Playbook for Immediate Labor Savings

Prioritization Framework and Compendium of 100 Principled Cost Savings Tactics

Business Affairs Forum

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Project Manager

Shana Owens, MA, MBA

Contributing Consultants

Megha Agarwal, MBA
Steve Rowe

Managing Director

Melanie Ho, PhD

Practice Manager

John Workman, PhD

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Additional Resource—Poster of 100 Labor Savings Tactics

We also encourage partners to download or order hard copies of our poster *100 Tactics for Immediate Labor Savings,* highlighting 100 distinct cost savings tactics at eab.com/baf/100-tactics

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The Business Affairs Forum is deeply grateful to the individuals and organizations that shared their insights, analysis, and time with us. We would especially like to recognize the following individuals for being particularly generous with their time and expertise.

With Sincere Appreciation

Alfred State College
Valerie Nixon
Executive Vice President;
Interim President

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Morgan Olsen
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Business and Finance

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Matt Sapienza
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Eastern Mennonite University
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Eastern Michigan University
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Vice President,
Administration and Finance

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Vice Chancellor, Finance,
Budget and Capital Programs

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Dale Kemp
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James Cart
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How to Use This Resource

No Escaping the Need to Rein in Labor Costs

Facing increasingly tighter budgets, colleges and universities are exploring any and all principled methods to control costs. Clearly, labor comprises the vast majority of costs at all institutions, often 60% to 70% of operating budgets. So, while there are other meaningful cost savings opportunities, few institutions will be able to significantly impact costs without addressing labor.

The Danger of a Reactionary Approach

While many colleges and universities are under acute pressure to realize labor savings, a reactionary approach to current financial challenges can leave institutions even more vulnerable. Responding to shortfalls as they occur leaves institutions without the lead time required to plan appropriately. Instead, executives are forced to deploy the tactics that can be implemented most quickly, not those that promise the most savings.

Further, one-time labor cuts often do not ultimately achieve the intended savings. At roughly two-thirds of institutions that cut labor, labor costs grow faster in the three years following the cut than the three years before it.

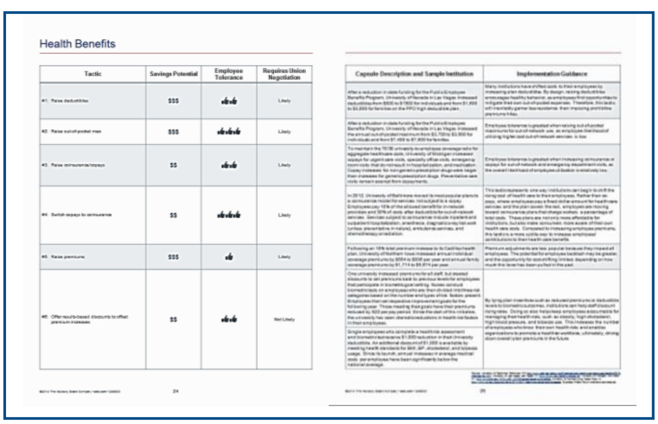
For many institutions, this vicious cycle repeats when finances worsen and another round of tactics is needed. This often leads to executives reneging on earlier promises (for instance, a promise of no layoffs or no changes to health benefits), deflating recovery efforts, and potentially drawing negative press.

Resources to Identify Immediate Savings Opportunities

Rather than reacting to tightening budgets with one-off labor cuts, institutions should create a contingency plan that proactively identifies and sequences labor savings opportunities based on potential financial scenarios. This publication offers two resources to help business executives. The first resource is a compendium of 100 tactics offering immediate, sustainable labor savings. The second resource provides guidance for creating a well-defined labor savings action plan.

Section 1

Compendium of Principled Labor Saving Tactics



Health Benefits

- 100 most viable labor saving strategies
- Organized into nine categories: health benefits, fringe benefits, benefits vendor management, employee headcount, compensation, outsourcing, service hours, employee stipends and perks, and overtime
- Each tactic accompanied by sample institution case study and implementation guidance

Section 2

Creating a Tiered Labor Savings Strategy

Tier 1 – Tactics to pursue immediately

Tier 2 – Tactics to pursue if budget shortfall worsens

Tier 3 – Emergency labor savings tactics

- Detailed guidance on creating labor savings contingency plan and corresponding tools
- Recommended financial triggers based on Moody's higher education rating methodology
- Step-by-step worksheet for scoring and sequencing individual labor savings tactics

Current State of Higher Education Labor Spending

INTRODUCTION

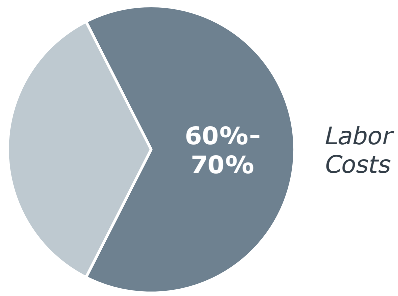
The Elephant in the Room

Facing increasingly tighter budgets, colleges and universities are exploring any and all principled methods to control costs. Clearly, labor comprises the vast majority of costs at all institutions, often 60% to 70% of operating budgets. So, while there are other meaningful cost savings opportunities such as reducing energy utilization or increasing on-contract spending, few institutions will be able to significantly impact costs without addressing labor.

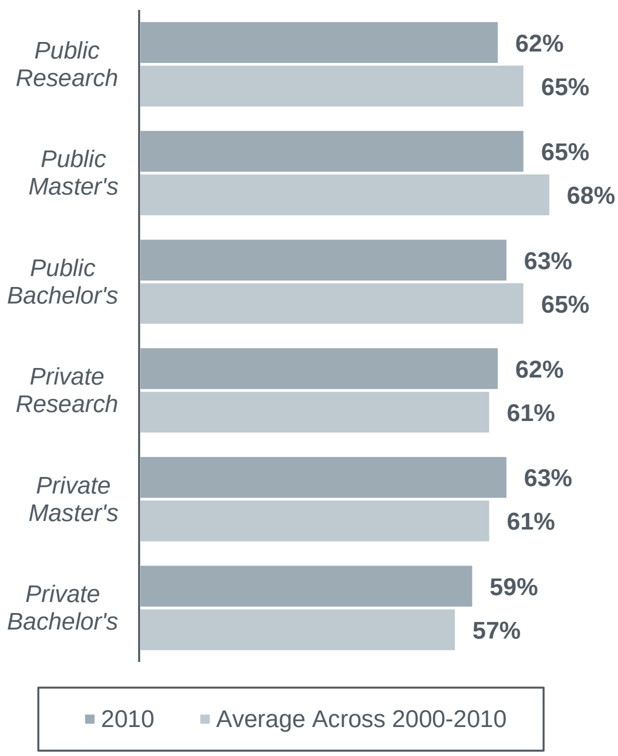
Labor Comprises the Vast Majority of College and University Costs

Average Breakdown of Costs Among Surveyed Colleges and Universities

n=107



Labor as a Percentage of Costs by Institution Segment



Source: National Center for Education Statistics, *Delta Cost Project Database*; Business Affairs Forum interviews and analysis.

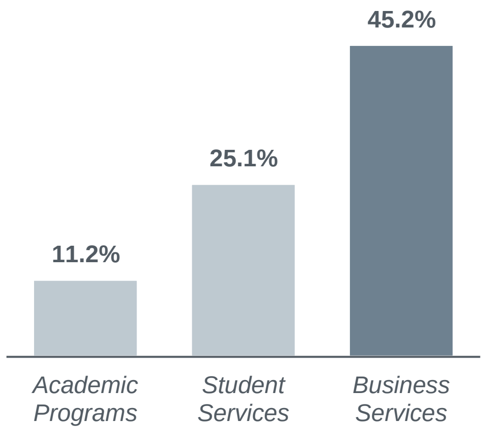
Administrative Labor the First Target

To date, most institutions have sought to reduce administrative labor costs before touching the academic core. Administrative services absorbed the worst of cost cutting in 2010 and 2011, with nearly half of all business executives agreeing that budget cuts adversely impacted quality of their units. The same dynamic has remained true past the worst of the recession. Layoffs in 2013 and 2014 impacted roughly two administrative staff for every one faculty.

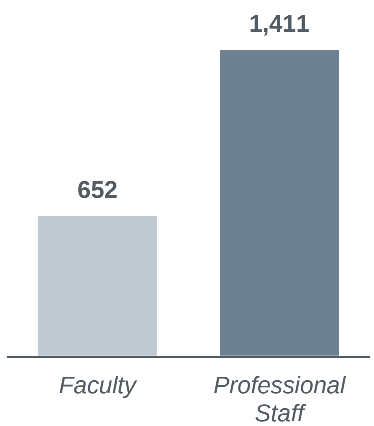
There are sound financial and mission-related reasons institutions may choose to avoid faculty layoffs and focus cuts on administration. However, institutions too often cut administrative staff because it is more expedient, not because it is right answer.

Institutions Reduce Center Resources Before Touching Academic Core

Percentage of Chief Business Officers Agreeing Budget Cuts at Their Institutions Damaged Quality in Key Departments, 2011



Layoffs in 2013-2014 by Number and Type of Employees Impacted



Source: Green K, et al, "The 2011 Inside Higher Ed Survey of College and University Business Officers," Inside Higher Ed, www.insidehighered.com; Business Affairs Forum interviews and analysis.

Recognizing the Full Toll of Labor Cuts

Furthermore, indiscriminate administrative cuts can cause significant damage to the institution. Four negative implications of administrative labor cuts are detailed here. First, cuts damage the morale of remaining staff who fear they may be next. Second, cuts can leave units with too few staff to maintain productivity or service quality. Third, reductions in work output can lead to lapses in key compliance activities and increased institutional risk.

Finally, most concerning is the potential for negative press and damage to reputation and enrollment. This can lead to financial shortfalls and the need for further cuts, locking institutions in a vicious cycle. This scenario should be particularly worrisome for institutions already struggling with declining enrollment.

No Institution Can Cut Its Way to Prosperity

Representative Impact of Labor Cuts

Drop in Staff Morale

Labor cuts often hurt engagement and lower commitment of remaining staff, leading to increases in turnover

Reduced Service Quality

Institutions risk hurting quality and speed of work or halting some services all together

Increased Risk

Sudden loss of staff in certain roles could lead to lapses in key compliance activities, increased institutional risk

Negative Press

Labor cuts viewed as signs of trouble by students, public, and press, with potential damage to reputation and enrollment

Source: Business Affairs Forum interviews and analysis.

Most Cuts Don’t Last

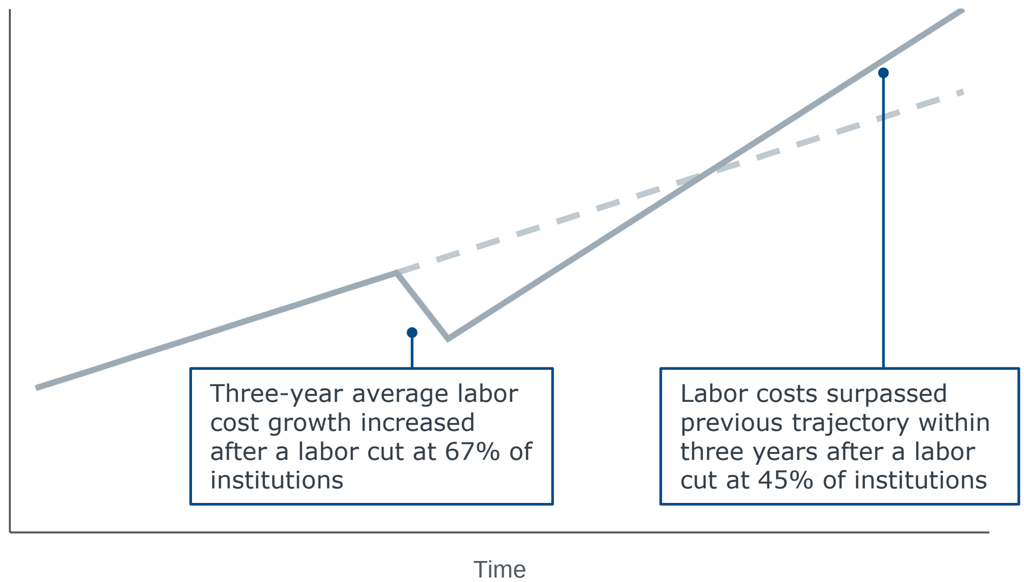
More troubling than these negative ramifications, labor cuts often do not ultimately achieve the intended savings. IPEDS data shows that between 1997 and 2010 more than 1,300 institutions cut their labor expenses from one year to the next. In more than two-thirds of these cases, labor costs grew faster in the three years following the cut than the three years before the cut.

Moreover, at approximately two-thirds of those institutions (or 45% of all institutions making a labor cut), labor costs grew fast enough to exceed the original trajectory. Meaning, institutions were ultimately worse off than they would have been if they had made no cuts at all.

Many Institutions Actually Worse Off After Labor Cost Cuts

Modeled Labor Cost Growth Following Significant Cut

n=1,307



Source: National Center for Education Statistics, *Delta Cost Project Database*; Business Affairs Forum interviews and analysis.

Cutting Into the Bone

This "yo-yo" effect often occurs because unit leaders struggle to cope with and eventually overcorrect for drastic drop-offs in staffing resources. As an example, Barnes College's[1] attempt to cut labor costs is shown here. Leaders instituted a hiring freeze and laid off over 40 administrative employees. Moving into the busiest times of year, though, many units were too short staffed to stay fully productive. Since they could not add back full-time staff, unit leaders tapped into more costly premium options such as temp agencies and overtime. Ultimately, the institution spent more on premium labor than it saved from the initial cuts.

Like Barnes, many institutions have found that sudden and deep labor cuts severely disrupt normal business operations and cannot be sustained.

Over Correction Quickly Erases Gains from Labor Cuts at Barnes[1]

1 Institution cuts labor
Barnes institutes hiring freeze and lays off 40+ central admin staff

2 Units short-staffed
Select units under-staffed during busiest time of year

3 Unit managers turn to costly alternatives
Leaders use expensive overtime and temp agencies to temporarily fill in staffing needs

4 Institution experiences net loss
Money spent on expensive staffing alternatives exceeds money saved from labor cuts

Case in Brief: Barnes College[1]

- Small public baccalaureate college located in the Midwest
- Implemented hiring freeze and layoffs in central admin to reduce costs, but ultimately saw costs increase when unit leaders corrected for reduction with expensive premium labor

Source: Business Affairs Forum interviews and analysis.

Achieving Sustainable Labor Savings

Rather than enacting painful and ineffective cuts, institutions should pursue sustainable labor savings through two strategies. The first strategy is rebasing the cost curve, which provides an immediate drop in labor costs. However, these tactics do not hinder work processes or damage staff morale. So unlike labor cuts, cost growth does not increase and savings can be sustained over time.

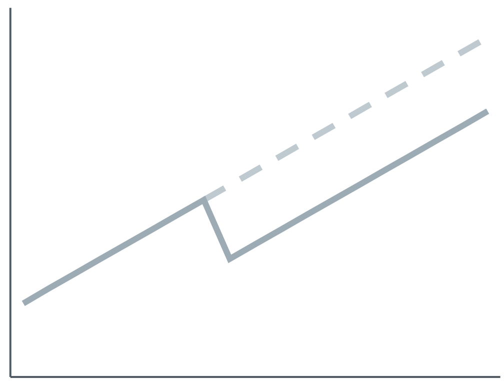
The second strategy is to slow labor cost growth or "bend" the cost curve. With this strategy, institutions make structural and operational changes to slow growth going forward. This does not always reduce costs immediately, but does accumulate to significant savings over time.

Nearly all institutions will need to slow labor growth to ensure long-term sustainability. However, many colleges and universities will benefit from pursuing these two strategies simultaneously to both gain immediate savings and build toward larger savings long term.

The Business Affairs Forum explores these strategies in depth across two separate resources. *Bending the Administrative Labor Cost Curve* provides best practices for slowing labor cost growth over time. The remainder of this report provides individual tactics and a tiered prioritization framework to achieve immediate labor savings.

Two Principled Approaches to Reduce Costs

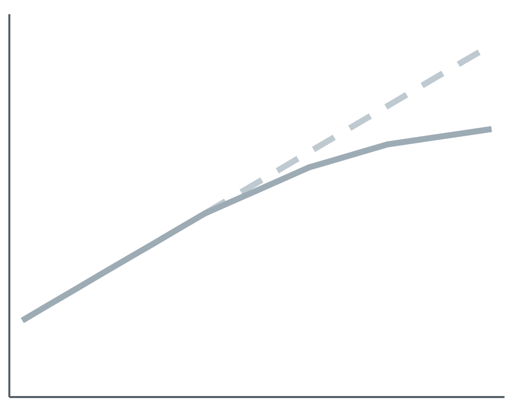
Modeled Labor Cost Growth Following Rebasing Tactics



Study in Brief: Playbook for Immediate Labor Savings

- Detailed compendium of tactics for immediate labor savings
- 100 tactics across nine categories: health benefits, fringe benefits, benefits vendor management, employee headcount, compensation, outsourcing, service hours, employee stipends and perks, and overtime
- Detailed guidance and implementation tools for creating labor savings contingency plan

Modeled Labor Cost Growth Following Tactics to Slow Growth



Study in Brief: Bending the Administrative Labor Cost Curve

- 12 best practices for slowing administrative labor cost growth over time
- Areas of focus include building cross-silo staffing resources, prioritizing and reallocating staffing dollars across silos to reflect institutional priorities, and incentivizing unit leaders to actively find labor savings in their own units

Source: Business Affairs Forum interviews and analysis.

Playbook for Immediate Labor Savings

To help business executives realize meaningful and immediate labor savings, this publication provides a compendium of 100 savings tactics. Tactics are divided into nine categories: health benefits, fringe benefits, benefits vendor management, employee headcount, compensation, outsourcing, service hours, employee stipends and perks, and overtime.

Importantly, not every tactic is applicable for each institution because of unique logistical, cultural, or legal hurdles. Instead, this compendium is designed to be an exhaustive picklist to help executives evaluate and choose the tactics best suited for their institutions. To that end, each tactic is evaluated on three factors—savings potential, employee tolerance, and need for union negotiation. Each tactic description also includes a case study institution and implementation guidance, such as suggested timelines and mistakes to avoid.

Excerpt of Labor Saving Compendium

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation	Capsule Description and Sample Institution	Implementation Guidance
#7: Offer high-deductible plans	$$		Not Likely	To encourage a shift to the institution's high-deductible health plan, Indiana University offered single employees and employees with families $1,200 and $2,500, respectively, towards employee health savings accounts. Currently, 77% of employees are on the plan, contributing to health benefits savings of over $20M.	Introducing alternative health plan designs is one way employers are attempting to shift health benefit costs to employees. Offering low premium, high-deductible plans may attract employees away from higher cost employer plans, especially those employees who are young, relatively healthy, and infrequent utilizers of health services.
#59: Enact targeted layoffs	$$$$		Likely	Texas A&M University used a combination of data analytics, workflow process scrutiny, and unit leader input to enact a principled layoff process. The result was the targeted dismissal of 255 employees, 150 in administration and 105 faculty.	This tactic is often thought of as the option of "last resort" for reducing administrative overhead. Rather than pursuing across-the-board cuts, positions should be eliminated based on business need and strategy alignment. Coordinated communication is critical to maintaining the morale of existing employees.
#73: Delay annual pay raises	$		Not Likely	In this fairly simple tactic, institutions wait a few months after pay increases are announced to begin paying new staff salaries. Henderson State University saved around $400K by deferring salary increases in 2011.	Withholding pay increases for one to two months can drastically improve the institution's short-term cash on hand and typically goes unnoticed by staff, since new pay rates have already been confirmed.

Savings evaluated on a scale of one ($) to four ($$$$)

Employee tolerance evaluated on scale of one (low) to four (high)

Description of labor savings tactic and sample institution case studies

Guidance for institutions seeking to implement a given tactic, including caveats and guidelines

An overview of the 100 labor savings tactics is provided in the chart below. Tactics are plotted on two dimensions. The x-axis represents anticipated level of employee tolerance for a tactic, moving from low tolerance (meaning significant employee resistance) to high tolerance (little or no employee resistance). The y-axis represents savings potential, moving from lower, but still meaningful, savings potential to higher savings potential.

The first section of this report is a compendium with detailed descriptions of the 100 labor savings tactics. The second section offers guidance on prioritizing tactics and building a comprehensive labor savings contingency plan.

100 Labor Savings Tactics by Savings Potential and Employee Tolerance

Source: Business Affairs Forum interviews and analysis.

Compendium of Principled Labor Saving Tactics

SECTION 1

- Health Benefits
- Fringe Benefits
- Benefits Vendor Management
- Employee Headcount
- Compensation
- Outsourcing
- Service Hours
- Employee Stipends and Perks
- Overtime

Health Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#1: Raise deductibles	$$$	👍👍	Likely
#2: Raise out-of-pocket max	$$$	👍👍👍	Likely
#3: Raise coinsurance/copays	$$	👍👍	Likely
#4: Switch copays to coinsurance	$$	👍👍👍	Likely
#5: Raise premiums	$$$	👍	Likely
#6: Offer results-based discounts to offset premium increases	$$	👍👍	Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#1: After a reduction in state funding for the Public Employee Benefits Program, University of Nevada in Las Vegas increased deductibles from $800 to $1,900 for individuals and from $1,600 to $3,800 for families on the PPO high deductible plan.	Many institutions have shifted costs to their employees by increasing plan deductibles. By design, raising deductibles encourages healthy behavior, as employees find opportunities to mitigate their own out-of-pocket expenses. Therefore, this tactic will inevitably garner less resistance than imposing prohibitive premiums hikes.
#2: After a reduction in state funding for the Public Employee Benefits Program, University of Nevada in Las Vegas increased the annual out-of-pocket maximum from $3,700 to $3,900 for individuals and from $7,400 to $7,800 for families.	Employee tolerance is greatest when raising out-of-pocket maximums for out-of-network use, as employee likelihood of utilizing higher cost out-of-network services is low.
#3: To maintain the 70/30 university-to-employee coverage ratio for aggregate health care costs, University of Michigan increased copays for urgent care visits, specialty office visits, emergency room visits that do not result in hospitalization, and medication. Copay increases for non-generic prescription drugs were larger than increases for generic prescription drugs. Preventative care visits remain exempt from copayments.	Employee tolerance is greatest when increasing coinsurance or copays for out-of-network and emergency department visits, as the overall likelihood of employee utilization is relatively low.
#4: In 2012, University of Baltimore moved its most popular plans to a coinsurance model for services not subject to a copay. Employees pay 10% of the allowed benefit for in-network providers and 30% of costs after deductible for out-of-network services. Services subject to coinsurance include inpatient and outpatient hospitalization, anesthesia, diagnostic x-ray/lab work (unless preventative in nature), ambulance services, and chemotherapy or radiation.	This tactic represents one way institutions can begin to shift the rising cost of health care to their employees. Rather than co-pays, where employees pay a fixed dollar amount for health care services and the plan covers the rest, employers are moving toward coinsurance plans that charge workers a percentage of total costs. These plans are not only more affordable for institutions, but also make consumers more aware of their own health care costs. Compared to increasing employee premiums, this tactic is a more subtle way to increase employees' contributions to their health care benefits.
#5: Following an 18% total premium increase to its Cadillac health plan, University of Northern Iowa increased annual individual coverage premiums by $564 to $936 per year and annual family coverage premiums by $1,714 to $5,674 per year.	Premium adjustments are less popular because they impact all employees. The potential for employee backlash may be greater, and the opportunity for cost shifting is limited, depending on how much this lever has been pulled in the past.
#6: One university increased premiums for all staff, but created discounts to set premiums back to previous levels for employees that participate in biometric goal setting. Nurses conduct biometric tests on employees who are then divided into three risk categories based on the number and types of risk factors present. Employees then set respective improvement goals for the following year. Those meeting their goals have their premiums reduced by $22 per pay period. Since the start of this initiative, the university has seen dramatic reductions in health risk factors in their employees.	By tying plan incentives such as reduced premiums or deductible levels to biometric outcomes, institutions can help staff discount rising rates. Doing so also helps keep employees accountable for managing their health risks, such as obesity, high cholesterol, high blood pressure, and tobacco use. This increases the number of employees who know their own health risks and enables organizations to promote a healthier workforce, ultimately, driving down overall plan premiums in the future.
#6: Single employees who complete a health risk assessment and biometric test receive a $1,000 reduction in their University deductible. An additional discount of $1,000 is available by meeting health standards for BMI, BP, cholesterol, and tobacco usage. Since its launch, annual increases in average medical costs per employee have been significantly below the national average.	

Source: University of Baltimore, Baltimore, MD, http: //www.ubalt.edu/about-ub/offices-and-services/human-resources/benefits/2013-changes-faq.cfm; University of Las Vegas, Las Vegas, NV, http: //hr.unlv.edu/benefitupdates/qa/; University of Michigan, Ann Arbor, MI, http: //ur.umich.edu/1213/Jul22_13/4753-added-benefits-coverage; University of Northern Iowa, Cedar Falls, IA, http: //www.uni.edu/pscouncil/news/2013/05-01/health-insurance-rate-increases; Business Affairs Forum interviews and analysis.

Health Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#7: Offer high-deductible plans	$$		Not Likely
#8: Incentivize high-deductible plans	$$		Not Likely
#9: Reduce the number of insurance plans	$$		Likely
#10: Eliminate Cadillac plans	$$$$		Likely
#11: Shift employees to private insurance exchanges	$$$		Likely
#12: Eliminate retiree health coverage	$$$$		Likely
#13: Reduce retiree premium contributions	$$$		Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#7: Franciscan University of Steubenville credits its switch to a low premium, high-deductible health plan with holding the institution's health care cost increases flat over the past two years.	Introducing alternative health plan designs is one way employers are attempting to shift health benefit costs to employees. Offering low premium, high-deductible plans may attract employees away from higher cost employer plans, especially those employees who are young, relatively healthy, and infrequent utilizers of health services. These plans are also accompanied by tax-advantaged savings accounts funded by the employer and/or the employee. Overall, staff are accepting of alternative plan designs, so long as more comprehensive options remain available.
#8: To encourage a shift to the institution's high-deductible health plan, Indiana University offered single employees and employees with families $1,200 and $2,500, respectively, towards employee health savings accounts. Currently, 77% of employees are on the plan, contributing to health benefits savings of over $20M.	
#9: University of Iowa moved to one plan for dental insurance and one plan for health insurance, deciding to move all employees over for financial savings and improved service.	Consolidating or reducing the number of health benefit plans offered to employees reduces the burden associated with negotiating, administering, and educating employees on the numerous plans and annual plan changes, resulting in substantial administrative cost savings.
#10: Northern Kentucky University reduced the number of medical options to three very distinct options, by combining several similar PPO plans into one option, introducing an HMO, and keeping the HDHP Health Savings plan. This resulted in a reduced likelihood of the richest option becoming a Cadillac plan liability. The institution continues to monitor plan design and costs for all medical options that could become subject to the Cadillac tax.	Eliminating long-standing, high-cost health care plans will disproportionately impact longer-tenured employees who are likely more frequent utilizers of health care benefits. Typically, these plans encourage the overuse of medical care and drive up costs for those on other plans. Therefore, this tactic offers a way to right-size coverage. The savings potential associated with phasing out these plans is substantial.
#11: In September 2013, Walgreens announced it would move 160,000 workers to a new health insurance model, joining a growing list of large employers seeking to control costs by having employees shop for coverage in a private marketplace. The drugstore chain will give employees a set amount of money with which to choose health insurance coverage from a wide range of offerings in a fast-expanding private online marketplace run by Aon Hewitt, a large employee benefits consulting firm.	Moving to exchanges helps employers avoid the looming risk of the so-called "Cadillac tax" on rich-benefit insurance plans. Under the ACA, group insurance plans for active or retired workers whose benefits exceed $10,200 for individuals and $27,500 for families will be subject to a 40% excise tax starting in 2018. Exchange coverage is not subject to the excise tax. Under this arrangement, institutions can set up a health care allowance instead of a traditional group health insurance plan to subsidize employee exchange premiums. Although positive for institution’s cost structure, implementing this tactic will impact all employees, many of whom may be put off by more complex insurance choices as compared to the more familiar group insurance system.
#12: University of Richmond eliminated its Medicare Supplement Plan for all staff hired after July 1, 1992.	Over the past several decades, many institutions have eliminated retiree coverage, the result of soaring health care costs and an accounting rule in place since the early 1990s that requires employers to report retiree health expenses as liabilities. As a result, retirees over the age of 65 will rely on Medicare for sole coverage, and institutions can reduce insurance expenses while minimizing balance sheet liabilities.
#13: University of Kentucky stair-stepped down their contributions toward retiree health plan premiums based on date of hire and date of eligibility to retire, reducing costs associated with GASB 45 by roughly $13M annually.	Rather than eliminating retirement coverage altogether, this tactic gradually steps down the employer contribution toward institution-sponsored health care plans for retired employees. Although this tactic shifts the cost burden of health care premiums to retirees, health coverage itself remains intact, making it a more palatable change for those affected.

Source: Fletcher M, ”Walgreens Moves Workers to Private Health Care Exchange,” *The Washington Post*, September 18, 2013, http: //www.washingtonpost.com/business/economy/walgreens-moves-workers-to-private-health-care-exchanges/2013/09/18/46f2c074-2082-11e3-8459-657e0c72fec8_story.html; Franciscan University, Steubenville, OH; Indiana University, Bloomington, IN; Iowa Now, University of Iowa, Iowa City, IA, http: //now.uiowa.edu/2012/10/value-employees%E2%80%94and-ui; Miller M, “Why Employers are Shifting Retiree Health into Insurance Exchanges,” *Reuters*, March 11, 2014, http: //www.reuters.com/article/2014/03/11/us-column-miller-retirement-idUSBREA2A1D620140311; Northern Kentucky University, Highland Heights, KY; University of Kentucky, Lexington, KY; University of Richmond, Richmond, VA, http: //hr.richmond.edu/retirees/benefits/insurance.html; Business Affairs Forum interviews and analysis.

Health Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#14: Offer retiree coverage only through Medicare Supplement plans	$$$	👍👍👍	Not Likely
#15: Offer insurance stipend instead of retiree health coverage	$$$	👍👍👍	Not Likely
#16: Close retiree plans to new entrants	$$$	👍👍👍👍	Likely
#17: Add surcharge for working spouses electing institutional health plan	$$	👍👍👍	Likely
#18: Incentivize spouses to leave health plan	$$	👍👍👍👍	Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#14: Medicare Supplement plans pay benefits for services after Medicare pays its portion. At the University of Vermont, employees hired before January 1, 2012 are eligible to participate in the University's post-retirement medical benefit plan under a generous cost-sharing formula based on employee salary. However, staff hired on or after January 1, 2012 are only eligible to participate in the University's Medicare Supplement Plan when they reach age 65 and have 15 years of benefits-eligible service. Employees are responsible for 100% of the premium but will be eligible for the Retiree Health Savings Plan, which will include an annual contribution from the University of $1,150 per year after one year of service. Even with this annual contribution, cost savings from shifting retirees to a supplemental plan will be substantial.	For institutions seeking to save benefits dollars without eliminating retiree coverage completely, supplemental plan options that cover gaps in Medicare coverage is an alternative. Retirees must sign-up for both Medicare Part A and Part B to enroll in most supplemental plans. It's imperative that institutions pursuing this tactic communicate this requirement. Institutions should also instruct employees to sign up for Medicare Crossover Billing, which notifies the supplemental plan so it can pay any remaining balance, reducing claims paperwork for patients and improving convenience.
#15: Baylor University eliminated contributions to post-retirement health care plans for those over the age of 65, and instead pays all retirees a stipend to supplement Medicare. Retirees were unhappy with how much they were paying for the health plan, and Medicare gives them comparable service. As a result, the university realized a 25% reduction in post-retirement health care costs.	A growing number of institutions that provide coverage to Medicare-eligible retirees are dropping single-employer group insurance plans and pushing retirees to Medicare plans or plans purchased through privately run exchanges. Retirees can put direct institutional subsidies toward the coverage options of their choice. This tactic is less controversial than eliminating health coverage for retired employees completely. It will also benefit some retirees who can switch from a one-size-fits-all institutional plan to a more customizable offering. However, workers who need more coverage may ultimately pay more for their health care in the long run. Overall, reception to this tactic should be moderately positive, since it impacts only retired staff and eligibles will not be deprived of benefits.
#16: Michigan State University discontinued contributions towards retiree health care benefits for employees hired after June 30, 2010.	Employee tolerance for this tactic is high, given the expectation for new employees will be set prior to their hiring, and existing employees are not affected.
#17: Penn State University added a $100 surcharge for spouses and domestic partners eligible for insurance through their own employer.	Introducing a surcharge to monthly premiums reduces institutions' subsidies for working spouses with alternative coverage options. Although likely to trigger some employee pushback, it is a win-win from a financial perspective. The surcharge either reduces the number of covered spouses on the institution's plan or increases employee premium contribution.
#18: One university in the Northeast issues opt-out cash payments of $71 per month to employees whose spouses have waived institutional health care coverage and secured health insurance coverage through their own employer or elsewhere.	Rather than introducing a surcharge for spouses electing coverage through the institution, this approach involves incenting employees to remove their spouses from institution plans completely. Like the surcharge, this tactic can reduce the number of covered spouses on the institution's plan. Incentive payments can be paid as pay-period allocations or periodic lump sums.

Source: Baylor University, Waco, TX; Flaherty C, "Do You Smoke? Pay $75 a Month," *Inside Higher Ed*, July 29, 2013, http://www.insidehighered.com/news/2013/07/29/penn-state-announces-new-health-insurance-surcharges-smokers-others#ixzz31hZoszbe; Memo from Lou Anna K. Simon, April 13, 2010, Michigan State University, East Lansing, MI, http://shapingthefuture.msu.edu/communications/retiree_health_memo.php; University of Vermont, Burlington, VT, http://www.uvm.edu/prmb/; Business Affairs Forum interviews and analysis.

Health Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#19: Offer only secondary spousal coverage	$$$	👍👍👍	Likely
#20: Require working spouses to use their employers' health plan	$$$$	👍👍	Likely
#21: Incentivize employees to use spousal health benefits	$$	👍👍👍👍	Not Likely
#22: Raise premiums for dependent/family coverage	$$	👍👍	Likely
#23: Audit and remove ineligible dependents	$$$	👍👍👍👍	Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#19: Spouses employed elsewhere and eligible for employer-sponsored health and/or dental coverage are not entitled to primary coverage under Ivy Tech Community College of Indiana's plans. Rather, spouses enrolled in their employer's health and/or dental plans are eligible for coverage by the College's plans on a secondary coverage basis upon completion of an Eligibility Questionnaire. Secondary coverage refers to the charges, damages, or risks denied by the primary policy and assumed by the College's health plan. The institution saved $1.3M in 2011, about 5% of its $27M health care budget.	A compromise solution for discouraging spousal coverage, this tactic adds the administrative burden of benefit coordination. It also puts the institution at risk for some employee fallout, especially for spouses caught in the middle of scope-of-coverage disputes.
#20: At Susquehanna University in Pennsylvania, employee spouses covered by their own employer's health care plan are no longer eligible for coverage through the institution's health care plan, resulting in savings of $450K.	Employing this tactic will reduce the number of covered spouses on the institutions plan. This tactic will most likely trigger the most aggressive employee pushback as compared with other tactics that impact spousal coverage, as higher education institutions have more generous health benefit offerings. However, the savings potential is the greatest.
#21: This tactic involves paying employees an incentive to forego the institution's coverage. At the University of Iowa, employees who receive benefits from spousal plans are able to keep a portion of the university health plan contribution and put it towards dependent coverage or flexible spending. As a result, the university was able to reduce its overall health care contribution.	This strategy reduces covered lives on the plan, but can lead institutions to make pay-outs to employees who would have chosen other coverage anyway. Additionally, higher education institutions have more generous health benefit offerings compared to other industries, and with modifications, higher education benefits may still appear more desirable than the alternatives offered by a spouse's employer. Employers should discontinue this practice once employee shifts have plateaued.
#22: In 2014, Lafayette College increased overall employee health care premiums by 9.8%. However, premium increases were lower for employees only insuring themselves and higher for employees also opting to insure spouses and dependents. The college pays 90% of the premium for an individual employee, and only 67% of the combined premium for employees, spouses, and dependents.	Increasing institutional health plan premiums may encourage staff members to seek coverage through working spouses or through public exchanges. However, changing plans to discourage dependent and family coverage may be less effective in economic downturns, as more family members may be reliant on institutions' employees for their own coverage.
#23: University of St. Thomas conducted an audit of its medical plan and found that 56 (4.4%) of the 1,211 active dependents enrolled in the plan were ineligible for benefits. The institution quickly removed ineligible spouses and dependents from the health plan. The total cost of the project was $26,444, but first-year savings are expected to exceed $230K.	It is common for ineligible dependents of staff to receive health care coverage through institutionally funded health plans. However, employees often improperly claim dependents under the institution's health plan, or the institution itself fails to monitor common life changes leading to a dependent's ineligibility. Common sources of errors are children aging out of their parents' plans or recent divorces rendering a former spouse ineligible. Additionally, an employee's spouse or child may already have insurance elsewhere, but the institutional plan is not being used as secondary or supplementary insurance. This tactic not only helps institutions save on health care premiums, but relieves the institution from medical bills of ineligibles who might have exceeded coverage limits. This is especially salient given higher education institutions tend to pay a higher percentage of health care costs for employees and their families than other industries.
#23: In 2010, University of Georgia increased documentation requirements for dependent and spousal coverage and hired an external company to audit its dependent health insurance coverage. The audit found that 3,687 dependents did not meet plan eligibility guidelines. The resulting savings were close to $3M.	

Source: HMS Employer Audit—University of Georgia, http: //employeraudits.com/solutions/dependent-eligibility-verification-audits/case-studies/; Ivy Tech Community College of Indiana, Carmel, IN, http: //www.ivytech.edu/humanresources/handbook/ft/health-care-programs/eligibility-and-expense/; Lafayette Open Enrollment Brochure, Lafayette College, Easton, PA, http: //hr.lafayette.edu/files/2012/11/Actives-Open-Enrollment-Brochure-2014_final.pdf; Shearer L, "Verify Dependents, UGA Workers Told," *Online Athens*, May 9, 2010, http: //onlineathens.com/stories/050910/new_636709987.shtml; Tobenkin D, "Spousal Exclusions on the Rise," *HR Magazine,* November 1, 2011, http: //www.shrm.org/publications/hrmagazine/editorialcontent/2011/1111/pages/1111tobenkin.aspx; Susquehanna University, Selinsgrove, PA; University of Iowa, Iowa City, IA; University of St. Thomas, Saint Paul, MN, http: //www.stthomas.edu/news/results-published-for-dependent-eligibility-audit-of-st-thomas-health-care-plan/; Business Affairs Forum interviews and analysis.

Health Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#24: Limit health benefit eligibility based on employment status	$$	👍👍	Likely
#25: Mandate in-network pharmacy use	$$	👍👍👍	Not Likely
#26: Require mail-order pharmacy use	$$	👍👍	Not Likely
#27: Require generics for costly drugs	$$	👍👍👍	Not Likely
#28: Incent domestic utilization	$$	👍👍	Not Likely

<table>
<tr><th>Capsule Description and Sample Institution</th><th>Implementation Guidance</th></tr>
<tr><td>#24: University of Vermont's food services contract with Sodexo previously defined full-time as working at least 30 hours for at least six of the 13 weeks in a fiscal quarter. Additionally, changes in employment status could only be applied after three consecutive quarters not meeting this definition. A new contract with the vendor now requires employees to average at least 30 hours per week over a 52-week span to be considered full-time. As a result, University of Vermont's food service workers who do not work during the University's summer vacation will no longer receive health care benefits.</td><td>This tactic involves changing eligibility requirements and dropping members whose employment status no longer meets eligibility guidelines. It requires reviews of employees covered by the institution's health plan to ensure insurance is limited to qualified employees. Institutions should frequently monitor changes in employee status to ensure they actually meet requirements for full-time or part-time benefits.</td></tr>
<tr><td>#25: This tactic involves adjusting plans to narrow pharmacy coverage for drugs purchased from out-of-network pharmacies. Vanderbilt University incents employee utilization of its own pharmacies (associated with the Vanderbilt Medical Center) by offering $1 copays. It otherwise restricts pharmacy utilization to its broader in-network pharmacies and its in-house, mail-order prescription drug service.</td><td>Self-insured institutions can negotiate favorable pricing with preferred pharmacies to create noticeable price differentials, a share of which can be passed down to enrollees and encourage lower-cost utilization.</td></tr>
<tr><td>#26: A new mail-order pharmacy contract for the University of Michigan's prescription drug plan has produced annual savings of $1M since 2011.</td><td>This tactic involves rolling back pharmacy coverage for drugs purchased from brick-and-mortar pharmacies to incent lower-cost utilization of mail-order options.</td></tr>
<tr><td>#27: By more closely monitoring prescription drug benefits and utilization, University of Kentucky was able to increase utilization of generic medications, resulting in savings of over $10.7M.</td><td rowspan="2">Historically, 20% of drugs drive 80% of pharmacy costs. This tactic involves adjusting plans to more aggressively target highest-cost drugs and narrow coverage to generics. Although tremendous employee pushback should not be anticipated, institutions can expect some resistance from those who believe generic medications are not as effective as their brand name counterparts. Before mandating this tactic, institutions should educate staff that although generic drugs may look different, they have the same active ingredients as the brand name equivalents. National drug laws require that generics be the same quality and work the same way as brand name versions. Additionally, institutions should promote the overall cost savings for both the institution and the consumer.</td></tr>
<tr><td>#27: From 2003 to 2011, University of Michigan increased the use of generic prescriptions from 46% to 81%. The University saved approximately $2M in calendar year 2011. The University and employees have saved roughly $23M cumulatively from 2001 to 2012 as a result of increased use of generic drugs.</td></tr>
<tr><td>#28: Vanderbilt University partners closely with its medical center to route employees towards the institution's doctors and hospitals. Senior leaders credit this strategy with helping the institution avoid health care cost increases for the last three years.</td><td>Institutions affiliated with a medical school can implement exclusive provider organizations with their own systems as covered networks. This tactic offers an opportunity to more aggressively penalize non-domestic utilization. Institutions should anticipate some employee pushback, as many previously in-network providers may now be out-of-network.</td></tr>
</table>

Source: Cost Containment Efforts—December 2012, University of Michigan, Ann Arbor, MI, http://www.vpcomm.umich.edu/pa/key/budget/documents/costcontainment-2012.pdf; Dobbs T, "UVM Food Service Workers Face Benefits Cuts, Faculty Union Steps In," October 9, 2013, *VPR*, http://digital.vpr.net/post/uvm-food-service-workers-face-benefits-cuts-faculty-union-steps; Eberle B, "Campus Pharmacy Benefit Management Partners," *University Business*, May 2011, http://www.universitybusiness.com/article/campus-pharmacy-benefit-management-partners-0; University of Kentucky, Lexington, KY; Vanderbilt University 2014 Navitus Pharmacy Booklet, Vanderbilt University, Nashville, TN, http://hr.vanderbilt.edu/benefits/2014NavitusPharmacyBooklet.pdf; Business Affairs Forum interviews and analysis.

Health Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#29: Reduce short-term disability benefits	$	👍👍👍👍	Not Likely
#30: Reduce long-term disability benefits	$	👍👍👍👍	Not Likely
#31: Reduce duration of paid extended sick leave/short-term disability	$	👍👍👍👍	Not Likely
#32: Reduce duration of paid long-term disability	$	👍👍👍👍	Not Likely
#33: Switch to shared-cost/employee-funded disability plan	$	👍👍👍	Not Likely
#34: Add tobacco surcharge	$	👍👍👍	Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#30: By lowering monthly disability benefits from 70% down to 60% for short-term disability, and from 66.6% down to 50% for long-term disability, one university significantly reduced disability benefits premiums.	Employees are not likely to resist modifications to either short- or long-term disability coverage, as the individual likelihood of utilizing either benefit is low compared to more commonly utilized health benefits. Also, employees always have the option of purchasing an individual supplemental plan.
#31: This tactic involves shortening the duration of extended sick leave or short-term disability benefit payouts for eligible employees. At one college, employees eligible for short-term disability benefits now receive partial pay for 15 weeks, up to a maximum benefit of $1,500 per week, after a seven-calendar-day wait period before receipt of benefit payments. This is down from 26 weeks under the previous leave policy.	It is important to note that while short-term disability is not a requirement in most places, some states such as Hawaii, New Jersey, New York, and Rhode Island mandate short-term disability benefits for eligible employees be provided for up to 26 weeks. Adding an elimination period to the policy or a waiting period between an injury and the receipt of benefit payments can help keep disability premiums low. Additionally, for institutions that do not guarantee employees their full pay during an extended sick leave or through disability payments, a policy requiring employees to use sick days and PTO before going on leave can help eligible employees receive their full pay for a longer duration.
#32: This tactic involves tightening the long-term disability payout period for eligible employees. One university reduced the long-term benefit period from "to age 65" to 10 years for employees suffering from a disability that began before the age of 60. It also added a 90-day waiting period before the benefit can be received, further reducing costs to the institution. This policy change saved the institution approximately 20% on the original benefit premium cost.	A decision about long-term disability start date depends on the length of the institutions current short-term disability plan. Long-term disability benefits should start just as the short-term plan stops, to avoid paying an employee twice. Additionally, long-term disability has the potential to pay out until the age of 65. However, plan options are available that limit disability payments to five or 10 years beyond where short-term disability policies leave off. Adding an elimination period or a waiting period between an injury and the receipt of benefit payments can also help keep disability premiums low.
#33: Voluntary programs for which the employee pays the entire disability premium now make up half of all long-term disability offerings, up from 41% in 2002. The University of Southern California made this shift. Its short-term disability benefit is now a voluntary, 100% employee-funded plan. Employees who opt in make their contributions on a pre-tax basis.	Many institutions offer both short- and long-term disability benefits. However, this tactic shifts costs of disability benefits away from the institution and onto employees. Institutions can expect minimal employee resistance, as the likelihood of needing short-term disability are relatively low, and employees can opt out of the coverage.
#34: Emory University applies a $50 monthly surcharge to health care premiums for any employee or spouse who uses tobacco.	Depending on the surcharge amount, this tactic could be an effective way of motivating smokers to quit. Lowering the prevalence of serious medical conditions associated with smoking will also positively impact institutions' overall health care costs.

Source: Emory University, Atlanta, GA, http: //www.hr.emory.edu/NewsYouCanUse/Final-FAQs-TobaccoSurcharge.pdf; Recommended Changes to UA's Health Care Plan for FY12, University of Alaska System, http: //www.alaska.edu/files/benefits/SWHRmemoPresidentGamble.pdf; Short-Term Disability Benefit Plan, University of Southern California, Los Angeles, CA, http: //www.usc.edu/dept/Benefits/pub/disbility/Short-Term_Disability_Plan_Summary.pdf; Business Affairs Forum interviews and analysis.

Fringe Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#35: Reduce PTO rollover	$$	👍👍👍	Likely
#36: End PTO rollover	$$$	👍👍	Likely
#37: End PTO cash-out	$$	👍👍👍	Not Likely
#38: End PTO payout	$$	👍👍	Likely
#39: Reduce PTO payout max	$	👍👍👍	Likely
#40: Reduce PTO accrual	$$	👍	Likely
#41: Require PTO draw-down	$	👍👍	Likely

Capsule Description and Sample Institution	Implementation Guidance
#35: In 2013, DePaul University reduced the amount of vacation full-time staff could carry over from one calendar year to the next from two weeks to one week. This initiative encouraged employees to use most of their vacation allotment in the year in which it accrued versus transferring a greater portion of the previous year’s vacation into the next.	These tactics represent opportunity for higher education institutions to right-size rollover rates that are currently more generous than in other industries. Reducing or eliminating PTO rollover encourages PTO drawdown over time, reducing accounting liabilities and improving days' cash on hand.
#36: The University of Texas in San Antonio previously assigned 24 hours of floating holidays to employees to use at their convenience. Staff could also carry forward and cash out these holidays upon termination. The institution now assigns all holidays during a calendar year so that time can no longer be carried forward. HR estimates annual savings to be approximately $100K per year.	
#37: PTO cash-out policies pay employees for paid time off that they did not take during the year. Under one university PTO policy, staff were able to cash in up to 20 days of their paid time off each year. In 2012, the institution phased out this option, resulting in savings of approximately $360K.	Eliminating PTO cash-out options decreases accounting liability for time off and reduces the number of annual cash payments to employees. By implementing this tactic, employees are unable to liquidate their entire PTO balance at once and are more likely to have hours in their PTO "bank" at any given time to account for personal emergencies. Institutions can set limitations on their PTO cash-out programs if completely eliminating the option is not feasible. For instance, institutions can require employees to elect a cash-out payment only during certain windows in the year. In these cases, staff can only receive payment for already "banked" or accrued time off. Alternatively, institutions can enforce a cash-out maximum.
#38: PTO payout policies pay employees for their unused PTO when they separate from the institution. One university no longer allows employees to receive a lump sum for their unused PTO upon leaving the institution. Savings are estimated at $1M.	Eliminating PTO payout options decreases accounting liability for time off and reduces the number of annual cash payments to employees. Institutions must give fair warning to staff before implementing this tactic. It is possible this tactic will induce early retirements, since employees nearing retirement who have many years of PTO will not want to lose the payout opportunity.
#39: Although staff at Rensselaer Polytechnic Institute in New York are able to roll unused PTO forward, the institution reduced the payout maximum for PTO accrued by departing staff from four years to two years, saving the institution over $300K annually.	If eliminating payout options completely is not feasible, opportunities to reduce payout dollar maximums or number of PTO days that can be applied to PTO payouts also exist.
#40: One institution saved over $90K in annual PTO payouts by eliminating an existing PTO policy allowing employees to accrue PTO days while on vacation, out sick, or when away from work.	This tactic provides an opportunity for institutions to rightsize accrual rates that are currently more generous than other industries. When reducing the maximum accrual, institutions may be required to cash-out excess PTO above the new maximum, if a cash-out option exists. However, phasing in the reduction over a period of years can help avoid such heavy payouts.
#41: Susquehanna University mandated that employees draw vacation and PTO down to less than four weeks at the end of the year or lose it completely. This has helped the institution avoid large payouts when staff leave the organization.	Although it does not amount to real dollar savings, this tactic offers a way to quickly improve days cash on hand by reducing accounting liabilities for time off and potential PTO payouts. This tactic has the potential to disproportionately impact staff with inflexible work arrangements who are not able to expend PTO readily across the year.

Source: 2011 Cost Reduction Responses, University of Texas System, Austin, TX, http: //www.utsystem.edu/eac/2011CostReductionResponse.pdf; 2013–2014 Budget Initiative HR Memo, DePaul University, Chicago, IL, https: //hr.depaul.edu/ContributionFolder/Documents/Budget%20Initiatives/HR%20Memo%202013-2014%20Budget%20Initiatives.pdf; Susquehanna University, Selinsgrove, PA; Rensselaer Polytechnic institute, Troy, NY; Business Affairs Forum interviews and analysis.

Fringe Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#42: Offer higher PTO accrual rates for lower pay	$		Not Likely
#43: Limit PTO/sick leave accrual for part-timers	$		Not Likely
#44: Reduce tuition reimbursement	$		Likely
#45: Shift to defined-contribution retirement plans for new hires	$$$$		Likely
#46: Reduce employer contributions to retirement plans	$$$$		Likely
#47: Reduce retirement contributions for employees with $0 self contributions	$$		Likely
#48: Match retirement contributions only once per year	$$		Likely

Capsule Description and Sample Institution	Implementation Guidance
#42: At one college, full-time staff are eligible to receive additional days of PTO per month in conjunction with corresponding reductions in salary. The rate of additional PTO accrual and associated rate reduction is based on each employee's length of service. The majority of staff agreeing to the arrangement are close to retirement and utilize the benefit as a gradual exit program, phasing in more and more personal time into weekly work schedules.	This tactic only saves money when offered to employees in positions where backfilling is unnecessary. Employees closer to retirement looking to scale back are more likely to accept such an option. Institutions should ensure those agreeing to this tactic draw down their accrued PTO in a timely fashion, especially when PTO cash outs are still in policy.
#43: This tactic involves raising the minimum level of hours part-time employees must work to accrue PTO or sick leave. At the University of Michigan, part-time employees must have a 0.5 appointment to accrue PTO, instead of the previous requirement of a 0.2 appointment.	Institutions should frequently monitor changes in employee status to ensure employees continue to meet requirements for part-time PTO and sick leave accrual.
#44: Rensselaer Polytechnic Institute raised tuition copay for employees, as well as their spouses and children from 0% to 20%. As a result, the institution is able to recoup $1.5M annually.	Reducing tuition benefits is a relatively quick source of savings. However, because it represents one of the most obvious benefits to working in a higher education institution, employee resistance has the potential to be high.
#45: At one university, employees hired on or before September 8, 2013, can continue to participate in the institutions defined benefits plan through a public employee retirement fund. However, staff hired after this date will only be eligible to participate in a defined contribution plan. The institution expects to accrue millions of dollars in savings over time as generations of workers phase out of the fund.	This tactic represents a more tolerable solution for reducing institutions' long-term retirement benefit liability, as it only impacts newly hired employees. By shifting to a defined contribution plan for new hires, institutions can chose to match contributions to current employees' retirement accounts without guaranteeing a lifelong stream of income, resulting in significant savings in the long term. It also shifts plan ownership, costs, and long-term obligations associated with managing a pension plan onto employees and away from the institution.
#46: Drew University in New Jersey reduced its contribution to employee retirement plans from 10% to 8% and achieved $1.2M in savings, approximately 2% of the institution's overall payroll. #46: One Midwestern university reduced retirement contributions from 14.2% to 8% of employees' salary, resulting in savings of $18M.	This tactic represents a quick way for institutions to find savings and potentially avoid staff layoffs. However, employee pushback will be high. Eliminating contributions entirely should only be a temporary solution. Employer contributions should be reinstated after institutions have rebounded from economic downturns.
#47: Georgetown University contributes up to 10% of an employee's gross pay towards their defined contribution plan conditional on an employee contribution of at least 3%. Employee contributions of less than 3% trigger diminished university contributions, down to just 5% for employees who do not contribute at all.	This tactic represents a more palatable alternative to reducing retirement contributions across the board. In addition to creating savings for institutions, it discourages employees from relying solely on the institution for retirement contributions and encourages them to be more proactive in their retirement planning.
#48: One university now deposits employer-match funds into the defined contribution retirement plan once a year, rather than each pay period. Employees must be employed on December 15th of each year to receive the funds, and the match is allocated on the last business day of each year. Savings result from not matching the annual contributions of employees who leave before the end of the year.	Although the amount employees receive will not change, those who leave the institution prior to the end of the year will not receive that year's matching contribution. This tactic will have no impact on those who do not have immediate plans to leave the institution.

Source: Drew University, Madison, NJ; Georgetown University, Washington, DC, https://benefits.georgetown.edu/saving/defcontributions; Rensselaer Polytechnic institute, Troy, NY; Woodhouse, K, "University of Michigan to alter employee retirement benefits in 2015," *MLive*, March 17, 2014, http://www.mlive.com/news/ann-arbor/index.ssf/2014/03/post_19.html; Business Affairs Forum interviews and analysis.

Fringe Benefits

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#49: Introduce new-hire waiting period for retirement plan eligibility	$$$		Likely
#50: Limit income types eligible for retirement contributions	$		Likely

Capsule Description and Sample Institution	Implementation Guidance
#49: By adding a one-year waiting period before new employees can receive university contributions toward retirement savings accounts, University of Michigan reduced costs by $13M annually.	Employee acceptance of this tactic will be higher than many other tactics impacting retirement plan changes because it only impacts newly hired employees.
#50: Under existing guidelines at University of Michigan, an employee's entire income is considered when the University calculates retirement contributions. However, policy changes will limit the types of income eligible for annual retirement contributions, which can account for up to 10% of employees' salaries. The institution expects annual savings of roughly $4.4M when the new policy takes effect January 1, 2015.	This tactic requires adjusting the calculation for base salary upon which retirement contributions are based. Compensation such as administrative and added-duty differentials (extra pay earned when employees take on tasks unrelated to their positions), faculty honors, overtime, and PTO payouts are no longer factored into base income calculations.

Source: Cost Containment Efforts—December 2012, University of Michigan, Ann Arbor, MI, http: //www.vpcomm.umich.edu/pa/key/budget/documents/costcontainment-2012.pdf; Woodhouse, K, "University of Michigan to alter employee retirement benefits in 2015," *MLive*, March 17, 2014, http: //www.mlive.com/news/ann-arbor/index.ssf/2014/03/post_19.html; Business Affairs Forum interviews and analysis.

Benefits Vendor Management

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#51: Renegotiate vendor premiums	$$	👍👍👍👍	Not Likely
#52: Rebid vendor contracts	$	👍👍👍	Not Likely
#53: Assess pharmacy benefit managers	$$	👍👍👍👍	Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#51: This tactic represents a straightforward way to revisit existing vendor premiums and fees and establish discounts based on utilization, contract duration, and administration support requirements. By revisiting and renegotiating life insurance vendor contracts, University of Michigan received an 18% overall premium rate reduction, lowering the University's annual life insurance contribution by 23%, or $400K.	Regardless of its expiration date, restructuring an agreement entails reviewing not just the terms of the agreement, but also the nature of services provided and current business needs to ensure the contract still provides value for all stakeholders. This tactic can only positively impact employees—if institutions can negotiate price reductions, those savings can be passed down to employees.
#52: This tactic involves leveraging the bidding process to ensure existing vendor offerings are competitive and desired options are reflected in contracts. University of Kentucky saved $248K in general funds by rebidding its current life insurance policy.	Due to vendor transition costs and penalties associated with contract termination, decisions to rebid should not be entered into lightly. It is most applicable when current agreements have not met expectations or if services are no longer relevant. One alternative to rebidding an entire contract is to terminate and re-source a subset of services. This offers an opportunity to "best source" a particular service or set of services, but can potentially impact pricing for retained services with the current provider. Depending on the level of third-party integration with staff and current work processes, contract termination or introducing new vendor partners may have a greater impact on employees.
#53: University of Michigan negotiated a new Pharmacy Benefit Manager contract with SXC Health Solutions for prescription drug claims. The University realized a $4.3M reduction in contract pricing, much of which was due to average wholesale pricing discounts.	Pharmacy benefits are typically the most utilized benefit by plan members and one of the fastest growing in terms of cost. Consequently, selecting the right pharmacy benefit manager (PBM) is a critical decision in managing a plan and determining member satisfaction with that plan. A deeper review of potential PBM partners should include an understanding of (1) discounts for each year of the agreement, (2) pricing per pill, (3) generic fill rate and plan for transitioning to generics, (4) plan management and reporting capabilities, (5) mail order and retail maintenance medication capabilities, and (6) possible risk-sharing arrangements. A third-party carve-out PBM typically provides greater control over the terms of the contract and saves money by cutting out the middleman. However, bundling the PBM with the institution's medical insurance carrier is easiest to administer because there is only one carrier, one contact, and one service team. A third option of a consortium-based PBM gives institutions increased buying power, which presumably translates to better rates. However, individual institutions may lose some control over contract terms when dealing with brokers.

Benefits Vendor Management

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#54: Assess TPA/network discounts	$$		Not Likely
#55: Raise stop-loss deductibles	$		Not Likely
#56: Negotiate shared savings agreements with insurers	$$		Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#54: This tactic entails self-insured institutions assess TPA network discounts against actual claims. One university requested that four large TPA/networks run three years of claims history through pricing systems to determine which network best fit its employee utilization patterns. The results suggested that switching providers would provide better discounts, and ultimately saved the institution $2M annually.	Although acceptance of this tactic will be relatively high, network changes have the potential to impact a small number of employees whose providers are no longer in-network.
#55: Conducting a broad RFP for stop-loss coverage, one institution received quotes from seven carriers at three deductible levels each. The institution ensured that each carrier would provide identical coverage, then examined three years of claims data to estimate expected high-cost claims in coming years. The institution used this information to mimic calculations made by the insurance company to set premiums—assigning dollar figures to premiums and additional claims exposure under various deductible scenarios—and compared overall differences in cost. The institution ultimately elected to increase its deductible from $125K to $200K, with aggregate savings from the transition over the following three years totaling over $140K.	This tactic is applicable to self-insured institutions and involves applying three proven industry reference points to determine the appropriate deductible for stop-loss insurance: (1) The deductible should be set to roughly 2% to 5% of total health benefits plan spend, (2) Claims covered by stop-loss carrier should be about 3% to 6% of total health benefits plan spend, and (3) Premiums should be between $200K to $500K, regardless of institution size, as anything over $600K represents a markup by carrier for expected claims. Although raising the deductible is the right answer for most, institutions with limited cash flows should determine their ability to absorb occasional one-year hits.
#56: In 2013, a college in Ohio paid more in health benefits premiums than their insurance vendor paid out in medical claims. In response, the institution entered into a new agreement in which the college and the insurance company split savings that come as a result of reduced employee health care spending. The college believes costs will drop this year due to the agreement to share savings below a negotiated threshold.	Extensive, ongoing assessments of claims and utilization data are crucial for achieving savings. Negotiating such agreements can be complex and will most likely require dedicated contract specialists. This tactic may be easier for self-insured institutions or for those participating in aggressive wellness and employee health initiatives.

Employee Headcount

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#57: Freeze hiring	$$$		Not Likely
#58: Create hold period for vacancies	$$		Not Likely
#59: Enact targeted layoffs	$$$$		Likely
#60: Consolidate management layers within departments	$$		Not Likely
#61: Expand management oversight to like departments	$		Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#57: The University of South Florida froze 75 positions with salaries ranging from $30K to $135K for three months, resulting in savings of roughly $1.2M.	Hiring freezes can generate immediate cost savings, and also serve as a mechanism by which the need for new or vacant positions can be scrutinized. However, care should be taken not to "cut too deep" when deciding not to backfill vacant positions—ensure existing staff are capable of maintaining current service levels and handling potential increases in work volumes.
#58: This tactic involves intentionally holding all vacancies open for a set period of time before posting or filling the position. Typical time frames range from two to six months. For the University of Arkansas in Fort Smith, temporarily keeping position vacancies open has led to an estimated annual savings of $500K.	Establishing a period of time that newly vacated positions should be held open before they are backfilled has several cost-related benefits. A mandatory hold period intentionally slows down the hiring process, allowing units to reexamine processes and workflows, and pinpoint actual staffing needs. It pushes units to utilize existing resources in a more efficient way, potentially reducing the need to hire more staff. Additionally, it lets vacancy review leaders "batch" vacancies from across units to determine where the greatest need for staff exists and prioritize filling those roles. In addition to the marginal savings created by the hold, more substantial year-over-year savings are achievable when the vacancy review process and mandatory hold periods are used to identify excess capacity and prevent automatic, sometimes unnecessary, backfilling of various roles across the institution. Some exceptions to the hold period are justified—jobs with a disproportionate impact on public safety, requiring highly specialized or hard-to-find skill sets, as well as units with exceptionally high turnover should be exempt from mandatory vacancy holds.
#59: Texas A&M University used a combination of data analytics, workflow process scrutiny, and unit leader input to enact a principled layoff process. The result was the targeted dismissal of 255 employees, 150 in administration and 105 faculty.	This tactic is often thought of as the option of "last resort" for reducing administrative overhead. Rather than pursuing across-the-board cuts, positions should be eliminated based on business need and strategy alignment. Coordinated communication is critical to maintaining the morale of existing employees.
#60: Through its vacancy review process, College of Saint Rose in New York was able to reduce administrative layers by eliminating a full-time project manager position who made over $100K. The VP overseeing the division did not backfill the vacated position, but instead, distributed the work of the position across the three line managers below.	This tactic involves reducing administrative layers by holding vacant management positions open and distributing tasks up or down to existing management staff. Depending on the institutional bureaucracy, this tactic has the potential to significantly reduce staffing layers contributing to burdensome structures and over-inflated administrative costs.
#61: Alfred State College in New York merged two Director-level positions—Director of Financial Aid and Director of Student Accounts—into a Director of Student Financial Services role that oversees both Financial Aid and Financial Services. As a result, the institution was able to eliminate a senior management position and recoup the salary savings.	This tactic involves broadening the span of director-level oversight to multiple departments or units to reduce the number of high-paid management positions. Pairing like-departments will help leaders pinpoint where this tactic would be best deployed. Careful consideration should be made when identifying which directors will take on a broader scope of management responsibilities. The same consideration should also be applied to ensuring these individuals are not spread too thin.

Source: Alfred State College, Alfred, NY; College of Saint Rose, Albany, NY; Cost Containment 2009–2010, University of Arkansas, Fort Smith, AK, http: //uafs.edu/about/uafs-cost-containment-information; Rosenthal A, "Library Hours Funded by Hiring Freeze," *The Oracle*, University of South Florida, Tampa, FL, http: //www.usforacle.com/library-hours-funded-by-hiring-freeze-1.2840070#.U4OFXCjihKd; Texas A&M University, College Station, TX; Business Affairs Forum interviews and analysis.

Employee Headcount

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#62: Allow temporary labor contracts to expire	$$$	👍👍	Not Likely
#63: Outcounsel underperformers	$	👍👍👍	Likely
#64: Incentivize early retirement	$$	👍👍👍👍	Not Likely
#65: Offer voluntary severance	$$$	👍👍👍👍	Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#62: University of Arkansas in Fort Smith saved $47K by discontinuing temporary employment services primarily obtained through external temp firms and staffing agencies.	Terminating the contracts of supplemental labor is a straightforward tactic that can provide significant savings for institutions. However, institutions should not move forward with this practice without first assessing how it will impact current work processes and remaining full-time staff. Units relying on contract labor to deliver new service offerings should be spared, as internal staff need sufficient time to acquire skills necessary to perform the new tasks. Additionally, institutions should not let all supplemental labor contracts expire at once. The approach should be gradual, starting with contracts in support of less-critical functions or functions with full-time staff available to fulfill roles, and allow for extensions when and where appropriate.
#63: Managers at Webster University are incented to proactively outcounsel underperformers throughout the year. Leaders give managers a choice to either selectively manage out under-performers or have their units' budgets indiscriminately cut. The institution has also invested in managerial training for how to manage out underperformers as part of a push to reduce headcount.	Outcounseling chronic underperformers is recommended as a primary strategy for reducing headcount while protecting high performers. For organizations with suboptimal performance management processes, several months should be allocated to properly document disciplinary action and make the case for rightful termination. However, institutions with a unionized workforce may find it difficult to lay off its lowest-performing workers under a collective-bargaining agreement.
#64: In 2008, University of Iowa began a five-year early retirement program that has resulted in just under $65M in savings. The plan has three distinctive features. First, unit leaders have to approve an eligible employee's requests to participate in the early retirement package. This helps ensure that units do not lose critical positions. Second, unit leaders with a participating employee must submit a five-year plan to HR explaining how the vacancy would lead to unit savings, highlighting opportunities for backfilling with cheaper labor, restructure the unit, or redistribute or eliminate work. If the proposed plan plus the cost of the retirement buy-out add up to less than $25K in annual savings, HR will not approve the request. Third, HR monitors and screens all new labor spending requests by units participating in the early retirement program to ensure that they are meeting their savings goals. Over the last 5 years, over 1,100 faculty and staff have participated in the program.	Early retirement incentives have been used by many institutions to reduce staff and cut expense. It is a particularly appealing tactic to highly unionized institutions unable to selectively trim the workforce. To garner savings, institutions should limit backfilling workers who accept this incentive. If a replacement is necessary, new employees would ideally be brought into lower positions or pay grades. A possible downside to offering such an incentive is losing crucial staff members or high-performing workers with difficult-to-replace skills. To avoid this, institutions pursuing this tactic should direct offers toward specific business units or job classifications that are effectively target areas with redundancies or pockets of poor performance. Additionally, institutions should be conscious of over-incenting, as being too generous could spur mass separations and potentially negate any anticipated cost savings.
#65: In 2013, University of Alberta in Canada offered a voluntary severance package to all academic and administrative staff. Severance payments were based on complete years of service, with one month severance for each completed year up to a maximum of 12 months. The institution eliminated all 122 positions of staff who volunteered for the program and retained savings centrally.	This tactic is similar to offering early retirement incentives, but has a greater reach—with few exceptions, most regular status employees are eligible to participate in severance programs. However, to ensure savings are realized, institutions should avoid backfilling vacated positions and maintain headcount reductions necessary to fund such programs.

Source: Cost Containment 2010–2011, University of Arkansas, Fort Smith, AK, http: //uafs.edu/about/uafs-cost-containment-information; University of Alberta, Edmonton, Alberta, Canada; University of Iowa, Iowa City, IA; Webster University, St. Louis, MO; Business Affairs Forum interviews and analysis.

Compensation

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#66: Freeze pay raises	$$$$	👍👍	Likely
#67: Reduce pay for senior-level administrators and academic leaders	$	👍👍👍👍	Not Likely
#68: Tie manager incentives to enrollment targets	$	👍👍👍👍	Not Likely
#69: Eliminate manager incentive pay	$$	👍👍👍	Not Likely
#70: Reduce staff merit pool	$$	👍👍	Not Likely
#71: End merit raises for underperformers	$	👍👍👍	Likely

Capsule Description and Sample Institution	Implementation Guidance
#66: Most employees at Tufts University agreed to forgo raises in FY 2010 amid severe financial cuts.	This tactic currently poses a smaller risk to employee engagement than expected, as staff anticipate such action during economic downturns. Reductions in compensation should be adjusted back to market levels when financial outlooks improve to prevent unwanted turnover.
#67: For the sixth year in a row, the President at Michigan State University has turned down a near $25K salary increase, citing the tenuous economic conditions.	This tactic sends a positive message to staff and demonstrates that the burden of institutional hardships will also be shouldered by decision makers. Reductions in compensation, however, should be adjusted back to market when financial outlooks improve to prevent unwanted turnover.
#67: At Washington University in St. Louis, the chancellor volunteered to take a 5% pay cut on the first of the year and another 5% cut mid-summer. Deans and vice chancellors also volunteered to forgo pay increases in the coming year.	
#68: This tactic involves linking management incentive pay to financial outcome measures that prevent the institution from paying out money it does not have. Susquehanna University ties all management bonuses to overall enrollment targets. Meeting the enrollment target triggers bonus payouts, but amounts are dependent on performance against other unit-specific goals. If the enrollment target is not met, the institution pays no bonuses, safeguarding funds needed to meet the shortfall.	This tactic is less a cost savings measure than a practice to ensure management incentives are funded only when institutional goals are met. This is an easily justifiable practice and especially salient for staff that can directly impact established targets.
#69: The University of California discontinued its incentive award pool for managers, leading to savings of $4.8M.	For institutions with performance-based merit structures, this tactic will disproportionately impact top performers accustomed to receiving such incentives. Incentive pay should be reinstated when financial outlooks improve to prevent unwanted turnover.
#70: Susquehanna University trimmed its merit pool for staff from 3% to 2% in FY 2013, resulting in savings of $250K.	Although many institutions have reduced merit increases in response to stiffening compensation budgets, many have maintained flat, across-the-board pay increases. Unfortunately, this approach not only overpays low performers, but sends a discouraging message to top-performing staff that elevated discretionary effort is not valued. To get the most out of the smaller merit pools, institutions should consider allocating higher increases to a smaller group of top performers and reserving less for those needing improvement. By further differentiating merit pay, institutions create a powerful financial incentive to motivate improved performance.
#71: In this tactic, employees with the lowest performance score receive no merit increase, while merit increases for the vast majority of staff are unaffected. At one university in the South, employee merit pay increases range from 0% to 4% of salaries, based on performance evaluation scores and available university budget. Employees meeting or exceeding performance expectations receive a 2% or 4% annual merit pay increase, respectively. However, employees rated as “needs improvement” do not receive an increase at all.	This is a less complex method of reducing the staff merit pool. It does not mandate increase adjustments for all staff, but instead, requires withholding increases for one group of underperformers. As few staff will be impacted, resistance is low. Institutions may also consider redistributing some portion of savings to increasing merit pay for top performers to further differentiate pay.

Source: Board of Trustees Decisions and News, Michigan State University, East Lansing, MI, http: //trustees.msu.edu/decisions-news/2013-12/roundup.html; Cost Savings and Efficiencies Task Force, Budget Toolbox Project, Interim Report, University of California Los Angeles, Los Angeles, CA, http: //evc.ucla.edu/reports/toolbox_savings_efficiencies.pdf; Moran C and Wiedeman R, “How the Economic Downturn Is Affecting Colleges: a Sampling,” *The Chronicle of Higher Education*, November 28, 2008; Susquehanna University, Selinsgrove, PA; Business Affairs Forum interviews and analysis.

Compensation

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#72: Offer lump-sum bonuses rather than merit raises	$$$		Likely
#73: Delay annual pay raises	$		Not Likely
#74: Request online W-2s	$		Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#72: In 2012, one university elected to pay out merit increases as lump-sum bonuses rather than base salary increases. Staff received the same amount of money, just paid out in two large bonuses across the year. However, all base salaries remained the same. The institution paid the first bonus roughly two months after pay increases would have typically gone into effect and the second bonus six months later.	Salary increases compound year over year, so holding salaries flat one year significantly alters compensation growth rates long term and leads to significant savings. However, institutions should apply this tactic only once, and at most twice. Otherwise, staff salaries will vary significantly from market, leading to potential turnover and difficulty hiring.
#73: In this fairly simple tactic, institutions wait a few months after pay increases are announced to begin paying new staff salaries. Henderson State University saved around $400K by deferring salary increases in 2011.	Withholding pay increases for one to two months can drastically improve the institution's short-term cash on hand and typically goes unnoticed by staff, since new pay rates have already been confirmed.
#74: Institutions can save thousands of dollars by providing employees electronic access to W-2s rather than mailing them annually. University of Kentucky saved $11,320 by letting employees voluntarily opt-in to online W-2 distribution.	To encourage employees to opt-in to online W-2s, institutions should be sure to clearly and frequently communicate online retrieval instructions, especially at the start of each year.

Source: Henderson State University, Arkadelphia, AR, http://www.hsu.edu/uploadedFiles/administrative_offices/Finance_and_Administration/Cost_Containment/HSU%20Cost%20Containment%202010-11%20Form.pdf; University of Kentucky, Lexington, KY; Business Affairs Forum interviews and analysis.

Outsourcing

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#75: Outsource units or departments	$$		Likely
#76: Outsource processes or functions	$$		Likely

Capsule Description and Sample Institution	Implementation Guidance
#75: Outsourcing is a common tactic for institutions looking to reduce costs while improving or expanding current service capabilities. Outsourcing support units and non-core functions can provide the scale necessary to cost-effectively support institutional growth. University of Texas outsourced Custodial Services, resulting in savings of $500K in labor costs alone.	Although the driving force behind outsourcing has primarily been to lower costs, other benefits include fewer internal staff adjustments to handle fluctuations in work demand and reduced risk associated with internally maintaining inventories and/or equipment. When contracting with third-party vendors, institutions should include service-level guarantees to maintain quality. Additionally, institutions must clearly communicate the business case for outsourcing and create a seamless transition plan to mitigate campus resistance and safeguard the engagement of remaining staff. Departments most commonly outsourced, in order from most common to least common are: Dining/Food Services, Bookstore, Custodial/Housekeeping Services, Grounds Keeping, Print/Copy Services, Legal, Campus Security, Student Housing, Student Health Services, Parking Services, Mail Services, Facilities Management, Travel Office, Fleet Services and Maintenance, and Day Care Centers/Services.
#76: Examining functions at a process- or task-level allows for a more targeted outsourcing strategy. Outsourcing specific functions within larger units provides institutions more flexibility around which processes would be best performed in-house. Individual units and departments perform numerous activities, each conducted with varying levels of quality and efficiency. Thus, some functions represent institutional competencies, while others may naturally benefit from being outsourced. University of Alberta in Canada outsourced the filing of research grants and contractual arrangement forms. By outsourcing these activities, the university has been able to increase the number of contracts processed without corresponding increases in cost.	Institutions need clearly defined performance metrics to make accurate assessments of the outsourcing opportunity for specific functions. Tolerance for this tactic should be relatively high, given the activities most likely to be outsourced tend to be lower-level, high-frequency tasks. However, depending on the activity, this tactic could mean certain staff roles will no longer be necessary.

Source: Messamore A, "University May Accept Proposals Regarding Outsourcing, Following Long History Since 1990s," *The Daily Texan*, February 21, 2013, http: //www.dailytexanonline.com/news/2013/02/21/university-may-accept-proposals-regarding-outsourcing-following-long-history-since; University of Alberta, Edmonton, Alberta, Canada; Business Affairs Forum interviews and analysis.

Service Hours

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#77: Mandate management furloughs	$$	👍👍👍	Not Likely
#78: Mandate staff furloughs	$$$	👍	Likely
#79: Offer voluntary prescribed unpaid leave days	$$	👍👍👍👍	Not Likely
#80: Offer voluntary seasonal flextime	$$	👍👍👍👍	Not Likely
#81: Offer voluntary reduced hours in exchange for lower base pay	$$	👍👍👍👍	Not Likely
#82: Move select employees to seasonal contracts	$$	👍👍👍	Likely

Capsule Description and Sample Institution	Implementation Guidance
#77: At Mount Royal University in Alberta, Canada, managers were required take five days of leave without pay in 2013. The institution spread deductions in base salary evenly over 24 annual pay periods, resulting in savings of approximately $633K.	Although furloughs are never welcomed, they are preferable to large-scale employee layoffs. Furloughs do not have to be attributed across the board. The highest paid employees often experience more lengthy furloughs, while lower-salaried employees might be spared or furloughed for fewer days. Furlough days do not have to be consecutive. Employees can work on the days they are furloughed, but they are not required to do so. Although faculty are almost always included in furloughs, efforts should be made to minimize the impact on class hours. Benefits, vacation, and retirement packages should not be affected.
#78: In 2010 and 2011, University System of Maryland furloughed more than 20,000 workers for up to five days, based on salary. The plan yielded system-wide savings of $26M.	
#79: At Mount Royal University in Alberta, Canada, staff have the option to take three, four, or five days of leave without pay on predetermined days across 2013 (primarily around the Thanksgiving and Christmas holidays). About 30% of staff volunteered to take the unpaid days off, resulting in savings of approximately $567K.	Unless operationally unfeasible, management should prescribe the dates on which leave should be taken, to optimize potential savings. Institutions should consider selecting days near end-of-year holidays, as operations tend to slow during this time. Deductions should not apply to overtime payments.
#80: University of Kentucky offers a voluntarily seasonal hours program in which staff can reduce the number of hours worked in their respective units' least busy periods. 228 employees volunteered, resulting in savings of $560K in 2013.	This tactic has the potential to generate savings when employees taking voluntary leave do not need to be backfilled and remaining staff can avoid overtime shifts. Institutions should limit the number of consecutive days eligible employees can take to prevent costly temporary replacements. The extent to which staff hours can be flexed down will vary unit to unit. Each unit should thoughtfully forecast service demands and staffing needs, and create flexible options in accordance with those needs. The status of full-time employees should not be affected by seasonal hour changes. Thus, benefits, vacation, and retirement packages should remain unaffected as well.
#81: This tactic allows employees to trade salary for reduced or alternative work hours. One institution allowed staff in HR, Procurement, Finance, Accounting, and IT to work eight fewer hours per week if they agreed to a 20% salary reduction. The institution does not dictate staff schedules—departments with employees choosing to accept the arrangement are responsible for foreseeing potential disruptions and creating flex schedules as appropriate. Since the introduction of this program in 2011, the institution has realized annual savings of approximately $326K.	Going to a shortened work day or shortened work week in return for a lower salary or wage may be welcomed by staff who have more demanding personal obligations. Additionally, flexible work arrangements enable units to better match staff to busiest times of the day or week. Institutions pursuing this tactic should ensure that pay reductions do not bring exempt employees' salaries below the required threshold amount, which is $455 per week under federal law (and potentially higher in some states). Institutions should also ensure that employees' full-time employment status is not affected by reductions in hours stipulated by the arrangement.
#82: Leaders at one university in the Midwest recognized that work demand in certain units dipped significantly in the summer. As a result, several 12-month positions in their Procurement/AP business service center were reduced to 10- or 11-month positions through the vacancy review process.	This tactic involves hiring staff on a seasonal rather than indefinite basis. Shorter-term contracts for staff can help institutions avoid overstaffing when work demands decline during certain periods in the year. To mitigate employee resistance to these arrangements, institutions should consider employing seasonal staff in other areas on campus with complementary demands in work on an as-needed basis.

Source: Mount Royal University, Calgary, Alberta, Canada; University of Kentucky, Lexington, KY; University System of Maryland (USM) Furlough/Salary Reduction Guidelines—Fiscal Year 2011, May 14, 2010, http://www.umaryland.edu/president/TSR1/FY11-Furlough-Guidelines; Business Affairs Forum interviews and analysis.

Service Hours

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#83: Shorten service window hours	$$		Not Likely
#84: Shorten unit work week during off-peak periods	$$		Likely
#85: Reduce task frequencies	$		Not Likely

Source: Creighton University, Omaha, NE; Business Affairs Forum interviews and analysis.

Capsule Description and Sample Institution	Implementation Guidance
#83: In order to meet a 10% budget reduction in 2012, one university IT department eliminated 21.75 positions. Consequently, it discontinued weekend help desk operations and shortened weekday help desk hours from 7am–7pm to 8am–5pm.	When deploying these tactics, institutions should ensure that operating hours are adequate for handling customer volumes. Potential areas to target should include those where work volumes decline significantly during parts of the year, as well as those with the lowest impact on students and critical functions—examples include purchasing, mail and print centers, and travel offices. Although shortening service hours for non-exempt staff will contribute directly to salary savings, reducing days or hours for exempt staff is unlikely to yield direct labor savings. However, potential facilities and associated energy savings are worth considering.
#84: Due to low customer volumes, one university in the South was able to close their financial aid, registrar, and bursar offices each Friday during the summer. All staff and management work four 10-hour days per week. During this time, offices were open from 7: 30am–5: 30pm, rather than from 9am–5pm. The institution was able to save tens of thousands of dollars in reduced energy costs by not air conditioning the associated buildings over the three-day weekends.	
#85: By reallocating tasks, reducing task frequency, and redistributing service areas, Creighton University reduced custodial staffing from 99 to 86 through natural attrition. For example, service area allocations increased from one custodian per 30,000 square feet to one custodian per 35,000 square feet, on average. Additionally, custodians now performed tasks such as emptying trash and vacuuming offices three times per week rather than five times per week. This effort has led to savings of $250K per year.	When redistributing service areas, institutions should avoid expanding areas too broadly—spreading staff too thin will inevitably impact service quality. Institutions should also consider which routine tasks are more and least valued by staff to prevent negative responses or pushback.

Source: Creighton University, Omaha, NE; Business Affairs Forum interviews and analysis.

Employee Stipends and Perks

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#86: Freeze out-of-state travel	$	👍👍👍	Not Likely
#87: Cap travel expenses	$	👍👍👍	Not Likely
#88: Limit conference attendance	$	👍👍👍	Not Likely
#89: Limit staff events to on-campus/free spaces	$	👍👍👍👍	Not Likely
#90: Limit professional development spending	$	👍👍👍👍	Not Likely
#91: Freeze work station technology updates	$	👍👍👍	Not Likely
#92: Reduce dining subsidies	$	👍👍👍	Not Likely

<table>
<tr><th>Capsule Description and Sample Institution</th><th>Implementation Guidance</th></tr>
<tr><td>#86: Many institutions rely heavily on travel to recruit potential students and meet enrollment targets. However, due to institutional budget shortfalls, travel budgets are often the first to be reduced. University of Pittsburgh's Katz School of Business was able to limit out-of-state recruitment travel by participating in a virtual career fair organized by The Economist, resulting in savings of $95K.</td><td rowspan="2">Though not all staff accrue travel expenses, they still represent labor costs that can easily be reduced with stricter travel policies and consistent enforcement. For example, staff might be required to book travel several weeks in advance to ensure low-cost fares or be restricted to preferred travel partners that offer lower rates for institution staff. Alternatively, institutions might consider setting broader rules that allow travel so long as it is in-state or falls beneath a predetermined expense cap. Video conferencing and virtual meetings are also becoming more commonly accepted alternatives to in-person travel. Regardless of the approach to cap travel spending, changes to travel policies should be crafted to ensure restrictions do not unduly impact staff's ability to perform in assigned roles. Exceptions to travel policies should also be defined and made available in select, mission-critical instances.</td></tr>
<tr><td>#87: Leaders at one southwestern university reduced travel budgets for departments institution-wide and limited per employee expenses for each travel event to $2,500 to include airfare, lodging, meals and registration fees. As a result, travel for most departments was limited to mission critical trips and teleconferencing was used whenever possible. The university has achieved savings of more than $90K per year.</td></tr>
<tr><td>#88: Pulaski Technical College limited conference attendance to Board Chairs, his or her designees, and no more than two other board members.</td><td rowspan="3">These tactics represent incremental adjustments that together have the potential to save institutions thousands of dollars annually. Although investment in staff development and academic networking should always be a top institutional priority, there are several ways to ensure that professional growth and learning opportunities are cost effective. Reserving on-campus spaces for events or hosting conferences locally lets staff take advantage of available opportunities without revoking them altogether. However, institutions must ensure local alternatives are available, accessible, and capable of providing comparable experiences. Additionally, changes should be introduced gradually or one at a time to give employees time to adjust.</td></tr>
<tr><td>#89: University of Pittsburgh's School of Pharmacy redesigned internal programs such as the Distinguished Lecture Series to include more locally contained materials, seminars, and spaces. They were able to reduce expenses by $90K while maintaining high program quality.</td></tr>
<tr><td>#90: Maryville College has saved on its professional development program by using internal staff members to teach 31 development workshops ranging from Customer Service, Community Building, Computer Skills, Safety, Supervisory, Wellness, and Personal Development. The costs associated with this initiative have been minimal, including light refreshments, printing, and $20 gift cards to thank workshop leaders.</td></tr>
<tr><td>#91: This tactic involves halting non-value-add updates to operational technology and staff computers. University of Pittsburgh's School of Pharmacy extended the standard computer replacement policy from every three years to every four years, resulting in savings of $16.8K.</td><td>Institutions employing this tactic must ensure core functions critically reliant on up-to-date hardware and software are not impacted. This requires periodic assessments of current technological capabilities to determine if legacy systems and equipment are able to fulfill current and near-future service expectation and performance standards.</td></tr>
<tr><td>#92: Susquehanna University reduced staff subsidies for on-campus dining and increased lunch fees from $4 to $6.48. This effort has saved the institution roughly $20K.</td><td>Institutions should be careful not to raise prices too much, or risk losing employee business all together.</td></tr>
</table>

Source: "101 Smart Revenue Generators (and Money-Saving Ideas)," *University Business*, December 2006, http://www.universitybusiness.com/article/101-smart-revenue-generators-and-money-saving-ideas; Pulaski Technical College Board of Trustees Policy Manual, North Little Rock, AR, http://www.pulaskitech.edu/content_files/Board_of_Trustees_Policy_Manual.pdf; Susquehanna University, Selinsgrove, PA; The University of Pittsburgh Cost Containment Efforts—February 23, 2012, University of Pittsburgh, Pittsburgh, PA, http://www.provost.pitt.edu/CostContainment.pdf; Business Affairs Forum interviews and analysis.

Employee Stipends and Perks

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#93: Charge employees for parking	$		Not Likely
#94: Limit cell phone offerings	$		Not Likely
#95: Limit entertainment/food budgets	$		Not Likely
#96: Combine holiday celebrations	$		Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#93: After outsourcing parking management to an external vendor in 2012, Ohio State University increased metered parking from $1 to $2 per hour. The institution also implemented annual 5.5% increases over the next 10 years to the price of leased parking spots for employees. The institution believes that the incremental change will help to mitigate campus backlash.	Although these tactics appear benign, they represent meaningful perks that employees traditionally value. Even so, these practices represent less drastic options compared to wage reductions and reductions in force. Institutions should expect some resistance, but given the economic climate, employee pushback will likely be short lived.
#94: Susquehanna University eliminated cell phones for administrative department heads, instead offering reduced stipends. The institution achieved $100K in savings, with the majority stemming from the elimination of an $80K position charged with managing the cell phone services for administrators.	
#95: The University of Pittsburgh's School of Nursing saved $30K by eliminating complimentary wine from its major fundraising event and removing favors from all events.	When pursuing this tactic, institutions should distribute reductions equitably across units to avoid employees in certain areas feeling unfairly targeted. If possible, department-funded events should be scaled down rather than eliminated completely, especially with regards to events staff have come to anticipate.
#96: The University of Tennessee in Chattanooga eliminated faculty and staff summer picnics and realized savings of $18K annually.	So long as holiday functions are not eliminated entirely, staff will most likely accept consolidated celebrations across departments or divisions to reduce overall institutional costs.

Source: Committee for Effectiveness and Efficiency for the Future—Summary of Measures/Actions, University of Tennessee, Chattanooga, TN, http: //president.tennessee.edu/docs/master_efficiency_lis.pdf; Outsourcing Parking Services to Private Management Companies, Custom Report, Education Advisory Board, http: //www.eab.com/Research-and-Insights/Business-Affairs-Forum/Custom/2013/09/Outsourcing-Parking-Services-to-Private-Management-Companies; Susquehanna University, Selinsgrove, PA; The University of Pittsburgh Cost Containment Efforts—February 23, 2012, University of Pittsburgh, Pittsburgh, PA, http: //www.provost.pitt.edu/CostContainment.pdf; Business Affairs Forum interviews and analysis.

Overtime

Tactic	Savings Potential	Employee Tolerance	Requires Union Negotiation
#97: Cap overtime	$$$	👍👍	Likely
#98: Require "max-out" of after-hours shifts	$	👍👍👍	Not Likely
#99: Create off-schedule shifts	$$	👍👍👍	Not Likely
#100: Target incremental overtime	$	👍👍👍👍	Not Likely

Capsule Description and Sample Institution	Implementation Guidance
#97: After comprehensive reviews of where and when staff overtime was most likely to accrue, leaders at one college put upper limits on the amount of overtime various units could charge. This led to a 30% to 40% decrease in overtime costs. In addition, leaders required directors to view reports of the overtime usage in their units to make them aware of the associated costs across the year.	Overtime represents an avoidable cost for many institutions and can be an indicator that staff are not properly deployed. A 2012 study showed that employees working in institutions that regulate overtime were 59% less likely to work overtime than their colleagues in other institutions. Enforcing a cap on overtime spending will encourage unit managers to allocate work and shifts more appropriately.
#98: At many institutions, union contracts require that staff called in to work after hours must receive a minimum of four hours of overtime pay, even though activities rarely take a full four hours to complete. To maximize productivity, the facilities department at one institution created and maintains a list of outstanding tasks for any staff who come in after hours. All staff who work overtime are expected to work a full four hours. When the original after-hours request takes less than four hours, staff move to the next item on the standing list.	This tactic does not lead to direct cost savings or reduction in overtime. Instead, it ensures maximum staff productivity during overtime work. It also reduces outstanding work for staff on subsequent shifts, effectively reducing the need for additional overtime in the future. Institutions looking to implement this tactic must maintain a list of tasks that can be completed independently and during odd hours.
#99: This tactic involves adding variation to the traditional 9am–5pm shift and introducing "off-shift" work hours. The facilities department at the University of Saskatchewan in Canada realized the majority of overtime requests occurred in early evening. To reduce overtime costs, they moved a handful of staff to a newly created 3pm–11pm shift each weekday. This absorbed the vast majority of previously after-hours work and reduced overtime pay by $500K.	Scheduling staff in off hours can help minimize the number of staff pulled to work overtime shifts. Employees may be more accepting of changes to existing schedules if shift differentials are provided to staff willing to work less desirable shifts. The added cost of introducing shift differentials is significantly less than those associated with paying otherwise necessary overtime rates.
#100: Incremental overtime refers to the seemingly small blocks of time that staff often work before or after a scheduled shift to complete paperwork, ensure proper shift transfers, and appropriately clock out. In contrast to scheduled overtime, incremental overtime is best addressed by relatively targeted adjustments to frontline workflows. One institution installed time clocks immediately inside buildings rather than in the parking lot to eliminate paying staff overtime for walks to and from their cars.	Institutions should regularly review time cards to assess opportunities to reduce incremental overtime accrual, and subsequently, conduct staff education sessions to inform staff of clocking policies and provide insight into overtime use and the budgetary effects.

Source: University of Saskatchewan, Saskatoon, Saskatchewan, Canada; Business Affairs Forum interviews and analysis.

Creating a Tiered Labor Savings Strategy

SECTION 2

The Danger of a Piecemeal Labor Savings Approach

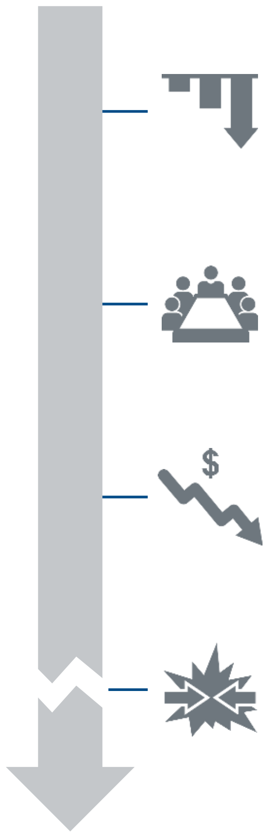
While many colleges and universities are under increasingly acute pressure to realize labor savings, a reactionary approach to current financial challenges can leave institutions even more vulnerable. Responding to shortfalls as they occur leaves institutions without the lead time required to plan appropriately. Instead, executives are forced to deploy the tactics that can be implemented most quickly, not those that promise the most savings.

For many institutions, this vicious cycle repeats when finances worsen and another round of tactics is needed. This often leads to executives reneging on earlier promises (for instance, a promise of no layoffs or no changes to health benefits), deflating recovery efforts and potentially drawing negative press.

Rather than reacting to tightening budgets with one-off labor tactics, institutions should create a contingency plan that proactively identifies and sequences labor savings opportunities based on potential financial scenarios.

This section offers guidance and implementation resources to assist partners in building a best-in-class labor savings contingency plan for their institutions.

Reactionary Tactics at Remy College[1] Lead to Further Cuts



Institution faces declining enrollment, looming financial shortfall

Executives implement ad hoc labor saving tactics, assure faculty and staff of minimal impact

Finances worsen, necessitating second round of labor saving initiatives

Executives forced to renege on earlier promise and pursue more aggressive tactics, lose trust of faculty and staff; progress in overall recovery effort slows

Source: Business Affairs Forum interviews and analysis.

Creating Tiers of Action

The first critical piece of a labor savings contingency plan is specific tactics organized into separate tiers. The tiers specify which tactics the institution will pursue immediately and which it may pursue if financial conditions worsen.

As an example, Durant University's[1] contingency plan is shown here. Their plan includes three tiers. The first tier includes tactics to pursue immediately. The second tier includes tactics to implement if finances worsen. The final tier includes the emergency or "doomsday" tactics, if required.

Institutions are encouraged to choose tactics and determine the specifics of each tactic's possible implementation. This ensures institutional leaders are not only on the same page about immediate next steps, but can also react quickly on the already agreed-upon plan if further action is needed. Additionally, all leaders will know the strategy for "worst-case scenario," preventing them from making promises to faculty, staff, or the community they may not be able to keep.

Sample Labor Savings Contingency Plan

Tier 1 *Tactics to pursue immediately*	**Tier 2** *Tactics to pursue if budget shortfall worsens*	**Tier 3** *Emergency labor savings tactics*
▪ #18: Incentivize spouses to leave health plan ▪ #29: Reduce short-term disability benefits ▪ #37: End PTO cash-out ▪ #49: Introduce new-hire waiting period for retirement plan eligibility ▪ #68: Tie manager incentives to enrollment targets ▪ #74: Require online W-2s ▪ #83: Shorten service window hours ▪ #87: Cap travel expenses	▪ #7: Offer high-deductible plans ▪ #23: Audit and remove ineligible dependents ▪ #34: Add tobacco surcharge ▪ #44: Reduce tuition reimbursement ▪ $53: Assess pharmacy benefit managers ▪ #54: Assess TPA/network discounts ▪ #70: Reduce staff merit pool ▪ #81: Offer voluntary reduced hours in exchange for lower base pay ▪ #97: Cap overtime	▪ #1: Raise deductibles ▪ #12: Eliminate retiree health coverage ▪ #35: Reduce PTO rollover ▪ #45: Shift to defined-contribution retirement plans for new hires ▪ #57: Freeze hiring ▪ #62: Allow temporary labor contacts to expire ▪ #66: Freeze pay raises ▪ #78: Mandate staff furloughs

Case in Brief: Durant University[1]

- 20,000-student public Master's university located in Midwest
- Facing projected enrollment declines and decreasing revenue, institution developed tiered action plan to achieve labor savings
- Evaluated all potential labor savings tactics using multi-variable formula, including difficulty of implementation and efficacy

1) Pseudonym.

Source: Business Affairs Forum interviews and analysis.

Setting Action Triggers

Once institutions know which tactics they plan to implement in each scenario, they must determine when to execute them. To that end, the second critical piece of a labor savings contingency plan is selecting specific triggers for each tier of tactics. Concrete triggers enable an institution to react and respond to worsening conditions quickly, without further debate or planning.

An effective labor savings plan should enable an institution to take action as soon as appropriate. Therefore, triggers must be based on leading, rather than lagging metrics. Four recommended metrics are listed to the right, along with sample values for each trigger. Note, the trigger for Tier 1 is set at Current Value to denote that these tactics will be implemented immediately.

For simplicity, leaders should choose a single metric for their contingency plan, preferably the metric with the most readily available and regularly updated data.

Recommended Triggers and Values

		Guidance on Value		
Trigger	**Rationale**	**Tier 1**	**Tier 2**	**Tier 3**
Enrollment	Predicts future revenues	Current Value	Less than 5% below target	More than 5% below target
Overall Revenue	Reflects overall financial health of institution	Current Value	1% decline	2% decline
Monthly Days Cash on Hand[1]	Reflects monthly liquidity of institution	Current Value	45	30
Primary Reserve[2]	Indicates financial strength of institution	Current Value	<0.35	<0.30

Source: Moody's Investor Services, "Rating Methodology: U.S. Not-for-Profit Private and Public Higher Education," 2011; Business Affairs Forum interviews and analysis.

Sample Scoring Worksheet

Introduction

Many institutions can prioritize tactics and build a contingency plan using only the graph on page 21 of this report and the detailed descriptions of tactics. For executive groups that need further guidance narrowing down the list of tactics and choosing appropriate tiers, a common scoring mechanism that enables comparisons of tactics can greatly speed decisions.

As an example, Durant University's[1] scoring sheet is shown across the next three pages. This worksheet incorporates several variables, including savings potential, employee acceptance, negative impact on teaching and research, and time to impact. Institutions are first encouraged to screen out any tactics they are unwilling or unable to pursue. For example, tactics that will not be possible due to union presence, tactics counter to an institution's culture, or tactics the institution has already utilized.

Then, institutions should use this worksheet (or a version modified to their priorities) to score all remaining tactics. Once each tactic has an overall score, leaders can group tactics into tiers based on a forced distribution of the scores.

Step 1. Calculate Negative Impact Score

Variables	Scale	Sample Evaluation (#57 Freeze Hiring)
Anticipated Faculty and Staff **Resistance**	Low = 1 Medium = 3 High = 5	Low (1)
Degree of Institutional **Pain**	Low = 1 Medium = 3 High = 5	Low (1)
Direct, Negative **Impact** on Teaching and Research	Low = 1 Medium = 3 High = 5	Medium Low (2)
Formula 1: Negative Impact Weighted Average (Resistance x 0.1) + (Pain x 0.3) + (Impact x 0.6) = Negative Impact Score	1 = Low pain 5 = High pain	(1 x 0.1) + (1 x 0.3) + (2 x 0.6) = **1.6**

The first formula evaluates the risk that a given tactic will have a negative impact on an institution. It takes into account three variables—how much faculty and staff resistance the tactic is likely incur, how much ongoing pain would it cause once implemented, and what impact would it have on an institution's teaching and research. The formula delivers a score between 1 and 5.

The detailed descriptions of the tactics in Section 1 include a measure of Employee Tolerance, evaluated on a four-point scale. Institutions can use this measure to complete Anticipated Faculty and Staff Resistance in the formula above. High tolerance (four thumbs up) becomes a value of one and low tolerance (one thumbs up) becomes a value of five.

1) Pseudonym.

Source: Business Affairs Forum interviews and analysis.

Step 2. Calculate Efficacy Factor

Variables	Scale	Sample Evaluation (#57 Freeze Hiring)
Savings Factor	\$ = 1 \$\$ = 2 \$\$\$ = 3 \$\$\$\$ = 4	\$\$\$ (3)
Time to Impact	Now = 0.25 Next FY = 0.5 Future FYs = 1	Now (0.25)
Formula 2: Efficacy Factor $\frac{\text{Savings Factor}}{\text{Time to Impact}}$ = Efficacy Factor	1 = Low efficacy 16 = High efficacy	$\frac{3}{.25}$ = **12**

The second formula evaluates the savings potential of a given tactic. It takes into account two variables—overall savings factor and how quickly savings will be realized. The formula delivers a score between 1 and 16.

The detailed descriptions of the tactics in Section 1 include a measure of Savings Potential, evaluated on a four-point scale. Institutions can use this measure in the formula above.

Step 3. Calculate Overall Score

Variables	Scale	Sample Evaluation (#57 Freeze Hiring)
Negative Impact Score	1 = Low pain 5 = High pain	1.6
Efficacy Factor	1 = Low efficacy 16 = High efficacy	12
Formula 3: Overall Score $\frac{\text{Efficacy Factor}}{\text{Negative Impact Weighted Score}}$ = Overall Score	0-16	$\frac{12}{1.6}$ = **7.5**

The third formula calculates the tactic’s overall score, dividing the Efficacy Factor by the Negative Impact Score. The formula delivers an overall score between 0 and 16. Larger scores denote higher efficacy and lower pain.

Source: Business Affairs Forum interviews and analysis.

Step 4. Determine Your Institution’s Score Range for Each Tier

The final step is to map the top scoring tactics into Tier 1, Tier 2, or Tier 3 via a forced distribution. Most institutions will evaluate dozens of tactics, more than will be included in the final contingency plan. Focusing on the top scores allows institutions to select the most impactful tactics per tier.

First, list tactics by score and identify the 8 to 12 highest-scoring tactics. Avoid simply choosing the top 10 or separating tactics that score closely. Rather, look for larger gaps between groups of tactics and choose roughly 8 to 12 that have like scores to be in Tier 1. Then, repeat this process with the next best-scoring tactics for Tiers 2 and 3. Any remaining tactics will not be included in the plan.

To help illustrate the process, Durant University’s[1] final ranges for each tier are shown here. However, keep in mind that ranges will depend on each institution’s distribution of scores and are likely to vary.

Tier	Score Ranges	Number of Tactics
Tier 1 (Do Now)	14-16	8
Tier 2 (Do Later)	10-13.9	9
Tier 3 (In Case of Emergency)	6-9.9	8
Eliminated Tactics	<5.9	52

1) Pseudonym.

Source: Business Affairs Forum interviews and analysis.

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