

Employee Benefit ■ Plan Review

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A 2009 Benefits Plan Even a CFO Could Love

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As 2009 dawns, an area of focus and financial scrutiny for employers and their chief financial officers undoubtedly will be the benefit platforms for the employee population. Benefits have always been a focus for employers in the attraction and retention of employees, but as financial difficulties hit all markets, there will be an unprecedented review of this expense line for employers. That said, each industry should continue to review the benefits most coveted by the talent at the employee level within that industry to maintain a competitive edge in the hiring and retention of a work force.

Over the course of time there have been many variations of the employee benefit decision protocol for human resources, finance, and the executive teams. This line is becoming clearer—CFOs and executive teams will be more hands-on and more influential in the strategy, planning, and decision process moving forward. Questions are being asked about benchmarking versus other employers. What are the accepted benefits and how does the platform address the needs of many different types of employees? How can these benefits be offered in a cost-effective manner?

Due to these challenging financial times, human resource and benefit professionals find themselves in a bit of a bad case of “be careful what you wish for” situation. They have always longed for the support and understanding of the executive team and specifically the CFO on how the benefit platform is handled and maintained. However, it is due to the challenging environment in which they operate that this has now become necessary. Not unlike the human resources team, the CFO is looking for comprehensive benefits that provide the employees and the company with choice, financial flexibility and predictability, administrative efficiencies and the ability to address the needs of a varied workforce.

The initial approach in most industries is to review all in-force benefits inclusive of medical, dental, life, disability, home/auto discounts, and employee assistance programs.

Trying to get the most out of the current platform, instead of cutting benefits is an approach that will continue. What “other benefits” are hidden in the core design that can be better communicated, understood and utilized? Such benefits may include built-in vision plans in the medical option, employee assistance program (EAP) platforms and travel assistance services in disability and life plans, as well as identity theft and or credit counseling services.

Even in difficult economic times, the CFO is looking for a benefit program that provides choice for employees. From the smaller employer to the large, the ability to promote choice and flexibility for employees is invaluable. Employees do not want to feel “forced” into certain benefit decisions. There is inherent value in the decision process. They want to feel they have a say in what makes the most sense for them and their families. If the choice approach is removed, employees feel alienated and that the executive team is disconnected from the reality they live in every day.

As employees and employers scrutinize the cost of benefits, the choice of plans and financial impact on one’s paycheck remain a top priority. Choice can vary from actual plan and benefit design differences to contribution differences or incentives to create behavior change that can both benefit the employee and the company. The movement to have employee invested more in the benefit process is alive and well through consumer-driven health plans and wellness initiatives. Creating choices that allow employees to potentially lower their cost, lower the employer cost, and create good “benefit habits” for the future are at the top of the list for the executive team. This formula has the potential to be a positive for all involved in the process.

FIXED-COST METHOD PROVIDES PREDICTABILITY

Human resources and the CFO are approaching the budgeting process for benefits in a more predictable fixed-expense method. In past years it was not unusual to have varying employer and employee costs for each benefit

provided in the menu to employees. Although a common approach, it created more financial uncertainty on the actual cost of benefits until the actual enrollment numbers were finalized and a post calculation was performed.

There has been a clear movement to fit the fringe-benefit expense into the contribution strategy at an employer. The CFO is approaching the total benefit package in a reverse fashion these days by taking a total committed benefit budget and *then* working with HR to create a menu of benefits for employees. For example, an employer may pay the same dollar amount on every medical plan for each employee and have the employee pay the difference in actual premiums between a lower-cost plan (HMO) versus a higher-cost plan (PPO). This approach allows the CFO to have a fixed and predictable dollar amount for every employee enrolled rather than a moving target based on final enrollment. This approach provides flexibility, cost variance, and financial predictability for both the employee and the company.

Within this approach a company can still maintain benefits that separate its offering from other employers. Employees are looking for a core program from their employers but are also looking for choice in a voluntary (employee-paid) benefits offering as well. Benefits that continue to differentiate employers continue to include those benefits employees do not have access to elsewhere, such as additional life insurance, critical-illness protection, disability programs and accident policies. If employees feel there is an equitable approach by the company for the core plans, they are more likely to find value and satisfaction in voluntary plans. The good news is that voluntary benefits cost the employer nothing, since the full cost is normally borne by participating employees.

A combination of a creative core platform with a strong voluntary platform can truly assist employers in covering the majority of needs for different generations of employees. Employees in all different industries are longing for the opportunity to truly design their benefits and customize the coverage to their own personal needs.

The younger generation may be more willing to select a program that has lower contributions and more potential for out-of-pocket costs while maintaining a level of coverage that is acceptable to them. In contrast, a baby boomer may look for coverage with fewer moving parts, more predictability, and greater contributions but complements their health accessibility habits more appropriately. The younger generation is slowly moving away from the benefit choices that more closely mirror choices their parents made and becoming more involved in evaluating their own personal risk factors with each benefit decision.

As the employee population evaluates the employer benefit platform, the decision process will continue to center around cost, flexibility, and the ability to change with them as their needs change over the years. All of this cannot be possible without a structurally sound administrative platform. Administration has to be strong for finance, human resources, and the consumer. Multiple payroll deduction codes, billing, claims, and coverage parameters have to be made easy for consumer acceptance. An executive team cannot promote benefits to employees and potential employees without having confidence in how it is administered. Customer satisfaction must be a top priority and the administration will, in large part, influence this satisfaction level.

As a CFO evaluates benefits options with human resources, the amount of research and scrutiny paid to administration must be equal to or even exceed the scrutiny given to

cost and benefit analysis. Carriers, third-party administrators, communication specialists, and benefit advisors are all working to better administer these plans. What can be integrated and consolidated must be addressed prior to implementation. You must also understand how technology is leveraged to better serve the company and the employee. If the process of administration is overlooked and not valued at the executive team level and the plan is implemented, this has the potential to create problems post implementation and will ultimately reflect poorly on the company, human resources, and the leadership.

As we approach 2009, the environment surrounding employee benefits continues to present challenges and opportunities. The unified approach of finance and human resources can create an opportunity to best position a benefit platform at an employer. Without hesitation there will be scrutiny and potential benefit cuts as challenging times continue. However, all does not have to be lost in creating and offering a platform that can address and meet the needs of all interested parties.

The CFO has ultimate responsibility to the executive team and company to maintain a financially manageable approach to benefits. This should and can create stronger strategic relationships between human resources and finance. Gone are the days of decisions made in a vacuum. The days of collaboration are here. As the team evaluates the options, however, there will continue to be a strong focus on benefit choice, financial flexibility/predictability, needs assessment, and administrative ease. ☼

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