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Evaluating the CLASS Act:

How public employers can leverage voluntary benefits

By Editorial Staff

April 12, 2010

Public-sector employers that devote enough resources to the design, underwriting, administration and pricing of voluntary benefits will reap the rewards of offering a valuable service that can help their employees survive a difficult economic climate and ease the sting of benefit reductions.

The conclusion comes courtesy of The Segal' Company's March 2010 Public Sector Letter detailing an analysis entitled ["Managing Through Fiscal Stress: Voluntary Benefits Expand Coverage Options."](#)

The findings suggest that "voluntary benefits aren't being used as strategically as they could be," says Howard B. Goldsmith, senior vice president with The Segal Company. "In many cases, individual programs were set up without an overarching strategy of what can be significant, meaningful and important to the workforce."

In a sign of the times, Segal researchers noted that employee stress is expected to continue into the economic recovery, especially in the public sector where scores of workers have been laid off or furloughed amid dwindling revenues and soaring benefit obligations. Indeed, the [Center on Budget and Policy Priorities](#) reports that 48 states face shortfalls totaling \$196 billion in their budgets for fiscal year 2010, described as "the largest gaps on record," or have already addressed this issue.

Poised for growth

Public employers have long been known for offering heavily subsidized benefit packages as part of collectively bargained agreements to better compete with private enterprises. Given this fact, the deep prevalence of voluntary benefit plan sponsorship in this sector might come as somewhat of a surprise.

Nearly 90% of the 569 U.S. municipalities, states, educational institutions and other public entities responding to the recent ["Trends in Public Employee Plans"](#) survey co-sponsored by the International Foundation of Employee Benefit Plans (IFEBP) and State and Local Government Benefits Association offer or are planning to offer voluntary benefits.

The level of plan sponsorship mirrors a more expansive 2009 IFEBP survey of 833 benefit professionals from both public and private organizations co-sponsored by *Employee Benefit News*, which found that all employers are increasingly turning to a strategic mix of employer-sponsored and voluntary benefits.

That research, ["Top Trends in Voluntary Benefits: Survey Results,"](#) noted that "voluntary products seem positioned for rapid growth because payroll deduction and workplace benefit shopping are powerful motivational tools and because workers are taking more accountability for their futures, preferring to pick and choose the benefits they want and can afford."

Sally Natchek, IFEBP's senior director of research, says "public employers are turning to voluntary benefits just as much as corporations in order to round out the benefits package," adding that such action is part of a larger trend that has been taking shape for many years. "I think we're going to be seeing more of that because of the aging public workforce and increased cost-sharing that has occurred."

Product comparisons

A comparison of 20 leading voluntary products or services based on several IFEBP surveys noted that public employers and corporations ran neck and

neck on a few of those offerings, as well as giving serious consideration to those benefits.

Still, the public sector is more inclined to offer or consider dental insurance than private employers (54.6% versus 48.4%). The same is true for retiree medical or Medicare supplemental insurance (47.7% versus 20.9), long-term disability insurance (52.3% versus 49.6%), short-term disability insurance (45.4% versus 41.8%), cancer insurance (33.6% versus 29.6%), wellness screenings (37.4% versus 35.8%), a college savings plan (27.4% versus 20.9%) and debt counseling or financial planning (23.3% versus 22.3%).

Corporations, however, were more likely to offer or consider a host of other voluntary benefits than public employers, including term life insurance (73.4% versus 63.5%), vision insurance (52.9% versus 51.6%), long-term care insurance (50.9% versus 49.1%), accident insurance (49.1% versus 37.9%), permanent life insurance (27.3% versus 26.9%), a legal services plan (36.4% versus 24.6%), automobile insurance (32.4% versus 12.1%) and homeowners' or renters' insurance (28.6% versus 8.9%).

Segal researchers found that public-sector employees who are given the opportunity to purchase voluntary benefits usually participate in term life and short-term disability insurance, but shy away from long-term disability and long-term care insurance.

“At the heart of voluntary benefits is that every individual has a different need that allows people the opportunity to select and pay for at favorable rates the types of coverage that could be more meaningful for them,” Goldsmith observes.

Finding the right mix of voluntary options requires an inclusive strategy wherein all of the multiple stakeholders in the public sector identify those benefits that they believe “will maintain meaningful health coverage and financial security,” according to Segal. Another suggestion is that employers consider reintroducing underused benefits in the context of employee needs rather than strictly from a cost standpoint.

Filling coverage gaps

Mindful that core or ancillary benefits may fall short of adequately addressing an employee's personal, legal and financial needs, Segal suggests that employers take a proactive stance to fill any coverage gaps. One example is offering financial planning on a voluntary basis to help employees who saw their defined contribution retirement plan accounts dwindle.

When voluntary benefit programs are based on employee feedback and choice, Segal notes that the thinking is they can result in more prudent benefits utilization and job satisfaction, as well as better serve as an employee recruitment and retention tool.

Segal also points out that the size of public employers relative to most private companies could serve as an advantage in negotiating with new vendors. The trouble is that as benefits offerings have become more complex in recent years, insurance carriers have narrowed their portfolio of services and broker-administrators have been developing specialized expertise to support limited benefit platforms.

As such, the consulting firm recommends that the vendor-selection process for public employers sufficiently spell out product pricing, underwriting, renewal terms and performance standards, as well as details on payment methodology and benefits administration – all of which can serve to help leverage their buying power.

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