Employee Benefit Trends in an Unpredictable Economy

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What is predictable in these uncertain and changing times is the steady increase in the cost of employee benefits. The costing trends, some driven by the very employees who seek their protection and afforded benefits, can begin to experience change through commitment from both employers and employees alike. Engaged self-interest through collaboration, in terms of prevention and wellness, can help turn the tide and begin to control these costs. An overall mindset change is necessary, from the entitlement mindset to one of ownership. The question is: Are we ready to change and can we change?

Employer Trends

Employers have been experiencing double-digit increases annually in employee benefits for the past twenty years. At the core of these increases are shifts in workforce demographics, legislative changes requiring employers to provide or extend additional benefits such as the Americans with Disabilities Act, Family Medical Leave Act, Health Insurance Privacy and Portability Act, and most recently, the American Recovery and Reinvestment Act of 2009 (“ARRA”). These factors, and many others, continue to contribute to the rising cost of employee benefits.

What has NOT changed is the challenge employer’s face attracting and retaining top talent. The market is presently flooded with displaced professionals who possess unique skill sets in search of the best compensation package, usually comprised of excellent fringe benefits. Employers must offer competitive salaries alongside benefits, both tangible and intangible, all the while controlling costs in an attempt to realize profits in a stalled economy with no immediate signs of relief.

Employee Trends

As employers ponder over annual, double-digit employee benefit renewals, employees are educated annually during the *open enrollment* phase with regard to plan choices and relative costs for those choices. These annual meetings, sponsored by the employer, but presented largely by the insurance carriers, cover the rising cost of health care and the need to modify coverage such as co-payments for office visits and prescription drugs. It seems unfair to employees to be required to pay more to receive less, however, that has been the message year after year. Costs have been driven by hospitals going out of business, shutting down of outpatient facilities and emergency rooms and the pharmaceutical industry advertising directly to the consumer.

If that is a “new message” to employees, then the employer has been not only remiss but incredibly generous by bearing the total cost of the increase in health coverage and related plans perhaps creating an “entitlement” mindset among employees in their organizations.

Employees then, expect employers will continue to absorb the increases and continue to provide the “Mercedes Benz” of health care when the “Cadillac” may be more affordable and comprehensive enough. Employees who are protected from knowledge of the cost of such health care benefits, have a false reality of benefits affordability, how long the benefits will last, and, in this economy, how long the business can sustain itself with such enormous and ever-increasing overhead demands.

In today's economy, more and more employees are expressing gratitude that they remain employed, so modifications to employee benefits plans are much more acceptable in light of the old adage "beggars cannot be choosers." Unfortunately, there will be some entitlement hangers on who still expect more.

Tangible Benefits

It is unquestionable why most workers work and what motivates workers to select one company over another when it comes to accepting a position and fulfilling career objectives. Annual salary tops the list of what motivates an applicant to accept a position with employee benefits running closely behind in second place. A compelling future, self-fulfillment and growth opportunities, and a positive work environment, while making the list, fell sharply behind their "spendable" counterparts.

Employee benefits, in the form of medical insurance and related plans that protect the employee and their family in the event of an illness, death or disability, are usually most attractive and persuasive. These programs are "tangible" in that they provide a benefit in the event of an unforeseen circumstance. These employer-sponsored group plans are usually secured by the employer through carriers where underwriting guidelines are less stringent and premiums more competitive than what an individual might be able to purchase on his or her own, especially if the employee or a family member has a pre-existing health condition. The most common employee benefits offered through an employer are:

- Medical
- Dental
- Life Insurance
- Long Term Disability
- Vision
- Employee Assistance Plans ("EAP's")
- 401(k)
- Section 125 Cafeteria Plans

When the market was healthier and employers offered tax deferred benefits such as 401(k) plans with employer matches, employees were quick to enroll. Tax deferring income was not only attractive, dollars were being matched to a percentage of an employee's overall compensation, a win/win scenario. However, within the last year or so, the uncertainty in the worldwide markets and banks has caused employees to become ill at ease with regard to investments for their future. While tax deferred income is still attractive, many employees don't feel it holds the same pizzazz without the employer match. Employers should remain confident in offering these programs and educating employees at open enrollment, especially when funds are invested within mutual funds offered by reputable providers. Employees should remain positive that fund values will turn around and continue to make intelligent investments based upon sound counsel in this financial arena.

Section 125 Cafeteria Plans for un-reimbursed medical expenses and daycare costs remain attractive options by offering pre-tax dollars to pay for medical costs not covered by health plans and day care secured through licensed providers. Employees remain entrenched in these programs due largely to anticipated medical needs such as an upcoming surgery, out of pocket expenditures and deductibles, and with expanded options with over the counter medications being classified as reimbursable expenses, employee have less fear over the "use it or lose it" rule for which these plans have been noted. Meticulous calculations to establish deferral amounts are essential to realizing the maximum tax benefit without risk.

Intangible Benefits

We are all familiar with the tangible benefits being of utmost importance, but what about the "other" benefits that are intangible? How do they play a role in the decision making of whether or not to sign on with a company? Employers have learned to accentuate the intangible benefits, those benefits that are received, sometimes appreciated, often expected and certainly overlooked by most employees. In this economy, emphasis should be redirected to the intangible benefits and the ***value*** they hold.

In order for employers to gain extra mileage with employees, Human Resource professionals have been utilizing the Hidden Paycheck Worksheet for many years. The Hidden Paycheck Worksheet reveals the value of all employee benefits above and beyond annual salary and health care to include awarded sick time, accrued vacation time, floating holidays, pay for civil duty, bereavement leave, various types of leaves of absence as well as some maternity plans that afforded employees full salaries for up to eight weeks of maternity/paternity leave.

What the hidden paycheck cannot include but that intangibly affords the employee protection is unemployment insurance and workers compensation premiums.

Employees are educated through the "hidden paycheck" as it outlines the "behind the scenes" taxes and time the employer pays to or on behalf of the employee equating to an addition 30-35% above the annual salary, the employee gains new insight into the cost of their employment. This means that the employee must be clear on what results he or she is required to produce for a better understanding as to when the employer breaks even and begins to recognize profitability from the relationship. The true message should be that the employer *invests* in the employee for a considerable period of time before the employee "pays for themselves!"

As the increases in health care and related benefits continue to rise, employers are forced to consider more intangible benefits like telecommuting, alternative workweek schedules i.e., four, ten-hour days, job sharing, summer hours, casual dress and even stocking kitchens with snacks. Employers have also considered converting unused sick time into 401(k) contributions when sick time policies require forfeiture of unused time at year end.

Communication

What remains fundamental is the need for open communication between the employer and employee. Employers are beginning to recognize the opportunity to share their "reality" with employees. After all, the relationship of employer/employee is that of a team and doesn't a team play better when all "heads are in the game?"

Employers have begun to fully embrace employees as business partners and share facts behind the challenges they face when reviewing health and benefit plans and their related costs. Insight is gained and shared relating to how upper management strategizes on what benefits to offer and how to pay for those benefits at renewal. As these communication channels remain open, employees begin to appreciate the value of not only the evaluation process but the benefits secured at the end of the process. It is through this exercise that management can learn of the desire to discard an acupuncture benefit and substitute a chiropractic benefit instead and so on.

Asking the employees what types of benefits they would agree to modify or forfeit in an attempt to drive costs down thereby obtaining buy-in always acts like the “spoonful of sugar” it “helps the medicine go down.”

When communication is open and the employer’s pain is explained, realized and felt by the employees, the partnering process becomes that much more effective.

Plan Changes that Prompt Cost Sharing

More and more employers are seeking professional advice as to how to provide great benefits affordably. As a benefits professional, it is my duty to educate employers how plan modifications and other changes can really make a difference in renewal rates. In some cases, adding a brand-name deductible to a prescription benefit plan can reduce rates by 1-2%. Increasing a deductible from $250 to $500 and another 1% reduction in rates can be realized. Consider the addition of a separate hospital deductible, and, again, additional savings are recognized. When a 13% renewal can become a 7% renewal, the proposition of cost-sharing that increase with employees is much more palatable.

Employers have also begun partnering with their brokers in innovative ways by requesting commission modifications. Perhaps this is a suggestion that some brokers won’t appreciate, however, in these difficult times, relationships count and mutual sacrifice should never be overlooked. When the challenges ease up, you can always revert back to prior commission structures, but for now, we all need to pitch in!

The Needed Change: Wellness and Prevention Plans

I am reminded of a poem entitled Ambulance in the Valley from 1895 by Joseph Malens. The poem talks about a town that had once engaged in a very bitter debate about whether the best way to deal with the problem they had of people falling off this cliff high above the city was to raise funds to build a fence at the top of the cliff, or to continue to raise funds to park an ambulance down in the valley that was very efficiently hauling people off to the hospital. A lot of the townspeople said, "Look, we've always had an ambulance there and it's worked very well. Why should we raise more funds to build a fence?" But finally common sense hit. Someone stood up and said, "An ounce of prevention is worth a pound of cure," and the old man's logic won the day. They came to their senses.

The last two stanzas sum up the message from 1895 and demonstrate applicability even today:

Then an old sage remarked, "it’s a marvel to me
That people give far more attention
To repairing the results than to stopping the cause,
When they’d much better aim at prevention.

"Let us stop at its source all this hurt," cried he.
"Come, neighbors and friends, let us rally.

If the cliff we will fence, we might almost dispense
With the ambulance down in the valley.

When employers review their annual renewals for health and related employee benefits, it is typical for the carriers to take into consideration, especially on larger plans where 250 or more employees are insured, utilization review. That is, how the plan was utilized by its subscribers or the employees and family members it insured for the past plan year. When claims paid out exceed premiums paid in, it is fairly predictable and reasonable that employer can expect an "experience rate increase" that could be as high as 40% over the previous year's premiums. A couple of cancer diagnoses on a mid-size group can prompt such an increase that the entire group, even the healthy subscribers, will pay for next year at renewal.

When a "trend" renewal increase is 12-15%, a rate increase based upon experience can cripple an employer…enter P- R -E –V- E- N- T- I- O- N. No, it's not an Aretha Franklin song, but it should be on the lips of every employer in this nation during this crucial point in our economic history, the worst since the Great Depression.

Much like the folks in the poem, employees need to be educated in how best to prevent disease before it occurs. While there is no exact recipe and prevention and wellness differ from person to person, what is clear is that lifestyle changes can and do prevent illness and extend health and life when regularly engagement in these practices occurs.

Therefore, employers are now sharing in the educational aspect of prevention and wellness. Why not, as both will benefit from commitment to the cause. Employers are moving in this direction as they realize that employees who observe healthier lifestyles that include a balanced diet and regular exercise program feel better and produce better results, more quickly and more economically than their counterparts.

These same employees take less time off to recuperate from illness, whether their own or that of a family member, because when one embraces a prevention and wellness lifestyle, most family members also participate. This translates into lower utilization patterns when a group of employees modify lifestyles and that modification is carried over into the work environment.

Wellness programs have started with an internal memo or newsletter from Human Resources promoting the idea of prevention and overall wellness. Wellness committees are soliciting input from employees who observe a healthy lifestyle and diet. These employees are already internal role models and can motivate others. Ideas for a Wellness Kick Off include inexpensive approaches to get started such as:

- The immediate elimination of donuts, bagels and office candy bowls
- Scheduling a daily group walk for 30 minutes at lunch
- Taking up a collection for a "Salad Day"
- Purchasing pedometers ($6.00 each) for each participant and start a walking contest

Some employers in partnership with their brokers are sponsoring health fairs offering various types of screenings like cholesterol, blood sugar, high blood pressure and flu shot clinics to employees where the employer and employee share in the cost of the prevention of illness. The employer might also consider offering the shot clinic to the employee's immediate family members for a discount so that the employee is not required to take time off to care for a family member during flu season.

As employees begin to realize their lifestyle choices contribute largely to the annual renewal rates for the health and related benefit plans, they can take control and attempt to reverse the tide in collaboration with their employer. While a reversal will not happen overnight, the shift will begin gradually and gain momentum among employees who understand it is in their own enlightened self-interest to come to "the middle" and help their employer help them, by engaging in healthier lifestyles and behaviors that result in lower utilization of the health plan and related benefit programs.

As employers continue to partner with employees through education, candid communication, cost sharing and plan design, more employees will join the solution side of the equation and through collaborative support, gradually reduce utilization and reliance on an overtaxed healthcare system.

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