Celebrating 40 years

THE FUTURE IS *flexible*

As part of its celebration of its 40th anniversary, Benefits Canada followed up on research undertaken five years ago into plan sponsors' attitudes towards their pension and benefits plans. How do the results today compare to the 2012 findings?

ISTOCK IMAGES

By *Sara Tatelman*

It's no surprise that, according to *Benefits Canada*'s research, plan sponsors find costs the biggest challenge when it comes to their benefits plans. But it's perhaps surprising that the percentage of plan sponsors that listed cost as their top concern dropped to 41 per cent, down from 53 per cent in 2012. The survey also found a significant increase in employers reporting that their biggest challenge was meeting employee needs and expectations. Their numbers jumped to 19 per cent this year from 12 per cent in 2012.

"There's [only] so much money we have as an employer," said Renée Laflamme, executive vice-president of group insurance employee plans and special markets solutions at iA Financial Group, during a *Benefits Canada* roundtable convened in April to discuss the research results. "At one point in time, you're just saying: 'Cost is an issue, especially if it grows faster than expected. I'll have to make choices, because this is all I've got.'"

Perhaps, then, employers are less concerned about costs because they've decided to cap their spending no matter what.

"So I'll need to play with it: I'll put more on benefits or more in retirement and offer voluntary options to my people to give them more opportunities," said Laflamme, noting employers may try to restructure their plans so that the costs remain the same.

ABOUT THE SURVEY:

The research for this story involved a survey this spring of 191 senior executives at Canadian companies with two or more employees and a group health or retirement plan.

Karrina Dusablon
NATIONAL VICE-PRESIDENT, BUSINESS DEVELOPMENT, CLIENT RELATIONSHIP AND MEMBER EXPERIENCE, DESJARDINS INSURANCE

As drug costs rise, some employers respond by shifting money to their benefits plans from their retirement programs, said Valérie Lelièvre, senior director of marketing solutions at iA Financial.

Another explanation is that with employers having already addressed the cost issue in the past few years, it has become a less pressing matter. “As benefit providers, we’ve all implemented solutions and technologies to help better manage those drugs,” said François Joseph Poirier, vice-president of business development for group and business insurance at Desjardins. That’s certainly true with mandatory generic substitution, step therapy and preferred pharmacy networks, along with, on the retirement side, tactics such as closing defined benefit plans and lowering employers’ contribution rates. Poirier also noted cost-shifting strategies have had an unexpected upside: plan members are more likely to appreciate their benefits if they’re contributing even a little bit to them.

“Essentially, [cost] might be yesterday’s problem, and what we’re seeing coming through is today and tomorrow’s problem: that retirement and benefit programs may not be meeting the needs of employees,” said Oma Sharma, partner and defined contribution consulting leader at Mercer.

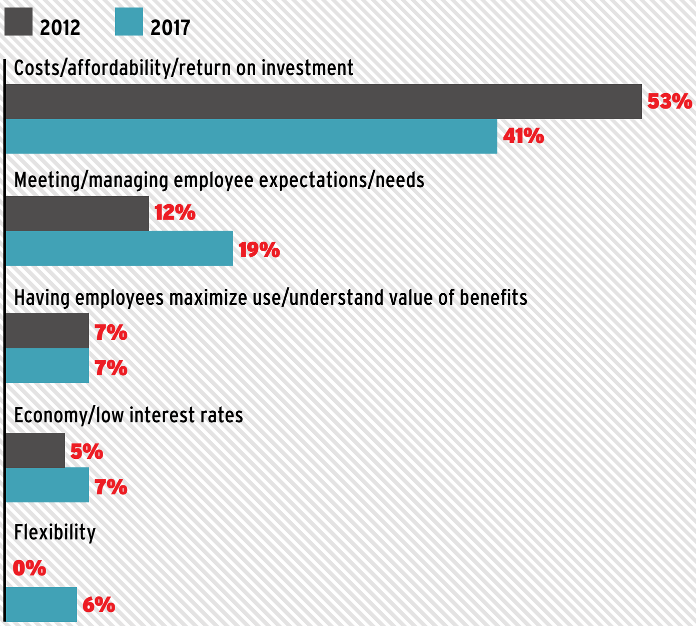
Great expectations

In terms of the increased focus on employee expectations, roundtable participants pointed to a variety of potential causes.

“Does the employee truly understand what is being offered to them?” said Karrina Dusablon, national vice-president of business development, client relationship and member experience at Desjardins. While the research found 65 per cent of plan sponsors think a retirement plan’s key feature is how well members can understand it, there’s no evidence they actually do. And they won’t be happy with even the most comprehensive plan if they don’t understand what it’s offering.

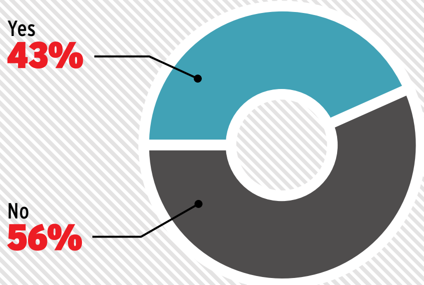
Lelièvre suggested that while many millennial employees likely understand their plan offerings, “if they don’t see real value in their plan, they will be more vocal about it . . . or simply select another employer.” She also noted many organizations have tailored their plans to people nearing retirement

PLAN SPONSORS’ TOP FIVE CHALLENGES AROUND THEIR BENEFITS PLANS



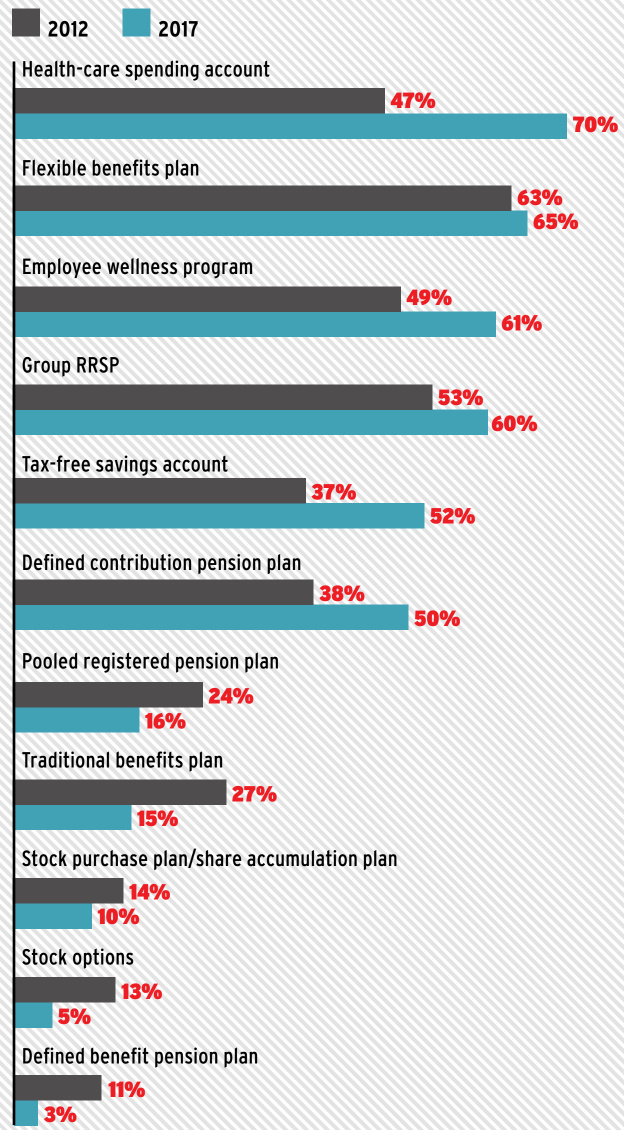
“AS BENEFIT PROVIDERS, WE’VE ALL IMPLEMENTED SOLUTIONS AND TECHNOLOGIES TO HELP BETTER MANAGE THOSE DRUGS.”

OVER THE LAST 10 YEARS, HAS THE PENSION AND BENEFITS INDUSTRY DONE ENOUGH TO INNOVATE THE TYPES OF SERVICES OFFERED AND THE WAY IT PROVIDES THEM?



Renée Laflamme
EXECUTIVE VICE-PRESIDENT, GROUP INSURANCE EMPLOYEE PLANS AND SPECIAL MARKETS SOLUTIONS, IA FINANCIAL GROUP

LOOKING AHEAD TO THE FUTURE, WHICH OF THE FOLLOWING TYPES OF BENEFITS OFFERINGS WILL BE MOST COMMON?



"THE RETIREES ARE LOOKING FOR THE TRADITIONAL COMFORT, WHILE THE YOUNGER PEOPLE ARE REALLY LOOKING FOR PERSONALIZED WELLNESS OFFERINGS."

and take great pains to explain disability benefits and pension options. However, those benefits may not be relevant to physically healthy but financially stressed employees in their 20s who are perfectly comfortable making their concerns known.

At Meridian Credit Union, more and more younger workers are joining the company, while "retirees aren't leaving as quickly as we thought," says Linda Bicho-Vachon, senior manager of pension and benefits at Meridian.

"The retirees are looking for the traditional comfort, while the younger people are really looking for personalized wellness offerings," she said. "They want the gym memberships. They're not thinking about [long-term disability]. They're thinking about staying healthy and active and they're not in a retirement mode at all. They're in a loan payment and mortgage [mode]."

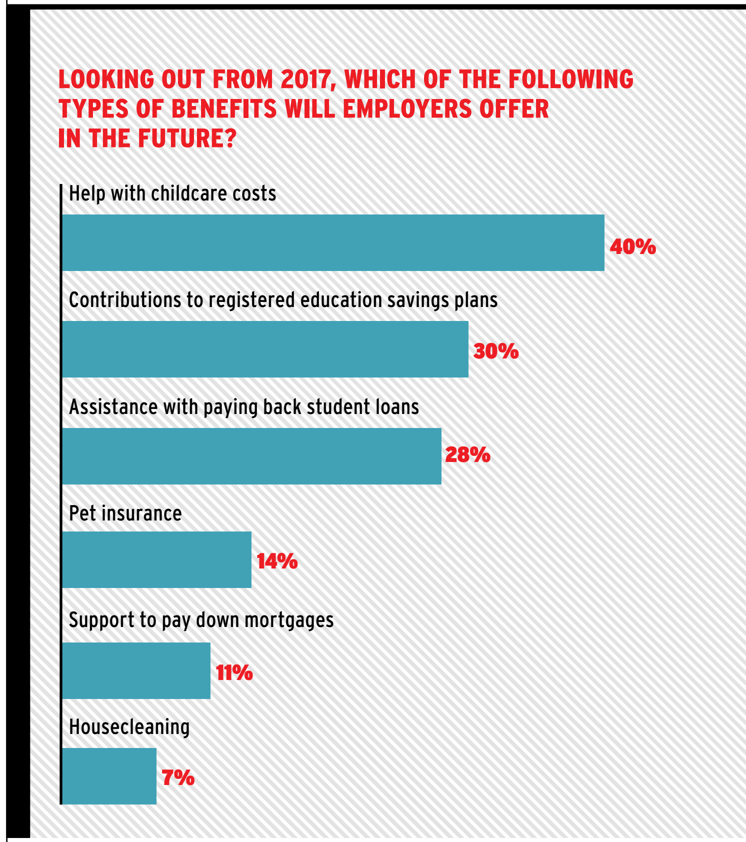
Heed the hierarchy of needs

Flexibility is key to adapting pension and benefits plans for the workplace of the future, the participants agreed. Poirier pointed to a documentary he had seen about four young professionals in Vancouver who lived like frat boys because they couldn't afford their own apartments.

"If the younger generation cannot even meet that first layer of basic needs, talking about benefit plan design and everything is a futile exercise," he said.

"As an industry, we need to step back sometimes and look at the broader picture," he added, suggesting employers may want to look at helping young workers with finding affordable housing, paying off student loans or negotiating a better

François Joseph Poirier
VICE-PRESIDENT, BUSINESS DEVELOPMENT, GROUP AND BUSINESS INSURANCE, DESJARDINS INSURANCE



mortgage rate. "Is that something that would be more valued by the younger generation?"

To adapt such flexible plan designs, plan sponsors need to trust their employees, said Sharma.

"We've been of a view that you've got to force employees to save for retirement, you've got to lock them in, you've got to make sure they don't spend money on a boat and the rest of it," she says. "That thinking has got to change because people have really pressing priorities. . . . Not giving you flexibility to deploy employer dollars and deploy your own money in ways that make you more financially well is counterproductive."

Plan sponsors could require employees to keep company contributions for retirement but should allow for more flexibility when it comes to where employee dollars flow, said Sharma. So if they contribute to a TFSA or pay off student loans, for example, they could still qualify for contribution dollars.

Linda Bicho-Vachon
SENIOR MANAGER, PENSION AND BENEFITS, MERIDIAN CREDIT UNION

Valérie Lelièvre
SENIOR DIRECTOR, MARKETING SOLUTIONS, IA FINANCIAL GROUP

Sharma also noted not all benefits have to take the form of cash, something she said is particularly important when plan sponsors are unwilling to increase the amount they're spending on benefits. "There are a lot of different ways you can skin this cat," she said, pointing to alternatives such as helping employees find reputable childcare services and negotiating better rates for products employees can buy on their own, such as home or auto insurance.

Post-retirement benefits can also fall into that category. "I would not want to go back there, to retiree benefits, for sure," said Bicho-Vachon.

"But it's sort of like that DB/DC question. So we stopped DB, we swung the pendulum the other way to DC and now people are completely left on their own. I think with retiree benefits, let's not do the same thing where we completely remove it."

The research found many plan sponsors (52 per cent) are either very or somewhat likely to consider using a U.S.-style benefits exchange to provide more flexibility in their plans. Bicho-Vachon noted that while she's happy with her organization's offerings for active employees, she would consider an exchange for retiree benefits.

"We offer [retirees] a target service reward which offers them some cash to buy something," she said. "So the next step is how do we get them connected to that? . . . Let's make it easier for them to understand the marketplace, whether it's through exchanges or we partner with a firm that does the shopping for them."

Sharma added that offering such a service to retirees may help older workers who are delaying retirement for the wrong reasons. If employees are still working only because they need expensive medication, offering help through an exchange could encourage them to retire and benefit both them and the company.

The new normal

As plan sponsors adjust their plans, they need to strike the right balance between flexibility and clarity. When it comes to investments, for example, having 200 different fund options is too confusing, Dusablon noted.

So communications materials, according to Dusablon, must be engaging by, for example, swapping out benefits booklets for snappy videos and infographics that highlight salient points. It's also important to write them in plain and simple language and tailor them to members' demographics and workplaces, she adds.

The overall trend towards flexibility is clear, however. "Reading between the lines, I see the standard in the future will be flexible plans and wellness," said Lelièvre. "So I see that in 20 years, we're not going to talk about traditional benefits anymore."

"READING BETWEEN THE LINES, I SEE THE STANDARD IN THE FUTURE WILL BE FLEXIBLE PLANS AND WELLNESS. SO I SEE THAT IN 20 YEARS, WE'RE NOT GOING TO TALK ABOUT TRADITIONAL BENEFITS ANYMORE."

The research supports that argument. On the retirement side, many plan sponsors think it has become more necessary to offer group RRSPs (53 per cent) and defined contribution plans (42 per cent) in comparison to defined benefit pensions (54 per cent feel it's less necessary to offer them than in the past). On the benefits side, the numbers get a bit murkier: 50 per cent of respondents don't think the necessity of offering traditional plans has changed. But the majority of plan sponsors said options such as health-care spending accounts (63 per cent) and flexible plans (62 per cent) have become more necessary.

The research also noted just 21 per cent of plan sponsors have made significant changes to their wellness programs over the past 10 years. Nevertheless, 74 per cent of respondents said it has become more necessary to offer wellness programs over the last 40 years, compared to 47 per cent in 2012.

"We actually aren't just looking at who they are at work. We're looking at outside of work, too," said Bicho-Vachon of her organization's employees. "We're very interested in their lives and what they're doing and how we can support various aspects of their lives."

Interestingly, plan sponsors have a range of attitudes towards massage benefits. According to the research, about a quarter of plan sponsors (28 per cent) think their plans should cover massage therapy only if employees have a medical need. A fifth (20 per cent) think they should always cover massage, even if it's just a perk that keeps staff happy and helps to retain them. And about half (44 per cent) think plans should cover massages as a preventative measure that helps keep employees productive and reduces absenteeism. At the same time, 84 per cent agreed it's acceptable to offer benefits that may be viewed as perks in order to attract and retain employees.

Lean on me

Bicho-Vachon noted her organization is looking at strategies beyond pensions and benefits to "make that work experience more meaningful for people." For example, several employees have asked if they can use the company's Best Doctors diagnostic service for their elderly parents, which has triggered a conversation about who's really a dependant.

Many immigrants live with and support their parents, Bicho-Vachon noted. And some organizations are taking note of the issue around dependants. Starbucks Corp. recently began offering critical illness insurance to its employees' parents in China and, at the other end of the spectrum, the Public Service Alliance of Canada wants to classify as dependants plan members' children who are interns, part-time students or apprentices, even if they're older than the age of eligibility.

Poirier noted the definition of a dependant has shifted drastically over the years.

"We pulled an old Imperial Life contract written 40 years ago," he said.

"It was a three-page document and basically it was saying your wife will be eligible for pregnancy care, et cetera," she added.

Today, of course, dependants include husbands, common law partners and both biological and adopted children.

And while flexibility is the trend, it's still important to keep a traditional plan in place as an option for employees who value generous disability leave and drug coverage, according to Bicho-Vachon. While it's not financially feasible to keep a rich traditional plan and offer $3,000 in a health-care spending account, she'd ideally like to allow employees to choose the benefits track that best works for them.

"So I'd be looking at preserving the benefits we have for the group that needs it but then looking at something that's more cash-based and flexible [for others]," she said.

"The traditional plan just isn't meeting the needs," she added.

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