

# Good benefit plan design and management drives business success

*Too often employers cost cut benefits without understanding impact of decision*

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**BENEFITS PLANS ARE** a valuable component of a company's overall payroll and HR strategy. A competitive benefits program can be a powerful attraction and retention tool.

Employees continue to report they would choose to keep their benefits over salary increases of \$10,000 or more according to 2009 and 2011 surveys done by sanofi-aventis.

However, many companies facing typical double digit premium increases are finding it difficult to maintain meaningful, affordable coverage.

All too often, employers implement cost-cutting measures without a clear understanding of the business impact.

Traditional methods of controlling benefit costs include reducing benefits, restricting eligibility and shifting costs to employees by increasing deductibles and co-payments.

But these are merely short-term solutions that neither address the root causes of the problem, nor recognize the needs of a diverse workforce.

These cost-control measures can also have the unintended consequences of changing an overall HR, payroll and benefits compensation package in a way that does not support the strategic goals of the business.

When employers have a unified view of their HR, payroll and benefits programs benchmarked against the

industry, the organizations are better able to provide benefits that support their desired competitive position. They can also deliver the programs their employees want and need.

The major components of successful benefits plan management are:

- plan design strategy
- cost controls
- enabling technology

## Plan design

When designing a benefits plan, it is important for employers to understand industry norms. Two useful benchmarks for determining the overall budget for a benefits plan are the "per capita benefits premium" and "the benefits premium as a percentage of payroll."

These benchmarks allow employers to set both a realistic budget range and establish competitive position within that range.

Using this target budget, they are then able to evaluate benefit plan options.

Benefit plan designs can be characterized as:

- defined benefit
- defined contribution, or
- hybrid programs, combining both DB and DC elements.

A more traditional "defined benefit" plan entitles employee to specific coverage (such as drug benefits) without caps or maximums.

Because premiums vary annually based on utilization and claims submitted, a limited number of high

usage employees or coverage options can drive program costs up.

In contrast, "defined contribution" benefits allow budgeting of how much an employer will contribute and the annual level of contribution increases.

Employers can retain core insured benefits employees value most, while using DC components to manage escalating costs.

A hybrid plan clearly presents opportunities for savings, while adding flexibility to support the needs of a diverse workforce. Some DC elements that can be incorporated into a DB plan include:

- Cap the number of paramedical visits each year and put in a dollar cap on the amount that can be claimed for each visit.

- Include an annual cap on all health claims paid or on claims paid by individual programs such as the drug plan.

- Add a health spending account with a fixed annual contribution that employees can spend on a wide variety of non-insured services such as deductibles, coinsurance, eye glasses or dental services.

## Cost controls

When it comes to cost control, there is a popular misconception that changing carriers is generally the best way to keep costs in line. However, before going down that path, it's important to understand the cost drivers of the plan and the

employer's cost control objectives.

A good candidate for increased scrutiny is drug cost. Prescription drugs typically represent 50 to 70 per cent of health expenditures and continue to outpace other annual health cost increases.

If we consider drug costs alone, it is apparent a little plan management goes a long way.

For example, drug plan costs can be cut by 35 per cent or more by employing the following strategies, according to John Herbert, director of business development, ESI Canada at the ESI Canada Conference in April 2008.

- Co-ordination of benefits (savings of 10 to 15 per cent)
- Plan cost sharing with employees (savings of 10 to 15 per cent)
- Dispensing fee cap (savings of six per cent)
- Generic drug substitution plan (savings of two to five per cent)
- Managed formulary(savings of two to five per cent)
- Others including prior authorization, preferred providers, audits (savings of three per cent)

But few organizations are taking advantage of these cost control opportunities.

The average medical or dental plan deductible is only \$25 and more than two-thirds of plan sponsors pay 100 per cent of medical and dental claims.

Similarly, more than three-quarters of plan sponsors do not cap dispensing fees, according to a March 2010 article from the *Employee Benefits Enquirer*, a newsletter from the B.C. Construction Association.

Even in the current economic environment, employees have been

willing to take on increased costs to maintain their benefits coverage.

However, employees typically receive few details about cost escalation in their plan, so they have no sense of plan ownership and little motivation to contribute to cost control.

Excellent communication will help employees learn the importance of employee consumerism, prevention and cost containment.

For employees to be part of the solution, they need to understand:

- who is paying
- what they can purchase
- what benefit choices they have
- where they can get information

### Enabling technology

Because group insurance is an interconnected part of a company's HR, payroll and benefits strategy, it cannot be viewed in isolation.

For ongoing management of their program, companies should leverage technology that unifies payroll and group insurance.

By connecting all of the various dots, "the big picture" emerges and programs can be optimized on an ongoing basis.

**Connecting the payroll and benefits dots:** The preferred arrangement is a single system that simultaneously supports benefits enrolment and payroll processing with a direct connection to the payroll system and the insurance carrier. This will ensure accurate payment of claims with the core payroll data as the primary source.

Errors that can be introduced by duplicating payroll-based information and multiple data entries in multiple hard copy files or online systems

are eliminated with this approach.

**Connecting the insurance premium and payroll deduction dots:** Using the payroll as the system of record to calculate group insurance premiums based on actual employee eligibility, census information and salary data ensures accuracy of payments and eliminates time consuming reconciliation of monthly insurance carrier bills with regular employer and employee payroll deductions.

**Connecting all the dots back to business insights and key performance indicators:** A single system can provide a deeper, unified view of how insurance costs relate total payroll and HR costs on a per-capita basis.

Assessing these metrics against benchmarks for similar companies will enable employers to better control their programs on an ongoing basis.

### Pulling it all together

A benefits plan is not a program to "set and forget."

Regularly benchmarking benefits programs against best practices in plan design and cost control using enabling technology will help employers objectively measure the effectiveness of their plans against the plan objectives on an ongoing basis.

In addition to cost-effective solutions, a more targeted benefits program will demonstrate appreciation and increase employee loyalty while giving employers an edge in their overall HR, benefits and payroll strategy.

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