BARGAINING BENEFITS

CUPE RESEARCH

"FLEXIBLE" BENEFITS

Flexible benefit plans are an attack on traditional benefit plans. Calling them 'flexible' makes them sound better than they really are. Flexible plans are also referred to as "cafeteria', 'supermarket' or 'smorgasbord" plans.

In time, flexible benefit plans result in fewer benefits and an erosion of benefit levels. For employers, they are a way of not only containing costs, but also of shifting the burden of cost to employees. They remove the employer's responsibility to negotiate good comprehensive benefit plans, and instead place the onus on individual employees to choose some benefits over others.

How do flex plans work?

Flex plan participants select from a menu of insured benefits up to a specified "credit" amount. Once all the credits have been used up, employees can either purchase additional coverage, or pay directly for needed services. Those who cannot afford either of these options go without.

There are commonly two types of flexible benefit plans: "core-plus" and "modular".

- **"Core-plus"** plans specify minimum amounts of coverage and employees must purchase anything over and above the minimum.
    - A common core-plus model would be very basic, providing some coverage for drugs and vision care, though not likely any dental care coverage.
    - Employees then would have to purchase additional or improved benefits through payroll deduction.
    - For example, for an additional $70 per pay, the employee could increase the dollar amount for vision care coverage (e.g. from $100/2 years to $250/2 years) and buy some dental coverage.
- **"Modular"** plans make employees choose among pre-designed benefit packages.
    - Each modular package is aimed at a specific demographic (e.g. singles, families, older or younger members) and provides services most attractive to that target group.
    - Unlike traditional benefit plans, where all members of the bargaining unit are covered for all benefits regardless of health status, once the employee has made a flex plan choice, it usually cannot be changed without the employee having to undergo a medical review to obtain "evidence of insurability".

- Employees with diverse benefit needs may have to purchase more than one package, or go without.

Why do employers like Flexible Benefits?

- Employers claim flexible benefits save costs. But the reality is that these plans are being aggressively marketed by consulting, brokerage and insurance firms looking for new sources of profit, and more customers to help pay for the flex plan administrative systems they already have in place.

- Employers may attempt to “sell” flexible plans as an opportunity for their employees to choose benefits that will best satisfy their individual needs and will thus “empower” employees.

- Employers may also try to “divide and conquer” by marketing modular plans directly to specific employee groups within their organizations.

What are the Arguments Against Flex Plans?

1. There is no proof that flex plans save money.

- Employers promote flexible benefits to cut costs, however, the actual dollar savings to employers are questionable.

- In fact, flexible benefits can be an administrative nightmare. Administering numerous individual plans takes a considerable amount of time and technology. Most employers do not have the staff to administer flex plans so they either have to increase their staff (which increases costs) or they have to turn to the benefit management and insurance companies who are usually paid by the transaction, and include their profits in their fees (which increases costs!).

- Over the long run, flex plans increase insurance costs. Why? Fewer employees in a plan means that the costs are higher for each participant, since the costs are spread among smaller numbers. And, employees will choose options that they are most likely to use, which increases the usage and subsequently the costs for those options.

2. Flex plans put the onus on the individual to determine their own benefit plans.

- Every time their circumstances change, employees have to re-examine their coverage.

- Employees must add the job of deciding among various plan options in addition to their already busy and complicated lives.

- Despite careful planning and consideration, employees may be faced with an unexpected need. They will likely have to pay out of pocket if they haven’t chosen the “right” plan.

- Individuals are treated differently depending on their circumstances. Employees don't choose to be involved in accidents or to contract certain diseases yet, with flex plans, they must pay more for circumstances beyond their control.

3. **Flex plans do not offer the same level of protection.**

- Unlike group insurance plans, flex plans do not eliminate the individual financial risk associated with illness and accidents.

- Instead of a traditional plan that shares the risk among all employees, flex plans force individual employees to risk choosing one plan that may not provide either all the coverage they need nor provide coverage when their needs change.

- Flex plans limit choices and can leave employees with insufficient coverage. Because employers are implementing flex plans to save money, they are not likely to expand choices that lead to cost increases.

- Lower wage employees may find themselves with little or no insurance.
    - Not only is extra coverage unaffordable for them, but some plans tempt employees by offering cash in lieu of benefits. Lower income employees, struggling to make ends meet, may find the opportunity for cash very appealing. As a result, a two-tiered insurance system will evolve.
    - Flex plans negatively affect women, the disabled and other equity seeking groups who are disproportionately represented among lower wage earners. CUPE opposes flexible benefits that encourage inequality in an attempt to save money.

4. **Flex plans automatically pass on cost increases to individual employees.**

- Annual increases in drug and dental costs are passed on to employees through higher premiums or less coverage.

- While unions can negotiate the total dollar amount for flex credits, it is unlikely that they can bargain increases that would cover annual drug cost increases in the 17% to 25% range and dental cost increases of around 15% annually.

The basic principle of group benefit plans is that the group shares the cost of providing benefits to individual plan members. This means that all plan members contribute to and support the benefit plan regardless of their current state of health and regardless of their lifestyle. In effect, a group benefit plan is an insurance plan designed to eliminate the individual financial risk involved with illness.

Flexible benefits are, in short, a bad deal for CUPE members. CUPE promotes good collective agreements that include comprehensive extended benefits coverage, 100% employer paid, for all bargaining unit members, not partial coverage based upon ability to pay. Flexible benefits are a direct attack on workplace health care plans. The more staff and members are aware of the real effects of these plans, the more resistance there will be to them.

For further information on Flexible Benefits see: "Flexible Benefits" in the Benefits section of the CUPE website cupe.ca.