

Employee benefits strategy for the voluntary sector

Report 2: Recommendations for Action

Background

In the first phase of this project to investigate issues associated with employee benefit plans within the voluntary sector, we interviewed stakeholder groups across Canada regarding their experiences and observations. Stakeholders included associations, voluntary sector organizations (VSOs), benefit plan managers, brokers and insurance carriers. The result was a profile of the issues surrounding and barriers to the acquisition and management of employee benefits in the voluntary sector (see our report, *Barrier Identification*).

In this phase, we tried to identify practices in other jurisdictions that might help overcome these barriers and we recommend next steps to address the issues identified in the first report.

Human Resources Development Canada provided funding for the project through the Joint Capacity Table of the Voluntary Sector Initiative. The grant was provided to a consortium made up of the Coalition of National Voluntary Organizations, United Way Canada and the Community Foundations of Canada (CFC); CFC took the lead role in this project.

Practices in other jurisdictions

Like Canada, most countries — both developed and developing — are experiencing challenges to the sustainability of their health care systems. Whether these systems are publicly or privately funded and delivered, their costs are rising.

The British and Australian systems resemble Canada's in their application of the universality principle to delivery. Funding models vary in detail, but the similarities are sufficient that we chose to examine these jurisdictions to see what we might learn. We also chose to review practices in the United States because of its proximity and because its voluntary sector faces challenges similar to those experienced in Canada, even though 70% of Americans obtain access to health services through private insurance.

Literature searches, Internet sources and telephone inquiries in Canada, the United States, the United Kingdom and Australia reinforced the fact that access to benefits and coverage are similar in these countries and that solutions to problems in this area are not readily available. Our review of Australian sources uncovered nothing of substance.

In the United Kingdom, questions of access to insurance — liability coverage in particular — and its cost have been raised in parliament. The issue of health insurance coverage is less pressing in the United Kingdom, where the health care system is more universally accessible than Canada's; the Home Office has therefore undertaken to fund a project on liability insurance.

Generally speaking, the approach to employee benefits in the United States is complicated by jurisdictional differences (i.e., legislative variances from state to state) and by health care delivery models, such as managed care, that include health maintenance organizations and preferred provider organizations. Some models for group approaches to health care funding were found, but none was national in scope. Also, as there is no universal health care funding model in the United States, except for Medicare (for those age 65 and up) and Medicaid (specific funding for special needs), private insurance covers all components of health care, not just those traditionally covered in the Canadian employee benefits marketplace.

The only national-scope model servicing VSOs that we could find in the U.S. market was a nonprofit insurance company providing liability and home and auto coverage. Their reason for concentrating in these areas and not attempting a foray into health care is the state-to-state variances that make this a complex undertaking.

In many ways, Canada is much farther ahead than the United States. The whole subject of association-based health insurance plans is only now receiving legislative consideration in the U.S., whereas these types of plans have existed in Canada for decades. In addition, some national-level pooled plans in Canada are able to provide cost effective access to employee benefits for virtually any non-profit employer in the country.

Recommendations for action

The recommendations set out below, are intended to address the barriers identified in phase 1 of this project. These barriers to employee benefits in VSOs were grouped into three major categories:

- Organizational barriers
- Affordability barriers
- Knowledge or informational barriers.

Each of these broad categories comprise a number of sub-items. The grouping of recommendations below may appear to be only partly coincident with the categories identified in first report. The recommendations reflect a holistic view of access, as most of them can be applied to more than one of the barriers set out above.

Organizational barriers

Approach and philosophy

In our discussions with VSOs, a constant theme was the unwillingness of funders to formally recognize the need for employee benefit plans and their concomitant unwillingness to fund this item appropriately. Although funders appear to acknowledge that lack of benefit plans is a problem for organizations when it comes to hiring and retaining employees, this acknowledgement does not translate into their providing the required funding.

This is particularly troublesome in terms of services funded by governments. Over time, the various levels of government have chosen to devolve the provision of a variety of services to the community. These services, ranging from children's to elder services and including recreational, social, educational and health-related services, are provided by a large network of community-based VSOs. In each case, funding is

provided by the level of government “contracting” with the community for the service.

Recommendation 1

Governments (both as funders and as the recipients of the positive outcomes of high-quality community services delivered by competent VSOs) and all other major foundations and funders should adopt, as a core principle, access to insured health care services for all paid employees.

Taken in the context of the voluntary sector as part of the labour market, this issue is actually much bigger than simply a debate about group insurance plans. Although we cannot describe with certainty the pattern of movement of labour in and out of this sector, there is evidence that the voluntary sector loses, on an ongoing basis, some proportion of its workforce to other sectors. In a competitive labour market, where the “best and brightest” are the most valuable commodity, questions need to be asked about the impact of this “brain drain” on a sector that delivers important services to the Canadian population on behalf of governments and other major funders.

This issue must be seen in the context of the larger question of effective human resources practices in the voluntary sector labour market, including recruitment, retention and compensation (of which employee benefits are a very large part).

Recommendation 2

Any movement on the question of insured employee benefits should be accompanied by examination of the wider issue of effective human resources practices, and the HRVS project should consider employee benefits concurrently with other issues in the overall project.

Pooling

The risk associated with insuring a small organization is high compared with the administrative costs and the collected premiums. In insurance in general, and employee group benefits specifically, larger groups constitute a better risk. The best way for small organizations to achieve a lower level of risk is by pooling. Pools can be established in a number of ways and, in fact, national, broad-based, multi-employer pools that target the VSO market already exist (see Appendix).

We believe that groups of associated VSOs — directly, or through their association — should consider this avenue. Pooling, where plan performance has an impact on cost for all members of the pool, is best achieved among communities of organizations with a common interest on which decisions about plan designs and apportioning costs can be based.

We also believe that multi-employer plans for associations and other charitable organizations in a region or within a community of interest (e.g., unionized workplaces, mental health, etc.) could be encouraged and supported by funders and by the voluntary sector community.

The least access to benefits and the highest costs are experienced by the smallest organizations — those employing fewer than 10 employees. In this group, VSOs employing fewer than 5 people face a degree of disincentive in the insurance industry that is several quanta above the rest. For this group, regardless of subsector or community of interest, the benefits of pooling are the greatest.

Recommendation 3

Multi-employer plans for organizations with fewer than 5 employees, regardless of community of interest, should be encouraged and supported by funders and the voluntary sector community.

For such plans to be viable and to maintain an appropriate level of risk, it may be necessary to establish some extraordinary requirements, such as the need to provide Evidence of Insurability to get access or perhaps significantly reduced Evidence of Insurability thresholds. This means that small VSOs may have to ask all employees to complete health evidence questionnaires just to get access or, without such health evidence, the participating employees may have access to lower levels of coverage.

In most pooled plans, regardless of the size of the participating organizations, there is a need to consider the degree to which individual (organizational) rating and pooled rating of the risks are blended. This decision cannot be made universally, but requires careful consideration of the circumstances in each pool and each organization within the pool to determine the best blend.

In most instances, a minimum size is required for a pool to be viable. Achieving a critical mass, which can be 2000 to 3000 employees, can be difficult and the build-up to it can be fraught with risk. Pooled plans that have achieved this state and are fully viable are listed in the Appendix. If other similar plans are found, they will be added to the list.

Access

For a large number of VSOs, the barrier to providing insured benefits to employees is the very simple notion that they are not seen as “clients of choice” by insurance providers. As explained in *Report 1: Barrier Identification*, a number of factors are used to establish the risk of taking on a client; these include number of employees, revenues and revenue sources, business stability, occupational factors, and so on.

Surprisingly, it is not only the insurance providers who make these decisions. We discovered association plans, already established within the voluntary sector, that make similar determinations to exclude the “riskier” members of their group to protect the viability of the plan for the current participants.

Exclusion of risky members is often manifested through unaffordable rates. However, insurers may also simply refuse to provide coverage.

Recommendation 4

Funders or associations with long-established and stable plans should open their plans to others, either funded or non-funded, member or non-member. Association plans should at least be compelled to include any VSO that is a member and expresses an interest in participating in the group plan.

Recommendation 5

The Government of Canada should establish a reinsurance pool as the “insurer of last resort” for VSOs that are unable to find insured benefits coverage anywhere else.

The notion set out in the above recommendation is not an entirely new concept. The Government of Canada uses a similar process for extending credit to small businesses through the regular banking system. For example, the Small Business Loan program, which gives access to funds that a small business may not otherwise have, is guaranteed by the government and enjoys preferential interest rates because of that guarantee.

Recommendation 6

Alternatively, a centrally managed, national pool for groups with 5 employees or fewer should be established and reinsured by the Government of Canada, so that those VSOs associated with the highest risk can have access to an insured benefits plan for their employees.

Affordability barriers**Cost**

Several conditions contribute to an organization's inability to meet the costs associated with its employee benefits plan:

- Funders' unwillingness to include a line item for this purpose
- Lack of attention to plan performance and to employees' usage patterns over time
- Inflationary factors associated with the research, production and marketing of new drugs that can be five or six times that of standard inflation
- Disproportionate administrative costs associated with insuring very small groups

If VSOs are to recruit and retain the most competent workforce in a competitive labour market, funders must recognize the importance of treating insured employee benefits as a necessary component of the compensation structure.

Over the last several years, there has been a clear trend away from core funding. Unfortunately, the project-based funding that has replaced core funding does not appropriately anticipate year-to-year increases in basic costs, such as employee benefits, and, in some cases, may not even allow for the payment of employee benefits.

Recommendation 7

Funders should add a reasonable percentage of salaries for benefits as an established line item in core and project funding for all VSOs with employees.

Unfortunately, certain factors affecting costs are determined by insurance and pharmaceutical industries and are beyond the control of VSOs. Given the small average size of the consumer organizations involved, there is no prospect that they will be able to influence the decisions of providers. In this environment, a case can be made for government intervention.

In some jurisdictions, such as Switzerland and Germany, insurance providers are prohibited from declining to cover applicants. Although their systems and methods for health care funding and provision differ from Canada's, some lessons can be learned about the role of legislation. In Germany, only about 0.1% of the population

have no health coverage. In Switzerland, 99% of the population voluntarily insure themselves.¹

Although such intervention may not be necessary in a market-driven environment that is fair and accessible, some consideration should be given to the possibilities set out below, without proscribing or limiting the government's opportunities to act.

Recommendation 8

A review should be undertaken by the appropriate regulatory bodies and, based on their findings, real inflation factors should be determined within the pharmaceutical and insurance industries and reasonable maximum expense limits should be established for small group plans in the voluntary sector.

Knowledge or information barriers**More informed VSOs**

To a large extent, the issue of access and underservicing can be addressed by having a more informed client environment. VSOs should understand how and why their costs escalate, how these costs can be managed, what services they should be demanding from their providers, their own risk factors, and so on. Better information, together with more informed leadership, can have only one outcome: a well-managed organization. Furthermore, a significant return can be achieved if employees understand the role they play in the process and actively participate in managing the issues.

Recommendation 9

Formal learning opportunities should be provided for VSO staff that are responsible for the management of employee benefit plans, to assist their understanding of matters such as the purpose of benefits plans, risk-management considerations, typical plan cost factors, experience (usage) management, the role of effective plans in overall organizational health, good administration practices, etc.

Recommendation 10

Formal learning opportunities should be provided to employees of voluntary sector organizations, to assist their understanding of matters such as shared risk, claiming patterns and the impact on cost, purposes of benefits plans, typical plan cost factors, experience (usage) management, plan rules and guidelines, etc.

Recommendation 11

VSOs should develop organizational cultures of shared risk with employees with respect to insured benefits. As employees are being educated about benefits, what they are, how they work and their cost structure, they also learn about their own impact on the costs of these programs and how usage can be managed to benefit themselves, their co-workers and the employer.

¹ Ramsay, Cynthia. Beyond the public-private debate: an examination of quality, access and cost in the health-care systems of 8 countries. ; Calgary: Marigold Foundation, July 2001.

Recommendation 12

Plan providers should be encouraged to use plain language in administration manuals and employee booklets.

Recommendation 13

Communications tools, such as employee newsletters, should include relevant, timely information, and workshops should be held at conferences for administrators and staff on the "how to" of benefits administration

Recommendation 14

Associations and VSOs (and the Voluntary Sector Forum) should advocate to funders the importance of funded benefits.

Recommendation 15

A how-to publication on seeking and evaluating insurance should be commissioned and published for VSOs; it should be written in plain language

It is also very important that VSOs recognize the need for them to play an active role in the management of their costs. All too often, the only interaction that an organization has with its consultant or insurance provider is to receive annual renewal notices and to pay premiums.

Recommendation 16

VSOs should become active partners in managing their benefits plans. They should demand that their consultants or insurance providers give them regular updates on plan performance, and they should develop strategies with their providers to manage both quality and cost of the benefits they provide to their employees.

In some plans, cost-containment strategies have been successful where the employees have been made partners in the program. Shared decision-making and, occasionally, shared cost have been received well and have influenced plan performance.

Recommendation 17

VSOs should consider the role that employees' use of benefits plays in benefit costs and the positive impact that employee partnership can have through shared accountability.

As expressed earlier, the issue of benefits is an integral part of the larger question of employee compensation and is a major element in the retention strategy of an organization that is trying to maintain the highest level of competence. Thus, the question of benefits cannot really be separated from the notion of effective human resources management. The HRVS project should continue to consider the ramifications of this issue as it works toward its larger outcomes.

Recommendation 18

A focus on good human resources practices should be emphasized throughout the voluntary sector as a significant determining factor in the questions of access to benefits and their affordability for VSOs.

In a sector that experiences significant turnover, where the age profile of employees can occasionally be that of older workers and where employees' profiles may sometimes reflect the profiles of the VSO's client bases, an employee benefits plan needs to be flexible to address the particular needs of the employees at particular times. Appropriate design of the benefits plan is critical. Well-designed plans ensure that the benefit being paid for is the benefit required. This means not paying for more than is needed and not paying for more than can actually be collected in benefit. In addition, flexible plan design can overcome some cost constraints.

Recommendation 19

The design of benefits plans should keep step with funding constraints and demographic shifts to offer as much flexibility as possible.

This will require constant attention and a close working relation between the VSO and its benefits consultant or insurance provider.

Some pooled plans address this issue by offering multi-tiered designs. This strategy has merit, although there is a limit to the number of tiers that can realistically be sustained and this limit is influenced by the number of employees covered.

Some strategies, for example, include mandatory generic substitutes for new, high-cost drugs; mandatory low-cost maintenance drug plans; health spending accounts where the employee determines how the funds set aside for them are spent; and broad-based co-payment arrangements with employees.

Knowledge in the consultant market

For VSOs, a key access point into the employee benefits market is the network of consultants or brokers. The motivation for these providers to find avenues for coverage for the client organization can generally be summed up in the notion of "return on investment." This may also be said of the insurance carriers. If the investment, in terms of time and cost, is greater than the expected return, fee or commission, it is easy to understand why these providers will hesitate to take on a client. Furthermore, without a good understanding of how the voluntary sector operates, these providers may be making assumptions about their investment and the risk factors associated with the client.

There are certainly many consultants and brokers who have worked extensively with VSOs and who have knowledge of the sector. Some of these, in fact, specialize in representing the interests of VSO clients. But clearly, the more of these professionals there are representing the interests of VSOs, the greater the lobby on the insurance carriers.

Recommendation 20

Education should be provided to consultants and brokers about the voluntary sector and the opportunities it presents.

Recommendation 21

VSOs should seek out knowledgeable consultants who can and will:

- Commit to providing clients with all the information necessary to make reasoned decisions about the benefits plan
- Provide a service plan to their clients
- Make the case and challenge insurers to properly justify all proposed rates and rate increases in the voluntary sector
- Provide guidance and education to their insured groups
- Provide education to clients' employees
- Apply human resources best practices and insurance skills to the management of benefits plans
- Be willing to carry out some administration of the plan.

Knowledge among Insurers

The last link in the chain is the insurance carriers. A large number of these providers do not see the voluntary sector as a market of choice for them. This is not an exclusive assessment attached to this sector. Indeed, the evaluation is made on the basis of the same general factors used when they assess their business prospects — number of employees, revenues and revenue sources, business stability, occupational factors, and so on. However, it is our view that lack of knowledge of the sector results in a faulty assessment. Education of the provider marketplace can go some distance toward overcoming at least some of the barriers that result from this lack of knowledge.

Typically, occupational risk assessments are flawed because of the lack of knowledge of the work that goes on in the sector, and business stability measures are skewed because VSO funding mechanisms are not clearly understood. For example, the mythology surrounding risk in the voluntary sector does not account for the fact that funders will often fund the orderly closure of a VSO. This can be in stark contrast to the real risk assumed by insurance providers that a small business enterprise could close its doors on a weekend and be immediately out of reach of collection of receivables, or at the very least become a problem collection case.

In addition, without a clear and consistent understanding of the sector, the way VSOs are rated can differ significantly from provider to provider, making it very difficult for organizations to make a thorough analysis of the quotes and renewal notices they receive.

Recommendation 22

Educational opportunities should be made available to the insurance carriers to assist with their understanding of the make-up of groups by occupation, and organizational factors.

Recommendation 23

An industry-wide, standardized occupational coding system that accurately reflects occupational risk in the voluntary sector should be established and made available to all insurance providers.

A national organization agreed to post this policy on www.hrcouncil.ca as part of the HR Toolkit. Sample policies are provided for reference only. Always consult current legislation in your jurisdiction to create policies and procedures for your organization

APPENDIX: Pooled plans for small VSOs in Canada

The following plans may provide solutions for VSOs that are looking for a more cost effective plan or that are providing benefits to employees for the first time.

GAIN Benefits Plan

Telephone: 416-867-9350 ext. 229

Toll free: 1-888-761-1164 ext. 229

Ontario Association of Social Services Insurance System (OASSIS)

Telephone: 416-781-2258

Toll free: 1-888-233-5580

Canadian Society of Association Executives (CSAE)

Telephone: 416-363-3555 ext. 226

Toll free: 1-800-461-3608