

## The flux of flex: How flex plans are faring

*First of a two-part series on flex benefits; what are offered, how they're offered, and why they're changing*

BY DAPHNE WOOLF

Is the shine off the flexible benefits star? It would seem that in recent years, some employers are moving away from flexible benefits — at least, the traditional form of such benefits.

For many employers, flex benefit plans have not been the value-enhancing, cost-saving vehicles hoped for.

It's not necessarily the case that benefits have lost any value. It's just that the positive aspects of flexible benefits are not as significant as they were in the past, due to changing employee needs and different corporate objectives.

### Why employers wanted flex in the first place

When flexible benefits were first introduced in the mid-1980s, it was commonly believed that adding choice to a benefit plan would be a great way to:

- increase employee awareness of plan value;
- reduce plan costs;
- better meet employee needs in support of workforce diversity;
- be innovative; and
- better align the benefits plan with corporate objectives.

It was believed these gains outweighed the negative trade-offs — higher administrative costs, increased complexity and extensive communication. And for a while, this was true. Company objectives were met and employees perceived good value from the benefit offering.

At first, modular plans were introduced to let employees choose from a variety of different combinations of traditional benefits such as life insurance, accidental death and dismemberment coverage, long-

term disability coverage, health coverage, and vision and dental plans. Then came core-plus-options plans, which offered employees a block of common basic benefits, as well as a variety of optional benefits that employees could choose from on an individual basis.

### Far from the fringe

Far from being “fringe,” employee benefits are considered a very core part of an employee's total remuneration. Employees are increasingly aware of the value of their benefit plans, which would indicate that flexible benefits do indeed raise employee awareness of the plan's value.

Employees appreciate the drug plan, the vision and paramedic coverage and dental care. They recognize the advantage of being covered for long-term disability, and they know that they could not obtain comparable individual life insurance coverage at the same low rates of a group plan.

But note the distinction: it is the benefits coverage, not the flexibility, that employees value.

### Plan value

Although “traditional” flexible benefits continue to be an effective vehicle for some employers and employees in meeting objectives, over the last 20 years, the working environment has changed. These changes have led some employers to question the effectiveness of current flexible benefit offerings. For example:

**Cost reduction** — Flexible benefits as a tool to facilitate cost reductions have not always been effective. Some employers introduce flexibility, in part, to “sugar coat” cost cuts or increased employee cost-sharing.

Employees, as a result, experience benefit flexibility as a cost-shifting tactic, and trust issues start to emerge or are further exacerbated.

**Diversity** — As much as the demographics of the workforce have become more diverse, employees' benefits needs and expectations are not that different. In fact, “wanting it all” seems to be a common thread that bonds employees of very diverse backgrounds and family status.

**Innovation** — Claims of “innovation” in benefit plan offerings have become overused. When benefit plans take on too much choice or incorporate elaborate detail such as credit allocations, employees start to wonder if such innovative features are in fact “smoke and mirrors” to camouflage benefit reductions. For most employees, a comprehensive coverage that provides security and protection is a more valued attribute than “innovation.”

### Corporate objectives

For all the right reasons, corporate objectives need to be connected to the bottom line. Many employers are questioning their flexible benefits costs and are asking themselves whether there is a more effective way of delivering benefits to reduce administration or a more effective way to design the benefit plan to allow for simpler communication and re-enrolment.

As well, executives are looking at how they can garner more appreciation from employees for the company's benefit investment. One option for employers is the introduction of health spending accounts.

### Health spending accounts

Cash is king. Taxes are high. As long as there are tax incentives associated with health spending accounts (less so in Quebec, but still present), allocating a portion of what would otherwise be taxable

income into a non-taxable health spending account continues to make good sense.

However, even though administration is minimal, and the communication requirement for health spending accounts is manageable, in many cases employees still don't understand or appreciate the value of a health spending account. As a result, the benefit is often underutilized.

As complex flexible arrangements start to drop off, there should be continued interest in maintaining health spending accounts, at least as long as tax incentives exist.

Clearly many employers are looking at moving away from the traditional form of flexible benefits. For many employers flexible plans are not delivering the cost-savings originally expected. Some are revisiting their commitment to integrate choice into their benefit arrangements. Others are transferring the cost of administration and communication into a non-flexible benefit arrangement and allocating the savings to provide a richer traditional benefit offering.

Some employees still view flex arrangements as a means for employers to shift benefit costs or reduce coverage. At the same time, they depend on their benefits plan to cover their needs as an integral part of their total remuneration.

So if flexible benefits do not meet some employer or employee needs, what will? In *Canadian HR Reporter's* Feb. 14 *Report on Total Rewards*, the second half of this two-part series will look at what the a new version of flex benefits may look like, as well as the context in which they'll likely be offered.

*Daphne Woolf is a managing partner with The Collin Baer Group Ltd. She can be reached at (416) 461-5600 or dwoolf@collinbaer.com.*