

Tackling the Cost of Health Care Benefits: **Cinergy and the IBEW**

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Rising health care benefit costs are the leading cost challenge facing employers in the United States, and such costs are likely to remain the most problematic issue in collective bargaining negotiations for the foreseeable future, according to labor and management officials surveyed recently by the Bureau of National Affairs, Inc.¹ In early 2004, Cinergy Corp., an electric and gas utility in Cincinnati, Ohio, and much of Indiana, was confronted with this problem in negotiations with the International Brotherhood of Electrical Workers (IBEW) Local 1347, which represented the electrical workers in Ohio. The company and union chose an innovative approach, and the result benefited everyone involved.

The Challenge

Rapidly rising health care costs are compounding at rate unsustainable for any employer. Health insurance premiums have risen more than 10 percent per year for the last four years, and are expected to continue at that pace for years.² The costs are especially crippling for companies facing foreign competitors, who operate unburdened by such expenses

because health care is provided by their governments.

The standard approach by employers is to try to shift the costs or cut benefits. The response of organized labor has been to fight for the status quo, often to the point of striking, or to accept lower wage increases in exchange for the preservation of health benefits. This produces conflict, tension, uncertainty, anxiety, and (in many cases) work disruptions.

At Cinergy, health care costs have nearly doubled since 1998. In mid-2003, the corporation's senior vice president for administration, Fred Newton, asked if a different approach might get labor and management working together to contain these costs. Newton called this author and his firm, Restructuring Associates, Inc. (RAI), a consulting firm specializing in working with unions and companies to attack operating performance problems.

The Strategy

The agreed-upon strategy centered on four points:

1. The health-costs problem is extraor-

dinarily complicated and must be understood before it can be "solved."

2. Both the company and union have common interests in controlling rather than redistributing the costs; failing to "solve" the problem is not a viable alternative.
3. Any effective cost-management strategy requires the commitment of both the company and the union, and, therefore, needs to be jointly developed and "owned."
4. Because this can be an emotional issue, a neutral third party is needed to organize and lead the process.

After approaching the union, discussing the strategy, and getting its approval to use RAI to lead the effort, the company and union agreed to jointly and comprehensively educate themselves

They agreed to a joint and comprehensive education program on the American health care system.

on the American health care system and associated benefit costs. The parties agreed that those involved were making no obligation except to participate in the education process.

In early December 2003, RAI led an introductory meeting attended by the union's business agent, the union bargaining committee, and a group of senior Cinergy managers from industrial rela-

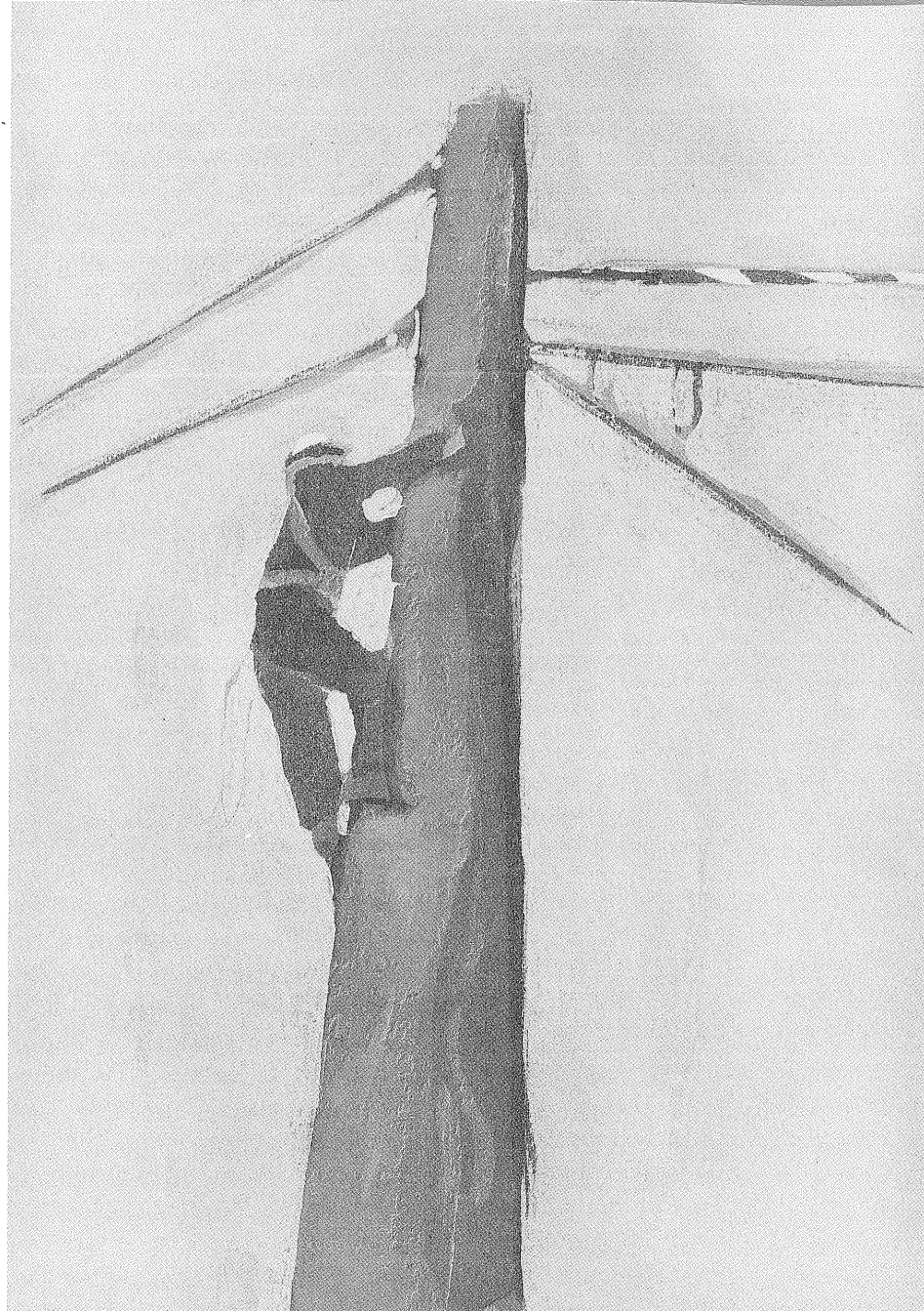
Health care costs are especially crippling for companies facing foreign competition.

tions, benefits administration, finance, and human resources. In that meeting, parties outlined the education process, described the curriculum, and set objectives for the process. The primary objective was simply to give labor and management a common understanding of the health care system and costs prior to negotiations. "Stretch" objectives included trying to narrow differences prior to negotiations or even to develop specific recommendations for negotiations.

Education Process

The education process consisted of six full-day sessions and a seventh day to review, summarize, and draw conclusions. As one professor described it, "it was equivalent to a semester-long, introductory graduate course on the American health care system." Each seminar involved three or four articles to be read in advance, a presentation with questions and answers by an outside expert, and a wrap-up group discussion of what was heard and read. The entire process was organized, led, and documented by RAI.

The curriculum started with an overview of the American health care system presented by a professor from the Harvard School of Public Health. This was followed by a detailed analysis of different delivery systems presented by the executive director of the Blue Cross/Blue Shield National Labor Office. The third seminar, delivered by a professor and assistant dean from the University of Baltimore and Johns Hopkins University, examined cost-containment strategies and prescription drugs. The fourth session looked at the health care system through the eyes of a clinician; the chief medical officer of Humana Ohio provided this perspective. Gerry Shea, assistant to the president on government affairs at the AFL-CIO, spoke in the fifth seminar about labor's



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perspective on health care and bargaining trends. In the final session, Cinergy managers provided a detailed examination of their plans, costs, and challenges.

The wrap-up session resulted in everyone recognizing the severe structural problems with the American health care system and feeling discouraged at the limits on any one company to stop the upward cost spiral. Yet participants also

shared a determination to work together in an effort to reduce costs: they identified possible cost-containment strategies and agreed to a joint problem-solving process to resolve, rather than negotiate, the issue. RAI was asked to lead and facilitate the process.

Joint Problem Solving

Before they could develop solutions, the group needed to set detailed, specific, and measurable objectives. Then further education was needed on certain subjects.

The first problem-solving meeting focused on setting specific, measurable objectives for the process; everyone had to be clear from the beginning about what they needed to accomplish, and what they would consider a "success." The union and company agreed on several objectives, including:

- Achieve (in 2005) a savings of approximately 18 percent of the 2004 health care benefit budget for Local 1347 employees;
- Maintain or improve employee satisfaction and patient outcomes, and provide superior benefits over the long term (important to recruiting and retaining top-quality people); and
- Create a labor-management partnership that would work to keep the growth of health care costs below the national average and to increase cost sensitivity among all employees.

The group also agreed to engage an actuary to work with them as they estimated costs for changes and alternatives.

Because there was a need to thoroughly understand the mechanisms and impact of various cost-reduction strategies, the education process continued with three additional seminars on wellness plans, disease management, and prescription-drug management strategies. The structure, format, and process in these sessions matched that of the initial educational process, except that the experts were asked to provide specific financial projections for implementation of world-class, comprehensive plans in each of these areas.

Specific estimated ranges of savings for the first year and subsequent years were provided based on experiences in other companies, transparent assumptions, and the demographic profile of those to be covered at Cinergy. The company and union then agreed on specific,

projected-savings numbers within the estimated ranges, and the actuary used those projections to identify target objectives.

In a series of subsequent meetings, the group examined eighteen different alternatives, and the actuary priced out each of them. Although the group used a joint problem-solving process throughout, separate caucuses played an important role, and I served as both a mediator and a problem-solving facilitator. Even at moments of greatest tension and disagreement, however, everyone remained deeply engaged and totally committed to the process.

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Achieving Success by Working Together

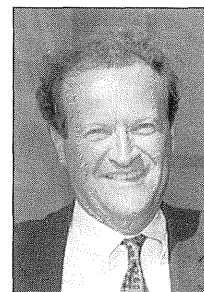
The union ratified the final package with support from 76 percent of those voting. The agreement, which included some very innovative and creative provisions, achieved all of the shared objectives outlined above. In the end, over 60 percent of the cost target was achieved through cost-reduction strategies, and only a little over a third of the savings came through cost shifting or redistribution. In addition, employees were able to maintain all of their existing health-plan benefits. Most impressive is that this was accomplished with no opportunity to trade off other terms and conditions in the collective bargaining agreement (such as wages or other benefits) because the health care benefits were addressed in isolation.

Cinergy and IBEW Local 1347 demonstrated that labor and management can jointly and effectively work together to attack health care costs on the basis of their shared interests, using a problem-solving process rather than traditional negotiations. They were able to accomplish this with the help of a trusted third party because of strong commitments by both the company and the union. It also succeeded because they started early

(which offered time to learn and explore alternatives), built their efforts on a very strong foundation of facts and mutual understanding, and used a structured and disciplined approach to solving the problem. At a time when health care costs generate conflict and frustration in most American unions and companies, Cinergy and IBEW Local 1347 have found success by working together.

NOTES

1. Bureau of National Affairs, Inc. 2005. *Collective Bargaining Bulletin*, Vol. 10, no. 2 (January 20), p. 11.
2. Kaiser Family Foundation and Hewitt Associates. 2004. *Current Trends and Future Outlook for Retire Health Benefits* (December); available at <http://www.kff.org/medicare/7224.cfm>. See also Keffler, S., et al. 2004. "Health Spending Projections through 2013." In *Health Affairs* (February 11). Available at <http://www.healthaffairs.org>. (Web exclusive.)



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