Voluntary benefits are a way for employers to offer additional benefits without incurring additional costs. Employees can use pretax dollars to pay for the benefits, which are likely to cost less than if employees purchased them on their own. This article provides a brief history of voluntary benefits, the advantages of offering them and some characteristics to look for in a benefits provider.

Voluntary Benefits Can Expand Options

by Erich Sternberg

Voluntary benefits may become part of every employer's vocabulary in 2009. The economy has forced companies nationwide to trim budgets and make tough choices to try to both increase employee productivity and control costs. According to a recent survey by global outplacement and business coaching firm Challenger, Gray & Christmas, few companies remain unscathed, with 92% initiating some type of cost cutting. Many are exploring offering voluntary benefits. (See the figure.)

Voluntary benefits allow employers to expand benefit options without increasing costs. Because they are offered on a group basis through the employer, employees pay a lower rate than they would if the benefits were purchased individually. According to Eastbridge's Voluntary Industry Confidence Index, a 2008 study, respondents including carriers, brokers and vendors said that employee enthusiasm about voluntary benefits will increase as compared to the 2007 survey (67% compared to 63%). However, 14% expect less enthusiasm.

First introduced in the 1950s, voluntary benefits originally were called *payroll-deduction* or *salary savings plans*. Premiums for many voluntary products can be funded with pretax payroll dollars, which can make the plans worthwhile for both enrollees and employers.

According to Voluntary.com, sales originally were largely confined to individually owned plans through insurance brokers and agents. However, in the early 1990s, several leading group market carriers became involved in *worksite marketing*—another term often used to describe voluntary benefits. Today, these plans cover a variety of areas including dental and vision, as well as life, disability and even health insurance.

Since employers do not contribute toward the cost of voluntary plans, these programs are typically exempt from the requirements and liabilities associated with traditional benefit plans and the Employee Retirement Income Security Act (ERISA). The exemption from ERISA has been the subject of much debate and even litigation. When contemplating this question, there is no simple answer. Having an expert employee benefits advisor and/or legal counsel clarify any concerns and help manage the implementation process is absolutely essential.

While voluntary benefits have been popular in some regions for decades, employers in other regions have begun looking more seriously at them and have justifiable concerns about offering them. Employers will incur real administrative costs relating to installing and maintaining the plans. Further, providing enrollment access and education to employees is viewed by some as a distraction from their core business operations. Some may worry that voluntary plans will be perceived as a way for the employer to shift benefit costs to employees.

However, voluntary programs can supplement an employer's core offering and increase employee satisfaction and retention. As with any business decision, the return on investment must be clear.

According to a recent survey, 40% of employers across the country now offer voluntary dental insurance, 39% offer some form of voluntary health insurance and 37% make available voluntary vision insurance.[1]

Voluntary benefits give employees in businesses large and small access to a wider variety of benefits than they might have had otherwise. In many cases, benefits packages are chosen based on employees' individual needs. Most plan underwriters will work with employers to create customized plan offerings that fit employee needs specifically, whether it is the need for benefit riders, such as hearing, or lower costs.

An employer must decide whether it prefers to offer as many benefits as possible or use a more tailored approach involving fewer benefits. According to the Chartered Institute of Personnel and Development (CIPD), a typical benefits package might offer up to ten benefits on a voluntary basis, with some ranging up to around 25 options.

Employers are not required to contribute to monthly premium costs in the voluntary arena. However, many underwriters can determine rates based on the number of employees who choose to enroll, and employers may elect to offset a portion of the cost for the employees. Premium rates may be reduced as participation in a plan increases. Insurance carriers often offer enrollment support services including preparation of prefilled enrollment materials with employee information, as well as electronic enrollment, which can lead to higher participation levels.

According to the 2008 Workplace Forecast by the Society for Human Resource Management, nearly 60% of employees identified benefits as "very important" in a list of the most important factors in employee satisfaction. With that in mind, attitudes of employers toward benefits have shifted from "my employees may be interested" to "my employees need them." Additionally, employees now more than ever are expressing an interest in understanding their workplace benefits and the types of benefits offered by their employers. Voluntary benefits can help employers provide comprehensive benefit packages.

Employees are increasingly concerned about their families' financial security. Life insurance and disability income insurance help to alleviate concerns by providing a safety net when a death or disability occurs. These plans offer security not only to the employee but also to the employer, especially when sickness or injury prevents an employee from working. Direct costs and lost productivity may be reduced when employers offer plans that provide return-to-work incentives and employee assistance programs.

An employee's overall health and level of productivity can also be maintained by providing benefits that offer early detection of potentially significant health issues. For example, there is growing recognition of the connection between oral health and overall health. Oral cancer, heart disease and diabetes are some of the many diseases that can be detected through regular dental visits. However, according to a recent Gallup-Healthways poll, more than one-third of the American population did not visit a dentist at all last year. This sort of coverage gap has serious ramifications. Oral cancer, heart disease and diabetes are among the leading causes of death in the nation and, according to the Coalition for Oral Health,

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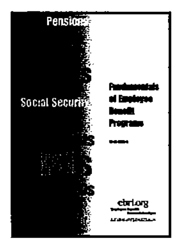

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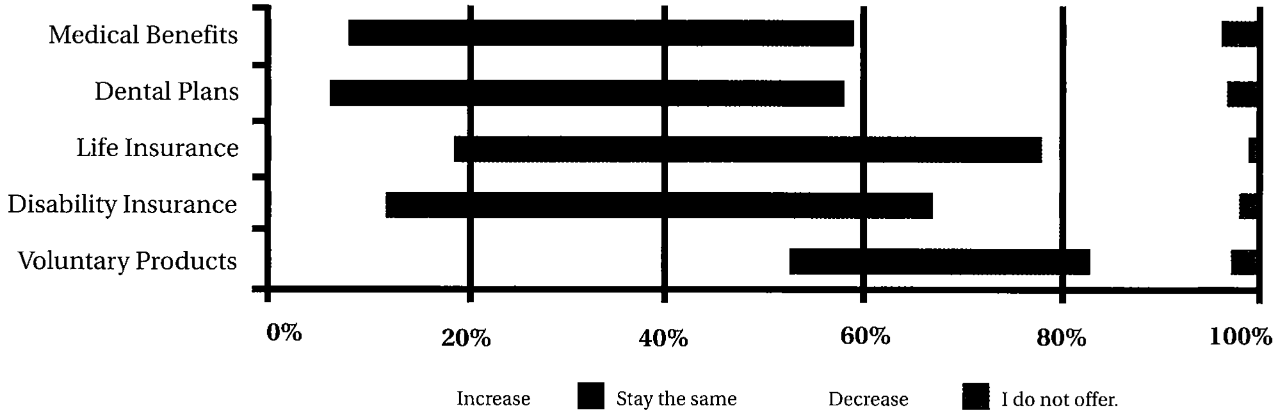
Figure

Group Producers' Predictions:*
"In the next 12 months, the number of clients offering the following benefits will:"



*Data indicate percent of respondents.

From "Group Benefits After the Fall of 2008" by Kimberly Landry, LIMRA Research Briefings: March 2009.

can result in the loss of 20 million work days a year. Offering employees affordable dental care can increase visits to the dentist, increase the early detection of diseases and, in the end, save on overall medical care and expenses.

Vision benefits play a similar role in an employee's overall health. According to the Vision Council of America, vision problems are the second most prevalent health problem in the country, affecting more than 120 million people. A routine exam performed by an optometrist can identify signs of glaucoma, diabetes, high blood pressure and even brain tumors. The Vision Council of America reports that vision disorders can account for more than $8 billion in lost productivity and, if they go undetected, can decrease employee performance by as much as 20% annually. According to the Vision Council of America (June 2007), employers gain $7 in increased productivity for every $1 spent on vision insurance. Adding a vision plan to an employee's benefit package provides employers increased recruitment, retention and productivity.

When offering voluntary benefits, the key to conveying the value to employers and employees is emphasizing the return on investment. Using preventive benefits can have a significant impact on quality of life and medical costs. When employees remain healthy, it saves money in future medical costs and decreases the amount of time off due to illness.

Picking the right insurance provider may be as important as choosing what benefits to offer and can be overwhelming. Employers should review all information and become educated about what is available so that they can make an informed decision about benefit options. In some cases, the prices given to the employer and employees may not be the lowest available. Shopping for providers is essential to making sure that the best price and benefit structure have been obtained.

If an employer does choose to offer voluntary benefits, there are a variety of things to consider when choosing an insurance provider. Employers should seek providers with a comprehensive product portfolio. Selecting fewer carriers gives the employer leverage to negotiate better rates and benefits, as well as enjoy some internal efficiencies by partnering with a single source administrator, and receiving a consolidated bill.

Having local representatives on the ground who are able to come to the office for meetings or enrollment is also a plus. However, if there are no local representatives, employees should be able to communicate with carriers in other ways such as group meetings, online or through call centers. Finally, employers should try to find an insurance provider that handles administrative processes like payroll deduction and claims processing. This will save employers countless hours of work.

With the state of the current economy, the appeal of voluntary benefits, including popular plans such as dental and vision insurance, may be greater than ever. **B&C**

Endnote

1. *Employee Benefits Survey: U.S. and Canada 2009.*

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