



# Benefit Plan Provisions & Considerations

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# Agenda

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- ❖ General Provisions
- ❖ Benefit Plan Design
- ❖ Benefit Program Considerations
- ❖ Cost Containment for Health and Dental

# General Provisions

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- ❖ Participation in the plan
  - Usually a condition of employment
  - Contributory vs. Non-Contributory
  - Mandatory vs. Non-Mandatory
- ❖ Waiting Periods
- ❖ Eligibility criteria includes
  - Permanent employment status vs. contract status
  - Minimum number of hours per week (usually 20 or more)

# General Provisions

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## ❖ Eligibility criteria (cont'd)

- Dependents:
  - ❖ Spouse (married, common law, same gender)
  - ❖ Children (under 21 or up to age 25 if enrolled in post-secondary institution)
- Active employees
  - ❖ Include retirees?

## ❖ Termination

- Typically earlier of retirement or specified age (varies by benefit)

# Plan Design – Basic Life

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- ❖ Term Insurance – no cash value
- ❖ Does not replace individual insurance
- ❖ Either a formula based on annual earnings, ranging from 1 times to 5 times earnings (typically salaried employees) or a flat amount of coverage (hourly employees)
- ❖ Non-evidence and overall maximums
- ❖ Waiver of Premium

# Plan Design – Basic Life

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- ❖ Reduction Provision: most common is coverage reduces by 50% at age 65
- ❖ Termination: common is earlier of certain age (i.e. 65 or 70) or retirement
- ❖ Upon termination of coverage, the employee has a right to **convert** their insurance to an individual plan, provided they are under the age of 65 at the time of conversion
  - Minimum guidelines established by the CLHIA
  - Maximum of \$200,000
  - Evidence of good health not required – but expensive
  - At reduction of coverage or only at termination?

# Plan Design – Basic AD&D

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- ❖ Amount of coverage usually matches Basic Life Insurance
- ❖ Provides extra coverage in the event of accidental death or accidental dismemberment
- ❖ Can include ancillary benefits such as: seat belt benefit; repatriation; rehabilitation; home and vehicle modification; family transportation; and education benefits
- ❖ Coverage terminates at the same time as Basic Life Insurance

# Plan Design – Optional Life and Optional AD&D

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- ❖ Coverage usually available in units of \$10,000 to \$250,000 or \$500,000
- ❖ Coverage available to the employee and their eligible spouse
- ❖ Coverage is medically underwritten and requires approval by the insurance company
- ❖ Coverage terminates at the same time as Basic Insurance coverage



# Plan Design – Dependent Life Insurance

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- ❖ Covers the employee's spouse and dependent children for a specified amount of insurance
  - Common amount of coverage is \$10,000 on the spouse and \$5,000 on each child
  - Coverage for newborn children commences from as early as 26 weeks gestation or after 14 days
- ❖ Coverage usually terminates at the same time as Basic Life Insurance

# Plan Design – Salary Continuance

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- ❖ A method in which an employer may self-insure short-term disability claims
- ❖ The disabled employee continues to receive a paycheck from the employer (full or partial)
- ❖ Medical proof of disability is usually required after 3-5 business days
- ❖ With privacy issues, third-party adjudication may be an option

# Plan Design – Short Term Disability

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- ❖ Insured or self-insured
- ❖ Payable for illness/injury
- ❖ Weekly payments, typically for 17 to 26 weeks
- ❖ Benefit paid is usually a % of pay (e.g. 60% or 66.67%)
- ❖ Must be used before LTD starts
- ❖ Benefits are taxable to employee unless 100% employee paid
- ❖ Waiting periods before the plan starts for:
  - Accident
  - Hospitalization
  - Illness

# Plan Design – Short Term Disability

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## EI Integrated Plans

- ❖ Supplementary plan (E.I. Top-up)
  - Regular benefit minus EI benefit
    - ❖ Example
      - ❖ Salary - \$50,000; STD Plan is 60% of salary
      - ❖ EI pays \$468/week
      - ❖ 60% of salary is \$577
      - ❖ STD benefit = \$109
- ❖ Wrap Around Plan
  - Does not pay while EI pays
  - EI has 1 week elimination period and pays benefit payments for 15 weeks
    - ❖ Example
      - ❖ Wrap around plan with a 26 week benefit:
      - ❖ First week and last 10 weeks are paid

# Plan Design – Long Term Disability

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- ❖ Arguably most important coverage for employees to have
- ❖ Monthly payments begin after short-term disability completed
- ❖ Most plans continue to age 65 – although some terminate after 5 or 10 years of payment
- ❖ Benefit not reduced by individual disability benefits received
- ❖ Eligibility Period
  - Represents the waiting period before payment period begins
  - Coordinated with the short-term disability duration to avoid gap/overlap of coverage
  - Varies from 3 to 24 months duration before coverage begins
  - Most common periods are 4 months or 6 months

# Plan Design – Long Term Disability

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## ❖ Benefit Schedules:

- 66.67%, 70% or 75% of monthly earnings when benefits are taxable to the employee
- 55%, 60% or 66.67% of monthly earnings when benefits are not taxable to the employee
- Due to the All-Source Maximum, tiered formulas are most effective employee pay-all plans (non-taxable)
  - ❖ Example of Tiered Formula:  
66.67% of the first \$2,250 of monthly earnings,  
plus 60% of the next \$2,250 plus 50% of the balance
- Flex plans may provide choice of LTD coverage
  - ❖ Example of Flex Options:  
60% benefit as the 'core' plan (mandatory)  
70% benefit available by paying additional premium

# Plan Design – Long Term Disability

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- ❖ Goal is to insure as much of all employees' incomes as possible
  - Example:
    - ❖ Highest salary in group is \$100,000
    - ❖ Taxable benefit with 70% schedule
    - ❖ Set maximum in \$6,000 range
- ❖ Non-evidence maximum (NEM) is usually defined and can be lower than the overall maximum
- ❖ Definition of earnings same as for Life Insurance

# Plan Design – Long Term Disability

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## Direct Offsets:

- ❖ CPP/QPP – Primary benefits only
- ❖ WSIB – or Workers Compensation (may not apply if award is for unrelated disability)
- ❖ Other sources of income, excluding 50% of rehabilitation earnings during approved return to work plan
- ❖ Retirement income as applicable

## Indirect Offsets:

- ❖ To avoid over-insurance and to provide an incentive to return to work, insurers impose an **all-source maximum**
- ❖ 85% of gross pre-disability earnings if LTD benefit is taxable
- ❖ 85% of net pre-disability earnings if LTD benefit is non-taxable



# Plan Design – Long Term Disability

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## Definition of Disability:

- ❖ Most common definition – 24 Month Own Occupation
  - A disabled employee will receive benefits for 24 months after the elimination period if unable to perform duties of their own occupation. Subsequently, the definition changes to the inability to perform any other occupation for which the individual has education, training or experience
- ❖ Other types:
  - Any occupation
  - 5 year own occupation, thereafter any occupation
  - Own occupation to age 65 (much less common)

# Plan Design – Long Term Disability

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## **Cost of Living Adjustment (COLA):**

- ❖ Optional feature
- ❖ Intended to increase the monthly benefit annually, to keep up with inflation
- ❖ Adjustment % varies from 1% – 5%
- ❖ Often tied to Consumer Price Index
- ❖ Costly provision (+5% to +25%)
- ❖ Most plans do not include COLA

# Plan Design – Long Term Disability

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## **Pre-Existing Conditions Clause:**

- ❖ Included in vast majority of plans
- ❖ Designed to protect against adverse selection
- ❖ Medical conditions that existed prior to an employee joining the plan are excluded
- ❖ Most common is 3/12: *“A pre-existing condition for which an employee took prescribed drugs or received medical treatments during 3 month period immediately prior to effective date of coverage, will not be covered unless the employee has been insured under the policy for at least 12 months.”*

# Plan Design – Long Term Disability

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## Other Provisions:

- ❖ Waiver of Premiums
- ❖ Recurrent total disability
  - During the elimination period
  - During the benefit payment period
- ❖ Rehabilitation earnings (offset 50%)
- ❖ Exclusions and Limitations – typical examples:
  - Not participating in an approved rehabilitation program
  - Injury resulting from a criminal offence including disability resulting from an accident which occurs while the employee's blood alcohol level exceeds 0.08%
  - If the claim is due to a self-inflicted injury or attempted suicide
  - If disability occurs while on strike, layoff, leave of absence, etc.

# Disability Management Philosophy

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- ❖ **Prevention** – EAP / Wellness Plans; Absenteeism monitoring; Workplace safety and ergonomic studies; Psychological workplace safety
- ❖ **Protection (Rules and Regulations)** – Ensure contract or plan document provides few barriers to rehabilitation; Seamless plan for return to work (no gaps); use of professionals to adjudicate medical proof even if salary continuance (can be ad hoc); contract (encourage return to work)
- ❖ **Rehabilitation** – Work is part of recovery; early intervention; network of providers, especially for mental and nervous conditions, musculoskeletal disease, rheumatoid arthritis, asthma and diabetes; pro-active early intervention solutions

# Group Health and Dental Benefits

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## Terminology:

- ❖ **Medically necessary** - Treatment must be deemed to be medically necessary to be eligible
- ❖ **Reasonable and customary** - Reimbursement for an expense is limited to a cost that is “reasonable” according to adjudicator’s database
- ❖ **Out of pocket** - The portion of the claim the member pays
- ❖ **Coordination of Benefits (COB)** - The process of managing claims where both spouses are participating in a benefit program

# Group Health and Dental Benefits

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## Terminology (Cont'd):

- ❖ **Alternate Benefit Clause (ABC)** - Where there is more than one possible course of treatment, reimbursement is limited to the least costly option
  - Example: dental payment of a porcelain crown would be cut back to the cost of a stainless steel crown
- ❖ **Explanation of Benefits (EOB)** - The form returned to employees which explains the benefits paid or declined. Can be received either electronically or paper version

# Plan Design – Extended Health and Dental Care

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## Common Features:

- ❖ Annual deductibles (i.e. \$50 single / \$100 family)
- ❖ Reimbursement/Co-insurance levels (i.e. 100%, 90%, 80%, etc.)
- ❖ Premium cost-sharing: some plans require the employee to pay a portion of the premium rate, i.e. 25%
- ❖ Minimum 50% employer funded



# Plan Design – Extended Health Care

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## **Drug Plan Features:**

- ❖ Reimbursement level
- ❖ Dispensing fees
- ❖ Drug Formulary:
  - Mandatory Generic Substitution
  - Tiered Formulary
  - Frozen Formulary
- ❖ Direct payment versus reimbursement
- ❖ Lifestyle drugs: anti-obesity, fertility, sexual dysfunction, anti-smoking
- ❖ Vaccines
- ❖ Prior Authorization

# Plan Design – Extended Health Care

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## **Hospital Coverage:**

- ❖ A hospital is a facility that:
  - Is licensed to provide diagnosis, major surgery, care and treatment on an in-patient basis
  - Nurses and doctors are available 24 hours per day
  - Excludes nursing and retirement homes
- ❖ Coverage typically is unlimited and reimbursed at 100% for the difference between ward and semi-private accommodation
- ❖ Charges such as telephone and television are not eligible
- ❖ Medically necessary services (nursing, drugs) are not eligible as these are covered under hospital's global budget

# Plan Design – Extended Health Care

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## **Paramedical Practitioners:**

- ❖ Can include the following types of professionals
  - Chiropractors, massage therapists, physiotherapists, psychologists, psychologist/social workers, acupuncturist, dietician, podiatrist/chiropracist
- ❖ Level of coverage can include:
  - Annual maximum per practitioner such as \$500
  - May also include a per visit maximum
  - Combined annual maximums increasing in popularity in combination with individual maximums

# Plan Design – Extended Health Care

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## Vision Care:

- ❖ Covered items may include lenses, frames, contact lenses, eye exams, laser eye surgery
- ❖ Must be prescribed by a licensed optometrist or ophthalmologist
- ❖ Coverage is usually limited to a \$ amount every 2 years (e.g. \$200) – time period may be different for dependent children
- ❖ Common to include coverage for medically necessary contact lenses

# Plan Design – Extended Health Care

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## **Medical Services and Supplies:**

- Orthotic and orthopedic shoes
- Hearing aids
- Support stockings
- Eye exams (if not covered under Vision)
- Private duty nursing
- Ambulance
- Accidental dental
- Durable medical equipment

# Plan Design – Extended Health Care

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## **Out of Province/Canada Coverage:**

- ❖ Coverage may include emergency and referral services, for a specific number of days
  - Emergency is an unforeseen event
  - Referral means the treatment must not be available in province of residence. Prior approval is required
  - Must be in stable medical condition
- ❖ Reimbursement is often coordinated with a specialized provider (Travel Assistance)

# Plan Design – Dental Care



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- ❖ **Dental Fee Guide:** Current, lagged or frozen; GP?
  - ❖ **Basic Services:** Diagnostic (x-rays) and preventative services (recall exams, fillings, etc.)
    - Recall exams limited to every 6 or 9 months
    - 80% – 100% reimbursement
    - Can be unlimited or include annual maximum such as \$1,000
  - ❖ **Supplementary services:** Endodontic (root canals), periodontics (scaling) and denture repairs, relining and rebasing
    - 80% – 100% reimbursement
    - Can be unlimited or include annual maximum such as \$1,000 combined with Basic

# Plan Design – Dental Care

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- ❖ **Major Services:** Crowns, bridges, dentures and implants
  - Performed by general dentist or specialist
  - 50% to 60% reimbursement
  - Annual maximum ranging from \$1,000 to \$2,500
  - Replacement appliances usually not eligible for coverage if less than 3 years old
  - Additional lab fees may apply
- ❖ **Orthodontics:** Braces, bruxism appliances and temporal mandibular joint (TMJ) treatment
  - 50% to 60% reimbursement
  - Usually a lifetime maximum (\$1,000 to \$4,000)



# Plan Design – Health Care Spending Account (HCSA)

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- ❖ Benefit dollars are allocated to employees on an annual basis
- ❖ Unused benefit amounts or expenses may be carried forward 12 months
- ❖ HCSA dollars may be used to cover deductibles, co-payment amounts or reimburse ineligible Health or Dental claims
- ❖ Definition of a dependent same as Revenue Canada
- ❖ Eligible expenses are the same as eligible under Revenue Canada's list of Medical Expenses

# Benefit Program Considerations

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- ❖ Multi-generation employee populations
  - Boomers vs. Millennials
- ❖ Employer's objectives in providing benefit plan
  - Attract/retain vs. Compensation
- ❖ Impact to Employee engagement and retention
- ❖ Affordability of the benefits program

# Cost Containment – Health Care

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## ❖ Drugs

- Reduce reimbursement and/ or implement a “sliding coinsurance/reimbursement”
- Move from prescribed (OTC) to legally requiring a prescription
- Add a dispensing fee maximum or per prescription deductible (average dispensing fee in Ontario in 2014 was \$11.13 (per Telus Health))
- Mandatory generic substitution or other formularies
- Ensure Prior Authorization is set up
- Remove lifestyle drugs

# Cost Containment - Health

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- ❖ Hospital
  - Add a limit on number of days coverage
  - Implement a dollar maximum per day
  - Consider eliminating entirely – provincial ward coverage remains available
- ❖ Paramedical
  - Implement an overall annual combined maximum (i.e.. \$750 combined annual maximum as well as \$500 for each practitioner)
- ❖ Vision
  - Reduce or pay through Private Health Services Plan/Health Care Spending Account or eliminate entirely

# Cost Containment - Dental

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- ❖ Limit maximum benefits payable or combine with other coverage levels
- ❖ Reduce reimbursement levels
- ❖ Move some services (i.e. perio/endo) to major category or limit reimbursement amount
- ❖ Exclude specialist fee guide
- ❖ Allow orthodontic coverage for dependent children under age 18 only
- ❖ Reduce recall frequencies
- ❖ Lower scaling limits within the periodontal services or combined overall number of units for plan
- ❖ Consider fee guide lag of 1 or 2 years