

More employers are having



A generation ago, employee benefits were a tightly controlled feature of most American companies. Human resource departments guarded and protected their programs as if their corporate identity was wrapped up in the package — perhaps because it was.

But today that is rapidly changing. Specifically, HR officers are changing their attitudes toward their benefits programs, signaling a shift in benefits management. The tipping point is at hand.

In years past, HR officers had strong attitudes toward all benefits: retirement, medical, life, etc. Three attitudes are particularly relevant here.

First, the benefits designs were crafted by the company to give it competitive advantages in recruiting and retaining employees (think of the “secret sauce” recipes companies built into their defined benefit retirement plans — combinations of years of service, age, final five years income, etc.). These designs were differentiators, focused to achieve specific corporate goals of attracting and retaining the right people.

Second, benefits were predetermined at the corporate level with only minor variations allowed from employee to employee.

And, third, if the great majority of employees didn't need or want a given benefit, it couldn't be valuable.

The retirement world changed first, altering each of those three attitudes one by one. The drivers of change, as we will discuss in a future article, include the four “Cs”: commoditization (and resulting personalization), competition, cost and control. Today, the resulting retirement landscape is dominated by plans — defined contribution plans such as 401(k)s — that have many options, any one of which might be indistinguishable from a competitor's option. (How different is company A's 401(k) Far Eastern mid-cap fund from Company B's 401k Far Eastern mid-cap fund?) And each option may be selected by only a handful of employees as each one customizes the plan to his or her own situation.

a change of mind



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Think about these changes. Today, the company — and the HR staff — no longer “own” the plan designs. At one level, the company’s plan might look very similar to the plan of its competitors. Each has a 401(k) with dozens and dozens of investment options. The differentiator becomes the matching contribution. That’s worth restating: The employer’s matching contribution is what differentiates the plan from competitor plans. It’s not the plan design. Within the 401(k), the range of choices has exploded; as the number of funding options increase, the ability of the plan design to serve as a differentiator decreases. And maybe most importantly the control over those choices now resides at the employee level.

In short, on the retirement side, HR has become the gatekeeper. No longer designing retirement plans, but opening the door for third-party designers and their employee clients, the company has become a source of funding rather than a source of plan design control.

The same is now happening on the life and health benefits side. Employees are being given more choices: multiple medical plans; buy-up and contributory plans; and of course, voluntary offerings. And as the number of options explodes, the ability of the overall plan to differentiate itself based on its contents will be diminished. Everyone will offer everything (or so it will seem).

Just 10 years ago, people laughed at the idea of pet insurance or legal insurance. (You would hear, “Why would we offer something that only 10 percent of our workers are interested in?”) But today, most middle-income workers depend on their employer’s benefits plan. That’s where most middle-Americans purchase the coverages and financial products they need and want. Today you hear, “If 10 percent of our workers want a certain voluntary coverage, why shouldn’t we offer it?”

That is the great mind-set change — and it’s happening now. Companies are moving into different roles on the retirement side: serving as the gatekeeper and as

a partial source of funding. But they are withdrawing from the role of deciding what products their employees should buy. The increasing complexity from this change will be the greatest challenge for employers, brokers and carriers, just as it is happening on the retirement side. How will we provide meaningful, effective advice to our employees; at what price; and who will pay the cost?

As that mind-set continues to change, benefit programs will become far more diverse and employees will have greater choice and freedom to tailor the offerings to their circumstances — which in reality is the greatest employee benefit of all.

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