Celebrating 35 years

many happy RETURNS

Benefits Canada's 35th anniversary research looks at the past, present and future of employee benefits—and shows how much senior business leaders value them

By **Leigh Doyle**

How have benefits and pension plans changed in the last 35 years? In the late '70s, employees created reports on typewriters, could smoke on the job and probably didn't think too much about their benefits. Fast forward to today, and both the office environment and employee benefits have changed dramatically.

As *Benefits Canada* celebrates its 35th anniversary, we took the opportunity to go back to the source to explore *why* employers offer employee benefits programs in the first place. Our **35th anniversary research** examined the attitudes and priorities of C-suite and senior executives regarding their pension and benefits offerings: the role they serve in attracting and attaining top talent; the perceived return on investment (ROI); how they fit into the company's HR strategy and overall objectives; and what's changed over the years, as well as expectations for these programs going forward.

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Overall, it's a good news story. Senior executives generally feel positive about employee benefits, with 90% saying they are satisfied with the current state of their employee benefits plans. Furthermore, 87% of respondents feel that benefits have grown to be more important over the past 35 years.

However, it's no secret that employee benefits are under significant pressure. The majority (65%) of respondents agree that the cost of offering such plans is becoming unsustainable. And close to half (45%) say their plans have changed significantly over the past 10 years, and that more changes are expected.

While senior business leaders are content with their plans for now and recognize their value, it's clear that the pressure of rising costs is forcing change. Ensuring that those changes aren't just blind cuts requires demonstrating the value of benefits by proving the ROI, increasing flexibility and turning employees into savvy consumers.

Costs in Context

Perhaps not surprisingly, cost is the main driver for senior decision-makers when it comes to their pension and benefits plans. More than half (53%) of respondents say it is their biggest challenge, while 31% say cost is the main factor that caused them to make changes to their benefits offerings. Top changes reported include changing plan design (including removing or eliminating a plan), increasing employee or employer contributions, adding new investment options (for retirement savings plans) and adding a preventative component, such as a wellness program (for health benefits plans).

And the cost issue isn't going away: 70% say it will be the main concern in offering benefits plans going forward. "It's actually good news to hear that there is a greater awareness around costs and a desire for change to allow for future stability," says Marilee Mark, vice-president, marketing, group benefits, with Manulife Financial. "In the past, there has been inertia, and sponsors weren't really looking for wholesale changes in benefits. They would increase co-insurance or remove a benefit to contain costs, but now, they want to make better use of what they already have instead.

They understand that if they want to take care of their employees, they don't just want to cost-shift."

The key, then, is showing plan sponsors what they can do to manage costs and making them aware of constructive options. On the health benefits side, many employers (52%) say they've changed their overall plan design. Some (22%) are taking the changes a step further by adding a preventative element, such as a wellness program, to their health benefits plan.

Matthew Rotenberg, manager, marketing communications, group products, with Standard Life, says that's a trend that providers expect will continue. "It comes back to early intervention programs that promote healthy outcomes and lifestyles from the beginning. These kinds of programs do come with a cost, but they add real value and show a reduction in cost over the long term." For example, a disability management program in partnership with a provider would work closely with an employee who is about to go on leave, keep the employee engaged during the leave and help him or her transition back to work at an appropriate time. "Sponsors will find that individuals return to work faster and are more productive with those types of programs," Rotenberg adds.

On the retirement side of the equation, it appears that plan sponsors are a little slower to change. Less than one-quarter (22%) have made changes to their group RRSP (22%), while only 11% report changing their DB plan, and 8%, their DC plan. But industry experts expect that to change.

"On the retirement and savings plan side, the *CAP Guidelines* have been in place for a number of years," says Dave McLellan, vice-president, market development, with Sun Life Financial. "Plan sponsors and providers alike, now have a clear understanding of what the *CAP Guidelines* mean for plans and that there is a spectrum of costs associated with the requirements, depending on how the plan sponsor has decided to address the needs of its membership."

Justifying the Investment

While senior decision-makers agree that health benefits and retirement plans play a significant role in keeping employees happy and engaged, there is a disconnect when it comes to understanding the ROI. While 82% of respondents agree that their company's benefits plans provide good value for money and 80% agree that benefits play an important part in attraction and retention, only 29% say they calculate the ROI of their plans.

How they calculate that ROI is also an

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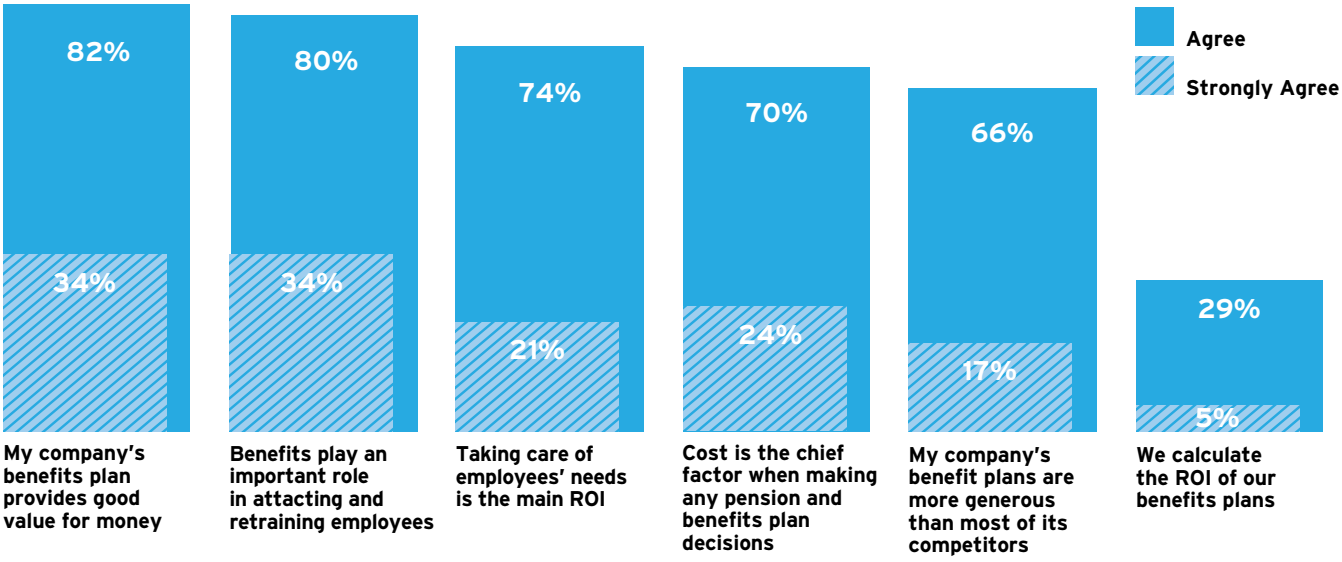


Note: For the purposes of this study: larger businesses = 100+ employees and smaller businesses = >100 employees

issue. Only 34% look at claims experience, with other common measures being employee satisfaction surveys and anecdotal comments from employees (also at 34% each). Methods such as reviewing absenteeism and return-to-work rates for disability leaves are used by a mere 22% and 12%, respectively. "With the recent economic changes, it means plan sponsors have to take a closer look at their benefits plans, and measurement is an increasingly important thing to have in place," says Mark.

If employee benefits are going to be part of a long-term sustainable strategy for an organization, metrics need to be used, tracked—and, ideally, integrated. Sponsors can look to their providers for information on which metrics to track and how to do so in an integrated manner across the organization, so that the real impact can be measured. "Without this, a sponsor may make a decision to cut a high-cost drug only to later discover that it puts someone out of work, which increases overall costs more than the drug did," Mark adds.

But it's not always so straightforward, says Rotenberg. "You have to look at the ROI differently between the health benefits and the group retirement sides. On the health side, it's a bit easier to track absenteeism and benchmark against other similar organizations, for example." Tracking the value of a retirement plan requires looking a bit further out. "How do you measure that? You can look at attracting and retaining employees as one measure. You can also look at how well member outcomes are aligned with their needs. Do they have an income gap at retirement, or are they on track to meet their expectations? Members—and plan sponsors, by default—should be getting this information regularly," he explains.

With almost one-quarter (23%) of respondents expecting an increased focus on cost-effective benefits—both retirement and health—in the future, there's an opportunity for providers and other stakeholders to figure out how to more clearly demonstrate the connection between benefits and a more successful and productive organization. If this opportunity is missed, cost-cutting could shape the state of employee benefits in the coming decades.

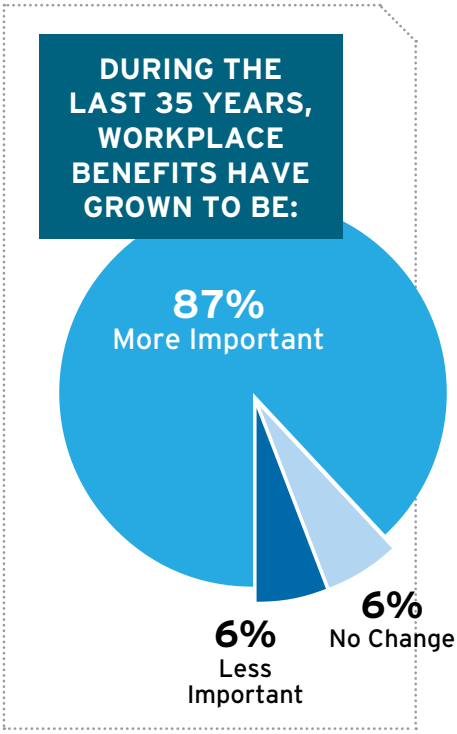
Turning Employees Into Consumers

Cost concerns and the desire to more directly connect investment dollars with outcomes are also driving a trend toward greater flexibility and consumerism. Survey respondents say the No. 1 way that employees' needs have changed benefits in the past 35 years is the demand for flexibility (28%). It's no surprise, then, that 35% of senior decision-makers expect that pension and/or benefits plans will offer more choice and customization for employees going forward.

"We're moving to a more DC-style with health benefits," says Mark. "The desire for cost containment and the demographics of workplaces today are driving the need for more flexibility." Since sponsors value their plans, cutting isn't an easy out anymore. When cuts are necessary, they may be replaced with another vehicle, such as a healthcare spending account, which allows employees to maintain the benefits they want while forcing them prioritize their needs.

Putting decision-making responsibility into the hands of employees makes them more responsible consumers. "Flex plans drive consumer behaviour," affirms Mark, who expects to see plan sponsors making recommendations on where to go to purchase benefits as a way to encourage smarter shopping for cost containment.

"Those insured under the plan can have a direct impact on the bottom line by simply asking the right questions when, say, getting prescriptions. Asking for generics will contribute to the sustainability of the plan," says Rotenberg. "This is particularly important for smaller plans, as there is a smaller pool [across which] to spread the rapidly increasing costs."



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The demand for flexibility also exists on the retirement side. "Although DB plans still dominate the assets, there is a trend toward DC because of the flexibility of employer contribution arrangements and the ability to contain costs," says Michael Ondercin, assistant vice-president, product marketing, group retirement solutions, with Manulife Financial. As DB plans improve their funded status after the challenges of the 2008 financial crisis, Ondercin says he expects more plan sponsors will move away from the risks and management attention requirements of DB so they can focus more on their core business.

Educating for Engagement

If one of the most effective ways to control costs is to have employees become better consumers, then they need to understand the benefits available to them. And while having an easy-to-understand plan is important, it's only one part of the process.

The majority (63%) of respondents say the most important feature of a retirement plan is its simplicity, reflected in how well members can understand the plan options. But since sponsors are looking to introduce more flexibility, creative plan design, communication and education become paramount.

"If you make it more complicated, then you need to up the ante on communication while ensuring that members are not too overwhelmed," says Mark. The challenge is that if employees don't understand what's going on, more information from their employer can quickly become white noise. "To be more effective, communication has to be targeted and customized to the employees. You have to help them understand what it means to them individually as consumers," she explains.

A robust communication strategy is also an opportunity to help increase awareness of the plan and the plan benefits among employees, says McLellan. "There is an opportunity for employers to promote their plans more than just at the time of hire." In retirement plans, for example, employees often leave money on the table when they forget to enrol or may not take full advantage of the employer match. Targeted, well-timed communications can help to engage employees and increase the plan's value in their eyes. For their part, providers are enhancing the role they play by offering information in multiple ways—including print, face-to-face, online and new media—so that members have an opportunity to learn in the format that they are most comfortable with.

The Advisor's Role

The shift to more complicated arrangements that require additional communication also means there is a greater role for advisors in the decision-making process. According to the survey, almost half (47%) of senior executives believe their plan advisor has greater involvement and influence now than in the past, while 43% say the level of involvement is about the same.

The *CAP Guidelines* and the increasingly complex nature of retirement vehicles make specialists necessary, says Ondercin. "Advisors are much more in touch with what's going on in the industry and provide specific insights about investment options, education, communication and retirement planning for employees. It makes sense that they are more involved, especially as the DC space grows."

Increasing complexity is also the reason that advisors are needed to help with health benefits. With sponsors more willing now to tweak plan design or

SURVEY METHODOLOGY

Benefits Canada's 35th anniversary research was targeted toward elite business leaders (C-suite and senior executives) with direct knowledge and involvement in their company's pension and benefits programs. It was fielded online during March and April 2012. The study had 240 complete responses, with a margin of error of +/- 6.3%.

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implement new and creative solutions, an advisor is needed to navigate those specific challenges, says Rotenberg. Advisors also have a broader view of the market space, adds Mark, so they can provide valuable benchmarking information for sponsors, which is used to redesign plans to control costs while remaining competitive.

Advisors are particularly valuable in the mid-size and small markets, she notes. "Since the economic downturn, senior managers need to manage costs more closely, and they need support to negotiate plans and shop for prices."

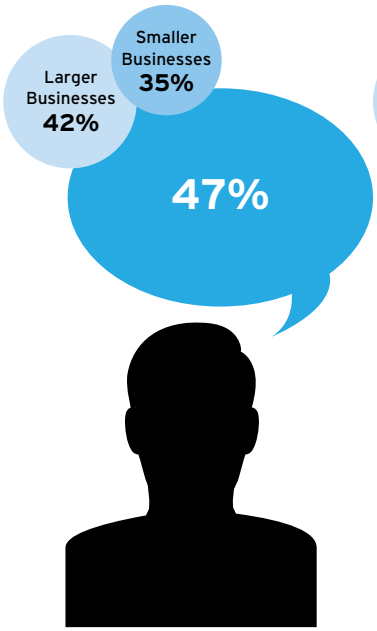
Will the PRPP Matter?

The pooled registered pension plan (PRPP)—proposed by the federal government in response to the lack of pension coverage across Canada—may also help to resolve employers' concerns about the costs and administrative burden of offering retirement savings plans to employees. As the industry eagerly awaits more details to come in provincial legislation, it's difficult to tell, at this point, if PRPPs will take off or will have minimal impact on retirement savings, like the tax-free savings account. The research revealed that senior executives are lukewarm on the PRPP: 47% say they aren't likely to offer it to their employees, and 22% say they aren't even familiar with the concept.

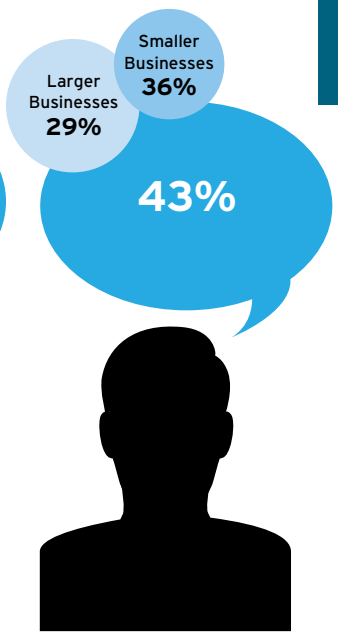
McLellan believes there is absolutely a place for the PRPP in the industry and that it will help smaller employers engage the best talent to showcase why a smaller company is a great long-term career option. And Rotenberg feels that there is now increased awareness around workplace retirement programs with the introduction of the PRPP federally and the VSRP in Quebec in 2013. "Companies and their advisors should examine their options carefully to ensure that the plan design and features align with their corporate goals. A low cost PRPP/VSRP may not support a corporate HR strategy that is about providing extra value in the benefits program."

McLellan acknowledges that, so far, only the federal government has released some details about the PRPP, and the province of Quebec has released details about the VRSP. As the other provinces follow suit and release information about

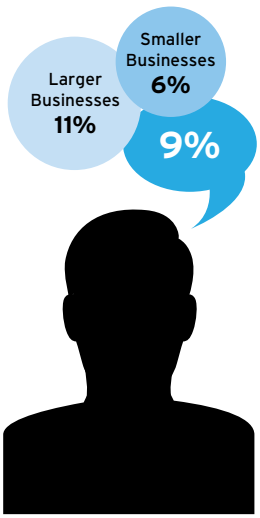
HOW DO YOU FEEL THE ROLE OF THE GROUP BENEFIT ADVISOR HAS CHANGED OVER THE PAST 35 YEARS?



My plan advisor now has **greater** involvement/influence in plan decision-making now than in the past



My plan advisor's level of involvement is **about the same** now as it was in the past



My plan advisor has **less** involvement/influence in plan decision-making now than in the past

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the structure of the other PRPPs, the benefits will become clearer for sponsors and members alike.

The Next 35 Years

The good news is, employee benefits are here to stay. Despite the continuing cost challenges that senior executives face, a mere 4% say they expect benefits and retirement plans to be virtually non-existent in the next few decades.

Putting costs in context, measuring and demonstrating ROI, introducing flexibility and improving communication are a few ways to create stronger links for senior executives between employee benefits and the financial investment they're making. And only by starting *now* can plan sponsors ensure that employee benefits remain sustainable for the next 35 years.

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Standard Life

How to show CEOs the value of benefits

Jean Guay
senior vice-president
marketing and sales

The escalating costs of offering benefits and retirement plans can feel inescapable to many plan sponsors, yet Canadian chief executive officers and senior decision makers are not ready to close plans. In fact, new research from *Benefits Canada* reveals the supportive C-suite in Canadian organizations could be even more supportive if there was a more direct link between the dollars spent and the positive outcome for the company. The challenge for benefits specialists then is figuring out how to demonstrate this to senior leadership.

Despite affordability being a major concern for CEOs, according to the *Benefits Canada 35th Anniversary Research*, 82% of respondents believe their plan provides good value for the money. "It shows that CEOs see the benefit of offering these plans; our job is to reinforce the value," says Jean Guay, senior vice-president, marketing and sales, with Standard Life in Montreal.

But benefits professionals appear to be missing an opportunity to clearly show CEOs where employees value the plan. The research reveals that only 29% of CEOs say they calculate the return on investment (ROI) of their plan and, of those, 39% rely on employee surveys as a measure while others look to anecdotal evidence as a measure.

Guay says benefits specialists need to incorporate other methods of measuring ROI. Doing so will help build a stronger case for senior executives while providing key insights to help shape plan communication and design.

The place to start is actually with the plan providers, he says. "The service providers should be able to give metrics to measure member engagement in the plan. All kinds of reports can be provided from member engagement on the website, absenteeism reports, drug utilization data, employee assistance program usage and member investment behaviour reports," he says.

> "The service providers should be able to give metrics to measure member engagement in the plan."

Benefits managers can mine this data to discover what is and isn't working in a plan and where their members need support to use the plan correctly, says Guay. For example, a report about investment behaviour might reveal that most members are in the default fund. Sponsors and their advisors should work with their providers to design targeted communication materials to help those members make an informed investment selection. After all, 63% of CEOs say the most important feature of a plan is how well the members understand it.

"And if members better understand their plan they can make better use of it, which could save on costs," says Guay. For example, members can talk to their doctor about generic substitution to help keep drug spend down. "If sponsors can change members' behaviour to be more consumer driven, the whole plan will benefit."

But when plan costs do become a concern for CEOs, one way benefits specialists can put the dollars in perspective is to compare it to giving employees a raise. "Dollars invested in a health program certainly have more impact for the employees than an equivalent raise, and a well-structured retirement program can have tax advantages for the plan sponsors. It's often much less expensive to provide a level of contribution in the retirement plan than a salary increase," says Guay.

Whenever a sponsor wants to know more about demonstrating value to the senior executive team, Guay has one piece of advice: "Talk to your benefit advisor or provider. They do this kind of work every day and are there to help."