



Tilak De Silva,
controller, Toronto Cricket Skating and Curling Club

BETWEEN A ROCK AND A HARD PLACE

CONSULTANTS and providers have warned that reducing health benefits can have a negative impact on workforce morale and productivity. But for some small businesses, cutting back on benefits means staying afloat and keeping everyone employed.

According to Tilak De Silva, controller with the Toronto Cricket Skating and Curling Club, this year, the organization had no choice but to reduce its coverage and share more costs with its 114 plan members. “The [cost of the] group benefits plan was going to increase by 40% this year,” he says. “We couldn’t afford that.” Employees used to get 80% coverage for all prescription drugs and \$50 of each paramedical visit paid for (up to \$500 a year). Plan members now have 90% coverage for generic drugs, 75% coverage for brand name drugs and only \$30 of coverage per paramedical visit with a \$300 annual limit. However, the club is still able to continue paying 100% of the plan premiums.

Plan members have access to \$200 (\$300 for families) health care spending accounts (HCSAs), which could help with some of the increased costs that they may face due to the recent plan changes. However, the HCSA funds are also intended to cover dental expenses—and \$200 can go only so far.

Though the changes to the sports club’s plan may not be drastic, they are reflective of the realities that small businesses are facing during these tough economic times. But the struggle that these plan sponsors have with annually increasing costs is not simply a result of the recession. Cost containment of benefits and retirement savings programs is always a challenge.

“For small plan sponsors, administration fees [for retirement savings plans] are greater on a per member basis,” explains Martine Sohler, a senior consultant with Watson Wyatt Worldwide. “You always face fixed fees. There is a smaller population to disburse [them] among, so it costs more. The fees for investment management would be greater on a per member basis as well.” Chris Westcott, a benefits consultant with Hewitt Associates, adds, “I think cost is the No. 1 challenge [for small businesses] with benefits and investment programs...the recordkeepers are providing less flexibility and less access to things on both sides. The bigger you are, the more leverage you have.”

Containing costs and increasing flexibility within group benefits and retirement savings programs are issues that small businesses face year after year. And, in light of the recession, they may need to make some big decisions.

BY APRIL SCOTT-CLARKE

Stuart Ferrie, chief administrative officer with Toronto Montessori Schools, agrees. He says that although the organization has approximately 100 members in its plan, it is considered small by insurers. “I’m not convinced we get the same discounts that a large employer would get.”

As the country buckles down to weather a global recession, cost may be even more of an issue for smaller employers that offer benefits and group retirement savings programs. “I have had a couple of clients give the go-ahead to reduce coverage levels,” says Camille Coutu, a health and productivity consultant with Buck Consultants. “Most of my clients send the message that if you provide good things during good times, it can only be expected that these good things must be scaled back during difficult times. It’s a message that most employees understand. I am certain that our clients will be asking us to review plan costs with the objective of cutting [expenses] more and more in the next year.”

Standard Service

Many small companies don’t have more than a one-person HR department—and some don’t even have that. It’s often an owner or controller who wears the HR hat. For service providers and advisors, this means providing these organizations with more support.

“Small businesses don’t usually have significant HR departments. So the HR people are doing a lot of different things, and it’s hard for them to be experts in complex areas like pension and retirement services,” explains Doug Snyder, national vice-president of corporate accounts, group retirement services, with Sun Life Financial. “What sponsors are looking for from us is support in terms of knowledge and plan design, and in terms of responsibilities in handling plan governance. They are also looking for us to help them with the administration of their plans: withdrawals, transactions, things of that nature.”

Fifty or 100 people in a plan might seem significant to the sponsor, but for insurers that have plans with thousands of members, the best and most experienced people are often assigned to the accounts that produce the most revenue.

According to Mazen Shakeel, a plan design consultant with Hewitt Associates, “With some of the carriers, the bigger plans get more attention, and sometimes more junior people are supporting the clients with smaller plans. They may not get the same level of service that the bigger sponsors may get.”

Just as the support may be limited, sponsors of small plans may also have limited flexibility and plan options. “When you are a large employer, you can call the shots to a certain extent of how you are going to manage your program financially, how it’s going to be funded,” says Coutu. “You can tell the insurance companies, ‘These are the expenses we deem competitive,’ and they can take it or leave it. The smaller you get, the less flexibility you have. Insurance companies come in and say, ‘This is the cost’ and you pretty much have to take it or leave it. There are limited options.”

Finding Flexibility

It’s not a nine-to-five world anymore, and employees are looking for flexibility in the workplace. Organizations are trying to meet these new desires as a way to become preferred employers. However, giving employees flexibility within their benefits or retirement savings plans can be difficult for employers with limited funds and resources.

Ferrie says that in his experience, the biggest problem with building benefits and retirement savings programs as a small employer is that there is little choice. The suppliers are few and offer many of the same products.

“Plans are typically off-the-shelf products that do not necessarily allow plan sponsors to customize their benefits products,” agrees Coutu. “In addition, most health and dental benefits plans for small employers are insured and, therefore, subject to the insurer’s standard cost practices. And the smaller you are, the less flexible it becomes.”

Jacques Latour, vice-president of sales, group insurance, with Standard Life Canada, admits that when it comes to benefits and retirement savings plans, small employers are at a disadvantage. “You have less choice and less flexibility in the programs you can introduce. There is still a lot of choice but, [for example,] you can’t have a complete flex program if you have 30 employees.”

Many sponsors of small plans can’t make an economical case to implement or get access to a full flexible benefits plan and, therefore, end up with more traditional benefits. This can be costly for employers and limit employee choice.

Jahan Roohi, controller and vice-president of finance for Buchanan Rubber Ltd., a wholesale distribution company, says that implementing a flexible benefits plan is at the top of

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the list of things he’d like to do. Currently, the company has just under 50 employees located in Quebec, Ontario and Alberta, and everyone has the same plan. “If we could implement a flex plan, we would. Everyone would be able to take what they need to spend and what is important to them.”

Westcott adds, “[Small businesses] are looking to find more flexibility in their plans. Based on size, they may not be able to build full flex, but they are also looking to contain their costs. HCSAs are becoming a more popular option among all employers—smaller employers included—to contain their costs.”

For retirement savings programs, options for small employers are also limited—mostly due to resources. Defined benefit (DB) plans no longer make economical sense for many employers, especially small ones, even if they do have the resources to manage such a program. “Capital accumulation plans (CAPs) appeal more to the smaller employers,” says Deborah McMillan, a consulting actuary with Buck Consultants. “It’s easier to administer for the sponsor, costs are predictable and [they are] easier for plan members to understand.” Because of the lack of funding responsibilities and limited

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Glenn Zederayko, (left)
head of schools, Toronto
Montessori Schools

Stuart Ferrie,
chief administrative
officer, Toronto
Montessori Schools

Holding Steady

Practising what it teaches, Toronto Montessori Schools is finding its own way in these turbulent times.

By April Scott-Clarke

Some people say in these kinds of times, 'Oh my gosh, it's all going to go south so let's give up.' We are consciously saying, 'We are doing a great job,' and people see it," says Glenn Zederayko, head of schools with Toronto Montessori Schools (TMS). "[We will] keep doing our best, be optimistic and continue to show we are doing a great job." He feels strongly that continuing to deliver a high-quality product with the same service and dedication will keep TMS where it needs to be in these tough times.

However, he and his colleagues realize that enrollment may be down for the

2009/10 school year. "We are cautious and aware that there may be families that are going to have to make some difficult financial choices, so we are feeling the pressure," Zederayko says. "But it appears that this is something that families value. [We realize] we are selling something that you can get for free down the road. We are aware that there is a downturn and that people are cautious. We expect that our numbers are going to be tighter as a result."

Fortunately, the school hasn't yet had to make any cutbacks as a result of the economic situation. In fact, it has expanded and improved some of its HR programs.

This year, in response to a staff survey done last spring, the school has implemented a sabbatical program. Teachers are able to work at 80% of their salaries

for four years and then take a fifth year off with 80% of pay. The program was introduced in January, and Zederayko says some people have expressed interest in participating.

Another change in 2009 was moving the management of the school's short-term disability benefits in-house. Doing so will bring some cost savings and will give more flexibility to the program. TMS has also expanded its critical illness coverage.

Private schools such as TMS have to compete with the public school system for talent, so they need to ensure that their compensation and HR programs are up to par. Benefits plans negotiated by teacher unions tend to be generous, regardless of the geographical location. TMS knows that to be a preferred employer, it needs to follow suit.

Therefore, in addition to the basic coverage elements—health, dental, life, accidental death and dismemberment, and long-term disability—TMS offers its employees critical illness insurance and a vision care plan. There is 100% coverage in the drug and dental plans and the school pays 100% of the premiums. The only out-of-pocket expenses for members are the dispensing fees. TMS also offers an employee assistance program and tuition discounts. "We have a fairly rich plan. We've got to make sure that our plan is competitive with the other employers out there, primarily the school boards," Stuart Ferrie, chief administrative officer with TMS, explains.

Most of the 125 staff members are teachers, and many are part of the Ontario Teachers' Pension Plan. The full-time employees who are not in Teachers' can join the school's defined contribution pension plan, in which contributions are matched up to 4% of pay.

In the internal spring survey, employees were asked why they enjoy working at TMS and what attracted them to the school. While benefits and compensation ranked high, the facility and the work atmosphere were more important. "It's a good place to work, and it's not just compensation and benefits that make it that way; it's colleagues, the type of people we deal with [and] the kids," says Zederayko. It's that attitude that keeps the school going strong, even in a challenging economy. **BC**

“THERE NEEDS TO BE SOME CREATIVITY FROM PLAN PROVIDERS WITHOUT INCREASED COSTS.”

— JAHAN ROOHI,
CONTROLLER AND
VICE-PRESIDENT OF
FINANCE, BUCHANAN
RUBBER LTD.

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administration work, group registered retirement savings plans (RRSPs) are the most common types of plans offered by small businesses.

And for small- to mid-size employers that do have the resources to offer pension plans, the quality of the service they receive is variable. “From the DB perspective, access to best-of-breed managers is limited for the smaller employers because they can’t outsource different pieces of their DB plan to different managers,” explains Zaheed Jiwani, an investment consultant with Hewitt Associates. “Each investment manager has minimums they require in regards to asset sizes and, in most cases, small plans are with one manager who is managing all assets. Therefore, they can’t, [for example,] get the best equity manager or the best fixed income manager. On the DC side, the scope is not as limited because plan sponsors can tap into what the recordkeepers offer, and they typically offer the same list of managers to all plans, of all sizes.”

Although flexibility within benefits and retirement savings programs is difficult for small employers to offer, the lack of bureaucracy and red tape in smaller

organizations often means they can be more flexible with HR policies—something that may not be found in larger organizations. “As a small employer, we want to offer as much flexibility as possible...we try to be relaxed. We don’t have a manual for everything you want to do,” Roohi says, adding that if people need to go to appointments, come in late or leave early it’s not an issue, as long as others are made aware of what they are doing and their jobs get done.

Westcott agrees that finding other ways to offer flexibility is important. “Flexibility outside of the traditional plan—opportunities to job-share, time off with pay, more work/life balance issues...wellness is becoming more and more popular with small employers as well. For instance, on-site flu clinics and health risk assessments, these are things that [employers] realize will help employee health in the long run and help employers contain and manage the costs.”

Room to Grow

Administration support and a better level of service are significant needs that small employers want plan providers to address. While online tools and automated systems have streamlined administration and claim processes, Roohi says he has yet to see cost savings from these improvements.

“In our business, if people place orders online, it’s a given that we have to give them a discount because they eliminate using our people to place the order. I expect the same things on the group benefits side—something I haven’t seen,” he says. “Companies are encouraging employees to do things online, and that’s good, but...if we are reducing paper costs and reducing administration costs, I’d like to see some cost savings. There needs to be some creativity from plan providers without increased costs so we can actually use these creative methods.” He adds, “I’d also like to see more prevention education programs from providers, that don’t cost extra. I know they have them, but there is not a whole lot of emphasis on them, and, at times, they aren’t very cost-effective.”

It’s clear that small employers have needs and wants that aren’t being met by most service providers, but that is starting to change. According to research done by Standard Life, more than 50% of employers with less than 50 employees don’t have group benefits and retirement savings programs, meaning there is growth potential in this market. Since large plan sponsors don’t often switch carriers, insurance providers that are keen to increase their market share have started to expand their services to address the needs of small businesses.

“As the Canadian economy shifts a bit, there will be a shift of focus by recordkeepers to the smaller market. If they serve it well, there will be an opportunity to grow their business,” Shakeel says. “I think we will see more creative and innovative solutions for smaller organizations. [For example,] there may be an opportunity to aggregate small employer plans with more limited investment options to gain economies of scale.”

Jiwani adds that some recordkeepers are already starting to look at some of the things they are doing for large plan sponsors (for example, customized communications) and are scaling back those features to offer a version that meets the needs—and the price point—of mid-size plan sponsors. He expects that increased use of technology will eventually enable the recordkeepers to do the same for smaller plan sponsors.

Michael Milos, director of Canadian business development for SunAdvantage Group Benefits with Sun Life Canada, says that employee empowerment is a trend among small employer groups. He notes that options such as HCSAs and personal spending accounts (PSAs) that allow employees to make decisions, as well as voluntary benefit products such as critical illness and optional life, are getting more interest from small employers and employees. “We are definitely seeing a higher request for HCSAs and PSAs over the last little while,” he says. “Also, wellness is a big thing that we are seeing moving forward.”

While employers and employees are looking for more choice in benefits, the opposite seems to be true for retirement savings plans. “Two trends that we are seeing are a desire for simpler plans with fewer investment options, and an increased need and request for education and advice,” confirms Snyder.

When the economy recovers and the labour shortage hits its peak, the idea of more plan options being made available to small employers is exciting. But for the moment, most small plan sponsors are focusing on the present: what’s available to them now, what they can afford—and what they will have to do without. **BC**

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