BENEFITS ADVICE FOR STARTUPS:

RESIST THE ALLURE OF A CADILLAC PLAN

By *Kanupriya Vashisht Handa*

More than two years ago, an Oakville, Ont.-based startup — a small technology company with nine employees — was looking to implement a benefits plan. Eager to attract and retain the best talent, its founder decided to go all out with a generous plan that saw the employer paying the full cost for 100 per cent health and dental coverage.

At renewal time, it became apparent that such a high level of generosity wasn't viable. As a result, the founder decided to scale the plan back to 80 per cent coverage but still fully paid by the employer. The decision stirred up significant opposition. Five employees threatened to quit if he didn't reinstate full coverage. Nonetheless, he scaled the plan back and ended up losing a third of his staff.

That's exactly why it's important not to go too far with a benefits plan when a company is just starting out, says Chris Gory, founder of Insurance Portfolio Financial Services Inc. As the startup's benefits advisor, he repeatedly counselled his client not to go overboard with the benefits in the first year.

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Dave Patriarche, president of Mainstay Insurance Brokerage Inc., is as unequivocal. "If you want to start at 100 per cent coverage, I prefer not to deal with you," he says he tells prospective clients. "That's how strongly I believe it's the wrong thing to do."

One organization that has taken a more cautious approach is Toronto-based Therefore Interactive Inc., a technology company with 21 employees that waited four years before putting a benefits plan in place. The company started out with a relatively young demographic of employees who didn't initially care about benefits. "We regularly surveyed our employees to determine where their priorities lay and how much value a benefits package would hold for them," says Erin De Winne, the company's human resources manager.

"A benefits plan seemed a nice to have, not a priority. Our employees cared more about training, conferences, free gym memberships, ergonomic workstations and flexible work hours," she adds. "And we made sure to deliver amply on each of those."

As employees move on in their lives, benefits are becoming more important to them, according to De Winne. So in 2017, the company moved to provide a health and dental package with 80 per cent coverage.

Ramping it up

Putting a plan in place and removing it is fairly straightforward from a logistical standpoint but it often becomes a human resources nightmare, says Patriarche. "It's all about perception. If you had a 100 per cent plan and 20 to 25 per cent increase at renewal, you might decide to try and keep your cost constant by switching to 80 per cent coverage. But your employees will perceive it as a 20 per cent cut in their compensation package."

A specialist in the startup space, Gory says the level of coverage must be commensurate with the amount of funding. "Companies that have no investor backing or are bolstered by an angel investor should start at 80 per cent. Based on budget and funding, they can ramp it up progressively."

Patriarche's advice is to put in a basic plan with a lot of cost controls in every area and then improve it over time. "I'd rather you be a hero over and over than a bad guy once," he says.

The reason, he adds, is clear. "You have to go into benefits knowing it is not a flatline cost. Even if you're just an average group, your rates will go up five to seven per cent every year, no matter what."

And renewal can get a lot more unpredictable when a company's employee demographic is fairly young, as tends to be the case with most startups. "You'll see your staff get married, which means they'll go from single to family coverage, and overnight that will double or triple your rates," says Patriarche.

So for startups looking at a benefits plan, here are a few issues to consider:

Staff demographics: When it comes to companies outside of the startup space, drugs make up almost 65 per cent of the claims, according to Gory. The picture is very different with startups, he says. "Millennials love their paramedical benefits. I have many startup clients whose paramedical claims run from 60 to 65 per cent."

His advice for clients in that area is to start off with lower caps, exclude vision care, combine paramedical maximums, keep dental coverage in check and offer a health-care spending account or flexible dollars that employees can use to pay for extra massages, gym memberships or the remaining 20 per cent of dental or drug claims.

Compensation strategy: Is the employer looking to be the highest payer in the marketplace or would it rather have a package that's more generous in some areas and less so in others? For example, Patriarche says for a startup looking to hire senior-level executives who are older, it may work to pay in the range of the 50th to 75th percentile and top up the salary with great benefits. As a demographic with families, benefits will matter to those employees. For a younger group, a company may decide to pay the highest in the marketplace when it comes to base salary but have a less generous benefits plan.

Positioning: When it comes to benefits, perception can sometimes matter more than reality. And that makes clear communication particularly important. When a company is just starting out, Patriarche suggests it can be OK to split the cost evenly with the employees. But the company also needs to help employees understand it's offering them access to benefits they couldn't otherwise afford, with much better coverage than an individual plan and no medical questions asked and at half the cost.

A plan providing 80 per cent coverage with premiums shared on a 50-50 basis isn't such a bad option, according to Patriarche. "Then both sides see the increases and both sides understand the costs," he says.

Fair pricing: Most insurance companies in the startup marketplace tend to be very aggressive with their pricing, says Patriarche. "For the first year, they'll offer pricing that's totally unreasonable. And given that startups attract younger people who might be getting coverage for the first time, the claims in the first year are substantially higher. So the increase at the time of renewal isn't always your average seven to eight per cent. It can shoot up to 40 or 50 per cent — even 100 per cent in areas like dental."

Even health-care spending accounts will see claims rise as inflation comes into play and single staff members start incurring family expenses.

To avoid ugly surprises at the time of renewal, Patriarche says advisors owe a responsibility to their clients to make sure they get a reasonable and fair price, not just for the first year but for the next couple of years. Employers, in turn, need to deftly manage perception and employee expectations. It's much easier to do that when they start small and allow for improvements to the plan incrementally.

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A PICTURE OF CANADA'S IT SECTOR

71,000
Number of technology sector firms across Canada

864,000
Number of people employed in the technology sector

7.1%
Sector's share of Canada's gross domestic product

Montreal
Top Canadian city for concentration of the technology sector

$66,950
Average wage for technology workers, compared to $47,970 for the workforce overall

Source: Brookfield Institute for Innovation and Entrepreneurship, July 2016