

Managing Through Fiscal Stress: Voluntary Benefits Expand Coverage Options

Among the many harsh realities that human resources professionals face during tough economic conditions is that employees' needs increase at the same time that their employers have fewer resources to address them. Increasingly, employers and employees have embraced supplemental or "voluntary benefits" to meet diverse needs and expand the overall benefit package.

A "one-size-fits-all" benefit structure limits how employees spend their benefit dollars. Voluntary benefit programs, when designed based on employee feedback and choice, can add to job satisfaction, attraction and retention of talent, and prudent utilization of benefits. Finding the correct mix of options requires an inclusive strategy where employers, employees and unions identify and utilize those voluntary benefits that will maintain meaningful health coverage and financial security. Through voluntary benefits offerings, employers have the potential to expand employees' access to benefits that supplement employer-sponsored benefits at a fair, employer-negotiated price. Although voluntary benefits are available through the worksite at group rates, they are usually entirely paid for by those employees who opt to participate.

To ensure they offer competitively priced products, employers need to do their homework. In addition, they need to inform employees about the offerings so that they become

savvy consumers and purchase only those voluntary benefits that meet their needs.

MAKING THE MOST OF EXISTING OFFERINGS

Voluntary benefits are certainly nothing new. Public sector employers have offered voluntary benefits for decades in one form or another. Over the years, voluntary benefits have been called many things, including contributory benefits, supplemental benefits, employee-pay benefits, association benefits, employee buy-ups, work/life benefits and, more recently, worksite benefits. According to the Bureau of Labor Statistics (BLS), 80 percent of public sector employers offer life insurance and more than half offer each of the following voluntary benefits: health reimbursement accounts, dependent care reimbursement accounts and a wellness program.¹

Public sector employees who are given the opportunity to purchase the most common forms of voluntary insurance coverage — voluntary term life insurance and short-term disability insurance — usually buy it. However, participation levels in other voluntary benefits, like long-term disability insurance and long-term care insurance, tends to be relatively low. This is unfortunate because, while relatively few disabled employees remain unable to work for more than six months or a year, the economic consequences of a longer disability are substantial

¹ For details, see the *National Compensation Survey: Employee Benefits in State and Local Governments in the United States*, which is available on the following page of the BLS Web site: <http://www.bls.gov/ncs/ebs/sp/ebsm0007.pdf>

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given employees' low current savings rates and retirement plan accruals, as well as the complex Social Security disability award process.

An enrollment review can help employers assess whether their voluntary benefits offerings have a "natural level of participation." The Segal Company defines a natural level of participation as an enrollment and retention rate based on employee needs rather than an absolute target.

To make the most of an underused program, employers may want to reintroduce the offering in context of employee needs. Voluntary benefits participation rates are often driven by the cost of an offered coverage rather than the employees' needs. While affordability should be built into the plan design and education process, it must be coordinated with a needs-based analysis because employees spending their limited funds for a coverage with marginal value to them will not accomplish their objectives. Moreover, it often results in less-than-full satisfaction with the selected benefits, which can lead to the various problems associated with higher-than-expected lapse rates.

Explaining how offerings work with other coverage is another strategy to increase participation. Many voluntary benefits are typically promoted on their own. For example, short-term disability is often promoted with limited or no coordination with sick-day programs or other employer-provided coverage. Long-term disability coverage may not be offered to complement the short-term disability insurance, or, if offered, may not be properly designed or promoted to show a seamless disability package.

ASSESSING THE NEED FOR NEW VOLUNTARY BENEFITS

In today’s tough times, management and labor alike may want to introduce new voluntary benefit programs to fill gaps in existing offerings. Those gaps might be created by

undesirable, but financially necessary, reductions in employer-funded benefits. For example, an employer that is forced to reduce its dental benefits to meet budget pressures, could introduce a buy-up option providing access to a superior network of providers who charge more modest fees than the providers in the original plan.

Traditional benefits or existing voluntary benefits may not adequately address all recession-related personal, legal, financial and security needs. For example, employees who have lost value in their defined contribution retirement plan accounts may be worried about their ability to plan a secure retirement, as well as for other needs like college tuition. The most obvious way to increase the value of a retirement or savings plan is with increased contributions, but access

to meaningful financial planning, through a voluntary benefit arrangement, can be helpful for employees to learn about how to select and mix savings options and other tools.

Moreover, in the public sector, where many jurisdictions have had to furlough workers, reduce work hours or make reductions in force, those who are still employed may be handling an expanded workload and are anxious about losing their jobs. Reduced overtime and/or spousal unemployment can also create financial strains. The table below summarizes newer voluntary benefits and the recession-related employee anxieties they address. As the country emerges from recession, employee stresses are expected to continue, especially in the public sector, which tends to lag the overall economy as tax revenue responds quickly to

Newer Voluntary Benefits,* Employee Needs Met and Employee Benefits Complemented		
Newer Voluntary Benefits	Employee Needs Addressed	Employee Benefits Complemented
Fitness Center	General Anxiety/Stress	Basic Health Care Plans & Wellness Programs
Financial Planning	Investment Losses in Savings & Defined Contribution (DC) Plan Accounts & Inflation	Defined Benefit Retirement Plans & DC Plans, including §403(b) & §457 Programs
Education/Training/Retraining	Unemployment	Supplemental Unemployment Benefits, Severance Plans & Tuition Reimbursement
Mini-Med**	Illness	FMLA & DC Savings Plans
Excess Major Medical***	Extended Serious Illness	Health Care Plans, FMLA, DC Savings Plans & Short-Term Disability
Dread Disease Rider to Life Insurance	Specific Health Illness	Health Care Plans, FMLA, DC Savings Plans & Short-Term Disability
Hospital Supplement	Extended Hospital Stay	Health Care Plans, FMLA, DC Savings Plans & Short-Term Disability
Automobile & Homeowners' Insurance	Legal Risks & Natural Disasters	Group Legal & DC Savings Plans
Legal Insurance	Legal Risks	DC Savings Plans
Identity Theft Protection	Unauthorized Use of Identity and Credit	Group Legal & DC Savings Plans
Discount Shopping Programs	Paying for Household Purchases	DC Savings Plans
Information about §529 Plans	Paying for College	Financial Counseling

* National information about the percentage of public sector employers offering these voluntary benefits or the percentage of employees who opt to participate is not available.

** Mini-Med is limited coverage typically available to select employee groups, such as part-time employees.

*** Excess major medical is catastrophic coverage for out-of-pocket costs.

Source: The Segal Company

economic downturns and more slowly to economic upswings.²

Voluntary benefits should give employees access to protection each individual actually needs, rather than protection the employer *thinks* they need. Before supplementing existing offerings with new voluntary benefits, employers may want to conduct surveys and/or focus groups to better understand the personal issues or events that hamper employees from engaging in their work, what offerings are in greatest demand and what employees believe are the greatest gaps.

While it can be tempting to believe that existing benefit offerings meet employee needs, that may not necessarily be the case in such difficult times. For example, most employee assistance programs (EAPs) claim to meet a wide range of employee needs. They suggest that they are the place for employees to call when facing financial problems. Some employees may receive actual solid help for their immediate financial concerns and needs, but it is unclear whether the financial planning services many EAPs provide are actually useful and valuable for the employee. Like all advice, in order to be effective, personal financial guidance needs to be provided at the right time, at the right level of sophistication and intensity to the right recipient in the right frame of mind. Particularly for advice covering a sensitive issue, like changing one's financial behavior, the advice needs to be sought with an open mind to make lasting changes in behavior. Similarly, access to comprehensive legal services can be more effective than the typical brochure advising people to get a will, if the legal services are desired and sought

by the employee. Offering stand-alone voluntary benefit programs can be an effective way to ensure employees have access to professional guidance that will really help them.

COORDINATING VOLUNTARY BENEFITS WITH TRADITIONAL OFFERINGS

Voluntary benefits complement rather than replace traditional employer-funded benefits. Employers should consider evaluating how well voluntary benefits offerings address employees' economic security needs in conjunction with their other benefit programs. One way to approach this exercise is to think about perils — the bad things that could happen to employees — and how they are met, if at all, by traditional and voluntary benefits.

Employers that have committed sufficient time and effort to these exercises, have ensured that voluntary offerings are contemporary, competitive and complementary to employer-funded offerings. This is critical to implementing fully integrated programs, avoiding programs with offsetting objectives, properly filling coverage gaps and seeing that the most appropriate funding source is selected. Programs that are considered and introduced independently of one another may end up working at cross purposes. For example, if a voluntary short-term disability benefit is offered in addition to an already generous sick leave policy, it may be difficult to get employees who miss work due to illness or injury to return as soon as they are able, placing additional pressure on pared-down staffs.

An integrated approach can streamline communications and administration because the most efficient way to offer voluntary benefits is through a cafeteria-style program under which employees can elect both employer-provided benefits and voluntary benefits. If offered during the typical open enrollment process, a combined

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and coordinated set of menu options encourages employees to think about their own needs and make optimal selections. An effective marketing and enrollment campaign should stress the advantages that a voluntary program offers employees, including favorable underwriting and dedicated service centers.

WORKING WITH VENDORS

One of the challenges associated with an integrated approach to traditional and voluntary benefits is getting voluntary benefit vendors on board. In recent years, as benefits offerings have become more complex, insurance companies have narrowed their portfolio of services, often offering only a few voluntary benefit options. Similarly, broker-administrators have been developing specialized expertise in education, enrollment and administration to support those more limited benefit platforms. This evolution has made the design and coordination among voluntary and employer-funded benefits more difficult. Also, the best way to manage education, enrollment and premium collection will differ by offering. Certain voluntary benefits are most effectively funded through payroll deduction and others through an annual fee. Some, but not all, vendors offer help with employee communications.

As part of managing voluntary benefit vendors, employers should evaluate their offerings and develop strategies to educate employees and enroll those that are interested. Employers should also make sure offerings are properly priced and

² For example, the Center on Budget and Policy Priorities has reported that 48 states have addressed or still face shortfalls in their budgets for fiscal year 2010. See <http://www.cbpp.org/files/9-8-08sfp.pdf> (updated February 25, 2010)

underwritten, including having a renewal formula and procedures (covering such things as expenses, trend, credibility and participation) consistent with objectives.

When selecting vendors for new employee-paid voluntary benefits through competitive bidding, employers should make sure coverage is efficient, cost-effective and sustainable. The process is as important for voluntary benefits as it is for employer-paid benefits.

Public sector plan sponsors should keep in mind that because of their size compared to most private-sector employers, they usually have an advantage in negotiating with new vendors. Vendor selection should cover the following:

- **Financial Terms** Vendors should price their financial terms for value to the participant. In addition to confirming rates or costs during the negotiation process, the individual underwriting and rate renewal approach should be set at the outset of the process. In addition, broker-administrators must fully disclose commissions and other forms of compensation they will receive, and such compensation should be commensurate with the vendor's efforts under the contract.
- **Payment Methodology** How employees pay for voluntary benefits (e.g., pre-tax payroll reduction, post-tax payroll deduction, life cycle accounts, credit or debit cards or other various forms of direct payment) is an important consideration. Employers should discuss with their attorneys the legal issues associated with various payment methodologies.
- **Administration** Details to be worked out include eligibility,

education and enrollment, as well as how claims will be processed and appeals handled, if applicable.

- **Performance Standards and Renewal Terms** These should be defined in a formal contract.

The performance of existing and new vendors should be monitored periodically. Among the factors to consider are utilization, employee satisfaction with customer service, technology, administration and claims paying ratings.

CONCLUSION

Public sector employers that devote resources to the design, underwriting, administration and pricing of voluntary benefits will benefit by offering their employees a valuable service that can help them survive difficult times and soften the impact of any benefit reductions that had to be made for budgetary reasons. If they are packaged and delivered appropriately, voluntary benefits can significantly enhance the actual and perceived value of employer-provided benefit programs. Most important, when properly designed, communicated and administered, voluntary benefits offerings encourage employees to make active judgments in selecting optional coverage.



For more information about or assistance with voluntary benefits, contact your Segal Company benefits consultant or one of the following experts:

- **Howard Goldsmith**
212.251.5258
hgoldsmith@segalco.com
- **Lawrence Singer**
212.251.5095
lsinger@segalco.com

On February 22, 2010, The Segal Company's New York office moved to:

333 West 34th Street
New York, NY 10001-2402

The New York office's telephone number (212.251.5000), fax number (212.251.5490) and e-mail addresses remain the same.

Segal's Houston office moved in November. The new address is:

10740 North Gessner Drive
Suite 320
Houston, TX 77064-1187

The Houston office's telephone number (713.664.4654), fax number (713.664.9341) and e-mail addresses remain the same.

In addition, the building number for Segal's San Francisco changed. The new address is:

100 Montgomery Street
Suite 500
San Francisco, CA 94104-4308

The San Francisco office did *not* move. The telephone number (415.263.8200), fax number (415.263.8290) and e-mail addresses remain the same.

THE SEGAL COMPANY

Atlanta	678.306.3100
Boston	617.424.7300
Calgary	403.692.2264
Chicago	312.984.8500
Cleveland	216.687.4400
Denver	303.714.9900
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