Voluntary Benefits Bring Goodwill with a Small Price Tag, but Watch out for Liabilities

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Two years ago, Clark Engineers Inc., a 120-employee firm based in Peoria, Illinois, scrapped its dental plan because the company could no longer afford its $60,000-per-year contribution.

In an effort to cut the expense without depriving employees of the plan, Raylana Anderson, head of human resources, spearheaded a financial study. She contacted local dentists and got prices for fillings, root canals, and cleanings. The numbers validated her suspicion: Clark's coverage cost more than the average employee used. For example, through the plan, if an individual employee received two X-rays and two cleanings annually, the cost would be $380 in claims and premiums. But if the employee paid cash for the same services outside the plan, the cost would be $206.

Armed with that argument, Anderson knew she could convince Clark employees that cutting the dental plan would be better for them as well as the company. At the annual benefits meeting, she announced that dental plan participation would be voluntary and that corporate contributions would be discontinued.

Only 24 percent of Clark employees stayed with the plan. All members of that group, says Anderson, have families or dependents, which makes the $380 in premiums cost effective. The other 76 percent pay for dental procedures through their flexible-spending accounts or out of their own pockets. (*Editor's note*: in January, Clark Engineers was acquired by STS Consultants Ltd.)

Like Clark, other companies large and small are offering so-called voluntary benefits to offset insurance costs and foster goodwill between workers and management. "We are continuing to see a trend toward voluntary benefits," says Garry Sullivan, senior vice president at Aon Consulting and national leader of the firm's elective-benefit practice. Included in this category are such items as life insurance, long-term care insurance, disability insurance, prepaid legal services, pet health insurance, and identity-theft protection.

Employees like the convenience of buying these products at work: they can pay through payroll deductions, and buying at the workplace spares them the effort of researching products on their own. Most times employees receive discounts on insurance products by buying them at work. "Individual health-care costs are increasing, so employers are looking for ways to help employees save money," Sullivan explains. "If an employee purchases automobile or homeowners' insurance through payroll deductions, rather than installments, the costs are automatically budgeted. Through some plans, employees can save $400 to $500 a year."

Sales of voluntary, employee-paid insurance products sold through employers jumped 7 percent in 2003, according to Avon, Connecticut-based Eastbridge Consulting Group Inc., which tracks the penetration of insurance products.

While this is slower growth than in the past several years, the 7 percent figure is "unusually fast" compared with the other segments of the insurance industry and "a clear indication of growth," notes Gil Lowerre, president of Eastbridge. Lowerre expects 2004 will see another increase of between 7 and 10 percent.

What's fueling the growth? "Health-care costs are eating away at profits, and not only are employees being asked to pay more, but often their pay is frozen or increases are minimal," observes Leonard Sanicola, senior practice leader at WorldatWork, a nonprofit association based in Scottsdale, Arizona, that focuses on compensation and benefits. "Voluntary benefits allow companies to offer something in return at a time when economic and business conditions are challenging." Undoubtedly, insurers have picked up on the trend; AFLAC, for example, has built its whole business on selling insurance through employers.

Thrown A Bone

Some employers also subsidize voluntary benefits to sweeten the deal for participants. For example, Chipotle Mexican Grill Inc., a chain of 400 restaurants based in Denver, helps employees pay for pet insurance. Dan Fogarty, who works in marketing for the company, gets a discount on health coverage for his nine-year-old mutt, Pete. Monthly premiums for dogs run $15 to $30, increasing as the pet gets older; Chipotle contributes $10 a month toward that total. Given the skyrocketing cost of pet care, that contribution can mean thousands in savings for Fogarty. "It just means they care more, because most companies are cutting back," says Fogarty. Chipotle's gesture of generosity doesn't cost much: of the company's 120 office employees, only 20 purchase pet insurance, meaning that Chipotle earns goodwill from folks like Fogarty for an annual cost of $2,400.

The majority of U.S. corporations already offer at least one voluntary benefit, although precise estimates vary. Sullivan pegs the number between 60 and 70 percent. But not all voluntary benefits strike a chord with employees. At Clark, for example, where employees welcomed the switch to a voluntary dental plan after seeing the numbers, another voluntary perk—long-term care—flopped. "We couldn't even get people to come to meetings," admits Anderson.

To sweeten the deal, insurance vendors that sell auto and property-casualty insurance to consumers through employers offer discounts when possible. "We can provide a 5 to 15 percent discount because our marketing costs are lower selling to groups rather than individuals," says Anne Herbster, vice president and manager of affinity marketing at Liberty Mutual. Knowing that Liberty Mutual's payments will be coming from regular payroll deductions (as opposed to large installments) also makes Herbster more comfortable offering discounts, since there's a greater certainty that employee payments will continue to roll in.

Companies like Liberty Mutual that specialize in homeowners' and auto insurance have formed partnerships with other providers, such as vendors of pet insurance and prepaid legal services, in order to sell a portfolio of voluntary benefits. In fact, Bill Gorman, group sales manager at Veterinary Pet Insurance Co., a provider of pet insurance based in Brea, California, estimates that 50 percent of VPI's corporate sales come from partnerships with Metropolitan Life, Marsh, and other large insurance providers seeking to add pet insurance to their other offerings. Increasingly, employers are allowing workers to pick and choose among multiple vendors. "We have several large customers that make multiple [providers] available and let employees choose from among them," says Herbster.

Indeed, offering a choice of vendors is crucial for avoiding the major potential pitfall of voluntary plans: the risk that a vendor problem will trigger an employee lawsuit against the employer. A choice underscores the point that the employees, not the employer, are responsible for vetting and selecting vendors. According to attorney Richard Menson, a partner at McGuire Woods LLP in Chicago, a company should explain that its affiliation with a vendor does not constitute an endorsement. "I would be clear to employees that they are on their own as participants, and that the plans are not subject to the Employee Retirement Income Security Act," he says. Menson adds that he hasn't seen any ERISA suits over voluntary benefits go to court—because corporations are prudent about how they communicate voluntary benefits, and because most cases with merit are settled before trial. As an added safeguard, most insurance vendors provide employers with indemnification clauses that hold corporations harmless in case of any trouble.

But the fact that legal liabilities are relatively easy to avoid doesn't mean an employer can choose vendor alliances carelessly. A mediocre vendor reflects poorly on the corporation and damages any goodwill earned from offering the voluntary benefit in the first place. "There's still a great responsibility for the company to screen its vendors," observes Pete Fornal, president of HR Consultants, based in East Greenwich, Rhode Island. "If your employees' customer-service experience is not good, you need to change providers."

Talk Is Not Cheap

One key mistake employers make is not in how they choose the voluntary benefits to offer, but in how they communicate those benefits to their workers. "Employers think that the only time they need to communicate is during annual enrollment," says Herbster. "They communicate it once and then forget about it." She advises employers to have a link that describes benefits—and allows for registration—on a Web page that workers access frequently.

Another way to communicate, points out Aon's Sullivan, is to hire an enrollment company. Enrollment companies—such as Worksite Communications in Tallahassee, Florida, and Ward Services in Columbia, South Carolina—specialize in getting employees to sign up for programs through one-on-one meetings and telephone- and Web-based services. "You can't just jump in and do 10 voluntary benefits overnight," warns Sullivan. "Talk about 2 or 3 at first."

Above all else, experts encourage employers to be honest in their communications—even if that means admitting that the voluntary benefits are as much about saving corporate dollars as they are about pleasing pet lovers.

But the process of vetting vendors and communicating with employees takes time, which is why not every company offers voluntary benefits. "It takes effort to communicate about the benefits, sign everyone up, and process the paperwork through the payroll system," says Fornal. That effort, however, may pay off in better employee morale—no small thing these days, when workers are forced to dig ever deeper into their wallets.