Report #1: Barrier identification

Employee Benefits Strategy for the Voluntary Sector

Background

Human Resource Development Canada provided funding through Joint Capacity Table of the Voluntary Sector Initiative to investigate issues associated with employee benefit plans within the Voluntary Sector. The funding was provided to a consortium made up of the Coalition of National Voluntary Organizations (NVO), United Way Canada and Community Foundations of Canada (CFC). CFC has the lead role in this project. ASSOCIUM Consultants, a consulting firm in Toronto, was engaged to assist with conducting the research and preparing a report with recommendations.

In this first phase, various stakeholder groups across Canada were interviewed with respect to their experiences and observations. Stakeholders included associations, Voluntary Sector Organizations (VSOs), plan managers, brokers and insurance carriers.
The result is a profile of the issues and barriers affecting the acquisition and management of employee benefits in the Voluntary Sector.

The second phase of the project will identify best practices in Canada and other jurisdictions contributing to possible solutions, as well as recommendations for next steps to address the issues identified below.

Findings

Consultation with associations offering umbrella plans

A number of Associations of VSOs have employee benefits plans for their member organizations. Some typical characteristics are set out below.

- A variety of plans exist within the Associations polled.
- Many offer a pooled plan where the experience (usage) of the organizations in the plan is pooled to moderate the effect that bad experience will have on the insurability of one plan participant.
- Often the plan is set up with tiered levels based on size of the participating organizations. Small organizations are pooled together. Larger ones are pooled together but in a different pool, and so on. Still larger organizations may be left outside these pools. The law of large numbers is usually positive.
- VSOs with less than 5 employees are typically part of a pool as they are not large enough to be considered by insurers outside of the pool.
- While less common, some association plans offer access to their group with VSOs being charged premiums based on their own experience (individually rated).
- Most plans are available to any size group without evidence of insurability. However, it is fairly typical that small groups may have lower maximum insurance amounts available without evidence.
- Some plans offer benefits to select groups of employees; i.e. eligibility criteria based on hours worked. Typically, this leaves part time and short-term contract employees without access.

- Most plans were established because of an identified need to provide access to employee benefits and offer stability to organizations.
- Some plans were established as Funds managed by Trustees to remove compensation to brokers; they deal directly with insurers.
- Typically plans are diverse and try to offer some flexibility to members.
- Some Associations identified unrealistic expectations of member organizations around the cost of benefits as being an issue.

Consultations with associations not offering umbrella plans

There are still a large number of Associations that do not have employee benefits plans. Many of these Associations have considered addressing this need, and some have actually had plans at some point in the past.

- Some Associations have had plans in the past but found them too costly to administer, both in terms of the plan costs themselves and the administrative support costs required within the Association office.
- Some Associations have investigated setting up a plan but have found it difficult and costly.
- Associations often get calls from member organizations looking for affordable benefits, in particular small agencies with 5 or less employees.
- One Association conducted a survey to determine how many of their member organizations were offering benefits; they found that 100% of larger VSOs offered benefits versus 64% of small agencies. (Size was not defined)
- The fact that funding guaranties are not given and that staff turnover is higher and staff retention lower than in other sectors creates an impression of instability amongst VSOs. This and other factors creates an environment of significant disadvantage for VSOs as compared to the private sector or government sectors.
- The lower average wage in the Voluntary Sector means that workers have less capacity to contribute to premiums. Shared cost models have become one way to continue to provide employee benefits plans in a very inflationary marketplace.
- Low salaries in the sector also translate into poor/minimal benefits because when costed as a percentage of the salary and wages budget, the available funds cannot purchase reasonable levels of benefit.
- Associations identified the need for plans that are geared to small organizations, that offer affordability but can address their uniqueness and provide a reasonable level of benefit

Consultations with insurers/brokers

In large part, the Insurance Industry does not see the Voluntary Sector as a market of choice. The costs normally associated with administration on small accounts, the margins on these accounts and the apparent risk associated with them, tend to turn carriers and brokers away from this business.

- Brokers find that obtaining quotations and placing coverage has been very challenging, as insurers are not aggressively writing business in the not-for-profit sector (white collar corporations tend to be more favourable risks).
- Brokers indicate that, as stand alones, VSOs are at the mercy of the market, or may not have any access to benefits. It is essential to bring best practices and insurance skills to a plan. Some Brokers may help out with administrative functions occasionally to alleviate the administrative load to a VSO.
- Some Brokers have adapted to new ways of conducting business in the Voluntary Sector. These new methods include providing education to carriers

about the sector and the client group and to clients about the nature and best practice approaches to employee benefits plans.
- Most carriers admit that they do not actively target the Voluntary Sector as a market of choice.
- Some insurers offer benefits to not-for-profits on a case-by-case basis.
- Insurers have grave concerns about writing business for small groups with poor experience or no experience (those looking for benefits for the first time).
- Association plans are more attractive to the insurers as opposed to individual employers. This provides natural opportunities for pooling risk, the community of interest is seen as a positive factor in risk management, and the plans are usually of a reasonable size.
- All insurers indicated they would not write business for a group with 3 or less employees.
- All insurers identified that the funding of the sector is perceived as unstable and increases their risk.
- Typically, insurers view the not-for-profit organizations as having a 'swinging door' with employment stability issues; this is a factor for them when assigning risk.
- Actuaries have typically assigned a high risk in the sector due to a female dominated work force with higher than average plan utilization.
- Cost sharing arrangements between employer/employee are being viewed by insurers as an adverse factor in plan cost management. The general view is that cost sharing increases plan utilization, i.e. "I'm paying for some of this – I'm going to use it".
- Insurers recognize that renewal increases are difficult for agencies to fund.

Consultation with funders

Funding models and funders' approaches also can have a direct impact on the Sector's access to and ability to afford employee benefits plans.

- In general, funders look at total compensation, rather than salaries and benefits as separate line items. The inflationary and marketplace factors for these two components of compensation can be quite different.
- Core funding is very rare, and as a result, building in a budget line for benefits becomes increasingly challenging when an organization's work is being funded on a project basis. Most existing core funding has been flat-lined for a number of years. Funders are being approached to help organizations pay for cost of living increases, inflation, rising benefits costs, etc. as part of project funding commitments.
- Funders are very concerned about the complexity of funding initial costs of benefits if they cannot fund incremental increases from year to year. Inflation factors in drug costs and other health services, have been very high over the past several years, and funders do not believe that it is possible to provide for these increases year over year.
- Some agencies have communicated grave concerns around rising costs of premiums and their inability to pay for those increases to the funders.
- In some cases, organizations will not request funds for benefits from project funders because it creates inequities between their 'permanent' staff, who have no benefits, and their 'contract' staff.
- Government funders are reluctant to set salary and benefit 'benchmarks' to avoid the expectation that they will fund according to those benchmarks.
- If there are additional funds available through core grants, the funders prefer the money to be applied to enhance programs/service or add new programs.

- Government funders rarely stop funding an organization, but no new transfer payment money is available. Any "core" funding that exists is being given to strong, established organizations.
- Funders are quite familiar with the concerns of organizations regarding employee retention and recruitment (Some organizations experience staff turnover as high as 80% per year).

Consultation with communities of interest

It has not been an uncommon experience that some communities experience even greater difficulties than others. Organizations serving the needs of individuals with disabilities, or families or individuals with special needs often find it even more difficult to access employee benefits coverage. Some of the reasons may be real and some may be misconceived.

- Organizations are often seen to be hiring employees from amongst their client group. Insurers will meet this practice with higher premiums. In some cases, insurers will refuse to quote these organizations.
- The range of organizations affected is quite wide and can include those serving the needs of persons with disabilities, persons living with HIV/ AIDS, older adults, alcohol or drug treatment organizations, and so on.
- Sometimes this practice can and does result in higher risk for the carrier and employer, but sometimes does not. Insurers have not been prepared in the past to make the distinction.

Consultation with VSOs

Organizations in the voluntary sector have had a variety of experiences with respect to accessing and affording employee benefits plans. Their general inability to provide both competitive salaries and employee benefits makes it difficult for some of them to compete for top talent. Well funded agencies in sub-sectors that are receiving funder attention have a significant advantage, and we have seen evidence of "head-hunting" amongst "competing" non-profits for good talent. The issue of employee benefits specifically (and compensation practices in general) is also relevant to providing a service delivery environment that gives all VSOs a fair opportunity to provide the highest level of service possible to their service users.

- VSOs have found that benefits not readily available to small groups. When they can find benefits, they are generally too expensive.
- Lack of education amongst VSOs about what benefits plans are, how they are structured and how to maximize their utility without attendant cost, results in inappropriate plan design and inordinate usage
- Lack of interest from some insurers and brokers results in low levels of service provision, i.e., 'You get a quote from them and never hear from them again'.
- Prescription costs and disability claims keep rising and this affects premium rates.
- Some existing plans provide a very minimal level of benefit, leaving very little room to trim costs and keep the plans affordable.
- Funders do not provide funds to deal with increases in benefit costs.
- Some agencies have not been able to find benefits except through joining pooled plans.
- Premium increases based on experience and inflation have been a tremendous challenge; agencies look to changes in plan design to reduce premiums (often this means reducing the level of benefit to staff).
- Two VSOs that we are aware of recently added a group plan for their staff. Prior to that they compensated staff with a percentage of their wages in lieu

of benefits. One organization paid 10% each pay while another paid 5% pro-rated quarterly. The impetus for implementing benefits plans in these cases was to establish long-term stability, employee protection, a sense of obligation to employees by Boards, and a need to remain competitive for attracting new employees.

- Some VSOs that have been successful in establishing a viable plan have credited a knowledgeable broker or Association who have provided assistance and education around plan design and administration.

Barriers

All of the information from the interviews and from our own experiences have been filtered down to the categories below. While it is possible that this is not all that there is on the subject, the following list represents the primary challenges in addressing the crucial issue of providing access to affordable, high quality employee benefits programs for Voluntary Sector Organizations.

Organizational

- Organizations do not have the financial resources (funding) to ensure a stable work force.
- Budget allocation for benefits is minimal, at best, for most agencies.
- VSOs that have the practice of hiring their clientele are perceived as a poor risk by the insurers. Stressful work environments, overworked employees, older workforces, and poor wages are contributing factors to higher than normal disability rates, and subsequently lead to an adverse effect on Long Term Disability premiums.
- Lack of long range planning by employers and employees around sustainability of benefits plans is of significant concern.
- Inequity of salaries and benefits that exists between the Voluntary Sector and other sectors where employees perform the same work has resulted in high staff turnover, particularly for small community-based not-for-profits.

Affordability

- Benefit costs are increasing at an alarming rate. Many agencies that are not part of a group plan are being cancelled by insurers and are being forced to go out to market.
- Associations are concerned about the competitiveness of their plans.
- Many employees are contributing to the cost of their benefits, which, given their lower than average wages, is a hardship. Often, when given the choice, employees will ‘opt out’ of benefits because they either don’t see the value in the benefits or must make hard choices around compensation allocation.
- Funders are not providing additional grant dollars to assist agencies with cost of living increases, inflation, rising cost of benefits, etc. Most government-funded agencies have not received an increase in their core grants for upwards of 10 years.
- Securing reasonable rates for group plans is a significant challenge. Associations indicated that insurers do not consider the voluntary sector a ‘good risk’ because they; a) do not understand the nature of most not-for-profit work, b) view the sector as poorly funded, c) perceive them to have an unstable work force (‘revolving door’), d) have a high percentage of part-time employees.
- Long-term disability rates are higher than in the private sector due to assumptions about disability factors used to rate occupations.

- Many plans have had to scale down their benefits to deal with increases in premiums resulting in minimal coverage for employees. Employers have been forced to choose between health/dental coverage and disability insurance.
- Organizations considering cost saving measures have to choose between programs/services and comprehensive benefits for employees. In some cases, organization must decide between 'keeping their doors open' and reducing or eliminating benefits.
- Some Associations have dropped their plans because of the costs of administration. This has resulted in fewer options being available for employers seeking coverage through group plans (particularly employers with less than 5 employees).
- Many VSOs that do not receive any funding from government funders have found it impossible to afford to offer benefits to their employees.

Knowledge

- With many insurers merging, lack of competition and choice has restricted the market.
- Insufficient knowledge of the sector on the part of the insurance industry has had the effect of driving premiums up.
- Lack of knowledge of options in the marketplace on the part of VSOs has resulted in some organizations either not getting access to coverage or paying inordinately high premiums.
- Lack of cost containment strategies by employers results in high claiming patterns and, in some cases, unnecessary spending.
- Lack of awareness around the value of benefits to the overall 'health' of an organization, counteracts motivation to pursue and resolve the issue.
- Lack of knowledge on the part of employees about their benefits plans keeps them from being active "partners" with their employer in managing cost.
- Lack of education and training of Administrators of VSOs around administering benefits presents challenges that include the understanding of cost sharing requirements, tax reporting of benefits, timely and accurate reporting of staffing changes, continuation of benefits, etc. Not having a dedicated staff person for these tasks is a contributing factor.

Additional comments

Inflation in employee benefits is substantially higher than the average inflation. Drug costs increase from 15% to 18% annually due, for example, to many new and more effective drugs coming on the market, long-term patent protection, and aggressive marketing. With fewer plan carriers in the market, the lack of competition allows rates (particularly in Life and Disability insurance) to increase with no viable alternative. Little or no funding increases mean that agencies are not in a position to match the inflationary influences on their plans.

Many organizations are at the mercy of the market and can find few that carriers are interested in their business. When funds cannot keep pace with cost increases, employees are often expected to take on a larger piece of something they ought not to be paying for in the first place.

While affordability is not an issue that is limited to the non-profit sector, the additional barriers and misconceptions they face are a burden the sector has neither the resources nor expertise to address. Insurance companies establish guidelines to their underwriting process many of which, if followed, effectively exclude many non-profit organizations. For example:

- Maximum acceptable levels of government funding as a percentage of an overall budget can be as little as 50%. Most agencies receive up to 100% government funding (fear funding could be withdrawn at any time).
- Requirement that agency have an existing insurance plan (effectively excluding new agencies and agencies coming into a position of being able to afford coverage).
- Agency can demonstrate political viability (provides a publicly-acceptable service)
- Agency provides a service as opposed to information/education.
- Contract workers may need to have 24+ month contracts providing a continual and integral service to agency.

The liability risk inherent in an agency not having the resources or capacity to effectively administer the plan can be high. An employer has obligations to enrol and maintain the coverage for its employees. An omission has the potential to cost 10's if not 100's of thousands of dollars.

A national organization agreed to post this policy on www.hrcouncil.ca as part of the HR Toolkit. Sample policies are provided for reference only. Always consult current legislation in your jurisdiction to create policies and procedures for your organization

Developing human resources in the voluntary sector

Employee benefits research

APPENDIX

Umbrella organizations
United Way Canada; Jacques Berube
United Ways of Atlantic Canada; Evelyn Barkhouse
United Way of the Alberta Capital Region; Barbara Penney
United Way Vancouver, Lower Mainland; Warren Olsen
United Way Calgary; Cheryl McGillvary
United Way Toronto; Carolyn Sipin
United Way Winnipeg; Bev Passey
United Way Quebec City; Diane Bourjeous
United Way Montreal; Linda Tremblay
United Way Peel; Shirley Crocker
United Way London; Tom Stuart
United Way Windsor; Sheila Wisdom
member agencies delivering social services in the community

Parks & Recreation Ontario (PRO); Larry Ketchinson
member agencies involved in delivering recreation, sports and parks programs/services in Ontario

Coalition of Ontario Voluntary Organizations (COVO); Joan Christensen
members comprised of Provincial Associations, Province-wide Organizations, local Organizations (i.e. Volunteer Centres)

Association of Interval and Transition Houses; Eileen Morrow
members providing short term housing and shelter for individuals

Canadian Centre for Philanthropy; Joyce Badley
membership primarily consists of organizations that have a fundraising mandate/program

One Step (Ontario Network of Employment Skills Training Project); Barbara Williams
membership of not-for-profit, community based agencies that deliver employment programs

Ontario Rural Council; Kathy Brown
council represent a cross-sector of organizations interested in rural issues

Ontario Sport Alliance; Blair McKenzie
members consist of Associations that represent member agencies delivering sport & recreation programs

GAIN; Neil Iddon
Employee Benefits Strategy for the Voluntary Sector - Report #1: Barrier Identification members are not-for-profit agencies that receive products and services and access to insurance

Ontario Non-Profit Housing Assoc. (ONPHA); Leah Beck
membership consists of not-for-profit housing organizations

Ontario Community Support Association (OCSA); Joe McReynolds, Susan Thorning
members are agencies delivering community support services

YMCA; Steve Boone
provide programs and services for children, youth, adults and the physically challenged

Red Cross; Karen Iddon
branches deliver homemaking services and community support services to the elderly and disabled

In Kind Canada; John Page
members are exclusively Canada-wide charities

Ontario Federation of Community Health & Addiction Programs; David Kelly
membership is made up of organizations which provide community mental health services and non-service alternatives

OASSIS Group Employee Benefits Plan; Karen Bentham
made up of four sponsoring Associations (In Kind Canada, OCSA, CACC, OACAO) providing access to employee benefits for their member agencies

Canadian Council of Christian Charities; Frank Leullan
membership of religious charitable organizations

Health Care Benefit Trust of B.C.; Jennifer Fleming
group benefits plan for membership in the not-for-profit sector, primarily delivering community and health services

Service Employees' International Union (SEIU); Robert Davidson
union representing employees that work in acute care, nursing, retirement homes, nursing homes, homecare

Canadian Society of Association Executives (CSAE); Wendy Sue Lyttle
members are CEO's and Administrators of trades, charities and health care organizations

Community Care Access Centres (CCAC's); Suzanne Jones
provide community support services to the elderly and disabled

Ontario Coalition for Better Child Care; Cheryl DeGraw
members are local child care providers

Boys and Girls Clubs of Ontario; David Rew
membership of 22 local Boys and Girls Clubs

March of Dimes; Wendy Lui
an organization that provides services to adults with disabilities

Ontario Public Service Employees' Union (OPSEU); Marsha Gillespie
union organization made up of public sector employees (college, government, ambulance, community living, children's aid, child care)

Funders
Trillium Foundation; Brian Conway
project funders in Ontario

Ministry of Health, Long Term Care Division; Nello DelRizzo
Ministry of Health, Policy; Irv Kirstein
core funders of organizations providing programs and services in the health sector

United Way Toronto; Carolyn Sipin
project funders in the Greater Toronto Area

Ministry of Community, Children and Family Services; David Mason
core funders of organizations serving children, families and communities at large

Voluntary sector organizations
Hamilton Community Foundation; Caroline Milne, Annetta Quinn
support community organizations by providing grants

East Scarborough Boys & Girls Clubs; Sun Loo
provide programs and services to boys and girls in the community

Volunteer Centre of Toronto
provide volunteers to community agencies, recruitment and training of volunteers

The 100+ non-profit organizations currently covered by our plan
These include organizations in virtually every sub-sector of the Voluntary Sector

Insurers, brokers & third party administrators
Employee Benefit Plan Services; Brad St.Clair
third party administrator with clients that include a not-for-profit group employee benefits plan (OASSIS)

Mercer Human Resource Consultants; Pam Hinam
insurance broker for the United Way Plan Atlantic Canada

Donnelly Group; Dennis Donnelly
insurance broker for many not-for-profit groups including the Community Care Access Centres, charities, Archdiocese of Toronto

Manulife; Ezaque Lopes
insurance company

Sun Life; Lisa Coplan, Kelly Ryan
insurance company

Great West Life; Geoff Maier
insurance company

Canada Life; Mary Anne Brabers
insurance company

Green Shield; Jeff Brown
insurance company

The Co-operators Life Insurance Company; Judy Bacsu
insurance company

Other sources
Watson Wyatt Consultants; Larry Barnsley
provide consulting services to organizations in the area of employee benefits, pension plans, human resources

Chris Higgins; Former Executive Director and voluntary sector consultant

Organizations contacted; not available for interview
National Boys & Girls Clubs
Community Home Support Services in Vancouver
Ontario Council on Social Development
Ontario Council of Agencies Serving Immigrants (OCASI)
United Way – Ottawa
Coalition of Rape Crisis Centres