BARGAINING BENEFITS

FLEXIBLE BENEFITS – JUST SAY NO!

~FAST FACTS about Flex Benefits:
- they reduce coverage;
- they pass on benefit costs to you;
- they erode decent benefit plans;
- they are designed for the young, healthy , and well-off.

Flexible = good   Benefits = good   Flexible benefits = BAD!

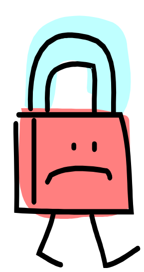
Traditionally, benefit plans are based on the model that all plan members share the cost of providing the benefits --the healthy with the not so healthy, younger with older, single with families. The basic principle of group insurance is that spreading costs over large numbers makes it cheaper for everyone.

So-called "Flex" plans are different. Sometimes called cafeteria, or smorgasbord plans, members must select benefits from a menu of choices. Flex plans are individual insurance plans. Costs are not shared among a group - members who are sick, older, or have dependents pay more. The young and healthy pay less, or opt out.

Flexibility may sound appealing, but what employers call "Flexible Benefit plans" usually cost more, and cover less.

Why are "Flex" plans bad for workers?

- **There is no proof that Flex plans save money.**
  - Administering numerous individual plans takes time and technology that most employers do not have. So, employers either have to increase their staff (which increases costs) or contract with benefit management or insurance companies which include profits in their fees (which increases costs).
- **Flex plans increase costs and erode benefits over time.**
  - If only a few employees sign up for an option, costs are shared among fewer people, so costs go up for them. With fewer sharing the cost, needed services can become unaffordable. Sometimes, carriers will discontinue services where only a few sign up, leaving those who need it, without it.
  - Employees choose options that they are most likely to use, so usage, and subsequently, costs go up.
  - Flex plans are individual insurance plans and so, cannot take advantage of cost savings based on economies of scale (e.g. costs shared over a large group minimize costs for all).
- **Flex plans lock you in.**
  - Flex plans usually lock in your choices for some period of time. If your circumstances change, your plan may not. If you have an accident, develop a disease, or get cancer, your chosen plan may not cover you and you could face huge costs.
  - If you want to change options within the plan, you may have to undergo a medical review by the Plan doctor to obtain "evidence of insurability". If you have a "pre-existing condition" like diabetes or depression, insurance companies often won't cover you.

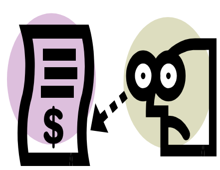


- **Flex benefit plans transfer risk and costs from the employer to employees.**
  - Traditionally, the risk (that the plan will have enough money to pay for all the benefits claimed) rests with employers because they sign the contract with the insurer. But with Flex plans, it's employees who are at risk for not buying enough or the right coverage.
  - Those who can't afford Flex plan options will likely use more public health services and increase the pressure on already underfunded public services.

- **Flex plans are unfair for lower wage earners.**
  - Flex plans usually increase benefit costs for employees for comparable coverage. Those with lower incomes may not have the disposable income to purchase the benefits they need.
  - Flex plans promote inequality. Equity seeking groups are often among the lowest paid workers, so they are disproportionately affected by Flex plans.
  - When you can't afford benefits, your health can deteriorate and ultimately require more hospital visits; conditions can worsen and become more costly to treat.

What's driving 'demand' for Flex benefits?

- The cost of benefits is rising, and employers are seeking ways to minimize their costs. Flexible benefits won't likely reduce employers' costs, but they will make their costs more fixed and predictable – which employers like.



- Flex benefit proposals contribute to attitudes in the workplace shifting away from "us" towards "me". Some start to question why they should share the benefit costs for those who are less healthy, don't take care of themselves, or are aging and require more services.

Insurance companies see Flex plans as a way to increase their market-share. To increase profits, they design and promote plans based on specific demographics, (e.g. singles, families, older or younger members) and provide services most attractive to that target group. They can also structure benefit packages so that employees
have to sign up for several Flex plan options to get a level of benefits similar to their current plan.

- Flex plan advocates use words like "choice" and "options", so initially Flex plans may attract employees. But surveys suggest that only 10-20% of employees favour Flex plans. (Source: Intergenerational Differences in Benefits Needs and Wants, benefitscanada.com)
- The 2007 sanoaventis (a multinational drug company) survey found that when given a choice, 65% of respondents said they preferred a 'flexible' benefit plan design. However, the fact that only 29% of those that have flexible benefit plans say they prefer it, speaks volumes about employees' satisfaction with flexible benefits. People are initially enthusiastic, but as this survey shows, experience generates dissatisfaction.

Example: If you spend $100 at the dentist and your plan pays 80% of dental claims then you pay $20.

Say your employer introduces a Flex Plan that reduces reimbursement for dental claims from the 80% to 50% and uses the savings to set up a Health Spending Account (HSA) for you.

For the same trip to the dentist, the Flex Plan would reimburse you $50 and you could then use your HSA to pay the $50 you owe on the dental claim (assuming you have enough in your HSA, and haven't spent it on other personal and family priorities).

Over time dental fees increase. However, since HSAs are a flat amount, they won't keep up with rising costs. If the same dental procedure costs you $120 next year, after the plan reimburses you 50%, it will cost you $60 from your HSA.

Health Spending Accounts

Sometimes employers introduce Health Spending Accounts (HSAs) as part of a Flex plan. HSAs are like bank accounts, where employers deposit cash or "credits". The employee can use that money to pay for any service that falls within the definition of "medical expense" under the Income Tax Act (e.g. prescribed drugs, dental, vision, massage therapy and other paramedical services). Any unused money may be carried forward for one year. However after two years, any unused money is forfeited to the employer.

HSAs are often introduced as supplementary to the existing benefits package. HSAs are attractive to employers because their contributions are predetermined and fixed, and responsibility for increased costs is with the employees.

Employees may try to save the money in their account to pay for unanticipated needs, but unless they manage the account carefully, the employer will end up with the benefit. Studies by benefits specialists show that employees typically forfeit more than $100 each year in flexible medical accounts. (Source: www.bankrate.com)

To get a sense of what an HSA might cover, here are some costs associated with common conditions:

- drugs for cholesterol - $1,400/ year
- asthma - $3,000/year
- type II diabetes - $2,900/year
- hospitalization due to falls - $9,400; heart attacks - $7,697
- private room costs – additional $240/day semi-private $220/day (Source: Blue Cross website)

How do we fight Flexible benefits?

- ❖ Once members find out the realities of flexible benefit plans, support often fades. Remember, research shows only 10-20% of employees really want this type of plan.
- ❖ Get information from your employer about the demographics (age and sex) of your membership. Older workers use more benefits and want stable, comprehensive plans, which Flex plans are not. The young, unattached, well off, and healthy may be persuaded to resist Flex benefits by statistics that show:
  - three workers die from their work every day in Canada;
  - at least 12 Canadian workers die from occupational disease every day;
  - young and new workers are injured and killed at a much higher rate than mature workers, not because they are reckless, but because they are not taught about the hazards they will face in the workforce and their legal right to be safe in a workplace.

Research shows prescription drugs are driving up costs of benefit plans. If drug costs are the problem, then address that problem with solutions like generic drugs, negotiating group discounts with local pharmacies, including alternative therapies like massage and acupuncture. (For more information on worker friendly ways to contain drug costs see Drugs: Can We Negotiate Cost Savings?" at cupe.ca.)

- ❖ Because costs go down as the size of the insured group increases, see if there are opportunities to form a larger group with other locals who work for the same employer, or are in the same sector or region.

For employers, flexible benefits shift 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.

Here's an example of a flex plan:

The basic or "Core" Plan covers LTD (benefits at 50% of salary), AD&D, Life Insurance (1 x earnings) plus a Health Spending Account (HSA).

Employees pay 1.93% of their current salary through payroll deduction for the basic plan, and anything left goes to their HSA to pay for medical services defined under the Income Tax Act and/or pay the premiums for benefits options.

In this example, for an employee with a spouse and/or dependents, earning $25,000 per year, benefits would now cost $482 (1.9%) deducted from payroll, plus the cheapest option - $379.79 for a total of $862.29 per year for a benefit plan where the employee still pays 80% of the claims!

Premiums:	**Option #1**	**Option #2**	**Option #3**	**Option #4**
Single (per year)	$ 151.92	$ 303.83	$ 303.83	**$ 303.83**
Family (per year)	$ 379.79	$ 759.58	$ 759.58	**$ 759.58**
Coverage:	**Employee pays 80% of most health care expenses.**	**Employee pays 20% of common health care expenses.**	**Employee pays 0% of claims except for drugs- pay 10% of each prescription.**	**Same as option #2 but with NO managed formulary, so more drugs are reimbursable.**

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