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OK, let’s face it. No one ever says “Things are going really well—We should change our pension or benefit plan.” Plan sponsors usually think about plan changes when they are worried costs are getting out of control. Another reason for action may be changes in participant needs or demands. Changing legislation can also spur adjustments.

Sponsors that track the utilization and costs of their pension and benefit plan components and manage them on an ongoing basis are less likely to be faced with situations in which they must make hasty or extensive design changes. This is especially true for health and dental benefits. When contemplating benefit plan changes, the best approach is to step back and think through the change process and the implications of the change. Consider how a building is constructed—it isn’t just thrown together. Plans and budgets are drawn up. Experts are hired to do the work. Why should constructing a pension or benefit plan be any different?

**Who and What Influences Plan Design?**

Pension and benefit plans do not exist in a vacuum. Many environmental factors influence plan design.

- **Legislation.** All pension and benefit plans must satisfy existing legislation and regulations. This includes provincial and federal pension legislation, insurance laws, human rights protections, workers’ compensation statutes and employment standards acts. Plan sponsors spend a good deal of time ensuring that their plans meet all legal requirements.
- **Taxation.** Most plans provide tax-deferred or tax-free compensation to beneficiaries. When tax laws change, plan redesign and funding mechanisms must be examined to ensure continued tax efficiencies.
- **Government.** Changes in government programs and policies often lead to the shift of previously covered public benefits (and their costs) to private plans. Examples include delisting of certain practitioners and making the government the second payer for senior drug plans. It should not be assumed that all government program changes negatively affect private plans. There have been occasions when such changes have helped plan sponsors and participants. Consider the recent provincial government restrictions on generic drug pricing, which have led to reduced drug costs for most private plans. As governments adapt to employers’ desire to transfer pension risk to plan members, new pension plans may become available.
- **Market events.** Inflation, interest rates and investments heavily influence retirement plan design. High inflation, low investment return and volatile markets are all examples of factors that can lead to benefit plan cost increases.
- **Competitive pressures.** Pensions and benefits are part of an individual’s total compensation package. As such, they can be a deciding factor when employers/unions attempt to attract and retain workers/members. Plan features are often influenced by what other plans are providing in an industry or geographic region. Comparisons, however, can be difficult. For example, to compare a contributory pension plan with a noncontributory plan, the value of employee contributions must be factored in.
- **Provider practices.** Health care providers—dentists, pharmacists, chiropractors, optometrists, dental hygienists, etc.—also influence plan design with the treatments they choose for patients and the cost of
the care they provide. Consider physicians who prefer to prescribe the newest drugs on the market—This is likely to increase the cost of health benefits. One cannot ignore that many of these providers are running for-profit businesses.

All of the above are external influences. Plans also have many internal influences:

- **Costs.** The overriding internal influence on plan design is cost. Plans must be designed so benefit costs are reasonable and affordable. Excessive costs may force benefit reductions or changes in cost sharing between the plan sponsor and participants.
- **Participant needs and wants.** Participants expect plans to provide the benefits that are most important to them. What participants value and what they are most likely to need are often reflected in participant demographics such as gender, age, education, occupation and income. Hence, the demographic profile of plan participants has a significant impact on the cost of benefits. For example, a pension plan with a large proportion of older members is more costly than a pension plan with the same benefits but younger members. Participants also expect plans to adapt with advances in technology, evolving social norms, etc.
- **Benefit philosophy.** Each employer, union leader and trustee has his or her own view of how a benefit plan should be structured and financially managed. Changes in leadership can lead to changes in plan priorities and plan design features. With multi-employer plans, there may even be conflicting philosophies among stakeholders. While the union may prefer a comprehensive benefits package that requires plan participants to pay very little for their benefits, employers may want a basic plan that keeps the cost of the benefits as low as possible, with members bearing most of the cost. When pension plan changes are necessary to address funding issues, trustees must consider how the corrective action will be spread amongst plan members. Who will be protected—retirees, members eligible to retire, younger workers, etc.?
- **History.** Pension plans are long-term vehicles. Decisions made in the past typically become part of the plan for the rest of the plan’s life. Participants who have historically received annual benefit improvements will probably expect them in the future. Any past benefit cutbacks may have been implemented with a promise to restore the benefits as soon as feasible. Participants expect these promises be fulfilled.

### Exhibit 2.1

**Steps in the Plan Design Process**

**Step 1 State Objectives**
- Define philosophy and objectives.
- Establish success criteria.
- Gather data.

**Step 2 Analyse**
- Conduct “gap” analysis.
- Review administrative requirements and provider capabilities.
- Seek member input and determine key communication strategies and messages.

**Step 3 Develop**
- Develop plan design details, including delivery, cost control and influencers.
- Establish funding/financing approach.
- Test with members and obtain approval from leadership.

**Step 4 Implement**
- Educate members regarding the new plan design.
- Prepare and review required plan documents.

**Step 5 Evaluate**
- Conduct post-project review.
- Gauge member response to new program.
- Identify issues for ongoing communications.
Step 1: State Objectives

Philosophy and Objectives

Developing a philosophy—in other words, stating organizational principles or values—is one of the most important steps in the plan design process. Without realizing it, many organizations may already have a philosophy but have not articulated or documented it. An organization’s philosophy is the foundation upon which it is decided what a plan covers, who is covered and when, and what the plan cost structure will be. The latter involves making choices on who pays for what and how much. The input of senior leadership should be sought regarding the organization’s philosophy and how it ties in with total compensation. Leadership should also be asked to share their perceptions of the plan and how they think plan members view the plan.

At the beginning of the plan design process, it is also essential to ask “What are the objectives of the plan?” Are they to provide:
- Tax-effective compensation?
- Long-term financial and health protection?
- An advantage of union membership?
- Flexibility?
- All of the above?

When the features of a pension plan are being considered, ancillary benefits, such as an early retirement subsidy and a death benefit, must also be contemplated. Ancillary benefits increase the employer’s cost. For multi-employer plans, ancillary benefits may also yield lower pension accruals.

Other issues to consider with the design of a pension and benefit plan include:
- Will everyone be treated the same—Or will the plan differentiate by length of service, family status, working status, retirement and disability status?
- How much risk will the plan take and how much will members take?
- How will different generations of members be treated? For example, will retired member coverage be subsidized by those actively working?

Success Criteria

Establishing criteria for success is another element that occurs early in the design process. More specifically, how will you know you have accomplished what you have set out to do? Common metrics include better member financial security, increased member understanding of and appreciation for the program, cost reduction, more flexibility and contribution rate stability.

Gathering Data

In this step, financial data and other information required for the next step are also gathered. Information on member demographics is required for all pension and benefit plans. For pension plans, additional information about compensation levels and risk tolerances of both members and employers should be reviewed. In respect of benefit plans, past detailed claims experience, current contractual terms and investment policies all should be collected and reviewed.

Step 2: Analyse

Gap Analysis

After all pertinent data has been reviewed, it is important to look for any “gaps” that exist between the organizational philosophy and current plan design that require alignment of plan design. Assume an organization’s philosophy states: “Our employees’ intellectual capital is our greatest asset.” If this organization’s plan is one-size-fits-all, inflexible and paternalistic, it is unlikely that it meets the needs of a highly skilled workforce. It becomes clear the gap between what is said and what is actually being done must be closed.

Administrative and Provider Needs

During the plan design process, one must investigate what is required and what is possible with respect to administration and provider services and, moreover, whether these needs can be fulfilled at a reasonable cost. This is not to suggest that administration should drive the design, but it should be a consideration. Unusual design features that tie a plan sponsor to a certain provider because no other provider can fulfill such a need should be avoided. An administrative burden may also outweigh the advantages of a benefit feature when legal requirements vary from one jurisdiction to another. This is especially true for pension plans with members in more than one jurisdiction.

Member Input

No plan should be designed in a vacuum that ignores the persons being served. Getting member feedback is essential. Most members appreciate being asked their opinions and providing input regarding something they value. The benefits of obtaining member feedback far outweigh the cost and time required to do so:
- Quality decision making. Quality input and a broader perspective can challenge traditional thinking and spark creativity.
• Greater member understanding and satisfaction. Member involvement in shaping a plan increases the likelihood members will be satisfied with the final product.

• Successful implementation. When members are committed to a project, they are more likely to take ownership of the plan’s design, which increases the chance there will be success.

• Good governance. Open communication and transparency versus leadership just acting on what they think members want and value are key to good governance.

A caveat—Consulting with members just to say it was done can be very harmful to the member/plan sponsor relationship. When members are included in the process, it must be because leadership is willing to consider member points of view and make changes based on the opinions expressed.

Generally, when members are consulted, some education is required. This educational effort undoubtedly helps them become informed consumers.

Step 3: Develop

Plan Details

At this stage, the types of plan features and changes start to become self-evident or, at least, the range of options narrows. Cost projections ensure the options being considered meet established financial criteria. For example, pension plans that provide a bridge benefit related to Old Age Security (OAS) benefits may reconsider this benefit given the recent change in the OAS rules that increase the eligibility age from 65 to 67.

Considerations in developing plan details:

• **Which delivery systems meet or reinforce the objectives of the benefit plan?** Plan sponsors should make sure an appropriate benefit delivery system is in place. Traditional benefit plans are easier to administer, but should ease of administration control plan design? There are relatively easy ways to provide flexibility such as optional or voluntary benefits or health care spending accounts.

To control costs, plan sponsors may consider arranging for preferred providers—providers with whom the sponsor has negotiated preferential terms for members. For example, a sponsor may negotiate with a pharmacy network to provide drugs with a lower dispensing fee and lower drug cost markups. Arrangements could also be made with a dental network, a health products manufacturer or an on-site provider (e.g., dentist or physiotherapist).

• **Building cost control into design.** Generally, the inclusion of cost-control mechanisms is to provide a benefits package as cost-efficiently as possible. There are a number of different tactics that can help achieve this objective. Unfortunately, a “cost-control tool kit” is the place where many sponsors begin. Simply introducing cost controls without looking at the broader picture is shortsighted. There is nothing wrong with using such tools as part of a larger thought-out plan, but starting with cost cutting is like building the roof of a house with no walls or foundation.

While some cost-cutting strategies can be effective, the measurement of direct savings may be difficult. It is important to realize there is no “silver bullet” for cost control. Typically, a number of measures should be introduced. Each provides a modest level of cost control, but combined the impact is significant.

The following three approaches are relatively blunt instruments that reduce the tax effectiveness of a plan for members who are forced to pay with after-tax cash. On the other hand, these approaches are easy to implement and provide immediate cost savings to the plan.

1. **Deductible and coinsurance.** Members pay a portion of a claim directly. A deductible requires the member pay a first dollar amount of the claim (e.g., the first $100). Coinsurance requires the member to pay a specified percentage of a claim (e.g., 10%).

2. **Cap.** A cap is the maximum amount a plan will pay for a specific benefit. For example, a limit might be set on the fee paid pharmacists for dispensing drugs.

3. **Benefits cut.** A plan can save money by covering fewer or less of existing services. These additional measures require more research and planning to implement, but the results are worth the effort.

• **Preferred providers.** This strategy is used to control costs and provide members with greater access to providers.

• **Preauthorization.** This technique is commonly used for drugs, mobility equipment, private nursing and high-cost health care services. The International Foundation’s Employee Benefits Survey: U.S. and Canada 2011 showed very little use of this plan management tool. This is a missed opportunity, as preauthorization
Designing Employee Pension and Benefit Programs

gives members access to the services they need but can also ensure evidence-based guidelines are used to protect both the plan and its members from unnecessary costs and abuse.

- **Managed formularies.** Offered by pharmacy benefit managers (PBMs), drug formularies are designed by internal or external pharmacy teams to promote the use of lower cost drug therapies, such as generics. Members receive a higher reimbursement for lower cost but effective therapies.

- **Mail-order drugs.** Ordering drugs from a mail-order pharmacy can provide maintenance medications at a lower cost than if the medications were picked up from a local pharmacy. The plan benefits from the provision of 90-day drug supplies that reduce the number of drug dispensing fees paid.

Other strategies that may, over the long term, slow down the pace of rising costs include:

- **On-site practitioner services.** Having on-site therapists, dentists, etc., is typically more suited to large, centralized organizations. Pharmacy/dental networks and pharmacy chains are now more active. Many are trying to establish financial arrangements with PBMs and also individual clients to attract more customers into their retail operations.

- **Wellness/disability management.** Developing wellness and disability programs for hard-to-reach members has proved over the long term to reduce the costs of drug and disability programs. For most multi-employer arrangements, wellness and disability management initiatives are difficult to establish because members are not in a single or consistent location. Trustees need to overcome this challenge to operate such programs successfully.

- **Influencing Behaviour.** Influencing another person’s behaviour can be a difficult thing to do. Anyone who has tried to influence a teenager (or a two-year-old) knows this intuitively. Likewise, influencing behaviour strictly through plan design is difficult, but not impossible. Perhaps the most obvious example of linking benefit plan design and behaviour is the structure of disability plans. Lower income replacement and shorter durations of payments are often used to encourage disability claimants to return to work. More recently, plans are using incentives (rather than wholesale plan reductions) to change behaviour that will save a plan money. For example, using multi-tiered coinsurance under a drug plan can direct plan members to use less expensive generics (i.e., the plan reimburses at a higher percentage for generics). Financial incentives are common; however, more intrinsic rewards can also motivate members toward preferred behaviour. For example, once members understand that claim expenses are really paid by their own contributions and not by some big, wealthy insurance company, they may be more willing to use the plan in a responsible way.

Under a pension plan, the existence of subsidized early retirement benefits encourages members to retire early. This is often desirable as it helps employers encourage older workers to leave while providing opportunities for younger workers. In addition, multi-employer pension plans often provide subsidized early retirement benefits that recognize the physical requirements of a job. Thus, benefits can also help maintain jobsite safety by allowing members to retire before succumbing to major injuries.

### Funding/Financing

In instances where a plan redesign process was instigated because current funding was insufficient, it is important for plan sponsors to ensure they’ve done some mid- to longer term analysis of the plan’s projected costs. As noted below, change is difficult. As a result, it is preferable to eliminate the need for constant change. That is to say, plan sponsors should be sure plan changes have longevity within their funding limitations.

Whenever plan changes are contemplated, assessing whether a plan’s current financing arrangements are still appropriate is important. For example, if a large long-term disability (LTD) plan that is financed on a refund accounting basis changes the premium cost-sharing basis from 100% employer-paid to 100% member-paid, a change to a nonrefund accounting basis is appropriate, if not necessary. Refund arrangements, where plan surpluses or deficits are accounted for, are often inappropriate for member-paid benefits. When deficits accrue, it is extremely difficult to “collect” the deficit from plan members. Plan sponsors cannot pay the deficit, as this affects the tax status of the LTD benefit.

### Member Testing

This is a step that many sponsors omit during the redesign of a plan. There is no harm in plan sponsors testing to see if they got it right; people do this all the time in real life. Cooks don’t serve meals without tasting the product, electricians don’t call the safety authority for an inspection before testing all the outlets and switches—It’s just common sense. Again, this does not have to be onerous. Creating a
“test team” of the membership’s official and unofficial leaders is a good place to test ideas.

**Step 4: Implement**

There are some tactics plans can use to help smooth the implementation of plan changes.

**Member Education**

Developing and implementing a plan is a major change for an organization. It has been said: “The only people who welcome change are wet babies. For everyone else, it’s a very uncomfortable process.” If a plan is designed properly, it doesn’t have to be uncomfortable. Plan sponsors should allow ample time to communicate . . . and communicate frequently. No one wants plan members to feel they are being railroaded into something that is good for the organization but not for them. This misstep has derailed more than a few good intentions.

Member communication is an extremely important component of any successful change or implementation of a new program. If the new program is to meet plan sponsor objectives, members must be fully equipped to understand how it works (including the reasons prompting the change). When it comes to something as sensitive as changes to pensions and benefits, effective communication is about more than the delivery of information, no matter how well conceived the changes are or how nicely they are packaged.

**Document Review**

Timely documentation of any changes made in a plan’s legal papers and member communications is an essential part of good governance for several reasons:

- It allows plan sponsors to determine if the claims payer has interpreted the change correctly—resulting in members being reimbursed as intended.
- In the event a member challenges claims handling, the sponsor has documented the plan’s intent.
- Regulators require it for pension plans.

**Step 5: Evaluate**

Evaluation is an ongoing process of measuring and testing. It involves assessing how well a new plan fits with organizational philosophy, as well as the identified purpose and objectives. In essence, plan sponsors should ask themselves “How well did we do?”

**Post-Plan Change Review**

Winston Churchill said “All men make mistakes, but only wise men learn from their mistakes.” Conducting a “postmortem” or postchange review and gathering member responses are important steps in helping plan sponsors understand the impact of changes and, in particular, whether they achieved success as they defined it. It is recommended at this stage that plan sponsors assess member understanding of the new plan provisions, the rationale behind the change and if member impressions of plan value have changed. A good assessment tool is a survey. Over a period of time, plan experience should also be monitored to determine if member behaviours have changed and whether the impact of the changes is readily seen in the finances. In the spirit of transparency, the results of the survey should be shared with members. Finally, plan sponsors should use survey results to determine where ongoing communication efforts should be targeted.

As demonstrated, there are many factors to consider when designing or redesigning a pension or benefit plan. Starting with establishing objectives and following a proven change process will help to ensure that the changes are targeted, valued and affordable.