Ways to Reduce Cost of Benefits

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Abstract:
To motivate employees, providing benefits is a cheaper way than giving direct financial benefits. But as companies are continuing different benefits, it seems benefits are carrying a higher cost than cash pay for employees. Employee benefit plans providing life, disability, and medical-dental coverage represent a substantial cost to law firms as well as to other employers fringe benefits can represent the huge cost of payroll (Obetz, 1983). The Conference Board of Canada shows that the average cost of providing benefits for employees is $8,330 per full-time equivalent (conferenceboard.ca, 2015). Among the benefits, healthcare benefits consist of substantial cost, are expected to outpace general economic inflation with a 4.5 percent growth rate in 2016 (PwC Health Research Institute, 2016). As a result, there is a need for considering employee benefit cost. But it has to be such a manner that could help to retain not only competitive advantage but also maintain the relationship between employer as well as employees. Because, it would effect on cutting someone’s livelihood, reducing or eliminating healthcare coverage, retirement contributions or other vital benefits (Rossheim, 2016).

Keywords: Cost of benefit, How to reduce cost

To reduce employee benefit while maintaining a competitive benefits package, there is a number of ways. We can classify those approaches into following two categories.

a) Restructure current financial benefit packages
b) Increase non-financial Motivation

a) Restructure current financial benefit packages: There are different financial benefits provided by organizations. For example, Group Life Insurance, Disability and income insurance, Medical and Dental Benefits, etc.

In these cases, Rossheim (2016) suggests to ‘Reconsider Carriers.’ He suggests, there are Many insurers have resources dedicated to helping members live healthier lifestyles, including value-added programs (discounts for weight loss centers, for example), smoking cessation programs, while others may have specific financial incentives (reimbursement toward gym memberships.) Often there is no associated fee.

While revising current benefits, Companies can have a careful review of the ‘group insurance’ program, may result in lower premiums and better cash flow. One group insurance provision that creates excess reserves is the waiver-of-premium provision. This can be eliminated without reducing benefits (Duva, 1981). Also, there could be Optional arrangements with current benefits, For example, Two alternatives to premium waiver (age 60) are either death benefit only or ex-disability. The death benefit only arrangement simply provides that the employer will continue to pay the required term insurance premium for the disabled individual and on death, the plan pays the death claim (Obetz, 1983). Under the ex-disability arrangement, coverage is provided on a premium-paying basis for up to the certain period, generally 12 months from the time the employee becomes disabled. Then coverage terminates unless the employee converts to an individual policy. Neither of these arrangements requires a reserve to be established to cover the eventual death claim. The claim when it occurs will be paid from current premium. The employer retains what could have been a substantial reserve held by the insurance company. (Obetz, 1983).

‘Insurance and pension funding’ methods could also be reviewed. Insurance companies are willing to provide minimum premium plans, deferred premium arrangements, and administrative service-only contracts whereby the company in effect self-insures the benefits (Duva, 1981).
A study showed that persons fully covered for ‘Medical-dental benefits’ Spend 50 percent more than individuals who pay part of the cost of catastrophe insurance (Obetz, 1983). For that cost sharing will have a definite impact over time on the level of cost of the health care plan and work to limit its rapid rise. Also, Telehealth could help to save 5-to-1 return on investment. Telemedicine enables the delivery of care at a lower cost than the traditional health care model and reduces unnecessary emergency room visits and urgent care services (hubinternational.com, 2016). Introduction Voluntary benefits, for example, fixed plan options and can include hospital-stay expense coverage, dental, vision, disability, life insurance could potentially reduce the annual cost in Medical services (hubinternational.com, 2016).

‘Automation’ of Administrative services could help to reduce cost significantly. Taking advantage of technology to keep a lid on administrative costs (TriNet, 2016). The use of online tools such as payroll entry and benefits enrollment could save a Net Present Value savings of $24,570 over a three-year deployment as a result of prevented data errors. Also, time-saving of 432 hours annually using web tools than managing benefits through traditional paper-based activities (TriNet, 2016). Duva (1981) suggests using a third-party administrator for claims administration. Cost control programs are another consideration in a company's efforts to keep the costs of a benefits program at a minimum. Such companywide programs can eliminate unnecessary or unreasonable charges.

Also, the cost of benefits could be controlled by Reducing spending on department management (K.Coyne, S. Coyne & E. Coyne,2010). Most administrative departments (particularly those with more than 20 employees) use as much as 20% of their budgets to supervise and coordinate their own activities. Also, a study found that by ‘Eliminating liaisons and coordinators,’ company could save more than $600,000 a year just by eliminating coordinators between HR and other departments in the same building (K.Coyne, S. Coyne & E. Coyne,2010). By eliminating Little-Used Perks of Voluntary Benefits, for example, legal advice programs or long-term care insurance, could be useful to cut administrative costs and the drain on HR management resources (John Rossheim, 2016).

All these Restructure activities of financial benefit packages have mostly short-term impact on organizations. As these are financial decisions, organizations can observe the benefit in next fiscal year. But there is no assurance that these could work on the second or third year as the economic condition may change. So forth, These strategies may have to be reviewed carefully every year.

b)Increase non-financial Motivation

Non- Financial benefits are always effective for employee motivations. Companies like these for not only low cost but also for their effectiveness. Same works for reducing the cost of benefits. Creating a culture of awareness, increasing engagement, emphasize on employee motivation and any means to keep employees satisfied with their work are necessary for reducing benefits. There are many ways to implement this programs.

Reducing stress could help to reduce employee benefits. Grimaldi, & Schnapper (1981) mentioned in their article ‘Managing employee stress: Reducing the costs, increasing the benefits’, Stress makes employees unhealthy showing with stress-related health problems including high blood pressure, ulcers, stomach disorder, heart disease, Low back pain and even colds and flu can result from stress (Grimaldi, & Schnapper,1981). Also, there is a close relationship between severe stress and on the job accidents. Managing stress could help to reduce health benefits, Administration cost, etc.

Employee Involvement is a Prerequisite to Reduce Workers' Compensation. While employers and managers have worked hard to lower workers’ compensation costs in their companies, employer-driven methods have failed to involve the very people who are most familiar with and most affected by injuries and accidents - the
employees. Many employers agree that workers themselves have a large effect on the frequency of accidents (Ariss, 2002). Although there are different ways to reduce cost, for example, employee-leasing or subcontracting, on-site healthcare facilities financed by employers; following-up with injured employees to encourage a timely return to work, and monitoring paperwork as closely as possible to prevent fraud. None of these approaches focus on the primary issue of workers' compensation or the involvement of employee (Ariss, 2002). Unless there is true involvement from employees any benefit program would not be effective as employees cannot see themselves in the programs. Ariss (2012) suggested Leadership Steering Committee (LSC) including top management and employee representatives, Training, Recognition of individual thinking styles, Consensus decision making, Team building exercises, Awareness on Emotional Intelligence and Open Communication is necessary to involve employees.

Paulsen, (2006) suggests ‘Focusing on the cost drivers’ is vital for controlling employee benefits. Attention to detail, focusing on technicalities, Looking employee benefit/retirement plans with predecessor entities and the future obligations are necessary for that. He emphasized on forcing employees to attach to the non-financial benefit program by linking employees' premium-share contributions to accountable participation in an on Health and wellness or health-management program. For workers who smoke, some employers are adding a "smokers' surcharge" in the form of increased employee contribution to the premium. Another tactic could be offering "points" (frequent flyer miles) redeemable for merchandise gift certificates, concert or sports-event tickets, even lottery tickets. (Paulsen, 2006).

Promoting health and wellness programs could help to prevent heavy benefits usage. These costs go up when employees use their benefits. Encouraging consumer-based approaches to health care can help minimize that, but there is also a way to prevent employees from utilizing their benefits by promoting health and wellness programs in the workplace. Offering discounts on gym memberships, suggesting walking and fitness clubs, and distribute materials on eating healthy. In addition, ergonomically designed workstations could reduce injuries in the workplace. Ensuring organization has sufficient paid time off, leave, and the holiday is good ways to encourage and boost employee productivity as well as ensuring that exhaustion and other injuries don't end up placing a heavy burden on benefits and workers' compensation programs. (TriNet, 2016)

Health-promotion programs could have great attempt to improve both physical and financial health. The goal is to improve health habits, and ultimately the postponement and prevention of major chronic illnesses require a reduction in risk factors through appropriate promotional programs. Available data, however, suggest a lag of two or three years between improvement in health habits and signs of better health and reduced cost. The study showed it helped a person's level of confidence in dealing with chronic illness have been shown to lower costs both immediately and over a four-year period. All these resulted in Self-Management and thus lowered costs of benefits by 7 to 17 percent. Now, a question may come who will pay? Compared to the savings, it does not costs a great deal of money. The costs should be borne by those who will ultimately have the savings - Insurers, industry, and government can pay out of their potential savings. (Fries, Koop, Beadle, Cooper, England, Greaves, & Wright, 1993).

Engaging with Non-Financial benefits have long-term effects on organizations. Here employees would be engaged with the culture. Also, Motivated employees would be self-aware and thereby will help to reduce the cost for the long term. Some of the programs can have a gradual return after 2-3 years of implementation. But in a nutshell, it could have a positive long-term impact on employee behavior.

Every organization is concerned with taking careful steps for reducing employee benefits. The benefits could be industry driven, customized with organizational need and culture. Employee focused strategic decisions, Proper administration of financial benefits and nurturing of non-financial benefits could increase employee motivation and reduction of benefit cost for organizations at the same time.
References:


