



## April 18, 2018 Podcast Transcript

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**Announcer:** Welcome to HII Talking Points, a Huntington Ingalls Industries podcast. Twice a quarter, we'll sit down with HII leaders to discuss topics of interest about company and industry.

**Phoebe Richards:** My name is Phoebe Richards and today I'm talking with Bill Ermatinger, HII Executive Vice President and Chief Human Resources Officer about the company's benefits and wellness strategy. Mr. Ermatinger, thank you for joining Talking Points. It's great to have you here.

**Bill Ermatinger:** Well, thank you for having me here.

**Phoebe Richards:** Since HII spun, it has developed innovative benefits and wellness programs designed to help employees improve their health. And now we're seeing this expand beyond physical health. I'd like to talk a little today about the thought process behind these programs and where you see HII in the future. So let's begin. Over the past few years we've seen an increase in wellness program services and offerings from the company. Can you talk a little about HII's strategy and long-term goals when it comes to benefits and wellness?

**Bill Ermatinger:** Sure. So in order to really focus on our healthcare strategy, that is just one component of our overall human capital strategy and that human capital strategy is really to support the business strategy. So in a nutshell from a human resources standpoint, it is our job to basically provide an engaged employee to the organization in the right job at the right time with the skills and ability to do that job in a safe and secure manner. Sounds simple, but there's a lot of things that can go wrong with that. But in short, what we try to do is make sure that every employee that shows up at HII has an opportunity to do their best work.

And clearly if you are stress-free from any health issues that makes that a lot easier. Now as you said earlier in the intro, when we spun off from Northrup Grumman, Northrup Grumman basically created that human capital strategy and the health and welfare strategy for us. We were a part of that but they drove that. So what was interesting when we spun a couple things were happening at the same time. So we spun from Northrup Grumman so we had to create our own healthcare strategy. At the same time the Affordable Healthcare Act was passed and being implemented.

And so what that did is, for the very first time in my 32 years' career as it relates to healthcare is, this topic was being talked about in the boardroom, it was being talked about with our legislative officials, and it was being talked about at the kitchen table. That was very, very unique. But once HII said that okay we are going to invest in healthcare, and let me make that distinction. People always refer to it as healthcare benefits. And when you use that word it has an implication that says, like vacation. I'm giving

you something, the employee feels that it has value, and you get to do what you want with that. And healthcare you can view it as very similar in the past.

Here is a healthcare plan for you. Use it, don't use it, how you use it is really up to you. And we decided now that now we cannot look at it as a benefit. It's more as an investment. And when you change that language, when you change the mindset from a leadership team from a benefit to an investment the aperture just opens up so much wider for what you can and want to do. So when we started this, we said, "Okay, so what really drives healthcare cost are your health status as an individual?" And what we found from the CDC was fascinating. We found that 50 percent is directly traceable to your own behavior.

**Phoebe Richards:** Fifty percent of your healthcare costs?

**Bill Ermatinger:** Fifty percent of your healthcare costs and your health status is just by your behaviors. Twenty percent of it is driven by whether you not have access to healthcare, and if you do have access, is it quality care? Twenty percent of it can be traced directly to the environment you live in and ten percent to your DNA. And when I saw that, I sat back and I said, "Wow!" So 50 percent is behavior, 20 percent is access. As an employer, I can influence 70 percent of that. That's really where it began, where we really took back and says okay, 70 percent of this can be something that we can control and investigate it. So from that we started to build our healthcare strategy. I'm really now getting to the answer to your first question.

So when we built the strategy of healthcare we had wanted certain components to be included in that. We wanted employee accountability, hence why you now see dependent verifications and tobacco usage. We wanted to make sure employees still had choice. We did not want to create something where we just replace something. That's why we still offer two healthcare plans. We introduced Teladoc and we introduced the family health centers. All choices. Not one is replacing the other. So some employees use all three, some just use two, some maybe just use the one. We wanted to make sure that we stepped up our game on benefits literacy.

A lot of employees will notice a lot of the mailings that we send home, our BeWell Newsletter, mailings at Hope, UPoint. Our benefits online has an awful lot of educational tools so you can see where we stepped up on that. We want to make sure our strategy included wellness. Hence our whole push on flu shots every year, health risk assessments, get your annual physical, that was a component. And then clearly program improvements where we've introduced health coaches and wellness coaches and nutritionists. And then finally company leadership. We wanted to make sure that whatever we did we built in a company leadership kind of accountability.

As Mike Petters, our CEO, likes to say, "People really care about what their bosses care about." And so we do have 5,000 leaders and we needed them to be a part of the solution. They needed to talk about the importance of a healthier lifestyle and healthier behaviors and getting your annual physical. So that was the genesis. That is how we tackled this problem. We started that in 2013 so it's only been a few years. But I'll be honest with you, we've gotten some great results early on. So since that time we've had

5,000 less emergency room visits. Five thousand less emergency room visits -- that is huge! Forget the cost component.

Just imagine what that's done for our employees and their dependents. We've had a reduction in tobacco usage and from a cost standpoint for the employees – not the company, but for the employees. The employees' average cost has only increased in total – that's premiums, copays, deductibles, so everything out of your pocket, only about three and a half percent when the market has been about six to seven percent. So there's been a financial benefit for the employees, there's clearly been less stress for them because they're living a healthier lifestyle and they're healthier. So all of those components, like I said, it's early, it's only been a couple of years. This is the long-game strategy, because healthcare is always a long game, but we're proud of the early results we got.

**Phoebe Richards:** You touched on some of this in what you were just talking about. But HII now has programs dedicated to employees' physical, financial and emotional wellbeing. Why do you focus on those three elements?

**Bill Ermatinger:** Well, for the same reason on why we started to tackle healthcare, and this is all about the engagement of our employees, so when we say be well what we're really talking about is a healthy mind, healthy body, healthy wallet. Those three components will either contribute or detriment someone's engagement at work whether you have financial stress, health stress or emotional stress. So that's why we've kind of tackled this holistically of looking at all those three.

**Phoebe Richards:** So let's talk about the financial offerings since employees have access to new resources that they weren't available in the past. What drove the company to offer these new programs and why do you think they're so important?

**Bill Ermatinger:** So from the financial side, we know that people that have financial stress are the least productive, they have the lowest performance ratings, they have a lower engagement and more importantly they have a delayed retirement timeline. And so when you look at financial wellness, most companies – and I was guilty of this – we mostly look at it as a retirement-ready problem. And so I started to ask the question, if we took our population since 2008 and we kind of project how long would it take for them to retire from HII based on their own contributions of their 401, based on how they invest, looking at social security, look at how they invest the retirement access account, the money that we give them. How long, at what age would they be when they could retire with just a 60 percent replacement value? That means when someone leaves, and if you're making \$100,000.00 at what age would they attain to retire on \$60,000? They would get \$60,000 a year from all those sources. And what we found was 78 percent of our employees would retire with that 60 percent salary replacement value at age 70.

**Phoebe Richards:** Seventy?

**Bill Ermatinger:** Seventy. That wasn't the real scary number because that's just a 60 percent replacement value. The real scary number that woke me up was that only 46 percent of those employees would be able to retire at an 80 percent salary replacement value, and that's the benchmark that you want to attain at age 80. Age 80. Half our employees would only be able to leave this place at

age 80 with an 80 percent replacement. So as the Chief Human Resource Officer, I kind of look at that, that's a real workforce development problem. If you have a large part of your population that although they have a desire to leave but financially they can't.

And so that's what started this journey about the financial wellbeing component of our strategy, and I really thought it was a retirement readiness. And when we peeled that onion even further, we found out okay, so then why is it that they're not going to get that 60 percent or 80 percent? I really thought it was going to be, well, they're just not investing wisely. And there was some of that but not a whole lot of that. The majority of it was basic lack of financial literacy. It was really hard to have a conversation with an employee -- or anybody for that matter -- about retirement readiness when they're struggling just week to week on daily finances. How to balance a budget, how do I get a car loan, am I getting the right kind of car loan, credit card debt.

Just basic financial literacy we found that was severely lacking. So we said, okay, this is an area where we can invest. Again, it's not a benefit. The company wants to make these investments. And so that's why you see an awful lot of programs now in the financial wellness. We partnered with a company called SmartPath. SmartPath is exactly for this purpose. They come in personally and they have classes where they educate and are act as coaches. We did a pilot program at Ingalls. It was extremely successful. And so we now brought it up to Newport News and so they've been here for the last couple of months. So that's one thing.

Another thing we did is again we went back to our partners and our providers with UPoint and our benefits website and we now introduce a retirement model where people can actually do modeling. A lot of these employees found out that they didn't realize that they were on a path that they were not going to be able to achieve when they thought that they were. So we wanted to make sure that they had the tools where they could do that, along with bringing in other assets that they have. We also then have a partnership with again with UPoint where people can reach out and talk to their own financial advisor and that's free to them.

If you went out on your own and you contacted a wealth advisor they're going to charge you a percentage of your assets to do that. Here's an ability but you can get on the phone and talk to someone from financial literacy or investment advice and that's free to you. So again, just like healthcare, multiple ways to tackle this problem. There's not going to be a silver bullet where one will resolve it. But I think with all of these hopefully we'll be able to move the needle.

**Phoebe Richards:** So we talked about this a little before, but one of the core tenets of HII's benefits and one with strategy is the HII Family Health Center. What are some of the advantages that the health centers offer to employees in their dependence?

**Bill Ermatinger:** Well, like I said going back on an earlier question, one of the issues that drives your own health status and your healthcare cost is access. And we know we demand an awful lot with our employees. We are the community. We like to say that we are your legal league coaches and the pastor associates and the PTA's and the school boards and you're already putting 10 or 12 hours of time in your

work. You're doing those things. You're doing everything but taking care of your own health. Why? Because it's not very convenient the way the healthcare community offers healthcare.

It's hard and we recognize that. So by tackling the access component, that's when we said we are going to build our own family health centers that mimic pretty much what the healthcare community can offer, but it's solely dedicated to our employees and dependents. So you don't have to wait weeks at a time to get an appointment. So then the question is, what are we going put in here? And I didn't want – we didn't want to really just compete with the healthcare community in the sense of okay, if you have a broken arm I can do it better than the people out in the community. That's not the case and that's not what we designed it for.

Yes, please come to the Family Health Center for those acute needs because they'll be able to take care of you. But what we really wanted to do and what we designed was that behavioral modification if you needed. So for example, if you come in and yes you're coming in for that broken arm, yes they're going to take care of you, but they're going to do this whole family workup history of you and they're going to realize that you probably or you might have a history of diabetes. So let's talk about that. They are not a fee-based replacement and what I mean by that is typically when you see your physician they are paid for that service through your insurance.

Our Family Health Centers are not fee-based. So whether they spend five minutes with you, two hours with you or they don't see anybody they're still going receive their income. They're solely dedicated for us. So that's why you find wellness coaches and nutritionists and diabetic technicians all over there to help you with that problem and your dependence.

**Phoebe Richards:** Last November HII expanded its Teladoc offering, which we've talked a little bit about, to include behavioral health in addition to general medical. Talk a little about that program and why emotional wellbeing plays a role in our lives.

**Bill Ermatinger:** Well, like I said, that BeWell is that triangle of healthy mind, healthy body, healthy wallet. And so it's not news to anybody that's listening to this podcast that emotional stress is a huge, huge problem. Opioid usage is a big problem in this community and that creates its own mental health and emotional issues with families. And so like healthcare we were looking at, well where are employees and dependents getting help for this? And we saw that there was a lack of expertise and a lack of availability for our employees to really reach out. So we reached out to our partner Teladoc and said, what is it that you can do to help us in this situation?

So just like now when you call Teladoc and you get a board-certified physician to talk about a particular health issue, now you can reach out to a certified mental health provider and walk you through those issues. We've also expanded and we will be expanding in our Family Health Centers full-time EAP counselors. So again, to break that access code, because especially with mental health time is of the essence. They really can't wait weeks at a time to get an appointment if there is a crisis going on with either yourself or a family member. So that's why we did it.

**Phoebe Richards:** And sometimes that does take for up to six weeks.

**Bill Ermatinger:** It can be, and it's unfortunate. It's a profession that there's not a lot of physicians that take so it's a supply and demand problem. In this country you see at every newscast the supply is just getting larger and larger – I mean the demand is getting larger and larger and there's just not that many professionals and clinicians that can help us.

**Phoebe Richards:** So looking ahead, where do you see our benefits in wellness strategy in ten years and does this strategy evolve with a new generation of employees that we're bringing in?

**Bill Ermatinger:** Yeah, just like our healthcare strategy, which is again a part of our human capital strategy, has evolved over the 30 years I've been doing this. It will evolve 10 years from today, 20 years from today. And so you really have to ask the question, “What is the workforce of the 2030, 2040?” Demographics definitely shift, but they've always shifted. That's not new to be honest with you. But digital technology and artificial intelligence, how does that play into this? The employment social contract, that's probably going to change all employers. You've heard this terminology or if you haven't it's called the gig economy. A lot of employees will not be tied to a particular employer.

They're just going to go from company to company. It's called the gig economy. So how does that come into play? And finally the regulatory environment meaning the employment law of regulatory environment. It's been over 30 years since the last time congress has actually passed federal legislation dealing with employment law. So imagine how much technology has changed in the last 30 years and the laws have not kept up with that. So I think those four things in ten years from now are really going to dramatically change employers. And so how do we respond to that? And healthcare is just one component. But we've laid the foundation where we can be very agile and we can pretty much shift where we need to make sure that again the ultimate goal is how does our employees have the best opportunity to do their best work every single day.

**Phoebe Richards:** So are you looking forward to the future and what we have?

**Bill Ermatinger:** I am.

**Phoebe Richards:** Good. Well it sounds like we have a lot to look forward to in the world of health and benefits so thank you for taking the time to talk with us today.

**Bill Ermatinger:** Thank you.

**Announcer:** Thanks for listening to HII Talking Points. This podcast was produced by Huntington Ingalls Industries' corporate communications team. We welcome your feedback and ideas for future podcasts at <http://www.huntingtoningalls.com/podcast>.

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