Totally Flexible

By Daphne Woolf

Flex plans have come a long way since their introduction. These days, choice may be the most important benefit a plan sponsor can offer.

There will always be a place in the world for non-flexible benefits arrangements. They are exactly the right fit for many companies. The same is true of traditional flex benefits plans. In fact, the majority of plan sponsors providing a flex plan offer group insurance benefits choices such as life insurance, income protection plans, medical and dental benefits.

But what about those circumstances in which non-flex or traditional flex arrangements are not well suited? An expansion of choice within an organization's total rewards offering can make a difference. Employers grappling with talent attraction/retention challenges (who are also keeping a careful eye on cost management) may find that a fresh look at choice in a benefits plan makes a difference.

We have come a long way since the mid-1980s, when the flexible benefits concept was still relatively new to Canada. In those days, choice predominantly took two forms. There was modular flex, where employees could select among different packages of coverage. Or there was core plus options, where a core level of coverage was provided together with credits that could be allocated to a menu of choices. Those choices were largely intended to allow employees to top up the company-paid core coverage.

A desire to be leading edge was what drove flex in those days. That was true primarily among larger employers. This was in contrast to the U.S., where flex was seen as a cost management tool.

By the time of the early 1990s recession, Canadian employers too began to recognize the cost-management benefits of flex. Unfortunately, employees came to see flex in the same light. An assumption grew among plan members that flex was code for long-term cost containment and short-term takeaways. Employers had to work hard to demonstrate that this wasn't necessarily behind the decision to switch.

DC FLEX PLANS

Health services spending accounts took on greater prominence around this time. Some employers saw these accounts as an innovative way for employees to allocate the company contribution wherever they needed it most. This resulted in the emergence of a new term—defined contribution (DC) flex plans.

In their purist sense, these offered a core level of coverage with a spending account. They met various needs. First, DC flex plans provided wide healthcare choice to the plan member without arduous administrative requirements for the plan sponsor. Second, whereas many traditional flex plans had to be priced to address anti-selection, DC flex plans had no anti-selection risk.

Third, these plans (as well as some of the traditional core-plus-options plans) included an inflation protection component for the plan sponsor. The core would continue to increase in line with external market trends, but the rate at which spending account credits increased was under the sponsor's control. Fourth, as long as the core was adequate, the spending account was appropriate and a good credit-increase methodology was developed, these plans benefited both plan members and plan sponsor. They were a win/win.

By the mid-1990s, the recession had passed and organizational health became a focus for some employers. Absenteeism management, disability management and health promotion became popular buzzwords. Some organizations built on-site fitness facilities.

A greater awareness of employee stress (and its cost) hit the corporate radar screen. Flex design elements were

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introduced relating to health preservation. They were made available as a means of addressing disability management and related wellness issues.

Employee assistance plans (EAPs)—largely an anomaly in the 1980s—were integrated by many of the larger employers as a core benefit. The legitimacy of EAPs raised the awareness and acceptability of counseling and mental illness. Spending accounts and other choices were introduced with the aim of supporting an employee and his or her family psychologically, as well as physically.

Employers who considered meeting employee needs as a guiding principle started looking for ways to further customize flex plans and to expand their benefits. Concierge benefits, flexible pension arrangements and health assessments became part of the vocabulary.

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PATERNALISM'S END

Increasingly, plan members were being empowered. As a result, certain groups of employees became more and more comfortable with choice. This was a cultural evolution in the workplace, reflecting a fundamental attitude change. Some employers moved away from paternalism, and began partnering with employees. Employee self-service became a popular notion. As more effective employee communication vehicles emerged, an employee's ability to better understand the advantages of choice made the introduction of flex plans easier.

Employers in certain business circles started to realize that competitiveness depended increasingly on the inclusion of flexibility. As a result, design concepts merged. Some plans were built with a core-plus-options foundation, in addition to a modular and/or DC flex component.

By the end of the 1990s, demography came to be incorporated into day-to-day human resources thinking. Employers became aware that managing workforce diversity and retaining key talent needed to become corporate priorities.

Back in the 1970s and '80s, we viewed diversity largely from the perspective of whether or not an employee was married and had children. Flex has evolved to respond to a much wider spectrum of diversity. For example, flex plans are to a greater extent being designed to address the unique issues that impact double-income households. They're also tackling a variety of generational perspectives (not just age differences). With this comes the need to provide benefits that better correspond to individual preferences in personal lifestyle.

Still, many employers need to manage costs aggressively. It can be a struggle to meet the talent attraction/retention challenge, and at the same time be conscious of budgetary limitations.

TODAY'S CHALLENGES

Some plan sponsors are happy with their non-flex or traditional flex plans. These arrangements meet their needs, and their employees' needs. They are well understood, easy to administer and affordable. Some aren't so lucky. Many plan sponsors are experiencing one or more of the following challenges:

- A merger or acquisition.
- Consistent unresolved employee dissatisfaction with various elements of the total rewards offering.
- An uncompetitive plan(s) where there is no new budget with which to correct the situation.
- A rebranded organization in which there is a desire to use the total rewards offering to differentiate the company from its competitors and reinforce a new corporate image and philosophy.
- A so-called burning platform exists, in which traditional approaches have proven ineffective.

For these employers, expanded choice and a wider application of flexibility may be appropriate. Fortunately, there have been a number of industry developments that help make that possible. First, the increased importance placed on employee communication has facilitated internal corporate branding where there is a goal to attract and retain talent. Second, the use of technology has improved the communication of more expansive flex benefits concepts and eased enrolment and administration. Third, insurance companies have improved their flex benefits administrative ability. All of this has allowed more innovative design solutions to be contemplated, developed and implemented.

Just as improvements in communication and changes in culture have increased employees' comfort level with choice, so too has the improvement in administrative outsourcing services increased the employer's comfort with introducing broader choice.

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There is now an emerging interest among plan sponsors in flexibility that incorporates total rewards. Up until now, most employers have provided total rewards by separate component (retirement benefits separate from group benefits, separate from cash, separate from incentives, etc.).

For some, there is an interest in communicating the value of total rewards, together with breaking down the silos, changing the total rewards delivery mechanism and transferring value between silos (compensation, benefits, perquisites, etc.). All of this is designed to allow employees to direct how their portion of the fixed cost is allocated.

The broader reach of flexibility also embraces those components of total rewards that have been inadvertently excluded from regular employee communication, but which nonetheless cost the company money. These components of the employment experience become integrated, and form an important part of a flexible total rewards design solution. These include career opportunities, work environment, training and development, cash and the non-cash components of total rewards.

Most employees will always want it all. And employers will continue to want to be all things to all people—perhaps though not at an added cost. As a result, employers will look for more innovative ways to offer flexibility and define total rewards. **BC**

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