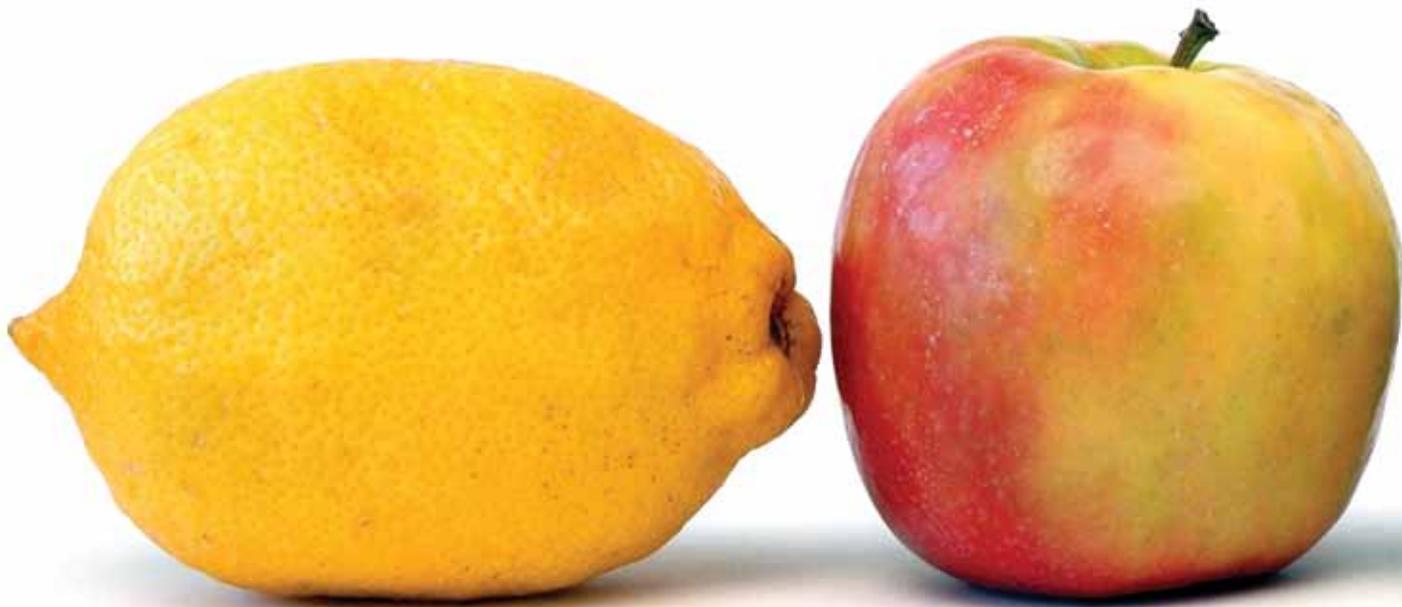
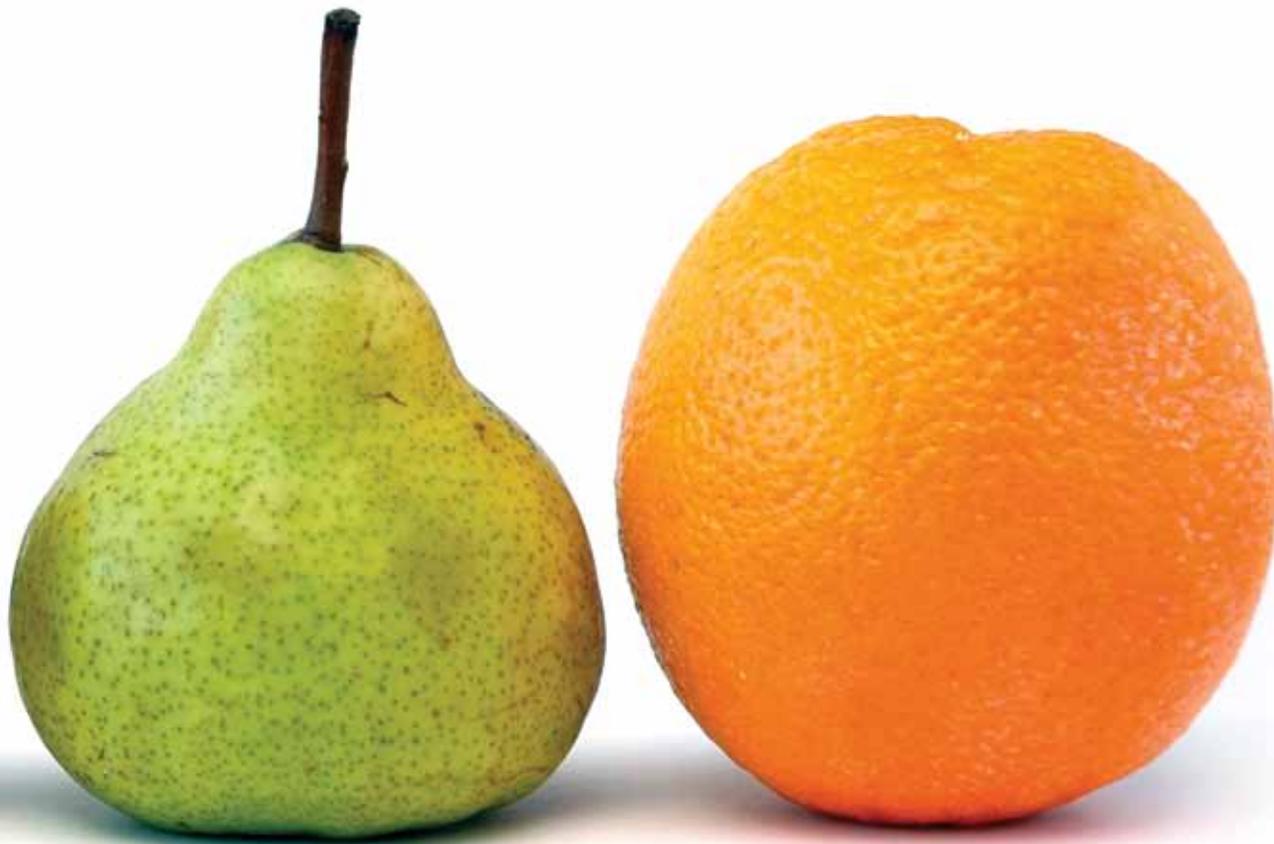


# The More Things Change: Benchmarking Collectively Bargained Private Sector Benefits



Benchmarking helps benefit plan trustees and administrators keep an eye on what others are doing and understand and improve best practices. This article describes the results of a recent survey of public and private sector multi-employer benefit plans and identifies trends and challenges for private sector multi-employer plans.

by **Riley St. Jacques** and **Jane Petruniak**



**B**enefit plan sponsors in all industries are seeking innovative ways to balance the needs of the incoming Millennials and an aging membership. As they strive to provide competitive benefits, plan sponsors are faced with managing the impact of escalating disability claims costs and increasing prescription drug costs.

A recent PBI Actuarial Consultants report shows that the design and management of private sector multi-employer health and welfare plans have been relatively unchanged since their inception 20 or 30 years ago. Once collectively bargained, benefits tend to remain untouched, with most plan changes being reactive and programmatic. For example,

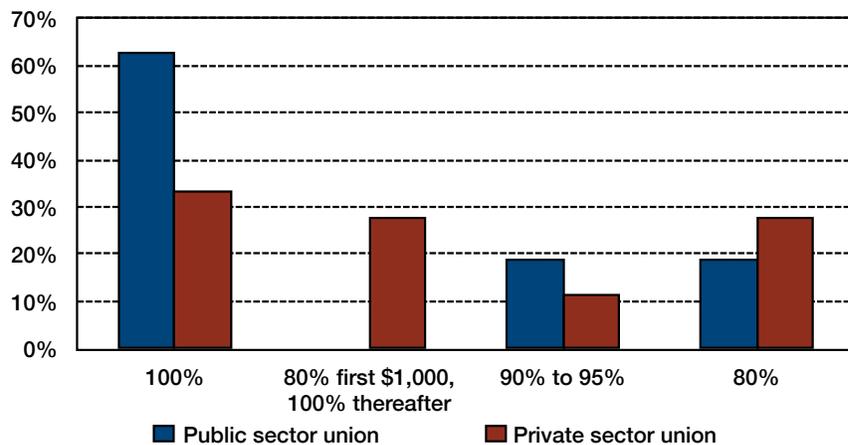
in response to large private-duty nursing or out-of-country claims, plans simply introduced limits or caps on how much the plan will pay.

For the *Apples to Apples* report, PBI surveyed plan provisions for 41 public and private sector multi-employer benefit plans representing about 80,000 members in a variety of sectors across Canada.<sup>1</sup> The database focused on noncorporate plans and gathered specific details related to private sector union multi-employer plans as distinct from public sector unions.

Benchmarking helps trustees and administrators keep an eye on what others are doing and understand and improve

**FIGURE**

**Prescription Drug Coverage**



best practices, which can foster a climate of innovation and sustainability. The survey sought to determine how plans stacked up against their peers but also delved a bit deeper into some general industry questions, such as: Have private sector union plans and trusts evolved or changed to the same extent as other plans? Are these programs keeping pace with corporate Canada, the public sector or other economic sectors? What are some of the underlying reasons associated with the plans’ designs today? To what extent has wellness been introduced to these plans? How will plans meet emerging and future challenges?

In recent years, the “steady state” approach to negotiating benefits and reviewing plans has been challenged on many fronts. The pace of technological change is accelerating, particularly in extended health care and its delivery. The one-size-fits-all approach may no longer be appropriate

within private sector multi-employer plans. Creating a new balance between common good and individual needs may send trustees back to the drawing board in search of acceptable and affordable solutions.

**How Are Multi-Employer Plans Different?**

The survey found:

- Most long-term disability (LTD) plans provide benefits until the age of 65. Some private sector multi-employer plans limit disability benefits to five years.
- All private sector multi-employer plans provided vision and hearing coverage. In the corporate sector, the trend has been to reduce coverage for hearing and vision benefits in favour of flexible health spending account options.
- Only 5% of private sector multi-employer plans had dispensing fee limits or caps<sup>2</sup> in their drug

plans, whereas the majority of corporate and public sector union plans in the PBI survey have introduced dispensing fee limits.

- Massage therapy was almost universally covered in private sector multi-employer plans, compared with 50% of all other plans in the survey.
- No private sector multi-employer plans in the survey had a health/wellness spending account in the plan, whereas almost 50% of the public sector union plans had health/wellness spending accounts for members.

**Prescription Drug Coverage**

More than half of the private sector multi-employer plans in the database had either 100% coverage for prescription drugs or a 20% copay percentage for the first \$1,000 of coverage with 100% coverage thereafter (Figure). The tilt toward 100% reimbursement was noticeably higher in public sector plans and lower among association plans in the database. Having the first layer of claim subject to a copayment can provide incentive for the member to be a wise consumer or to seek lower cost alternatives. Having the second layer of claim covered at 100% protects the individual from large catastrophic claims. However, fixed dollar amounts as a cost-containment feature will erode over time if left unchecked. All fixed dollar features within a plan become less effective as underlying costs increase with inflation. Plans with fixed dollar features can review these

amounts periodically through a “reasonable and customary study” of the plan’s benefit costs. This will ensure the intended purpose of the feature continues to serve the objectives it was intended to.

The insurance industry has protected itself against the threat of million-dollar drug claims by banding together and forming a reinsurance pool to spread the cost of rare and devastating claims. None of the private sector multi-employer plans in the PBI database are eligible for this pool. These plans must rely on their own finances and shield themselves through stop-loss coverage. The impact of this risk transfer has not surfaced in renewals, but it is only a matter of time.

### **Life Insurance and Long-Term Disability Coverage: The Challenge of One vs. Many**

Within private sector multi-employer union plans, life insurance and LTD benefits typically have been at lower levels than in the corporate sector. Traditionally, these benefits have been provided as flat amounts for all eligible members, and the study confirmed that continues to be the case.

A flat benefit level provides a common safety net for all members but falls short of full and adequate protection for those working more hours. The termination of benefits generally has not changed to reflect extended working years, leaving senior members and their families exposed to higher risk.

Today’s economy is taking its toll on disability benefits costs and complexity. The cost of LTD benefits rises when interest rates and investment returns are low. Job stress and business failures also rise during slack economic times. In response, some plans have no choice but to trim benefits. A five-year benefit duration disability benefit is one solution for addressing premium increases but has drawbacks. It may be entirely appropriate where turnover is high and careers are short. However, it may be counterbeneficial when long-term members find themselves at the end of the benefit rope.

Clearly, increasing benefits for all members may not be the answer and can be cost-prohibitive. In the corporate sector, employees have the option of purchasing additional layers of insurance. There may come a time when multi-employer plans will offer members the opportunity to top up life and disability coverage. By extension, plans may begin

providing core health care benefits alongside flexible features to allow more individual discretion and tailoring based on individual needs.

### **Health and Dental Coverage: More Breadth, Less Depth**

Extended health care and dental coverage within the private sector subset of multi-employer plans tend to be broad and comprehensive. This broad range of coverage generally would be seen as positive and beneficial to plan membership. However, there is a flip side to the breadth of coverage. When compared with other plans in the survey, the annual maximums, combined maximums or limits found on some of these benefits were somewhat lower than those found in corporate plans or public sector union plans. The broader coverage has come at the expense of lower benefit payments to members for specific benefits provided.

Trustees and administrators have had to be creative to stretch the benefit dollar. For example, it once was common to provide coverage for six or seven paramedical specialties, each with a separate limit. To accommodate member demand for newer types of treatment, such as massage therapy,

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**Group Benefits Plan Management**

Ann O’Neill, Editor. Advocis. 2012.

Visit [www.ifebp.org/books.asp?8925](http://www.ifebp.org/books.asp?8925) for more information.

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Lois C. Gottlieb and B. Bethune A. Whiston. CCH Canadian Limited. 2012.

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## Welfare vs. Wellness

Traditional multi-employer health plans have been provided through a *welfare* model. The focus is on providing security through insurancelike and strictly defined benefits to members. Plans are reactive and paternalistic, designed to make sure that when members are in need of health assistance, the plan is there to help them. These plans provide members important insurance coverage and security for health issues when they surface.

When a plan is designed with a focus toward *wellness*, the general philosophy of the plan is to move away from just providing help once conditions surface and toward disease or injury prevention. As such, the model increases its focus on empowering members to manage their own health needs. Wellness programs still provide insurance for catastrophic events, but a shift is made toward prevention rather than treatment.

### Takeaways

- A recent report from PBI Actuarial Consultants surveyed plan provisions for 41 public and private sector multi-employer benefit plans representing about 80,000 members in Canada.
- The report shows that the design and management of these plans have been relatively unchanged, but this approach is being challenged by factors such as technological change, changing demographics, escalating disability claims and increasing prescription drug costs.
- More than half of the private sector multi-employer plans in the database had either 100% coverage for prescription drugs or a 20% copay percentage for the first \$1,000 of coverage with 100% coverage thereafter.
- Life insurance and long-term disability benefits typically have been provided at lower levels in private sector multi-employer plans compared with the corporate sector.
- Extended health care and dental coverage in private sector multi-employer plans tend to be broad and comprehensive, but combined maximums or limits on some of the benefits are somewhat lower than corporate plans or public sector union plans.

paramedical service categories in benefit plans now are commonly bundled and ascribed a higher dollar limit for the bundle. The bundle may be for all paramedical services or for those that have a similar treatment application. This repackaging or bundling is now the norm for paramedical service coverage in private sector multi-employer plans.

Wellness continues to be discussed at great length within private sector multi-employer plans; however, change is slow. The public sector has made some shifts toward wellness with the offering of more flexible benefit options for members, including flex benefit programs and health spending accounts. The PBI survey and subsequent spot surveys have indicated that private multi-employer plans have increased the priority of wellness within their boards' strategic planning, but wellness does, for the most part, remain in the planning stage.

### What's Next?

Each plan will have its own signature combination of unique needs and common ground. A solution adopted by one group may not be appropriate for another group. Diligent review of membership demographics and claim data will be an increasingly important component of renewals and prebargaining explorations. Engaging members in shaping the plan will be as important as teaching them how to use the plan and other resources available in the community.

Against the rising tide of change, each plan will need to redefine itself. Some plans will continue to focus on health and welfare, with some degree of plan change likely while continuing to extend a uniform benefit to all. Some plans will opt to engage members in a focus on health and wellness, combining broader options with more responsibility on the member. (See sidebar.)

One thing about the future is certain: The status quo is under siege. In addition to the universal drivers of demographics and medical costs, the myriad of prescription drugs and biologics can literally break the bank. Members are actively and productively working beyond the age of 65 when many of their benefits terminate. Members want to understand their treatment options. Membership diversity requires a more personalized approach to benefits and health care.

Looking into how others are coping with change is informative. The database illustrates that the majority of plans

today have basic extended health care and dental coverage but very little flexibility to adjust the plans to meet the needs of membership. Perhaps as the many challenges on the horizon for plans continue to perplex trustees, there will be more divergence from the status quo. Daring to prognosticate, we expect the somewhat homogenous traditional private sector multi-employer plans will gradually evolve to more diverse and robust designs for different groups.

Whether a plan focuses on *welfare* or *wellness*, the changes required in order to meet current and future challenges will continue to lead to innovation. Tracking these changes for multi-employer plans across Canada allows plans to share their experiences and work toward providing stable and meaningful benefit programs for their members. 📍

### Endnotes

1. *Apples to Apples*, PBI Actuarial Consultants, 2014. Available at [www.pbiactuarial.ca/wp-content/uploads/2014/07/Apples-to-Apples-2013-Benchmark-Report.pdf](http://www.pbiactuarial.ca/wp-content/uploads/2014/07/Apples-to-Apples-2013-Benchmark-Report.pdf).

2. The dispensing fee for filling a prescription is separate from the ingredient cost in all provinces except Quebec. Pharmacists receive a dispensing fee for filling prescriptions. This fee covers services such as talking about treatment with the patient, maintaining and checking patient records, providing drug information to doctors, dispensing drugs, stocking medications and general operating costs.

### BIOS

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