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Changing the conversation about benefits cost management

Brian Lindenberg

I have been in this business a long time—more than a few years. And since Day 1, benefits cost management has been the No. 1 issue facing benefits plan sponsors. I am tired of the conversation in large part because benefits plan sponsors have done relatively little to manage their benefits plan costs over the years. In absolute terms, benefits plan costs represent a relatively small percentage of an organization's total compensation spend. And, bottom line, I don't think benefits cost management is the right conversation.

Before going further, let's start with two important caveats. First of all, it's impossible to generalize. The circumstances of each employee benefits sponsor are unique. Some organizations may find themselves in a situation where they need to manage benefits plan costs out of financial necessity. And some organizations do proactively manage their benefits costs as a matter of course. However, the body of market evidence suggests that proactive benefits cost management is not the norm. While there's been more activity in the drug space over the last few years in response to the increased risk/cost associated with biologics, I'm not prepared to declare the decades of relative inaction of benefits plan costs to be over.

My second caveat is that no organization wants to pay more than it has to for benefits. In the majority of situations, an insurer is somehow involved in providing employee benefits whether as the program underwriter and/or the claims payer. And from a plan sponsor perspective, there isn't an appetite to pay no more than a market competitive price for these services. Relying on the market to keep the cost of coverage in check has been used extensively by plan sponsors over the years. However, I don't view this in the same way as introducing plan design changes to reduce future costs. Changing the nature of the benefits promise to reduce costs is cost management; regularly tendering your benefits plan to take advantage of a competitive insurance market is simply good governance. I believe the two have been confused over the years contributing to the constant chatter about cost management.

Now let me elaborate on my position that cost management isn't the right conversation in any event. First of all, you can view a benefits plan as a cost or an investment. I suspect most organizations view it as a cost. I view it as an investment. The difference is subtle but very important. A cost is something you typically manage—generally downward if at all possible. With an investment, you expect some sort of return for the dollars spent. And depending on the return, you may be prepared to spend more or less. With respect to benefits plans, the return can be in various forms such as a healthier, more productive employee and therefore a more efficient/profitable organization. This is a better conversation because it encourages a focused look at the other side of the cost equation.

The other reason that cost management is not the right conversation is that it ignores the concept of risk. At its core, a benefits program is a risk management tool that responds to a wide range of risks faced by both the organization and its employees. The nature of risks has changed considerably over the years—they have gotten bigger and far more complicated. And this is unlikely to change in the future. So it seems reasonable to expect that the cost associated with managing bigger risks to be higher and this may be appropriate within the context of an organization's risk tolerance. Instead, we often get hung up on the cost of coverage without truly understanding how the risk may have changed.

After 30-plus years in the benefits industry, do I realistically think the industry will stop talking about benefits cost management? The answer is no, and it’s a necessary conversation is some situations. However, a far better conversation is to frame the discussion within the context of an investment decision acknowledging the changing nature of risk. I guarantee not only a richer discussion but better decisions.

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Brian Lindenberg is a senior partner with Mercer, in Calgary, and is Mercer Canada's innovation leader. He has more than 30 years of experience in the employee benefits field.