

Saratoga
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Breaking the mold on consumerism

This is a summary of a previous PricewaterhouseCoopers article titled “Breaking the Mold on Consumerism.” To read this article in its entirety, please [click here](#).

Healthcare costs affect global competition across US businesses, and constitute one of the leading challenges facing American companies. As gains in the effectiveness of managed care have waned, consumer directed healthcare offers a potential bright spot on the horizon. Yet lingering concerns about its longer term impact exist. A more effective and sustainable strategy is urgently required, one that requires fundamental realignment of responsibilities and incentives among all stakeholders, as well as a system of interdependent programs of support and a disciplined execution and change strategy driven by business leaders.

Potholes and pitfalls

The biggest ‘pothole’ en route to a sustainable health strategy is the high cost of health care. On the demand side, there is an insatiable demand for health services by employees and their families, combined with the ever-worsening health and lifestyle practices of American workers. On the supply side, increasing consolidation and continued duplication of resources are driving price inflation and utilization.

Prior to the widespread adoption of managed care, employees were subject to health care with deductibles and co-insurance. It did little to influence the delivery of care to control costs. Managed care turned that paradigm on its head with a supply-focused strategy, controlling health spending from the provider side. Consumers became increasingly disengaged from responsibility of their own healthcare consumption. Not surprisingly, providers and consumers reacted negatively to managed care.

Many employers turned to less-restrictive PPOs, which initially were seen as a “transition” product that would ease the movement of employees from unmanaged “indemnity” benefits into HMOs. Before long, cost pressures were reinvigorated and employers have begun to reach the limits of what they can shift to their employees while maintaining attractive and affordable benefits packages.

Efforts to promote an “empowered and enlightened” consumer, without recognizing either the limitations of how people value and consume health care or the limitations of the information available for them to be better consumers, have tended to overstate expectations, and in some instances, create unintended consequences.

A sustainable approach to health

There is a more sustainable approach to health and health benefits and it is not one-size-fits-all. The impact of employee health and well-being on business

performance, and the role of benefits within the overall rewards system, will together drive the optimal approach for any given organization. The sustainable health strategy will move beyond the early consumerism models and will incorporate three key and synergistic areas of focus.

Figure 1



Source: PricewaterhouseCoopers, Winter HR Innovation, 2008

Selective “Skin in the Game” and simplified transparency

We know that higher cost sharing by consumers will lead to reduced utilization of services; but individuals are generally unable to distinguish between discretionary and non-discretionary services. Evidence shows that while this effect has a minor impact on “average health status,” it can potentially disproportionately impact those with lower incomes or chronic disease. More carefully-targeted cost sharing will not only reflect the nature of the overall insured group and the impact on subpopulations

with the group, but will also focus more on the management of discretionary health consumption, the broader health of the population and the impact of benefit design on productivity and company performance. In addition, we need to make being a healthcare consumer “the easy thing to do.”

Commitment to a culture of health

Helping employees and dependents take better care of themselves is essential to reducing the prevalence and severity of conditions such as diabetes, cancer, and heart disease. An organization that improves the health and well being of its people also can experience reduced health-care issues, enhanced productivity and performance and higher levels of employee loyalty and satisfaction.

Key steps: – Securing the buy-in and active participation and leadership of senior management by making the wellness case in the context of business. – Communicating health and wellbeing as a core value, stressing the linkages between employee health, employee performance, business goals and the needs of the individual. – Developing a healthy environment starting with cafeterias and vending machines, as well as addressing key drivers of well being through maintaining appropriate work-life balance.

Adopting a corporate health excellence framework

A sustainable health strategy should be built on the lessons we have learned from other business-enhancement initiatives, such as safety and quality programs. Organizations must adopt a business-appropriate, disciplined approach that is top-down and bottom-up, incremental and comprehensive.

Key steps: – Deploy an integrated data platform to measure, assess, prioritize, regionalize and personalize the overall health strategy. – Facilitate seamless collaboration in the integration of internal and external resources to support the overall programs and maximize effectiveness within the context of the broader health mission. – Continually assess to identify gaps in performance and realign programs, processes and policies to deliver measurable progress.

The impact of international financial reporting standards on HR

If you aren't familiar with International Financial Reporting Standards (IFRS), odds are, you soon will be. The move from US accounting rules to IFRS will have profound effects on all aspects of a company's operations - including HR. Below are answers to some key questions about IFRS.

What is IFRS?

The move to IFRS involves a fundamental change in the framework of how US companies measure pre-tax income and the principles governing accounting for benefit plans. The conversion to IFRS will result in a single, worldwide standard for financial reporting.

Why change to IFRS?

IFRS will enhance financial reporting comparability and transparency, which will be beneficial to stakeholders. A single global accounting standard should create cost efficiencies for global companies and — with fewer rules and exceptions — help to reduce complexity and the risk of errors. Additionally, more than 100 countries currently require or permit the use of IFRS. As noted in the table below, among the top 10 global capital markets, the United States is the only country that has not committed to convert to IFRS.

Table 1: Top 10 global capital markets

US	US GAAP
Japan	Converting to IFRS
UK	IFRS
France	IFRS
Canada	Converting to IFRS
Germany	IFRS
Hong Kong	IFRS
Spain	IFRS
Switzerland	IFRS or US GAAP
Australia	IFRS

When will this happen?

PwC believes the adoption of IFRS in the United States is inevitable. One projected time line estimates that IFRS could be mandatory in the United States by 2013–2015, and early adoption options may be available by 2009.

How will this impact HR?

Gaining an understanding of IFRS is essential for the HR function because of how it will impact an organization's pensions, retiree health plans, stock-based compensation, and overall compensation arrangements. It will also affect the measurement of cost for these programs.

HR will need to maintain detailed records supporting IFRS accounting and will be responsible for ensuring costs are measured properly under a new set of rules. Therefore, HR will need to:

- Understand how IFRS rules apply to the company's benefits and compensation packages

- Consider appropriate changes to HR systems, record keeping, and internal controls
- Measure obligations and expenses under the new rules
- Assess whether plan design or funding should change in light of IFRS adoption
- Formally implement the changes and develop communications to stakeholders

The table below provides an overview of differences between US accounting and IFRS for benefit and compensation programs

Table 2

Benefit programs	Compensation programs
Recognition of actuarial gains and losses, and prior service costs	Expense attribution for awards with graded vesting
Determination of expected returns on plan assets	Definition of grant date
Treatment of "special events" such as curtailments and settlements	Accounting when there is a choice of settlement methods
Definition and accounting for defined contribution and multi-employer plans for share-based payments	Treatment of share-based payments to non-employees
	Measurement and recognition related to payroll taxes and social charges

In addition, there are significant differences related to the measurement of deferred tax assets and the recognition of related tax benefits in the financial statements. Where IFRS is required or permitted for local statutory purposes, the adoption of IFRS may impact local tax deductions in the respective tax jurisdictions, requiring a thorough analysis.

For more information, please contact the PwC partner serving your company, or one of the following IFRS leaders:

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Metric of the month: Profit Per FTE

Which of the following organizations would you be most inclined to invest in?

- Organization A reported Revenue per FTE of \$500,000 and Operating Cost per FTE of \$425,000.
- Organization B reported Revenue per FTE of \$350,000 and Operating Cost per FTE of \$225,000.

While organization A reported a higher Revenue per FTE, organization B was better able to control operating costs, resulting in higher profitability. One of Saratoga's key workforce productivity metrics is Profit per FTE. The formula for this metric is:

$$(\text{Revenue} - \text{Operating Cost}) / \text{Regular FTE}$$

In order to ensure organizations take a balanced approach to managing their workforce, Saratoga recommends organizations track Profit per FTE along with a number of additional key workforce metrics such as turnover rates, employee engagement, and leadership quality and depth.

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