

# Benefit Insights

## ***Use Benefits Strategically to Maximize Your Company's Investment***

Most employers' investment in the benefits packages they provide to employees is significant. According to data from the Department of Labor's Bureau of Labor Statistics, employee benefits account for close to a third of employee compensation costs, an average \$8.63 per hour worked (includes legally required benefits such as Social Security). With such an investment, employers of all sizes want these benefits to engender loyalty within the workforce. In smaller businesses, benefits do play this role to some degree, according to a survey from MetLife, but employers are not utilizing their benefits packages to their full strategic advantage.

MetLife polled employees and benefits decision makers in companies with at least two employees. More than half—55%—of the employers with fewer than 500 employees said that benefits play a very important role in employee retention. However, only 34% of employees at companies of this size said the benefits they receive are a very important reason to remain with their current employer, compared to 53% of employees at larger companies. This last finding is somewhat puzzling, since among employers that offer benefits, a higher percentage of smaller employers contrasted to larger employers pay the full cost for many benefits, including medical, dental and prescription drug coverage. Specifically, 36% of smaller employers paid the entire cost of employees' medical coverage and 29% footed the full bill for prescription drug coverage, compared to 15% and 13%, respectively, of larger firms that did this for employees.

Whether or not your company is among those that pick up the full tab for certain employee benefits, you do invest significantly in the benefits you provide, and you want to realize a good return on this investment. The key to maximizing this is to take steps to use benefits strategically.

Using benefits strategically requires that the benefits your company offers are those that your employees really need and want. While you can safely assume that medical, some type of retirement plan, and time-off programs would top this list, beyond these employees' benefits needs can vary greatly. If you haven't done so recently, get input from employees—through surveys, focus groups, even a suggestion box—as to what's on their benefits "wish list." You may find that some of the most coveted benefits are those that require little financial investment, though they may demand some creative thinking on your part. For example, flex-time, job sharing and telecommuting are prized by many workers, and if you are able to figure out a way to implement them in your company you will score a hit with employees without dipping into the benefits budget.

Similarly, you can greatly expand your menu of benefits offerings at little or no cost through voluntary benefits. Your company can give employees convenient access to coverages such as dental, vision, hearing, group legal, various types of life insurance, and disability through a voluntary benefits strategy. Though employees pay the full cost of voluntary benefits, they generally get a good price because they're purchasing at a group rate; plus, they save time not having to shop for the benefits in the open market and have the convenience of paying for them through payroll deduction. Most importantly, since employees choose which, if any, voluntary benefits to enroll in, they're only paying for what they've decided they want and need, which is important, psychologically, to feeling that they've gotten their money's worth.

Finally, regardless of the benefits you decide to offer to employees, don't skimp on communications. The MetLife survey suggests inadequate communications may be part of the

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### ***Welcome to Our Newsletter!***

It is with great satisfaction that we bring this newsletter to you. In this issue and in coming months, we will discuss pertinent employee benefit topics which may affect your organization. We sincerely hope that you will find this newsletter informative and please do not hesitate to contact us at [advisor@21stcenturybenefit.com](mailto:advisor@21stcenturybenefit.com) or 781-416-1043 should you have any questions or needs.



## Wellness Program Incentives Grow, As Does Return on Investment

The use of health and wellness programs continues to grow, with more than three-quarters of the employers in a recent survey offering them, and more than half of those without programs planning to implement one. Increasingly, these employers are encouraging employee participation in wellness initiatives by offering incentives for participation, with more than seven in 10 employers doing so in 2008. Why? Employers are becoming more successful in measuring these programs' return on investment, and finding that they are more than breaking even.

The survey is the second annual from Health2 Resources, and respondents were employers that are members of the National Association of Manufacturers and the ERISA Industry Committee.

According to the survey, in 2008, 77% of the employers offered health and wellness programs—a 5% increase over 2007—and 48% offered disease management programs. Among the health and wellness programs were—

Type of Program	% of Employers Offering
Health Risk Assessment	64%
Safety Program	62%
Smoking Cessation	61%
Physical Activity/Exercise	55%
Weight Management	52%
Stress Reduction	34%
Work-Loss Prevention	32%
Maternity Management	25%

From 2007 to 2008, there also was an increase from 62% to 71% in the proportion of employers offering incentives to employees for taking part in these programs. Incentives are most likely to be offered in connection with health risk assessments, but they are used with other types of programs as well—

Type of Program	% of Employers Offering
Health Risk Assessment	62%
Physical Activity/Exercise	50%
Smoking Cessation	43%
Weight Management	40%
Safety Program	23%
Stress Reduction	12%
Maternity Management	11%
Work-Loss Prevention	10%

Between 2007 and 2008 the survey reported a “substantial shift” in the types of incentives employees could earn for taking part in health and wellness programs. The use of gift cards—now the most prevalent incentive—increased from 17% to 28%, while offering a premium reduction declined from 41% to 26%. In 2008, employers used these incentives—

Incentive	% of Employers Offering
Gift Cards	28%
Premium Reduction	26%
Cash/Bonuses	24%
Small Token	23%
Merchandise	19%
Health Club Membership	18%
Recognition	16%
Health Account Contribution	13%

The value of incentives ranged between \$100 and \$300 per person per year, with the average incentive value being just under \$200.

The most common behaviors rewarded with an incentive were participation in the health and wellness initiative (48% of employers provided the incentive for this), completing a program (38%), and signing up for or enrolling in a program (25%). The survey notes that these behaviors are easy to track, and they “steer clear of regulatory caps on monetary incentives” that the Health Insurance Portability and Accountability Act (HIPAA) place on programs tied to a health-related standard. That said, some employers did require the employee to achieve an outcome or goal before awarding the incentive (16% for achieving this during the program, 12% for achieving it after the program, and 6% for maintaining it after the program).

Most employers implementing health and wellness programs still do not measure return on investment (ROI), with only 36% of respondents saying they had attempted to do this in 2008 and 26% saying they had done so successfully. Among those who were able to measure ROI, 83% estimated an ROI greater than break-even in 2008, up from 66% in 2007.

The complete survey results are available through the ERISA Industry Committee's web site, [www.eric.org](http://www.eric.org).

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cause for employees' under-appreciation of their benefits, with only about a third of both smaller employers and their workers rating their benefits communications as highly

effective. Where to start in shoring up your benefits communications? Consider personalization, for which 54% of employees in smaller companies expressed a preference.

## **Voluntary Benefit Programs Serve as an Excellent Recruiting and Retention Tool**

Employers know that benefit programs can be a huge recruiting and retention tool. Many people are willing to trade off salary considerations or work at less than optimal jobs in order to access insurance benefits. In fact, many people work just for the benefits.

This employee behavior makes perfect sense when the value of employer-sponsored and/or partially paid benefits is compared with the costs of purchasing those benefits on an individual basis. From 2000 to 2006, health insurance premiums rose 87% while salaries and wages rose just 20%.<sup>1</sup> The average insurance premium in 2006 was \$11,480, more than the annual salary of a minimum wage worker,<sup>2</sup> making it impossible for many workers to consider maintaining health insurance outside of a work situation where the employer pays a substantial portion of the cost. Moreover, group programs are often far less expensive than individual rates for a variety of benefit offerings.

Most employers cannot afford to continually add new benefit programs to their offerings, particularly since health-care premiums continue to rise. However, employers can help their employees by offering non-employer-supported group benefits programs.

For example, individual short-term disability insurance is extremely expensive for several reasons:

- Individual insurance must be sold individually, adding marketing and administrative costs;
- Those seeking short-term disability insurance on an individual basis are typically those with the highest likelihood of submitting a claim, creating an adverse selection group.

Short-term disability insurance is an extremely valuable benefit, particularly if your company has a limited sick leave benefit. Your company may be in the position to offer this benefit to employees on an unpaid basis:

- The group sale makes the group premium less expensive;
- The coverage group is based on employment, not on need for short-term disability insurance, eliminating the adverse selection to some degree.

Consequently, your company may be able to offer employees a lower premium short-term disability program, a substantial benefit even if the company does not contribute toward the premium. The company does make the commitment to administer the program but most organizations can easily add payroll deduction options through their automated payroll system so the administrative burden is minimal. If you consider this approach, be sure to understand any ramifications of less than full employee participation. For example, the offering vendor may be unwilling to extend coverage unless there is at least 60% participation to avoid adverse selection.

There are a variety of group programs that could be offered in this way including supplemental life, long term disability, long-term care insurance and so on.

Employee recruitment and retention is an expensive proposition. Offering access to employee-paid group benefits that help your employees obtain important security can be an investment that produces an excellent return for your organization.

*1 Rowland, Diane, Kaiser Family Foundation. "Economic Challenges Facing Middle Class Americans", testimony before the U.S. House of Representatives Ways and Means Committee, January 31, 2007*  
*2 Ibid.*

**continued from page 4...Self-Funding Basics:  
 Should Your Company Consider a Self-Insured Health Care Plan?**

- A company with a self-funded plan does not need to worry about the financial wherewithal of an insurance company. If you self-fund, however, you do need to consider your own company's cash flow, to be able to handle claims as they arise, and also your company's position in the event of a series of large claims, or even one truly catastrophic claim. As noted above, most employers that self-fund carry stop-loss insurance, to limit their liability for either or both large individual claims or claims in the aggregate in excess of a specified amount.
- When you pay a premium to an insurance company, you're paying for more than just claims; the premium will take into account the insurer's administrative and other costs (overhead, advertising, technology, etc.), some allowance against risk, a profit margin, etc. Companies that self-fund won't have to pay all these hidden costs, but they will incur other expenses, e.g.,

the cost of claims administration (whether handled internally or by a third-party administrator) and the cost of stop-loss insurance.

- Most insured health plans are packaged with a well-developed provider network, and if you've had the same plan for a while, your employees are likely settled with their choice of doctor, hospital, etc. If you move to a self-insured plan, you'll need to make sure you arrange to have a suitable network in place.
- Workforce demographics can make self-funding a more or less attractive option. Of course, young and healthy employees can suffer large claims, and older workers won't necessarily break the bank. But remember that self-funding means that your company alone (other than the stop-loss carrier) will bear the risk for your employee group, so it's worth closely analyzing this risk with a professional who can give you well-reasoned estimates of your potential liability.

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## **Self-Funding Basics: Should Your Company Consider a Self-Insured Health Care Plan?**

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Most employers are always searching for ways to lower their company's spending on their health benefit plans. Some modify plan design, some change carriers, some shift more costs to employees. And some employers move from offering an insured health plan to self-funding.

In a self-funded—also known as self-insured—health plan, the employer takes on direct financial responsibility for employees' health care costs. Rather than being part of a larger risk pool, an employer that self-funds takes on the risk for its employee group alone. All of a health plan may be self-funded, or an insurance contract might be purchased to cover certain types of claims. Most self-funded employers buy stop-loss insurance to cover against catastrophic claims.

Being exempt from state insurance laws and mandates and not having to pay premiums on a regular basis to an insurance company can result in substantial cost savings. Yet, many employers, especially smaller employers, shy away from self funding, perceiving it as too risky. According to the 2007 Kaiser Family Foundation Health Benefits Survey, 55% of all employees covered for health care are in self-funded plans. Among employers with 200 or more workers, 77% of employees are in self-funded health plans, compared to 12% of employees in firms with 3–199 workers.

Self-funding health benefits will be the right approach for some companies, and not for others. If your company is mulling over moving to a self-funded health plan, here are some basic preliminary considerations—

- Self-funding can give you more control over your health plan than you have with an insured plan. Your company can customize coverage, since you are not buying a pre-packaged product. Though self-funded plans are subject to ERISA, they are not bound by state insurance laws, so a self-funded plan is not required to include types of coverage required by state insurance law. You can create a plan that truly meets your employees' health care needs. And, except for stop-loss premiums, you also won't pay premium taxes as you do with an insured plan.
- With a self-funded plan your company pays health claims as they are incurred, rather than paying a premium to an insurance company on a regular basis regardless of whether employees are filing any claims. This can be attractive, especially during periods when claims are low. The flip side, of course, is that you need to be able to handle large claims or a steady stream of moderate claims when they do arise.

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