THE RACE TO INNOVATE

By Jann Lee

Consultants are seeking creative solutions amid disruption and rising competition for plan sponsors' business

When it started hiring employees for its Canadian office a few years ago, global media intelligence company Meltwater sought outside assistance for its search for a competitive benefits package that offered 100 per cent drug and dental coverage, life and disability insurance, a registered retirement savings plan and other health benefits.

Since Meltwater's Canadian workforce is small, it hired PEO Canada, a human resources outsourcing company, to help it obtain a group option with other plan sponsors so it could offer comparable benefits to those of larger organizations.

"With companies like ours that have offices in many places, we like a high service level from the providers we work with," says Paty Shives, vice-president of human resources at Meltwater, a company that employs 1,000 people worldwide.

Budgets under strain

Despite the discount Meltwater received from combining its purchasing power with other plan sponsors, the company still tries to be mindful of expenses due to the mounting cost of benefits.

"We want to make sure that we're getting the best value for what we're paying," says Shives.

"That means, for us, paying attention to what our employee bases need in the geographical areas that they're located in. . . . The same needs may not be as important in some areas, and so we may be able to save some money there."

To do that, Meltwater relies on PEO Canada to report which of the company's benefits expenses are running over and under budget.

Meltwater isn't alone in keeping a sharp eye on the bottom line. Many plan sponsors are looking to manage costs while maximizing the value of their benefits plans, according to several consultants.

"The economy has really forced all employers to think about how they're spending their money," says Ofelia Isabel, global account director at Willis Towers Watson.

Along with the challenge of rising benefits costs, low interest rates have put pressure on defined benefit pension plans, says Jill Wagman, managing principal at Eckler Ltd. "The volatile return environment is causing a lot of plan sponsors to be focused on the long-term sustainability of their plans. We saw a very big increase in the interest [in] risk management after 2008, but I think it's persisting because of the environment that pension plans are experiencing."

When it comes to health benefits, an aging workforce that's more vulnerable to chronic illnesses and the introduction of expensive drugs are contributing to the cost increases, says Sarah Beech, president of Accompass Inc. The increases, she adds, are leading many employers to re-examine the objectives of their benefits plans.

As well, the number of people on disability and the length of their leaves have escalated, says Brian Lindenberg, a senior partner at Mercer. Insuring those leaves is also driving up expenses for employers, he notes.

Disruption on the horizon

With employers facing cost constraints, some are turning to technology companies for their human resource solutions.

While a few U.S. startups have garnered significant attention, Canada has also seen activity in the area, particularly when it comes to services targeting small- and medium-sized employers.

In 2014, Kobo creator Michael Serbinis created League, a platform that provides plan sponsors with access to workplace wellness services, health spending accounts and extended health insurance. Through League's system, employees can manage their benefits information, find services nearby and submit their claims online. The company plans to provide drug insurance and other benefits offerings in the future.

Then, in December 2015, Peter Demangos, an entrepreneur with experience in the benefits and pension industry, co-founded Collage, a free, cloud-based human resource platform that allows employers to manage employee information and benefits on an online dashboard.

Yafa Sakkejha, general manager at the Beneplan Co-operative, says there's plenty of potential for disruption in Canada given the developments in the area in the United States. "Because they've made so much of a splash in the U.S., it's worth pointing out that there are a lot of tech companies that could disrupt the space," she says.

"Brokers that have done well to differentiate themselves either on price or service will have no problem. But [those] that shop the market and point at numbers will probably go the way of the dodo."

There has been lots of activity in the area in the United States. Among the companies active in the area is Zenefits, a San Francisco startup that offers free cloud-based software that allows human resource professionals to administer all of their needs, including their benefits and retirement plans, online.

Established in 2013, Zenefits has 20,000 small businesses on its platform. It earns revenue from providers that offer products through the platform.

"We've turned the industry upside down from being paper intensive to taking everything online and having the ability for our end-users, whether it's an employee or employer, to have everything at their fingertips," says Sue Wakamoto-Lee, senior benefits advisor at Zenefits.

The company isn't alone in disrupting the benefits sector in the United States. Similar competitors have

COMPETITION PUTTING PRESSURE ON FEES

While employers rely on them to solve complex issues, consultants are experiencing a lot of competition for their services.

"We're all under pressure to lower our fees," says Wagman. "The defined benefit market is shrinking and there's no growth in that marketplace, so everyone is just fighting for market share. . . . That's definitely contributing to the competitiveness."

For example, Wagman says compliance-related assignments, such as pension valuations, are now highly commoditized with consultants sometimes underbidding in the hopes of retaining plan sponsors for other services.

"I don't think that consultants are necessarily recovering their costs on the commodity work they do because the fee pressures are great," she says.

There's also consolidation in the industry, as seen in the merger earlier this year between risk management firm and reinsurance broker Willis and Towers Watson.

The partnership was an opportunity for both companies to combine their strengths, says Isabel. "It gave us a perspective of looking at problems in slightly different ways that could ultimately help us come up with innovative solutions that don't exist yet."

popped up across the country, including Justworks Inc. in New York City and TriNet Group Inc. in California.

Zenefits has faced problems, however. The problems include difficulties with its software and the use of unqualified brokers. Earlier this year, its chief executive officer resigned.

Shives, who manages all of Meltwater's human resources from the United States, had used Zenefits while at a previous employer and says while she appreciated its user-friendly platform, she encountered setbacks when putting together the many components of her company's benefits plan.

"It was a little clunky on the back end in terms of getting the company enrolled and customizing solutions for our particular employment situation, and that was challenging," says Shives.

While she was eventually able to resolve her problems, Shives thinks disruptors like Zenefits still have much to learn in terms of addressing the complex needs of plan sponsors.

"Some of the current service providers are really good at providing long-term services and advice based on a lot of experience in the industry," she says.

"Sometimes, that can get lost in some of these [disruptors], so I think over time, we're going to see their services get better. But right now, I think traditional service providers still provide an important service in terms of reliability."

Despite the growing pains, Wakamoto-Lee says Zenefits isn't going anywhere. "Despite whatever bad press we've received or people that say we're collapsing, we know we're not. We have put a foothold in the industry and we are here to stay."

She adds that, as a disruptor, Zenefits has forced competitors to use technology in innovative ways. "Every other industry, whether it's the travel industry or banking industry, has updated itself to meet customer demands with technology. But the benefits industry did not. So we've actually done a service to the industry by bringing us into the 21st century."

Big players also leveraging technology

As disruptors look to grow their presence in Canada, consultants aren't resting on their laurels as many are also using technology to provide solutions for plan sponsors.

A few months ago, Mercer launched an online marketplace of insurance companies for employers to choose from when they purchase annuity plans for retirees, according to Jean-Philippe Provost, a senior partner at Mercer. Providers are vetted and plan sponsors are able to place parameters to narrow their options down to those that suit their needs.

"Technology has enabled us to connect employers and carriers in a much more efficient way," says Provost, who describes the service as an Amazon for annuity purchases. "[Employers] are able to see what some of the carriers are quoting at different moments and they're able to identify the appropriate time to go forward with the transaction."

Big data has also helped consultants advise plan sponsors on how to design an effective benefits plan.

Provost says data not only helps them understand past behaviour but also predict future outcomes. "We have the ability to zoom and target communications, something that was rare years ago when one communication was supposed to fit all," he says. "Through technology, we can pinpoint issues for employees and make sure they understand the implications of decisions."

According to Isabel, Willis Towers Watson used targeted communications to help a company increase its participation rate in its defined contribution pension plan to 80 per cent from 59 per cent within a three-month period.

"We revamped the way the company [communicated] the pension plan so that they're treating employees like consumers," says Isabel. "By doing this, we were able to increase participation."

Although the firm used traditional focus groups to gather ideas from employees, it also took inspiration from the personalization that technology companies like Netflix provide to customers.

Specifically, the company introduced an online portal that motivated employees to save for retirement by assigning them an age at which they can afford to retire based on their individual circumstances.

"If it's a number, it's easy to understand," says Isabel. "Instead of asking, 'Do you have enough to retire?' we asked, 'When do you want to retire?'"

So while technology has added new players to the field, it has also encouraged consultants to be more entrepreneurial in their roles, says Provost. "It forces us to go above and beyond when it comes to innovation."

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