

BENEFITS TRENDS



Relationship Maintenance

When it comes to managing vendors, decision-makers with cross-border responsibilities need to find ways to build strong ties while keeping costs down.

BY DEAN C. HATFIELD AND JOHN F. HALLS

Sparked by the demutualization of the life and health insurance industry in Canada in the late 1990s, the top three vendors (Manulife Financial, Great-West Life and Sun Life Financial) now control more than 80% of the Canadian group insurance market. The rest of the Canadian market is comprised of a number of smaller vendors and niche players. The obvious effect is less competition and choice for employers, which is clearly not in their best interest in terms of getting the best deal. Nevertheless, there is still sufficient competition, particularly with the smaller vendors aggressively pursuing market share, to ensure that employers can attain reasonable prices on their benefits packages.

In the United States, most of the major consolidation occurred several years ago. Although a few regional carriers remain independent, they are slowly being acquired by the national organizations. The market is now left with four national carriers—UnitedHealthcare (UHC), Aetna, CIGNA and the Blue Cross/Blue Shield organizations. UHC, Aetna and CIGNA can offer plans in both Canada and the U.S., because they have international divisions that offer coverage outside the U.S. Some U.S. companies, however, simply offer their Canadian employees U.S. coverage so they can cross the border and receive care in the U.S. This eliminates waiting lists, restrictions and so forth. Other organizations that self-insure offer all their North American plan participants the same coverage, regardless of which side of the border administers treatment.

Relationship Management

Given the vendor consolidation described above, it's more important than ever for the key stakeholders—the employer, the vendor and the plan advisor—to work together to forge strong relationships and achieve the best possible outcomes. While there are still options to pursue if these relationships break down, it has become essential to explore all possibilities of preserving the current affiliation before soliciting others. Changing vendors too often will eventually create diminishing returns.

There are several ways employers can improve their relationship with vendors. One example is volunteering to pilot new programs. Vendors routinely develop new services or programs and look for clients willing to test them. Although most employers refrain from exposing their employees to concepts that have not been fully tested for effectiveness, volunteering for a pilot program can be advantageous.

Collaborating with a major vendor on a new program gives an employer additional negotiating leverage with its other existing vendors. Those vendors realize the employer could decide to put the pilot into place as a permanent program, thus eliminating their plans as options.

In the U.S., many national healthcare providers are now piloting their own wellness programs or proactive outreach programs. Health vendors, for example, are creating new solutions that help save money and are looking to try out these new designs on clients or prospects. A year ago, one national carrier launched a solution that aggregates all claim information (medical, dental, vision, disability, etc.) to better manage the total cost of each plan participant. Several large employers chose to participate in these programs and received many cost-saving guarantees.

Vendors are always looking for client volunteers for various new programs, and offer them perks to participate. Employers may want to take the opportunity to pioneer these new programs in exchange for extra services or discounted rates, if the program is an appropriate fit.

Keep it Simple

One tactic employers have used successfully in the U.S. where there has been similar national vendor consolidation, is to reduce the number of healthcare vendor relationships they have and instead, solidify a close working partnership with one or two, depending on the size of the employer. Not only will this generate savings, but it can also help simplify the administration and communication of an employer's healthcare program, especially when working with cross-border programs.

Companies that consolidate their vendor partnerships should make the relative exclusivity of these relationships work to their advantage by getting something in return for the additional enrollment opportunities they provide. For instance, if the vendor will receive more or exclusive access to employees for solicitation purposes (e.g., through brown-bag lunch seminars, targeted mailings or calls), the employer should ask for a rate or fee discount in return. Employers that are thinking of changing vendors as part of their consolidation process should request an implementation credit or an implementation audit credit from any newly selected vendor or the incumbent. These credits will give the employer additional funds to offset the cost of a vendor change.

These additional services should be funded by the vendor as the cost of gaining new business or maintaining the relationship. Many vendors use money from their marketing budget or reduce their first year's retention to offset these extra services. Employers should make it known that they expect these credits and/or allowances before they solicit bids. Unless they clearly state how important these items are, bidders will not include them in their initial offer.

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Cost Containment

Group insurance costs (particularly drug and health costs) continue to rise much faster than the rate of inflation for several reasons. First, the emergence of a significant number of biologic drugs is putting further upward pressures on drug costs. Second, an aging population is putting a strain on the entire healthcare system, including group insurance costs. For many employers, these rising costs are not sustainable and they must work to ensure that renewals are fair and equitable.

Employers can improve the financial impact of any benefits program changes they make by negotiating with vendors for a desired outcome. For instance, they can ask for a guarantee on the savings estimates vendors provide (this could be in the form of a range) toward any plan design modifications, network changes or benefit enhancements. The best approach for self-insured plans

is to receive a guarantee on the aggregate annual claim cost. As employers modify their benefits designs, they should leverage their partnerships to gain other services at the vendor's expense to help improve the financial and adoption success. These services can include extra implementation support, a dedicated member service team and/or additional support for open enrollment.

Regardless of which side of the border an organization resides, there are many approaches that are universal to managing vendors. It is important to continue experimenting with new ideas that are central to the organization's success. **B**

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OF THE BORDER

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same registered pension plan (recently confirmed in the Kerry decision as acceptable in many circumstances).

3) INNOVATIVE PLAN DESIGNS

It is virtually impossible to reduce the accrued pension under single-employer DB plans in Canada if the plan is ongoing, although certain ancillary benefits can be reduced in some circumstances. As an alternative for DB plan sponsors considering a switch to DC, it would help if new legislation were to permit such reduction in order to keep sponsor contributions level. A variety that was recommended by all of the recent commissions and panels is known as a target benefit plan. The difficulty comes in deciding how to transition a traditional DB plan to a target benefit plan.

Other innovations in plan design could also be accommodated, and the U.S. reader may point to cash balance plans, for example. However, the *Income Tax Act* (See Did You Know?) does not easily accommodate that plan design, and it is not clear that any amendments or changes are imminent.

4) CPP PLUS

A major element in Canada's social security system is the Canada Pension Plan (CPP). The DB-based CPP, designed to replace about 25% of income up to the national average, is funded equally by employees and employers. Its

fund is rapidly growing in order to allow the current contribution rate (4.95% each from the employee and employer on wages up to the national average, with a 2009 wage limit of C\$46,300) to remain unchanged for the next 75 years. To address the pension coverage problem, there is movement afoot to possibly add a DC supplement to the CPP.

In order to maintain affordability for Canadians and employers, at this stage, it seems that this supplement would be voluntary, perhaps with auto-enrollment for members who could then opt out. Canadian life insurance companies, which control most of the DC market, are arguing that any such supplement should be managed by them rather than at governmental levels. It remains to be seen how this supplement would impact existing employer DB and DC plans.

Clearly, the Canadian pension scene is changing. With some corporations on the ropes, members' pensions under threat, more baby boomers retiring and members being more vocal, pensions are becoming election issues and ministers of finance across the country are beginning to weigh in with their opinions. Ahead lies a multitude of change for plan members and sponsors—the journey to compromise and understanding will be difficult, but it must happen soon. **B**

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