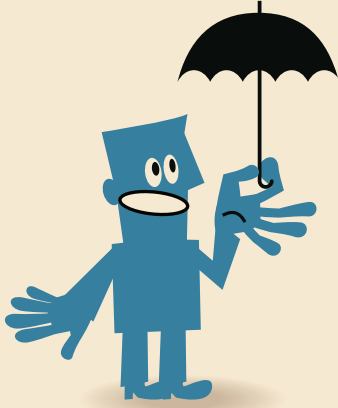


By Christopher Gory

Employee Benefit Plans



Attracting and retaining top-performing staff and franchisees with the insurance coverage they want

More than ever before, offering employee benefits coverage is an important component in operating a business. Other than salary, it's one of the most important tools in attracting and retaining key staff. As an employer, you need to offer benefits coverage because chances are that your competition does. As a franchisor, offering employee benefits coverage is important because you can offer your franchisee coverage and premiums that they would not be able to get on their own. And, if set up correctly, you can offer this coverage without head office taking on additional administration.

Is employee benefits coverage important to Canadians? Absolutely! A survey released in June 2011 asked 1,598 Canadians who presently have benefits coverage if they would give up their coverage in exchange for \$10,000. Fifty-nine per cent of respondents said no, they would not (up from 56% in 2009), 31% said they would take the cash, and 10% did not know. Asked if they would give up their coverage in exchange for \$20,000, 48% still said that they would prefer the benefits coverage over the money (up from 47% in 2009). The same survey also asked the respondents if they had a more positive view of their employer because of

the benefits plan their employer offered. Sixty-two per cent agreed. Asked if their benefits plan was a strong incentive to stay with their present employer, 65% agreed. That number increases to 75% if the employer has a workplace wellness program, such as an Employee Assistance Program (EAP). And, finally, the survey also found that 41% would prefer to pay higher premiums to keep their current level of benefits. Just 12% prefer reduced benefits to avoid higher premiums.

So, why obtain a master employee benefits plan (also referred to as an association plan) for your entire franchise system, rather than having head office and each franchisee be responsible for their own coverage? Like other forms of insurance, employee benefits is all about “spreading” – spreading the risk, spreading the administration costs, spreading the premiums. The more people in the “pool,” the better.

There are several costs associated with administering a benefits plan – the costs associated with setting up the plan (drug cards, booklets, etc.), on-going administration, commission for the broker and for the insurance carrier, provincial sales tax (in some provinces), and establishing claim reserves, to just name a few. Obviously, insurance companies cannot afford to pay out \$1 in claims

for every \$1 collected in premium. Something called a Total Loss Ratio (TLR) is established; it's the percentage of premium that needs to be set aside to cover the administration costs mentioned above. The larger the group, the higher the TLR. (It's more cost-effective for an insurance carrier to set up and administer a single group with 80 employees as opposed to eight separate groups with 10 employees each.) TLRs can vary from carrier to carrier, but a group with 8 employees can see a TLR anywhere from 68 to 72%. (The insurance carrier wants to pay out in claims approximately 68 to 72% of the premium dollars collected.) A group with 80 employees can see a TLR of approximately 76 to 80% (again, this varies from carrier to carrier). By spreading the premiums and the risk across a larger pool of plan members that encompasses head office and each of the franchisees (and their staff), more premium dollars are available for paying claims.

In addition, the larger the group, the more coverage options available to the plan members. With smaller groups (usually fewer than 10 employees), many insurance carriers restrict the coverage available. For example, with smaller groups, some carriers may restrict the annual amount of dental coverage, or how often a plan member or one of their

As a franchisor, you need to stand out from your competitors, and one of the ways to do so is by offering employee benefits coverage to franchisees. Take the time to educate the franchisee on the key advantages of an employee benefits plan.

- Explain to the franchisee that they are eligible to participate in a benefits plan that provides superior coverage and premiums when compared to individual coverage that the franchisee could purchase on their own.
- Explain to them that most individual life, health, and disability coverage is based on age, whereas employee benefits coverage is not.
- Explain to them that premiums paid by the business are tax-deductible.
- Explain to them that by offering benefits coverage, they will have a better chance of attracting and retaining their own key staff members.

dependents can go to the dentist. Some carriers won't offer major dental (which includes crowns, onlays, inlays, and bridges) and/or orthodontic coverage for small groups. Paramedical coverage (which includes chiropractic, physiotherapy, psychology, osteopathic, etc.) may have an annual maximum for all practitioners combined, as opposed to having separate annual maximums for each paramedical area. Critical Illness (CI) coverage is becoming more popular, and larger groups offer more options. Some carriers do not offer CI coverage to small groups, while some carriers do. But what is common to all carriers is that the larger the group, the more CI coverage they will offer. With Critical Illness, if a plan member is diagnosed with any one of the listed conditions, they receive a lump sum payment after a designated waiting period (usually 30 days), regardless of their ability or inability to continue working. With small groups, CI coverage is available between \$5,000 and \$25,000 (depending on the carrier). With larger groups, CI is available in amounts of up to \$100,000 – \$200,000, depending on the carrier.

We've now established that from an administrative cost standpoint, and a coverage standpoint, it's best to have a master plan for your employee benefits coverage. But, what's the best way to set up the plan? While some insurance carriers will write and administer the coverage, it's often best to utilize a Third Party Administrator (TPA) for billing and administration purposes. Most carriers can provide separate billing statements, both for head office and for each franchisee. But, some carriers require that only one cheque be submitted for the total pre-

Employee benefits is all about “spreading” – spreading the risk, spreading the administration costs, spreading the premiums. The more people in the “pool,” the better.

mium (franchisor and franchisee). As well, if one franchisee were to default, and not pay their premiums, the entire group runs the risk of being cancelled for non-payment. Not only can a TPA handle complex billing situations, but they can collect the premiums (from head office and the franchisees), and submit a single payment to the carrier. A TPA can also ensure that a group does not get cancelled because a franchisee doesn't submit their premiums. What many franchisors like most about TPAs, though, is that the franchisor doesn't have to take on the added responsibility of the plan administration. The only day-to-day responsibilities that the franchisor has are for the head office staff, and this is handled by someone within the office, designated as the plan administrator (who reports any changes to the TPA). The TPA handles all billing, enrolments, terminations, and changes for all franchisees and their staff, and the changes are reported to the insurance carrier.

When selecting a TPA, several factors should be considered. First off, each insurance carrier has a preferred group of TPAs

that they like to deal with. The average cost of utilizing a TPA is three to five per cent of total health and dental claims. But some carriers will lower the cost to between zero and two per cent for their preferred TPAs. Secondly, some TPAs will provide (at minimal or no cost) annual coverage summaries for every plan member – something that most insurance carriers do not. As trivial as this may seem, it helps to remind plan members of changes that have not been reported to the plan administrator (for example, a change of address, a change in marital status, or a change in salary). This helps to prevent any potential claims and/or lawsuits, resulting from individuals being under-insured for disability or life insurance coverage, or from a separated or divorced spouse still being named as the beneficiary on life insurance proceeds.

This is also where your insurance broker helps. Not only does your broker help in selecting the insurance carrier to place the coverage with, but they should also consult with the insurance carrier, and provide you with a list of potential TPAs, the costs of dealing with each, what services they provide, and references for the TPA (if possible). ❁

About the Author:

Chris Gory is from Insurance Portfolio, a CFA Franchise Support Services member since 2007. Insurance Portfolio is a family-owned multi-line insurance brokerage that has been helping Canadians since 1927. Chris can be reached at 416-754-3910, 1-800-773-8638, or at chris@canadianemployeebenefitplans.ca



MEMBER SINCE: 2007