styles promoted by our health promotion culture, which we call Live for Life, and in the spirit of recent Work and Family initiatives the company has taken. As to the principles, the first one is that a benefit plan should provide at least a basic level of financial protection against the hazards of illness, disability, old age, and death. In short, meet a basic employee need. The second principle has to do with competitive practice. We try to design plans that will be competitive with those of other high-quality growth companies, companies that we view as being like ourselves. The third principle has to do with cost. We try to design plans so that they are cost-effective -- sometimes easier said than done. The fourth and fifth principles probably go without saying, but I'd probably get in trouble if I didn't. They have to do with the fact that we, to the extent we can, capitalize on tax-saving opportunities and, needless to say, comply with legal requirements, wherever they are. The sixth principle relates to employee wants, and this is an important one from our point of view. In the final analysis all benefit plans should be designed to support the basic HR function of attracting and retaining the kind of people we want to run our businesses. Providing benefits that employees want, benefits employees perceive as being important to them, is a consideration that we cannot ignore in order to maintain a high level of employee benefit satisfaction. Finally, we believe benefits should be designed to include employee cost sharing. That cost sharing can take the form of contributions, deductibles, and coinsurance. We believe that cost sharing enfranchises employees in terms of sharing the responsibility to control plan expenditures.

The path to designing a benefit plan can be, as I suspect most of you know, a torturous road. The parties involved are frequently many and sometimes conflicting with respect to perspectives, as well as interests. With regard to who the players are at Johnson & Johnson in benefit plan design, Corporate Benefits, my operation, could be either the controlling hub of the wheel or, what is more often the case, the party caught in the middle.

The factors that prompt new plans and revision to existing plans are those employees' wants and needs I just spoke about. Corporate benefits is responsible for coalescing the various issues into plan designs that are thorough, accurate, and consistent with the corporate objectives. In the process of doing that we obtain input from, and we work with, consultants, both actuarial and nonactuarial. Along the way we also obtain input from line management in our operating companies with respect to cost and employee relations impact -- and that's important. We'll come back to that later. We work extremely closely with corporate tax, legal, and finance, to ensure that proposed designs comply with laws and adhere to financial practices and policies.

Proposals, once developed, are submitted to the Benefits Subcommittee. This is a four-person committee chaired by the Corporate Vice President for Employee Relations. This subcommittee reviews and issues a "recommend" or "no-recommend" position on every proposal. To the extent a proposal involves the pension or savings plan, it may be forwarded to a second subcommittee for pension investment. Once past the subcommittees, the proposals go to the Pension Committee. This committee is chaired by the CFO. It has three inside members of the Board of Directors, including the CFO, and the two subcommittee chairpersons. The Pension Committee has the final approval on all benefits plans and is the fiduciary as well. To the extent that some benefits plan proposals are significant, either in terms of their visibility or impact on top management, they will be reviewed by the Benefit Committee or the Board of Directors, which is composed of outside directors.

Now, on to the retiree medical plan. The first thing we do in approaching any benefit plan is to get a handle on the problem or other dynamic that requires a response. In this case the problem was the liability the company had incurred through its promise of medical coverage for life to retirees. Back in 1984, before FASB got involved in the issue, we decided we needed a valuation of our liability. This gave us a handle early in the game as to the size and growth rate of that liability. We also found out quickly what type of effort was needed to collect the data to perform the valuations. To coordinate the process, we retained the consultants who had been our actuaries on our active health and welfare plans. They dealt directly with the many operating company locations. Remember, I said we have 150 locations in the U.S., some on central computerized database, some not, with respect to parts of their populations. And these consultants, the actuaries, obtained the data and provided the valuation reports. As time moved on and FASB issued its exposure draft, the same actuaries continued their valuations, providing us with a variety of analyses that showed the impact of the various FASB proposed features with a degree of specificity, a lot greater than if we had used consultants who were not able to use that valuation database. The decision to use those same actuaries for that modeling was very beneficial because we found ourselves, as the FASB information was rolling out, being pressed into providing very fast, very accurate information. The ability of the actuary to model off of that valuation database, again, was extremely helpful.

One note on actuaries at Johnson & Johnson. Historically, we have chosen to employ different actuaries for the health and welfare plans versus retirement income plans. If nothing else, it tends to keep the actuaries on their toes, knowing that we have an established relationship with another group in the event any significant dissatisfaction sets in. However, we have an unwritten rule between the actuaries. That is, the health and welfare actuaries stay away from retirement income plans, and retirement income actuaries stay away from the health and welfare plans. That started to become a problem later on in retiree medical.

Without getting into numbers, the magnitude of our liability and resultant expense was significant, to say the least. I doubt this is different from any other major company. We concluded that some revision to the retiree medical plan was required. Truthfully, we concluded that without FASB pushing us to do so, although it likely did accelerate the process.

In approaching the redesign, we first established several principles or objectives that were approved by the Pension Committee. The first was that retirees should have the same opportunity to obtain quality medical care and financial protection as they had when actively employed. The operative term here is "opportunity." Second is that retirees should be required to share the cost of the medical benefit. Right now there is not cost sharing. Retirees receive the active medical plan in retirement for free. It's a better deal than when they were active. Third, the extent of cost sharing should vary with length of service. The greater the service, the greater share the company would absorb. Unlike pensions, a retiree with five years of service receives the same medical benefit as one with 35 years of service, and that medical benefit is likely worth a lot more than the pension benefit. The fourth was that the company's unfunded liability should be funded by tax-effective prefunding if available. And, last, the employees, too, should be given the opportunity to save monies that they will need on a tax-effective basis.

The first plan design we constructed, I'll call Phase 1 or the first try. With the health and welfare actuaries closely involved, we developed an approach that would begin by discontinuing the current retiree medical program for future retirees. In its place, we would institute a company-paid core, or safety net level of coverage, with high deductibles, high stop-loss, and high copay. It would provide financial protection against catastrophic costs. Johnson & Johnson is moving to a flexible benefits plan, and this safety net would correspond to the low option of the flexible plan.

The next part of our plan would be to allow the retirees to upgrade their coverage from the safety net up to the current level of their benefit, sharing the cost of the upgrade on a service-related basis. Again, longer-service employees would pay less for that same upgrade than a shorter-service employee. For employee relations considerations and some legal concerns, we proposed what I will depict as very gentle transitioning for the older employees, and we chose not to affect current retirees at all.

Lastly, we proposed that employees be directed to use the Savings Plan as a way of prefunding their liability. We saw no really good, tax-effective approach to the company's liability. So, we proposed nothing with respect to prefunding that liability. In other words, the basic approach was reduce the company's liability by cost shifting to the employees on a basis that brought into play their choice of coverage in retirement, as well as the length of service.

Well, in response, our top management -- the Pension Committee, CEO and Chief Operating Officer (COO) -- applauded the plan design approach. However, the COO was critical of us for backing away from the issue of the company prefunding its portion of the liability which, even with the new plan design, remained significant. He was concerned that future management not be saddled with a liability if it was avoidable to do so. Tax effective or not, he asked us to relook at the issue of funding the company's portion and suggested that perhaps the savings plan might be a vehicle the company could use for that purpose.

We asked the health and welfare actuary again to look at the costs associated with using the savings plan to prefund the company's liability. The actuary advised that there were significantly higher costs associated with that, largely to vesting, than using a defined benefit approach. So, we asked the actuary to begin to analyze that also. Interestingly, at this point, where the health and welfare actuary is continuing on the project and getting into a defined contribution/benefit analysis, who do I get a call from? The retirement income actuaries. They want to have lunch. They want to know whether their business is in jeopardy by this "intrusion" on their territory. Basically, I ate the lunch, which they provided, and I said the area of retiree medical falls under health and welfare. It's largely a plan design issue. We're now looking at some issues relative to funding. We're doing some preliminary analysis on defined contribution versus defined benefit. I said I regard that as an extrapolation of the same project. Basically, I said "cool it."

As we got into defined contribution versus defined benefit issue, we also involved Corporate Finance and Banking to look at the funding issue. Regardless of top management's position, Corporate Finance felt it appropriate to question whether the liability should be prefunded or not based on cash flow and investment return analyses. As Corporate Finance and Banking was brought into the picture, and their requests for information and analyses began to expand, so, too, did the role of the health and welfare actuary. They became our primary liaison to Corporate Finance with respect to these funding analyses. I would tell you that, given the level of complexity with which Corporate Finance approaches some of these issues, personally I felt fortunate to have well-informed actuaries using our own database to respond to their questions.

After a great deal of wailing and gnashing of teeth, all of the involved parties reached agreement on an approach that would allow the company and employees to prefund tax effectively their respective liabilities. We decided to convert the retiree medical liability into a pension liability by defining the benefit as money provided to retirees to purchase their medical coverage in retirement. We knew there would be some instances in which retirees would choose not to use the money for that purpose, but we figured that was all right. At least we wouldn't have the medical liability, and, again, it would be their choice. Employees would continue to receive the company-paid safety net. However, to strongly encourage employees to save for that additional upgraded coverage, we had this noble notion that we would make the service-related company match contingent on participation in a contributory plan. This addressed an employee relations concern that a number of us had that, left to their own, a lot of employees, particularly the younger ones, would not save for their future retirement needs with respect to medical coverage.

Armed with that solution to the company prefunding problem, we reviewed the proposal with the Benefits Committee of the Board, largely because of the visibility of retiree medical. One of the outside directors, lest you think these people are just figureheads, raised the issue that contributory plans are too often administratively complex and result in employees making poor decisions early in their careers that they later regret in retirement. He said we were going to have a of a lot of complaining employees and a lot of problems later on down the road. So, he suggested that we rethink the problem. Well, we decided we'd review this contributory plan concern with the HR Vice Presidents in our operating companies. They agreed. Bye-bye, contributory plan.

Well, it is better to get it right the first time, as we say in our quality program, but often that's just not reality in our business. The good news was we were finally closing in on a final product that we felt genuinely was better for the input that we'd had along the way. We decided to drop the contributory plan idea and return to the original notion of encouraging employees to use the Savings Plan. We determined, though, that we needed to help employees make informed decisions about their future financial needs. To that end, we would provide them with individualized projections of costs that they could expect to pay for their medical coverage in retirement, as well as information on how much they would need to save now to accumulate money for that expense.

Interestingly, we concluded that we were neutral on whether the company should use the pension plan to prefund the company's liability. We felt that it was a Finance decision, based on its analysis of cash flow and so forth. However, we did note that using the pension plan, for reasons I won't get into, was somewhat more expensive than not using the pension plan. So, we were coming at the issue, in part, by noting that using the pension "costs a lot of money." Corporate Finance didn't expect our being neutral on the issue and turned around and reversed roles on us. They basically said, "Isn't the issue of benefit security one that would lead you to think that we should be using the pension plan?" We responded that retiree medical is not a currently funded benefit to begin with. Not funding it, per se, in the future was not going to have any real impact on the employees. So, we were arguing cost, and finance was arguing benefit security. It was sort of an interesting back and forth.

In the analysis done to determine the pension plan impact, finally the pension actuaries were brought in to look at how this whole thing would affect a surplus of assets in the pension plan. In the end, everybody agreed on the plan design and to use the pension plan as a vehicle to deliver the product.

So, what do we do now, and "how do we get there from here?" Implementing the plan revisions will take an enormous amount of work in a wide range of areas both internal and external to the company. I mentioned before that we were implementing a flexible benefits program, and we're doing so in January 1991. I have a staff that is not terribly significant in terms of size, and the consequences of flexible benefits implementation is that they have many involvements. We are changing virtually every benefit program that we have. I really don't have anyone on staff who's knowledgeable enough to understand and coordinate the work that needs to be done, and for that reason we've chosen a different approach. We're going to use an outside consultant, the health and welfare actuary, to function as the project coordinator. That person will be responsible for ensuring that the myriad of assignments get done right and on time. This will range from employee communications coordination, computer systems enhancements, all the way through plan documentation. The work is going to be done by a wide array of people, including people on my staff, Corporate Finance, Corporate Computing people, as well as the insurance carriers. In truth, we're going to see how it works, but it is certainly a change from the way in which we've approached these things before. Previously we would never have considered using an external resource to coordinate, literally, a project of this magnitude.

So, there it is. We have a long way to go, but we have gone a long way down the road on this project. Hopefully, this gives you some idea of how one company approaches a project.

MR. WILLIAM JENKINS: What I'd like to do is give you an overview from a macro standpoint of how we at General Accident expect and require the development, design, implementation, and management of benefit programs. And I'll use some of these concepts to introduce you to our organization, General Accident, and I might say up front that General Accident is larger than a lot of people recognize. It's a very conservative, low-key outfit, but it is really different than a specific accident, and it doesn't mean that it's a massive disaster either, although some people may argue that it is.

Benefits are established to serve specific purposes, and many factors have influenced design of benefit programs, and this continues to be the case. These plans are costly, extremely important to the individuals they impact, and complex from a legal, taxation, and funding standpoint. In many cases, these plans have become social and political issues. As such, it is important that such plans be designed and managed with particular care and that they be fully supportive of the employer's philosophy, goals, and objectives. We at General Accident Insurance appreciate these aspects as they relate to the benefit plans we design and offer our employees. We see them as an integral part of doing business and a strategic investment in the long run. We realize that our benefit plans must meet and support the goals, philosophies, and objectives of both the company and the employee.

Use of consultants can be of great assistance in ensuring that benefit plans achieve these objectives, and we at General Accident use benefit consultants on a routine basis. However, on more than one occasion we have experienced the delivery of poor end products on high priority, highly visible projects when undertaken by consultants.

This presentation will touch on the issues that I believe will reduce these types of problems as they relate to benefit plan design, development, and implementations when consultants are involved. It will be the basis of my presentation to discuss the factors to be considered in the design and implementation of benefit plans, provide some insight to how they relate to those factors, discuss how we use consultants in the design and implementation of benefit programs, and talk about the methods we use in managing benefit projects, both using a consultant and internally with internal staff.

As previously noted, many factors influence benefit plan design and administration. Several important factors will be reviewed herein. However, the list by no means is exhaustive. In order for a company to prudently structure benefit plans that meet employee needs and are also compatible with the company's objectives and capabilities, a number of questions should be answered in regard to the characteristics of a company, and its industry, as part of the background for designing an employee benefits program. Let's look at some environmental factors and attitudes as they relate to General Accident Insurance as a way to familiarize you with our organization.

General Accident is a property and casualty insurance company with its home office in Philadelphia. It has been in existence in the U.S. for close to 100 years. It's made up of companies writing business in all 50 states and also includes, from a benefit standpoint, four companies in Puerto Rico. It possesses 35 offices in the U.S. operation located throughout the country. Fifty-two percent of the business is written in the northeast part of the U.S. Its primary mix of business is personal lines business, which represents about 52% of the product that it offers. Its written premiums in 1990, and that really is representative of sales, is about $1.5 billion. It has 1.4 million policyholders. The company has traditionally, from a profit standpoint, outperformed the industry continually year to year. It ranks 31st among the nation's 3500 property and casualty companies. It has a surplus of $1.9 billion and currently resides in a very volatile market as evidenced by all the consumer movements, Proposition 103 in California, New Jersey, and Pennsylvania. Growth projections have been set to reach $2 billion in the next two to five years. We have also embraced the strategy of achieving some of this growth objective by acquisition.

The property and casualty insurance industry has been noted by a number of individuals as a perfectly competitive model. What that means is many companies sell the product. No one company has the power to control price. No one company possesses a controlling share of the market. There are many buyers of the product, and customers tend to buy from the source of the lowest price. There's little product differentiation, and there is relative ease of entry and exit into the industry. The business cycle has been highly cyclical. The cycles have lasted anywhere between four and seven years, and currently we're experiencing a down cycle. The company's growth projections are ambitious and include acquisitions as previously noted.

From an HR standpoint, as Randy indicated, it is almost a requisite to know what your employees' desires and wants are when you design benefit packages. The characteristics of the individuals employed are very important. Our HR needs, like those of most other companies, have been very acute, and we're in a very tough market to get qualified, highly motivated employees. At present, our employee population consists of 4600 employees, one third of them in the home office in Philadelphia, two thirds in the branch network. Other employee profiles worthy of note are that approximately 53% of our employees are exempt, professional types, and our experience indicates a shift toward more exempt personnel within the organization will continue as we continue to decentralize and become more automated. We're heavily populated from a female standpoint. Our average age is 32 years, and the average length of service has been two years.

The benefit design decision-making catalyst has really been both the HR function and also our consultants, and I indicate the consultants up on this organizational chart. The HR department reports up through the Executive Vice President to the Chairman of the Board, and over the past several years, the HR function has been playing a more viable part within the organization from a strategic standpoint.

The real decision-making forum for the organization has been the benefits committee, made up of the top five individuals in the corporation. They are the body that really makes up the ground rules and the philosophies of the corporation as they relate to what types of benefit programs are offered and in what form. The attitudes and philosophies of this group have traditionally been a view of benefit plans as part of the overall compensation program or package. Traditionally, salaries in this particular industry, and General Accident is no exception to this, have been very low, but the benefits that have been provided to its employees have been good in comparison to other industries. This has been the case at General Accident, and the emphasis has been to provide income protection and maintenance in the event of economic insecurity. In this vein we have primarily used and continue to use defined benefit programs from a pension and disability standpoint. We also have a philosophy that the employers should share in the cost of benefits, and, as such, we have seen the contribution set up as a three-legged stool: the employer, the employee, and the government all sharing some costs in the financial security of the employee. The company has, so far or thus far, insulated the employees from any risk of inflation and the stock market. General Accident is a paternalistic company and the industry in which we reside has a paternalistic attitude toward its employees, and, as such, we've limited the types of benefits that we offer. The mindset has been what we offer is what our employees want.

The costs have also been a consideration, especially in down cycles in which we are now residing. However, as we move forward, there are a number of changes that are driving a rethinking of the types of benefits and the strategies that we use as they relate to benefit programs. I appreciate your fresh, innovative, and perceptive thinking. Unfortunately, here we prefer stale, tried, and true thinking. This has been the case. However, as indicated, there are a number of driving forces that are now making us rethink our philosophies as they relate to the benefit programs we offer. And I'll go through each one of these as they relate to General Accident.

As a number of the panelists have already indicated, we see the need to recruit and retain quality employees, and I think this is something that all employers are facing. So, there's no need to really go into any depth on that.

Mergers and acquisitions have been a driving force for General Accident and for a lot of companies. Not only have we seen, from a myopic standpoint, the opportunity of greater benefit packages, but we have also seen the need, when we're in the acquisition mode, to look at what the liabilities of the benefit programs are for the companies that we have bought or are looking to buy.

Also, another driving force, needless to say, is legislation, and in a lot of cases Congress has become the personnel director.

Cost containment is a problem that's been mentioned and continues to be a problem and a concern, and I see this to be the problem over the next 15-20 years, until the government decides to help out on this issue.

We have also, like a number of other companies, experienced an overfunded plan. Now, not that this is extremely interesting from a discussion standpoint, however, from our standpoint it's been interesting from the perspective that the closer the CEO gets to retirement, the more enhanced the benefit programs become from a pension standpoint. I wonder why that is? In any event, we have also seen the need to become more efficient in design and management of our benefit programs. Obviously, this limits staff and expense and eliminates redundancy and fragmentation. We have had occasion where special deals have been given out across the board as they relate to retirement.

Finally, hand in glove with the need to recruit and attract employees is that we need to offer benefit programs in order for employees to continue to have good morale and productivity, a very soft issue, but we're always concerned with what the marketplace is as it relates to the benefits that we offer.

In effect, we are in a midst of a cultural revolution as it relates to our way of doing business and how we are now treating our human resources. In a number of cases we have implemented benefit programs that have been in conflict. We have one foot in the old way of thinking and another foot in the new way of thinking, and this has caused problems. A recent idea, though, has been to investigate new programs that take into consideration all of the dynamic factors that I've mentioned. We're continuing to react to these pressures and are attempting to restructure our strategies and attitudes and our objectives concerning employee benefits. Our intention is to continue to fine-tune our strategies and develop well thought out, consistent benefit plans to support and enforce our long-term strategies.

A key player in this effort has been our outside consultants. We use consultants for a number of reasons, their knowledge and experience, their objectivity and creativity, and as temporary staff, an extension of staff for a lot of projects that we can't undertake. Our HR function is fairly small. We're made up of a staff of about 32 people, exempt and nonexempt, and trying to service 4600 employees is very difficult. Therefore, we rely very heavily on consultants to do things that we would have expertise to do inside if we did. When you engage consultants to work on a project, you want to ensure that they work at efficiency and optimal efficiency. However, as previously mentioned, there have been occasions when we have engaged consultants to undertake and accomplish small and large projects that have resulted in unsatisfactory end products and results.

There are several reasons for these unsatisfactory results: poor selection or wrong fit of the consultant for the job you want done; poor advanced planning where no specifications or desired end products were discussed up front; and an inability to monitor a project on an ongoing basis. Poor planning, mismanagement, and poor fit of a consultant really end up in wasted time and wasted dollars.

Methods that can be used to prevent or reduce these unsatisfactory results begin with selecting the consultant who best meets your needs. In selecting a consultant, a number of decision criteria need to be examined, such as group budget and the cost for the job to be done, and the geographic convenience of the consultant. Are they available when you need them? Other criteria include your company's policy toward consultants, and their experience and compatibility. In my view, the most two important criteria, however, are compatibility and experience, compatibility being how comfortable you are with this consultant. Do they speak the same language? Is there a personal and organization rapport with them? Do they listen to you? Are they liberal or are they conservative in their views and their philosophies? The other important factor is their experience. What project has this consultant successfully completed or been a participant that compare to the project that you want him or her to undertake? Is this consultant really experienced in this area or is the consultant just branching out into a growing field? Who is actually doing the work on your project, an experienced individual at the principal or senior level or is it a rookie or someone who does not have the experience? Is there backup if you need a question answered quickly? Is there someone around who can give you the answer or is your consultant on the road and unavailable? You want to look at the turnover of the consulting firm and determine whether the individual will really be interested in looking out for you in the long term. And have you heard via the grapevine of horror stories that other companies have had with this particular consultant? As the poor selection of consultants can lead to problems, other problems can also surface, the poor management of the consultant and the project itself. Most of the problems sighted include issues relevant to the selection of effective consultants and can be addressed by attention to how the consultant will be managed, guided, kept informed, held accountable, and fully utilized.

The key issues of consultants or internal staff for any type of project are a clear statement of objectives, the consultant's education about the environment in which he or she is to work, and project control. I'd like to take each one of these in turn. Statement of objectives. Before approaching a consultant for a project, it is very important that you define the scope of the work to be undertaken. If the consultants know in advance how you plan to manage them, what you will require from them, and what you expect them to do, your chances of hiring the wrong consultant are greatly reduced. Developing a clear written statement of objectives is the first requirement in developing a good project management plan. A clear definition of exactly what the consultant is being hired to do, agreed to by both parties before the basis of a final payment and the actual assignment begins, is an obvious requisite when it comes to managing consultants. Not only managing consultants but for the undertaking of any project internally, this type of tool is very beneficial. Yet, as we have indicated earlier, many disastrous consulting assignments can be traced to the absence of a clear statement of objectives at the onset of a benefits project. The developed statement of objectives should include general objectives of the effort to be undertaken. Then it should proceed to the particular company requirements, a plan that includes the consultant's proposed methodology and a schedule that identifies specific milestones or project deliverables, including the estimated time required of all project members, identification of the types of skills and resources required in the project both internally and externally. Even if you end up developing such a statement three or four times, in the long run you'll be better off, and it will save time. Another important reason for an up-front blueprint of the objective statement is that the final draft of this document is what senior management should approve as the definition of the end product, and to obtain from them and senior management approval opens doors for fact-gathering, interviews, and other types of information that are needed. A statement of objectives helps the planning process by clarifying whether the projects set forth are realistic or if the project is feasible technically, cost-wise, or operationally. It's a method of thinking through from beginning to end whether the project can be workable.

The other issue we want to talk about is consultant education. Another factor that is very important is that the consultant understand your environment and also understand the strategies, the corporate structure, the reporting relationships, and the company standards for doing the project. Not all viable recommendations from the consultant will be embraced by all affected parties, and, therefore, some advance warning about the political, organizational and other relationships will help the consultant deal with these conditions in the course of their efforts.

As a project gets underway, day-to-day control is needed. Included are control on such projects that should be planned, organized, directed, and controlled -- typical project management buzz words but almost a cardinal rule to follow.

The key to successful management of consultants is to keep them involved on a continual basis. You need to give them ongoing attention and also make sure that they understand which way the project should go. Where appropriate, larger projects should have milestones identified, and at these milestones you should set periodic status reports and tangible end products so that any needed modifications to the project's efforts and objectives or time frames can be identified. Having a consultant or any project member working alone with a don't-bother-us, you-wouldn't-understand-what-we're-doing-anyway is really a catalyst for disaster. There are also practical reasons why consultants should never work alone, and primarily that is so they are totally tuned into organizational dynamics, changes, and they will be able, based on those inputs, to modify their particular roles in the project as they go forward. Also, there are political reasons why we need to continue to control the consultant's work, and a consultant need not be an outsider or dictatorial overlord of the project. In addition, the consultant's role is to make recommendations based on knowledge of the company and technical, functional expertise. These expert recommendations may not please all managers, and the perception of their source as an outsider or lame duck will reduce general acceptance. So, they need to be plugged in all the time. Overall, it is imperative that a tight rein be kept on consultant projects. Keep the consultant involved from the beginning to the end. Do not allow consultants to take on more than they can handle or more than what is wanted. Be careful not to allow consultants to usurp too much authority or put their own billings ahead of the client's needs. And, trust me, we've had that problem. An interesting quote I came on in a particular magazine article indicates consultants can be valuable but should be treated like arsenic, therapeutic in small doses, deadly in large ones.

In any event and in summary, it is imperative that developing employee benefit programs that meet legislative and environmental needs be considered in identifying the organization's philosophies and strategies. When consultants are involved, they need to be tied into these issues, and the project should be managed very closely.

MR. ROBERT M. KATZ: I would like to commend the panel for an outstanding presentation, and if there is some way that the Society is listening, I think you might be able to turn this into a very useful handbook for consultants and those who use them because I certainly heard an awful lot of things here that both sides need to pay attention to. And I can speak from a little bit of experience on that since I have been on both sides. I have been in benefits consulting and now I am a client, and if there is one thing out of this that I got and perhaps could summarize a little bit, it is that communication is probably the most important thing we can do between the two sides of the equation, the consultant's and the client user. Since we have heard what both sides think of the issue, let me try to put it in this kind of perspective: If you are a consultant, put yourself in the shoes of the benefits manager and say, "OK, what would I be doing in his position, faced with all of the problems, faced with the need to get things done yesterday without spending any money and getting, of course, total, usable answers?" And at the same time, for those on the other side of the fence, namely, the clients, think about the fact that consultants do not have unlimited resources, cannot produce results overnight, and also have an awful lot of other things going on at any given time as opposed to you who are just working for a single company.

MS. THIERMAN: Are there other comments or questions from the audience?

FROM THE FLOOR: I had a couple of questions for Mr. Christian from Johnson & Johnson. Could you give a little insight into the different perspectives of the tax, the legal and the finance versus the HR department as far as fuzzy areas and laws and regulations go? Were certain groups more proactive versus reactive on those kinds of areas?

MR. CHRISTIAN: Yes. Human Resources or Employee Relations, is principally coming from the position of being responsible to solve the company's problem, in this case, the liability. In doing this, we try to come up with something that is appropriate from an employee relations perspective, for example, easy to understand, if you're an employee. As a Company, we concern ourselves with doing something that is "the right thing to do" from the company's point of view, but the employees don't always perceive it that way. The employees don't always understand. The employee impact tends, sometimes, to get lost in that sense. We in Employee Relations tend to try and make things happen that are responsive to the problem, but understandable from the employee's view.

Corporate Finance, by and large, tends to be fairly neutral on the issue of employee impact. They don't concern themselves too much with that. They are very much concerned about the financial gyrations. They're not concerned, per se, with how employees react to something, and I don't mean it critically. Everyone has a role to play. Their role tends to be more bottom line, not to be funny about it. But in approaching things, sometimes the response that they will come up with is very complicated. It may incrementally save additional money, but the process or the solution can be extremely complicated to explain to employees, extremely complicated for employees to understand, and it really makes the issue much more complex, and sometimes the incremental savings in terms of money is arguable from our point of view.

Corporate Tax's role, perhaps, varies -- it's dynamic. Corporate Tax is usually trying to keep the company out of trouble down the road, and to that extent Johnson & Johnson has had, and wishes to keep, a squeaky clean image in that context. And I think if there's a dynamic that occurs, if that's part of the question, it's that we tend to look at problems and say, "How can we solve them?" Corporate Tax is generally looking at the solutions we propose and telling us what's wrong with them, and often we feel a juxtaposition with them. We'd like to more frequently have our tax people saying, "I understand the problem, and here's a way you haven't thought of that might help." "You know there's a glitch, but I've talked to someone, external counsel, and here's a way you guys in employee relations might want to think about working around the glitch." Too often what we have with Tax is naysayers. It's . . . "Here's why it can't work."

FROM THE FLOOR: How do the consultants, in your perception, communicate with tax and finance and your area as far as those issues go?

MR. CHRISTIAN: Real well. Bruce Zimmerman used a phrase about strawmen. I use the term a little bit differently, but he talked about having the consultant get involved in resolving differences between corporate groups without the corporate groups having to bang heads together. That, I would have to say, is something that we definitely took advantage of in this particular scenario, because we do occasionally have some volatile tempers. We're all under a lot of pressure to get stuff done. You are faced, in my position, with the CEO and others saying, "Where the heck is it?" "We've got a board of directors meeting." "We need you to make a report." And those kind of things really do happen. And sometimes to calm the tempers down, we will use the consultant to buffer. Using the consultant to explain to the Finance people and Tax people where Employee Relations is coming from in a language they understand really does work. Explaining to us in employee relations some of the complexities of the issues -- and they are very complex -- in language we can understand, so that we understand their concerns, is very helpful. Part of what goes on here, and it has been referred to here, is that the whole nature of what's going on in employee benefits is terribly complicated. I mean that sounds simple to say, but it is so complicated. And what you get from the tax people is a recitation of tax code. From the accounting people you get recitations of financial policies, this and that and this and that. The consultants can be, if they understand all of these different languages, very helpful in framing each party's concern to the other party in a language they understand. And that's really what happens when it works right. The consultant takes the complex issue from a tax point of view and the tax code and frames it in a way that Employee Relations people understand where they're coming from, understand what the options are that we should consider.

FROM THE FLOOR: One more question. With the reference to your retirement actuaries versus the health and welfare actuaries, how did you perceive that they saw the issues differently or did the retirement actuaries ever get involved enough (in the health care issues)? I know you mentioned that you thought about a defined benefit approach. Did they get involved there? And how did you judge between the way they looked at the problem relative to the health and welfare actuaries?

MR. CHRISTIAN: My humor notwithstanding, I was sensitive to their concern. We have good relationships with both actuaries, very long-standing relationships with both, and really see no reason to change that. The problem at that point in time was passing the baton, if you will, from one consultant to another to analyze the impact of a retiree medical plan redesign in proposal form. We had a variety of analyses done using the valuation database. Passing that analysis at that point, just because we are not talking about a defined benefit, into another consultant's hands I thought was counterproductive. I didn't think it was necessary, and I was concerned that we'd have one actuary start shooting up thoughts of the first actuary, and we'd have a confrontation.

Mostly, I just didn't think it was necessary. I knew that if we got to a point where we concluded that we would go with a defined benefit or contribution approach, that in signing off the final numbers and the final impacts, particularly as it involved getting into use of the surplus and the impact from that, we clearly would have to involve the pension actuaries, and we did. So, I was sympathetic, but it was at a point where passing that baton was not effective, and later on it was.

MS. THIERMAN: Bill, what about General Accident? Does General Accident use one actuarial consulting firm or many (actuarial consulting firms)?

MR. JENKINS: We use one actuarial benefits consulting firm. However, we use outside counsel, which is interesting, and it has a different philosophy than that of the consulting firm, and when we're designing benefit programs, on a lot of occasions, we run into some inconsistencies as they relate to whether we can do certain things under the benefit design as it relates to legal opinion and the consultant's opinion. And in some cases we flip a coin or we might go through another counsel.

FROM THE FLOOR: Does one tend to be more aggressive than the other or not?

MR. JENKINS: Yes.

FROM THE FLOOR: The counsel?

MR. JENKINS: We call our outside counsel Dr. No. Anything that we ask to do that may bend the law in any degree, he indicates absolutely no way, where our consulting firm is a lot more liberal, less conservative, and more willing to take some risks.

MS. THIERMAN: There was another question over here?

MS. SUSAN M. SMITH: I would just like to second Bob's commendations. I think you have done a wonderful job, and I would truly like to see this spread out among everybody in the pension and the health sections. I would like to hear your comments, though; you just alluded to it a little bit, in terms of the differences between the consultants and their views and what risks they are willing to take and, say, an attorney who is going to be on the line if something goes wrong. Certainly in the last three years, if not a little bit before then, we have all been forced to work in an environment where there are no clear-cut answers. There is legislation out there. It is conflicting. It is contradictory. It does not make any sense. And yet, if you read the law, the law says you cannot do it, and yet business goes on. You have to make some decisions. How do you work with your consultant in terms of getting around those (gray areas)? Are you going to lie back and wait and see? If you are going to move ahead, are you going to take the risk? Do you want your consultant to simply explain some of these ambiguities to you and let you make the choice? Do you want them to make the choice for you? I mean, it is not a happy situation, but I would be interested to hear how you would like to see a consultant operate in that environment.

MS. THIERMAN: Well, let me just comment a little bit about Pacific Telesis which is the company I work for, and then maybe the rest of the panel can jump in. In our environment, we understand that a gray area exists in today's legal and regulatory culture. What we prefer our consultants and outside advisors to do is to lay out the alternatives, the gray areas, the various options that exist with the risks associated with going down any one of a number of different paths. Then we feel it should be the company's decision which way to go. We just expect the consultant or the outside attorney to let us know what possible problems we may run into going down various alternative routes.

MR. ZIMMERMAN: Well, to follow up on that, because I am a member of the firm that Bill alluded to as being somewhat liberal, I see our responsibility as being the ones who can provide the smell test. Does it make sense? Maybe it doesn't follow the letter of the law, but if it follows the intent, then it makes sense to do it. I very much agree with Ronnie's comments that what we try to do is to lay out the relevant considerations, put a weighing from our point of view on those considerations, but then step back and let the client make the call.

MR. JENKINS: That's pretty much how we operate at General Accident. I'd also like to comment that you'll get a different answer depending on who in the consulting firm you're talking with. You may call two different individuals who service your account, ask the same question, and get two different answers. So, what that really presses you to do is take the choice that you feel best suits the needs of the corporation, and that's the way we have pretty much handled it at General Accident.

MR. CHRISTIAN: We do it somewhat differently at Johnson & Johnson, I think, in the sense that we are risk adverse by nature; part of that's the pharmaceutical business, I suppose. I suppose we could call our tax counsel, Dr. No, but we don't. But that is, in large part, his role, to take the very safe path. However, to your point, a lot of the legislation is simply not clear, and there are risks that must be taken because otherwise you can't move. And what we have done in a number of instances, to be honest, is we have used the consulting actuaries to the extent that they have resources, and some do with respect to Washington connections, committee staffers and so forth, to get inferences in terms of the likely passage of something, or the likelihood that something will be recognized or treated in a certain manner. We've, in turn, used them, if you will, to go back to our internal tax counsel and try and convince that individual or that staff to see the issue differently. And so we've been a little bit more aggressive in that sense than having the actuary function really as an advocate for a position. We charge the actuaries, as much as we're able to, to be solution oriented. We know there are problems, and, of course, they may have to discern the problems to get into the solutions, but they must be solution oriented. I would say that that's a fundamental in this area. Be risk adverse, but define the risk as much as possible. Again, we use them to advocate for positions that we think are responsible, and in many cases that have proved effective.

MS. THIERMAN: I think that just gets back to the point that was made a couple of times here by the presenters, that you really need to listen to your client. Different clients will want and need different things from their consultants, and you cannot have a pat formula that is going to work with every single employer with whom you try to deal. So, it is very important to understand what the particular client's wants and needs are in this regard.

MR. CHRISTIAN: Just one comment on that because it did strike me as I listened to, I think, Bill, talking at one point. Just a comment on listening to your clients. I think Johnson & Johnson prides itself on being unique as a company. We have a unique culture, unique employees, and so forth. In fairness, I suspect almost any client company you deal with has a similar self-perception of being unique. And no matter how uniform they are, that perception exists. I think it's helpful to realize that, since we have dealt with a number of consulting firms over the years. Play to that sense that the client is unique, and to do it you have to listen. Maybe I'm not telling you anything that you haven't heard, but one of the things a lot of firms do is they'll promote an off-the-shelf product, and, by and large, companies like us don't respond very well to that. We like to think that everything is being tailored specifically for us. We know the reality is it may not be, but we like to think that. Treating us as unique, listening to us in that context, is extremely helpful in building that rapport that Bill spoke about between us and any of the firms that we would do business with.

MR. ZIMMERMAN: I have a question that maybe puts me a little bit at risk here, having two of my clients up on the panel with me.

MR. CHRISTIAN: You have one now, Bruce.

MR. ZIMMERMAN: And it's interesting because one of the clients uses us and uses only us as their consultants, and the other client uses multiple consultants, but the question I'd like to pose to everyone in the panel and anyone out there that'd like to comment is does it make sense to have one consultant or to use multiple consultants?

MR. JENKINS: From the consultant's perspective, one.

MR. ZIMMERMAN: You don't get to answer.

MR. JENKINS: When I was on the corporate side we always wanted to have a myriad of consultants, so we would go to the best compensation consultant, the best employee consultant, the best health and welfare consultant, who we deemed to be the best in that area and get a balance, and that one consulting firm can't be everything to every client.

MR. ZIMMERMAN: On the flip side, if you have one consultant, he or she can be aware of all your benefit programs and will not allow a design to go wrong in the context of all your programs. Consultants will be aware of what else you have, and the changes they'll make will be appropriate considering your whole sphere of benefits. So, again, I can argue either way on this one.

MR. CHRISTIAN: I've already spoken to the subject. I think having more than one is helpful for us. Having a long-term relationship with a firm where they feel that they are sharing with you in where the future takes you and how the plans are received and how they play out down the road is very helpful. I think part of the reality is, though, from our point of view, that not all firms are uniform in their strengths. Some firms are simply better at employee communications. Some are better at performing valuations or whatever. And to that extent, we will pick and choose. But, in any event, what you really want to do is have a very firm and long-term relationship in order to build up that ability to understand each other -- we know what they can do, and they know what we want, and that is extremely helpful. So, too many consultants can possibly be disadvantageous.

MS. THIERMAN: What about someone from the floor, some of the consulting actuaries in the audience? How do you find your client relationships? Do your clients use your firm for most of their actuarial needs or do you find yourself serving a particular client with a lot of other actuarial consultants working on other projects or phases of the same project for that client?

MS. SMITH: We are finding, I think, that it varies a great deal in terms of the company and their philosophy. There are certainly a lot of companies who feel, as some of you do, that they want to buy the best product for the job that they want to get done or the best consulting firm that can do it or the best person. There also seems to be, though, in this day of cost consciousness, a feeling that to the extent that you have involved a number of firms, some doing communications, some doing your welfare work, some doing your actuarial work, that you have a database that is being put in shape three times instead of once and that you have, with 410 testing or with some of the other nondiscrimination issues, a lack of cohesiveness and consistency because one firm does it this way and one does it that way. So, we have seen some of our clients decide that they really want to go for a single actuary because, when push comes to shove, they understand how you work. They know how things are going to be done. And they can rely on you to deliver. So, I have seen it go both ways for a lot of very good reasons, and I think it is important, again, that that be something that we laid out on the table so that you can talk about it and understand the working relationship that each of you wants or that the client expects with that particular consultant, and then I do not think there are any surprises.

MS. THIERMAN: Very well put, Susan.

FROM THE FLOOR: I was going to add one other thing. A new trend that I see happening more and more is using another firm as a reviewer. Not segmenting the work among different actuaries, but rather having the second actuary review the work product of the first actuary and comment on it for the client. It works like utilization review for health care. Mr. Jenkins mentioned that he felt it caused a kind of churning or whatever to take place. I was wondering, was that from someone who came along later or just his own perception of why they did some of the things they did?

MR. JENKINS: What was that again?

FROM THE FLOOR: I got the impression that you mentioned that you felt some consultants had been watching their own billings.

MR. JENKINS: That's correct.

FROM THE FLOOR: Did that come because when someone later came along and did the same thing it cost a lot less or that you looked at the work and said, "It was obvious this wasn't necessary or why did this cost so much?"

MR. JENKINS: Both aspects. To preface my answer, first let me say that we have had a long, ongoing relationship with this one particular consulting firm, and it had been political in a lot of ways. The chairman of the board was very friendly with one of the major principals of the firm, and they got used to doing business by designing benefit plans on a napkin. Suddenly we have a change in leadership of the corporation, and we have gone from a very informal type of environment to a more formal type of environment. And that's been a very difficult obstacle for the consulting firm to overcome, and we have had a number of head-banging sessions to address that one particular issue. But piggybacking on that, we have had the consultants undertaking projects that they felt were needed for the corporation or by the corporation where, in effect, we were doing some of those efforts internally. Therefore, we've had duplication of efforts and obviously wasted costs. This gets back to one of the tools that I tried to lay out in the presentation, which was that we have gotten into a circumstance that we will not have the consultant undertake any projects unless we lay them out in a purpose and scope document and formally assign it. So, we've tried to address that issue that way. It's a very difficult adjustment for both parties, but I think it's one that's needed. Does that answer your question?

FROM THE FLOOR: Yes.

MR. ZIMMERMAN: I guess I'd like to follow up, too. In talking about utilization review we've been involved in, I think it's critical when you have someone in that role you make it clear that they're going to review someone else's work, but you're not at all interested in using them as an actuary because, you know, there's too much self-interest if they think they have a chance to shoot some holes in the first actuary and look good and get some of the work. So, I think that process works well as long as there's a firm understanding that that is their one and only role.