

Raining on your benefits parade

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Mark Halpern, of illnessprotection.com, says you can think of a job with benefits as someone handing you an umbrella to cover against risk, but as soon as you leave, they take the umbrella. Jeff J. Mitchell/Reuters files

What is the real benefit of having a job with benefits? Employees might find out pretty soon.

One of the leading trends is for companies to switch to defined contribution plans for all benefits and not just pensions, says Marilynne Madigan, managing partner of Morneau Shepell, which provides human resource consulting.

“The cost of benefits is becoming increasingly higher for employers, especially with higher health-care costs,” Ms. Madigan says. “Employers are looking for how they can minimize employee costs.”

There is little question one of the biggest erosion in benefits has been the move from defined-benefit pension plans to defined-contribution plans — the latter being cheaper for employers these days because they don’t have to pick up the slack for poor investment performance.

DC plans can easily add up to 4% to 5% of wage costs while DB plans are double that, says the company. Only 22% of people in the private sector get some sort of pension plan and of that number, 16 percentage points is made up of defined benefits with six percentage points for defined contributions, according to Morneau Shepell. The numbers are already changing and in non-unionized workplaces, more than half of employees are in defined-contributions plans.

Now that thinking has been making its way into other benefits and employees will soon get to choose from a menu of health options in everything from long-term care to critical care to massage therapy.

“It’s really new thinking and we are just talking to clients about it now,” says Ms. Madigan, adding the move will have to come with more education for employers and employees.

If an employer offers you a wage of, say, \$75,000 per year today and it includes a suite of benefits, are you really valuing them? What if in the future your employer says you can have \$75,000 but he’ll be deducting \$5,000 for benefits. Will you then demand \$80,000 or will you say, “I don’t want them at all?”

“It really means changing the mindset of folks. If you offer them the vehicle to purchase the individual coverage, it’s easy. They know they need to take off X amount of dollars like they would to put money in an RRSP,” Ms. Madigan says.

With growth in self-employment relatively stagnant, how benefits will be calculated and paid for could become a growing issue in the labour force.

“It’s a bit of a perception,” says Doug Porter, deputy chief economist with Bank of Montreal, about the idea that more and more Canadians have become self-employed and, therefore, without benefits. “The numbers ebb and flow over time.”

He says the ratio of self-employed people to total jobs has been in a narrow zone for about the past decade, between 15% and 16% — about 2.6 million people as of April. The percentage peaked at the tail end of the last recession as a lot of people in the private sector were laid off. The ultimate peak in self-employment was back in the late 1990s.

“Maybe a lot of people gave it a try in the 1990s and they did value [employment], some of the things like [job] certainty and the benefits,” Mr. Porter says.

It’s not like you cannot go out and buy your own benefits. “You can buy all that stuff on your own,” says Mark Halpern, of illnessprotection.com. “You can get your own pension plan, your own life insurance, your own health plan that covers semi-private [hospital] rooms and dental coverage. You can get a disability plan on your own.”

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“Your job is to replace the umbrella,” he says, adding a key consideration is to buy those benefits when you’re young and healthy. “Most people have no appreciation of what their benefits are worth.”

Those benefits are tax-free when they come from your employer. However, if you had to pay for them because you were, say, a self-employed consultant, you would be able to deduct them.

“We get this question all the time about whether it is better to be self employed,” says Ted Rechtshaffen, president of TriDelta Financial. “There is a flexibility in terms of taxation. You can write off expenses like travel. You can write off part of a home office.”

Even with the benefits, Mr. Rechtshaffen says if someone is trying to hire you to work for them solely, you really need to make at least 20% more to compete with the tax advantages of being self-employed.

“What is the benefit in being in a company? That stuff does have value and it’s the flip side of being self-employed,” says Mr. Rechtshaffen.

The value of those benefits will become clearer if companies shift some of the onus on to employees to pay for them.

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