

Reducing Employee Benefit Cost

This has been a year of economic challenges and employers are looking for ways to reduce overhead and increase efficiencies. Many employers are looking at their employee benefits plans for opportunities to save money. Yet the challenge for not-for-profit employers has always been hiring and retaining the best employees within the constraints of limited budgets and funding.

There certainly are ways for employers to lower their benefits costs without necessarily doing so at the expense of the employees. Employers who currently do not offer plans are generally not considering doing so until there is more stability in the economy. Here are some things to consider.

Value of a benefits plan

Recently, an insurance industry survey revealed that, given the choice, most employees would take an employee benefits plan over a \$5,000 annual raise. For employees, a comprehensive plan gives them peace-of-mind knowing that their families are protected in case of catastrophic occurrences such as death, loss of income due to sickness or injury, high drug claims or an out of country hospital stay. As well, family health costs such as day-to-day medications, chiropractic and dental care are offset.

This kind of protection and piece-of-mind is important to employees and can cost an employer less than \$3,000/employee annually. When hiring, benefits are nearly always a priority for potential employees, even in tough times.

Ways of reducing benefit costs

Traditionally, the solution is to pass more cost over to the employee. This is done by either reducing benefits or increasing employee contributions to premiums or claims or a combination of both. However, in the not-for-profit sector, there is a real (and justified) reluctance to reduce the value of the plan to employees.

Multi-Employer Plan:

Before taking steps that reduce the value of an existing plan to employees, an employer (small, medium and even larger) should consider joining a multi-employer plan. This way they can take advantage of available economies of scale as administrative costs are reduced by as much as 30%

Pooled Plans:

Small employers (10 and fewer) might consider joining a multi-employer plan where health and dental claims are pooled. These plans cushion smaller employers against significant claims fluctuations. Administrative costs are generally lower as well. On their own, small employers can pay as much as 32% of their premiums on administration alone!

Non-pooled:

Medium sized employers (from 10 to about 50) will find that, in a multi-employer context, more of their premiums will go towards paying claims while still having the plan design of their choice. This kind of flexibility is often available in association plans. It is not advisable, however, that employers of more than 10 employees join a pooled plan as they may be subsidising the smaller employers.

Accounting Systems Only (ASO):

Larger employers, 50 or more, can save in a multi-employer plan but may also find that changing their health and dental plan funding from set monthly rates (rated) to Accounting Systems Only (pay-as-you-go) can save an average of 15% or more annually. Risk is substantially reduced by including stop-loss insurance to protect against high claims. Using a budgeted approach can even allow the establishment of rates. Surpluses are then reimbursed at the end of the year. Some association plans can offer reduced administrative costs even on an ASO plan.

Other cost saving options

Employee Education

Employees don't always fully understand how their benefits work. Many don't realize that helping to keep costs down can benefit them as well. Certainly if employees are sharing plan costs, they will save (after tax) money but even when a plan is fully paid by the employer, keeping costs down could prevent a reduction in plan design in tough times, or allow future plan enhancements when money is saved.

Employers need to communicate to employees that they can take some ownership and responsibility over their own plans. Some things employees can do include:

- Seeking lower drug dispensing fees. Some retailers charge as little as \$6.00
- Finishing medications. The implications of not completing a course of treatment are often a sicker patient and costlier prescription or even a hospital stay.
- Purchasing as many repeat long-term medications refills at the same time as possible to reduce dispensing fee costs or even buy medications from a low-cost mail-order pharmacy.
- Shopping around for glasses, hearing aids, orthotics, massage therapists and other paramedical products and services. This can help stretch the claims dollars farther;
- Remaining with a practitioner (massage, chiropractics, etc..) as the initial visit is always more costly.
- Reducing the number of routine dental visits. The Canadian Dental Association (CDA) has determined that a 12-month recall has little or no impact on dental health for most adults.

These suggestions can save a plan 5% or more annually. The most important thing, however, is that employees keep healthy. Absenteeism can cost an employer thousands of dollars annually in lost productivity.

Cost Sharing

The next line of defence (and in some ways the last) is cost sharing with employees. One advantage being that employees feel a sense of ownership and are encouraged to be more vigilant of claims cost than they otherwise might be. Most plans allow up to 50% premium sharing overall. This can be accomplished by straight cost splitting on any and all claims or by having employees pay 100% of their LTD premiums (and short term disability premiums if applicable). When employees pay 100% of disability premiums, the benefit if ever claimed, will be tax free to the employee.

Sharing the claims costs can be a little more equitable in that only those who claim will be out-of-pocket. However, this only applies to the health and dental benefits. Claims costs are shared in two ways. One is establishing deductibles (\$25, \$50, \$100, \$500). Another approach is to increase the amount of each claim paid by the employee with co-payments. For example, 10% to 50% co-payments will decrease rates by a similar amount.

Other options include having the employee pay a flat amount (\$5, for example) on each prescription; pay the dispensing fee (dispensing fees account for about 25% of drug costs) or pay the portion of the dispensing fee that is in excess of \$5. This allows employees the option of seeking a lower-cost pharmacy.

Health Care Spending Account

A more creative approach might be to implement a Health Care Spending Account (HCSA). HCSA is an affordable option that has been available to larger employers for many years (50 employees or more). Recently, however, carriers such as ACCERTA have begun offering HCSAs to employers of as few as five employees. In this scenario, an employer establishes a spending account for each employee and the account reimburses employees for many health-related expenses not covered by the provincial health coverage or by a typical group plan. Typical amounts might be \$500 to \$1000/employee/year. Employees draw down on their allotment until it is exhausted. Most plans allow any excess at year-end to be rolled over to the following year.

Employers could choose to replace (some) plan offerings with a fixed spending account tailored to affordability. Employers can offer a HCSA in combination with travel, life and disability coverage to create an economical plan that will add value to their compensation structure.

Even in tough economic times, employers do have many options when considering cost reductions or even whether to offer a plan in the first place.

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