

Project, ECON 3301, Darren Grant, Spring 2006.

The Setup. You are a retailer with stores scattered across the U.S. Retailing is a famously competitive market, with low margins. Your workforce, like that of most retailers, is low pay (minimum wage in some areas, above minimum in others), high turnover, composed of both full and part-time workers. In addition, the skill set of your employees is modest, so they can be fully proficient in their jobs after a year at most.

You offer health benefits to your employees—that is, the opportunity to get health insurance through you, the employer, after completing several months of service to the company. Costs are shared between the employer and the employee, as in most companies. Individual or family coverage is available, as in most companies. Your employees tend to have more health issues than average, in part because of their low socioeconomic status, and these health issues can affect workforce productivity. Health insurance is an important benefit to workers, but only a little over half of your workers enroll. Some go without insurance, yet others qualify for Medicaid, the federal/state health insurance plan for those of modest resources. Your plans currently resemble standard managed care plans, such as HMOs or PPOs. But they are self-funded, giving your company great flexibility to shape the insurance contract at will, subject to the law.

Health care costs have been increasing, and this is putting a squeeze on margins. Furthermore, there is increasing awareness, both from research and in the media, that lifestyle choices have a large and increasing affect on health status and health expenditures. There is also increasing awareness that health providers vary dramatically in quality and in cost-effectiveness. Frustration with the limitations of managed care has been building. Furthermore, new legislation allowing health savings accounts widens the possibilities available to your organization. Therefore your CEO is willing to experiment with changes in health benefits. He comes to you / your group for recommendations. Your CEO's name is Darren Grant and he will give you a grade on your work!

Your task is to make two or three major recommendations for redesigning health benefits. Any of the following may be considered: who is covered and when they are eligible (consistent with the legal requirements of HIPAA); what health benefits are covered; the overall generosity of plans; the extent of cost-sharing between the company and the employee; the existence and size of deductibles, coinsurance, co-payments, etc.; the promotion of other health producing activities, either within or outside of insurance; the size, cost, and quality of provider networks; the way or amount providers are reimbursed for services; and the variety of plans offered.

You must create value and thereby increase profits. You must be mindful of your obligation to your shareholders foremost, but your company feels some obligation for the welfare of its employees, and you must, as a business necessity, be mindful of employee satisfaction. Winning purely by making your employees lose is not likely to create value and is probably a poor policy in the long term.

What To Do. Write a five or six page (no more, no less) briefing suggesting how health benefits should be changed to deal with the problems I have outlined. There are various ways to proceed. You may, if you wish, analyze an actual health insurance plan offered by a retailer, such as one employing one of your group members. Or you may use one offered by another private sector

employer. Or you may assume a standard HMO or PPO is offered, get some information about that plan, and proceed. Remember, that you are ultimately focusing on *changes* in the health plan in response to the *changes* in the business environment outlined above. Focus not on what the plan already does, but what it will do differently, and why.

Remember that moral hazard and adverse selection are key problems that exist with health insurance. One way to create value is to reduce these problems. Describe how the changes you advocate will reduce these problems. Ultimately, you want any recommended changes to the insurance plan to be effective, relevant, and practical. They should be motivated by the facts described in the setup, and should make sense in a retailing environment.

When. This part of your project is due on Mar. 29. Keep a copy for yourself and turn a copy (one per group) in to me. On Mar. 29, we will discuss this part of the project and I will spring a surprise on you, which motivate the second part of your project. That part is due Apr. 26. At that time I will grade both parts of the project together, emphasizing the second part in the grading. I will also spring another surprise on you, which we will discuss our last week of class. This is thus a three-part project that will extend the rest of the semester.

Who. You may work on this project in groups of one, two, or three people. Groups are formed by presenting to me a copy of the contract below. You can see that I have designed this contract to minimize problems and maximize value creation, let's see if you can do the same for health insurance!

If you have a group of three people, who have not known each other previously, the potential for problems is significant. If you ignore my warning to make sure work is completed well in advance of the due date, you do so at your peril.

How. This project is relatively unstructured. Ultimately, your brief will contain an introductory overview of the situation, followed by a two or three recommendations for change and a conclusion. You should describe each recommendation in detail, discuss its likely effects on costs, health, worker retention, etc., and then show how it will create value and profit. Then finish with a brief conclusion.

One simple outline would be, a brief with an introductory page, followed by three recommendations, a page or so devoted to each, and a one page conclusion. Remember, I'm a CEO—think of me as Donald Trump. Don't tell me unnecessary stuff that The Donald would not want to hear. My time is valuable (so is Donald's) so get to the point and make it good.

GROUP DYNAMICS AND COOPERATION IN ECON 3301

Working in groups can be an enriching and educational experience but can also lead to frustration from underperforming group members. I have taken steps to reduce this frustration, which are outlined on this sheet.

Groups: For your project, groups are one, two, or three people. Groups are self-formed, and are “partnerships,” in the business sense—each group member should be fully committed to the work of the group, and do their full share. I intend the project grade to apply for all group members, unless there are group problems (see below).

The Contract: Each group should promptly fill out the contract below, giving a copy to me and a copy for each group member. Each student is responsible for ensuring they are placed on their group’s contract, and each group member is committed to attend all meetings planned by the group on the contract. Please find another group if you cannot.

Group Problems: Please deal *promptly* and *assertively* with group members who may be underperforming. If a group member fails to do their assigned groundwork or fails to show at group meetings, please talk to me about it. Per your written request (e-mail) I may drop that person from the group and ask them to complete the project on their own or assign grade penalties as specified on your group contract.

The time to address group problems is well before you turn in the project. It is not fair to me or to group members to raise problems at the last minute, at which point I cannot address them effectively. Everyone in the group should be listed on the project that is turned in, unless you have requested and received permission to drop a person from the project, in which case that person’s name should, of course, be omitted.

To proceed on the project, do the following:

1. Form into groups and write your group contracts as specified below. For a good project, the whole will be greater than the sum of its parts. Meaning, work together.
2. Each person should do their assigned preliminary research on their own and have it ready at the time agreed to by the group. Get started early! Get started early!
3. Each person should show at all group meetings specified in the contract. These meetings should be for reviewing the individual research and assembling it into a draft.
4. Have the draft copy of your project ready early, in time to show it to me and get feedback. You then have plenty of time to revise and polish your project before turning it in.
5. Turn in one copy of your project, with all group members’ names on it, on the desired date. Every group member should have a copy of the project in class on the due date, because we will discuss the project on that date, and to make absolutely sure the project is turned in on time. Late projects *will not be accepted*—doing the little things that make your CEO happy is part of what the project is about.

Words to the Wise: I intend that all projects that are conscientiously done will receive at least a B. But you don’t know my standard of “conscientious,” so the biggest problem you can have grade-wise is that your standard of conscientious is a lot different than mine. Working on your project in a timely manner and communicating with me as needed will help prevent that from happening. If do you not, and I turn out to have a higher standard of conscientious than you do, you can only hold yourself responsible.

GROUP PROJECT CONTRACT, ECON 3301. Each student is responsible for ensuring they are listed properly on their group's contract. **Get started on your project early to prevent problems!!**

Group Members

Name	Phone	e-mail
1. _____	_____	_____
2. _____	_____	_____
3. _____	_____	_____

Project Responsibilities

Identify each member's project responsibilities here.

- 1.
- 2.
- 3.

Meeting Times

List the dates, times, and locations of all project meetings here. There must be at least one meeting, but I have left space for four.

Date	Time	Location
1. _____	_____	_____
2. _____	_____	_____
3. _____	_____	_____
4. _____	_____	_____

Problems with Non-Compliance

Let's figure out what to do if there are group problems now.

Non-Compliance includes missing group meetings or not finishing assigned work on time. Solutions can include reducing that individual's grade on the project or asking that individual to drop from the project and complete the project on their own. Ultimately these are assigned by me using this contract as a guide. I will not adjudicate group problems after Mar. 22 (first installment) or Apr. 19 (second installment). Make sure all required work is assembled prior to those dates. List how your group would like to deal with member non-compliance here.

Project: Part 2, EBON 3301, Darren Grant, Spring 2006.

As it turns out, other retailers have been facing the same problems that you have. One of them you may have heard of: Wal-Mart. At the link <http://economics.uta.edu/grant/wal-mart.pdf> you will find a brief, much like yours but longer and more thorough, addressing the same problems posed to you in the first part of this project. Please print out this brief and have each member of your group read it—it's fascinating. The author of the brief, who works for Wal-Mart (this is an internal brief, the genuine article), makes several minor suggestions and five major suggestions, designed to lower costs, increase employee satisfaction, and increase the company's public reputation.

This part of your project gives you an opportunity to *revise* and *extend* your earlier brief. You may wish to revise the suggestions in the first part of your handout in light of what you learn from the second brief. (But you are under no obligation to do so.) Also, assume that your CEO is aware of Wal-Mart's brief, so you also need to compare/contrast your recommendations with those of Wal-Mart. If they are similar, point that out. If they differ, point that out too, and explain why you believe your recommendations for your company are better/more appropriate than those made by Wal-Mart.

In this last section, too, you can point out the Wal-Mart faces the issues mentioned in your original assignment: moral hazard, adverse selection, strong behavioral effects on health, a wider range of health insurance options, citing the memo if you wish. You should, after reading the memo, understand that these issues are very important to Wal-Mart, and that the retailer is struggling to deal with them.

Your revised and extended brief must be six to eight pages (no more, no less). The first five or six pages should follow the same outline as before, and the last two or three pages should contain the comparison/contrast with Wal-Mart. Part of this project is to give you fresh perspective on the problem posed to you, and give you an opportunity to improve on your original work. During the next few weeks, I will read each group's initial submission, and return to you a couple of suggestions on how to improve your project. Thus, this next submission should improve on your first version.

This part of your project is due on Apr. 26. At that time I will grade both parts of the project together, emphasizing the second part in the grading. I will also spring another surprise on you, which we will discuss our last week of class. This is thus a three-part project that will extend the rest of the semester.

Your project should be typewritten, one side of the paper only, double-spaced, 12 pt. font, stapled, standard margins, no covers / title page / bibliography necessary. Please try to make the writing crisp, clear, and grammatically correct.