COVER STORY

# CUSTOM ORDER

How can group advisors best serve plan sponsors in an era of increased costs? **Alison MacAlpine** reports on the emerging trends in group health, insurance, and retirement plans

In the fall of 2014, Jamie Meldrum bundled himself into his father's warmest jacket and headed north toward the Arctic to meet with clients of their mutual benefits advisory practice, Meldrum Horne & Associates in Ottawa. It was a tough time for a business trip. Meldrum and his partner Michael Horne were in the midst of enacting their company's emergency transition plan following the death of Meldrum's dad, Bob, just three weeks earlier.

As Meldrum struggled in vain to fit his father's special northern carry-on under the airplane seat in front of him, it became crystal clear some things would have to change if he was going to make the business his own. But one fundamental principle embraced by his father would remain at the core of the practice: work 10 steps ahead.

To succeed in the market of employee benefits and group retirement, Meldrum says advisors need to understand how things are changing. That means staying on top of group health, insurance, and retirement plan trends, and customizing plans to suit each plan sponsor's needs. "Our No. 1 priority is to represent the client's interests. If you're not staying on top of [trends], you're not doing that," emphasizes Meldrum, now a 17-year veteran in group benefits.

## TREND 1: COST CONTAINMENT KEEPS PLANS SUSTAINABLE

The Conference Board of Canada calculates that plan sponsors pay an average of $8,330 per full-time equivalent employee for health benefits programs. "That's a lot of money, and the cost of benefits is expected to rise on average six per cent a year," says Diane Dupuis, president of The Dupuis Langen Group in Richmond, B.C. "Your claims today are your premiums tomorrow."

As a result, in parts of Canada at least, plans are cutting back. For example, Glenn Kehrer, CEBS, CFP, at Group Benefits Consulting of Canada Inc. in Winnipeg, says some of his Alberta accounts, struggling in a tough economy, are trimming Health Spending Accounts, considering co-insurance to cost-share with employees, and even removing such benefits as vision care altogether to save money.

To keep plans sustainable, advisors are having to become forceful advocates for their clients. "We try to establish what we think is reasonable as the price, and argue on our client's behalf to try to get that rate," says Kehrer. He makes sure he goes into every negotiation with a strong business case based on actuarial tables and an argument founded on data.

But cost containment can be an uphill battle. Drug costs are

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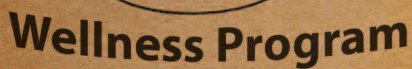
Retirement Plan


Wellness Program

Healthcare Spending
Account

the fastest-growing component of healthcare costs in benefit plans, according to Jennifer Gregory, Manulife's national vice-president, distribution support and strategic alliances, group benefits and retirement solutions. And the challenge isn't just that there are so many expensive drugs coming down the pipeline; it's that more and more of the pricey biologic and specialty drugs are designed to treat common conditions like high cholesterol. In this environment, Gregory says traditional solutions — moving from brand name to generic coverage or 100 per cent to 80 per cent coverage — aren't enough anymore.

So advisors are getting creative. Stop-loss protection can keep drug costs under a set dollar maximum for a plan sponsor, but Kehrer says stop-loss fees have been increasing substantially. "We're doing a lot of work with preferred providers," he says, since pharmacy fees vary widely. "If you don't have a relationship with a pharmacy and you're just getting a 90-day supply of whatever medication, why pay 20 per cent more when you don't have to?"

Dupuis Langen's approach has been to "challenge the status quo, not just focus on reducing price." The firm digs deeper to analyze plan design with solutions that provide innovation, cost containment, and most important, future sustainability of benefit programs. For example, Dupuis Langen offers programs for employees on maintenance drugs. There are solutions to tackle the distribution of drugs at a lower cost and with lower dispensing fees, but also to control the pharmacy drug markup. Dupuis has seen drug markup costs as high as 700 per cent and offers solutions that cap the markup at 10 per cent. "By implementing these strategies, we can save an organization, as an example, four per cent on their drug plan right off the top, and provide them a rebate at the end of the year of another four per cent of their total drug spend," she says.

This year, Dupuis Langen has started offering a new drug cost containment program that educates companies about the shift in spending toward high-cost specialty drugs. "Although these drugs only affect about one or two per cent of plan members, the effect on benefit plans is catastrophic," Dupuis says.

The firm has solutions to protect the sustainability of employer-sponsored drug plans by eliminating the risk that these drugs may drain the funds in the plan. "If a drug is going to cost more than $10,000, it will not be covered by the employer-sponsored drug plan," Dupuis explains, noting that there will be coordination in British Columbia with the universal Pharmacare program. Manitoba and Saskatchewan also have universal Pharmacare programs.

## TREND 2: WELLNESS AND MENTAL HEALTH TOP THE AGENDA

Of course, one way to contain costs is to prevent employees from getting sick in the first place. "Plan members are really expecting their employers to be partners in their health. They're looking for greater support and focus on prevention of disease, rather than just 'we'll pay for treatments,'" says Shelley Sjoberg, Great-West Life's director of planning and field support, group marketing.

That may ramp up inflation in other areas of a health benefits plan, warns Douglas Hynek, principal at Hynek Financial Group in Burlington, Ont. As employees embrace wellness, he has watched his clients' claims for wellness practitioners, such as massage therapists and physiotherapists, rise. Plan sponsors and their advisors have to balance that short-term expense against potential long-term cost containment, as more employees benefit from healthcare and fewer employees require sick care.

Meanwhile, the definition of wellness is expanding to include physical, mental, and financial wellness, and carriers are increasingly merging disability management programs with wellness. "Disability costs continue to increase across our industry, and what's really driving change today is the need to move to a more integrated workplace wellness strategy and disability management program," emphasizes Sjoberg. It's critical, she adds, to "ensure that there is a full spectrum of services that support prevention, address disability in its very early stages, and then manage it" proactively.

The challenge, says Meldrum, is that while everyone understands wellness initiatives and mental health are important, there is still a gap in funding for small employers. It comes down to a cost-benefit analysis. And Meldrum feels it's also critical for advisors to provide perspective to clients by explaining the complex in simple language.

### A Receptive Millennial Market

**This may come as a surprise, but Millennial small business owners are significantly more likely than Baby Boomer owners to offer group health and dental benefits (58 per cent versus 38 per cent), group life insurance (53 per cent versus 40 per cent), group disability insurance (51 per cent versus 37 per cent), and a group retirement plan (44 per cent versus 20 per cent), according to the 2016 Manulife Small Business Research Report. Have you shaken hands with a Millennial business owner today?**

## TREND 3: MILLENNIALS REJECT ONE-SIZE-FITS-ALL

Workforces have never been homogeneous, but with two huge cohorts — Baby Boomers and Millennials — as well as Generation X at work at the same time, employers are looking for solutions that appeal to all ages. That's one reason Marilee Mark, Sun Life's vice-president, product and integrated health solutions for group benefits, says plan sponsor interest is shifting toward components that offer choice and flexibility. "The larger an employer is, the more likely they are to offer a flex benefit plan of some sort [with] more optional benefits that employees can purchase," says Mark.

Rob Crowder, president, The Benefits Trust, in Vaughan, Ont., adds that benefit plans "are changing to more of a hybrid type of plan design where there are some fixed benefits in place, but then a lot of money is being allocated to Healthcare Spending Accounts." Crowder points out that the amount deposited into a Healthcare Spending Account can be tied to years of service (to reward longevity), income (to reward value to the business), or both. "It's the combination of having the appropriate insurance protection in place, and then the appropriate plan design for the

more transactional-based benefits," he says. Working out the optimal mix for a specific client is clearly one of an advisor's most important responsibilities.

Healthcare Spending Accounts (a non-taxable benefit) can only be used to pay for services that qualify for the Canada Revenue Agency's Medical Expense Tax Credit. Taxable wellness or lifestyle accounts can help employees pay for a wider range of costs — from gym memberships to yoga classes to child care — and they're an emerging solution for companies that want to maximize employee choice.

Jamie Meldrum, CFP, CEBS

That said, Meldrum cautions against complying with Millennial preferences too much in plan design. "Millennials don't yet see the benefits of long-term disability or drug coverage [and] so they want things like gym memberships," he says. "However, at the end of the day, if you go back to the purpose of the plan, which is part of an HR policy designed to protect members and their families in the event they become sick or disabled or they die, altering an HR plan to make room for a gym membership is short-sighted. The Millennial — or anybody in your organization — who suffers a critical illness or a disability and is unable to work for the next five or 10 years will still need those benefits.

Meldrum feels that the key to engaging Millennials lies more in delivering and communicating the plan in ways they understand.

## TREND 4: RETIREMENT PLANS BECOME A "MUST-HAVE"

As wellness expands to encompass financial health, small and medium-sized plan sponsors are taking retirement plans more seriously, says Hynek.

"What has shifted from five, 10 years ago is that pension plans were always on the table, always available, but nowadays employers feel that there is a *need* to provide a pension plan for their employees," confirms Alain Parent, Assumption Life's associate vice-president, group insurance and pensions. He says that even companies without the budget to contribute want a structure in place to promote saving for retirement and educate employees.

Not all types of retirement plans are on the upswing, however. "We're not seeing a lot of Defined Contribution [Registered] Pension Plans going in," observes Kehrer. He attributes that to the elimination of vesting by provincial legislators. Advisors can solve the vesting challenge, however. To protect plan sponsors against retirement plan costs for employees who leave the company after a short time, Kehrer suggests plan sponsors match employee contributions to a group Registered Retirement Savings Plan (RRSP) in a Deferred Profit Sharing Plan (DPSP) with two-year vesting.

With an in-depth understanding of the ins and outs of all the available saving vehicles, advisors can clearly add value with this type of strategic plan design. And there's another area of retirement benefits that cries out for an advisor's expertise: employees with a capital accumulation plan need a strategy to turn assets into income.

Meldrum already has team members dedicated to providing one-on-one transition support to plan members starting five years out from retirement — and he's keeping a close watch on product development in this area. "There will be funds being made available on various platforms in the near future that will focus more on how people can draw funds at retirement," he predicts.

### What Does CRM2 Mean for Benefits?

**Jamie Meldrum sees CRM2 as an opportunity for advisors who specialize in retirement benefits, because highlighting retail fees makes the value of a cost-effective retirement plan clearer to employees. "As we move through potential trailer or commission banning," he adds, "we're going to see robo-advisors, and anybody with less than $250,000 may ultimately end up without advice outside of a group retirement plan." Access to financial advice may become one of the most prized benefits employers can offer to their employees.**

## A CHANGING ROLE FOR ADVISORS

Spelling out the value of benefits to employees is becoming increasingly important, adds Dupuis. "We have one company out here, the total cost of their benefit plan was 40 per cent with the pension included." To make sure employees know what they're getting, she sends an annual total rewards statement to clients with as few as 15 employees. It may be more work, but the extra effort is rewarding.

"Go back 30 years, benefit plans were very simple and they represented a very small amount on a company's balance sheet," Dupuis says. "Now it's a big expense, and with some companies an employee's benefits plus salary could result in a cost of 20 per cent or more of their annual salary. And with that comes [the need for] serious people — this is what they do for a living — helping employers focus on what they need to focus on to have cost containment for the future so that they can offer benefit plans forever."

The bottom line for Meldrum is that it's critical for advisors to invest in both infrastructure and expertise if they want to succeed in the benefits business. He describes the role of today's benefits advisor this way: "We need to educate our clients and make sure they are aware of the dangers that lurk. We put plans in place that mitigate risks by shifting that risk over to the insurance company. And when things go wrong, we join our clients at the table and use our expertise in benefits to represent them."

Since that business trip back in 2014, Meldrum has switched carry-on bags. But he's still very much focused on customization and working 10 steps ahead, and he still squeezes himself into his father's weatherproof coat every time he visits clients in the Arctic. F

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