

THE LEAN BENEFITS APPROACH™

KEY CONCEPTS

BY RON HANSELL, PRESIDENT, BHH

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How to apply lean manufacturing strategies to employee benefits

By Ron Hansell

The management philosophy called “lean manufacturing” has been embraced over the past few decades by many enlightened companies in North America and around the world. Companies that use this approach strive to continuously eliminate waste in the manufacturing process in order to achieve higher levels of productivity and profit. The key indicator of “waste” is any activity, process, or input resource that does not provide any value, or additional value, to the customer.

At BHH Benefits, we help our clients use a lean approach to better manage their employee benefits programs. Through continuous improvement, and the elimination of waste, we have helped many of our clients control rising benefits costs, and yet also maintain or improve the satisfaction of their “customer”, which in the case of benefits, is the employee.

The lean benefits approach is an important concept for any company that is concerned about the rising costs of benefits

premiums. (Industry studies project that benefits premiums will rise by more than 60% over the next 5 years.) It is also helpful for any company that wants to control these costs, while still being able to offer a competitive and attractive benefits package in a tight labour market.

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Before you can become “lean” in your benefits program, you must first understand, what we call, “The 80/20 Rule.” This rule states that 80% of your benefits costs are associated with the claims made

by your employees. The other 20% of your premium costs are associated with the administration of your program. By appreciating this reality, you can see that the greatest potential to eliminate waste is to take greater control over the claims made by your employees. The trick, of course, is to control these claims without causing an employee revolt. It is a fine line, but the lean approach to benefits provides direction to achieve this balance.

To achieve these goals, and become a “lean benefits company, you must begin by assessing your current process. You must review your data, and determine how your employees are using, and possibly abusing, your benefits program. This current-state data analysis, when compared against industry benchmarks, will give you a good indication about what is going on and what needs to be improved. By completing this audit, you will also develop more efficient data reporting systems that will enable you to monitor your progress over time as you implement your lean benefits approach.

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The second stage is to understand the true desires of your employees. Surveys and interviews will give you a better understanding of what your employees want from their benefits, and what aspect of the program acts as a motivator for higher productivity and retention. This analysis is reinforced by industry studies on employee attitudes, and by research into future benefits trends.

The third stage involves the development of an integrated benefits strategy, based around, what we call, a Cost Empowerment Idea. This is a strategic idea, tailored to your organization's unique requirements, which will help you control your benefits costs by empowering your employees. For example, you might adopt a defined contribution strategy by creating a Benefits Bank Account. Under this structure, you define the level of contributions you want to make to your plan. In turn, employees are

given an allowance from which to purchase required health and wellness services from the marketplace.

Experience has shown that this type of program is popular with employees because it empowers them and puts them in control of their spending. With a limit in place, employees are more discerning in their spending, and seek greater value when they withdraw funds from their benefits bank account. As well, because it is based on a defined contribution, the employer has better control over their costs as well.

Our work with clients has shown that the best ideas for change are based on giving employees greater control over their benefits, while establishing clear guidelines and limits.

The Benefits Bank Account is just one example of a Cost Empowerment Idea. You can also use strategies such as The Total Compensation Model (that educates employees that their benefits constitute part of their total salary), health and wellness initiatives (to proactively enhance employee wellness), employee

contributions to premiums, and the more efficient use of government-provided benefits.

Your benefits costs will fall in relation to other companies in your industry who have not adopted a lean approach.

Your company's unique culture, industry, employee-base, and dozens of other factors will determine the idea you develop. The key, however, is empowerment. Our work with clients has shown that the best ideas for change are based on giving employees greater control over their benefits, while establishing clear guidelines and limits.

As is the case in lean manufacturing, two key concepts are important to the success of a lean approach to benefits. One, the process must be fully supported by senior management and by key employees. Two, the process must be continuous, based on a belief in on-going improvement over time.

To enlist the support of senior management, it is important to focus on education, group strategic planning, and team building. In terms of education, senior management must understand the principles of

lean benefits, the danger of rising benefits costs, and the need to stay out of, what we call, The Bottom-Line Trap™. When you fall into this trap, you try to lower your premiums by shopping around for a lower-priced carrier. However, because of The 80/20 Rule, marketing your benefits program will have little impact on the rising costs of your premiums. As the only viable alternative, senior management must understand the need for a lean benefits strategy based on a Cost Empowerment Idea.

By empowering your employees, and by infusing your organization with a lean benefits attitude, employees and potential employees will view your company as a great place to work.

In, addition, senior management should participate in the development of your lean benefits strategy during team workshops. Experience has shown that most benefits strategies made by individual executives in isolation get bogged down in a prolonged approval process. Working together in a group setting can accelerate the approval process, and spread the lean benefits

culture more quickly through your organization.

Based on the lean manufacturing schema, the initial assessment and strategic planning constitute phase one. In phase two, your strategic plan is implemented throughout your organization. In an example case, you might implement a comprehensive health and wellness program. The key to the success of this phase is to develop a system to collect and cross-reference data relevant to the program. For example, you want to receive regular data reports on the claims made by employees who have participated in such programs as fitness classes, diabetes detection, stress reduction classes, or substance abuse counseling. This analysis can be cross-referenced with data from employees who do not participate in these programs. This feedback will give you a cost/benefit rationale for your Cost Empowerment Idea, which will further strengthen support from senior management.

In lean manufacturing terminology, the initial introduction of your first Cost Empowerment Idea is called a Lean Pilot or a Kaizen Event. Your first Kaizen Event is designed to help your company get hands-on experience as a lean benefits organization. It will help you better define your performance expectations, and customize lean methods for your organization. In

our view, the key at this stage is to put into place systematic recording systems that give you greater knowledge and control over your program.

As your company becomes more strategic in its approach to benefits, and adopts the lean benefits philosophy, two major benefits can be expected. One, your benefits costs will fall in relation to other companies in your industry who have not adopted a lean approach. This will make you more competitive, and relatively more profitable. Secondly, by empowering your employees, and by infusing your organization with a lean benefits attitude, employees and potential employees will view your company as a great place to work. In an increasingly competitive labour market, this reputation will also give you a competitive advantage.

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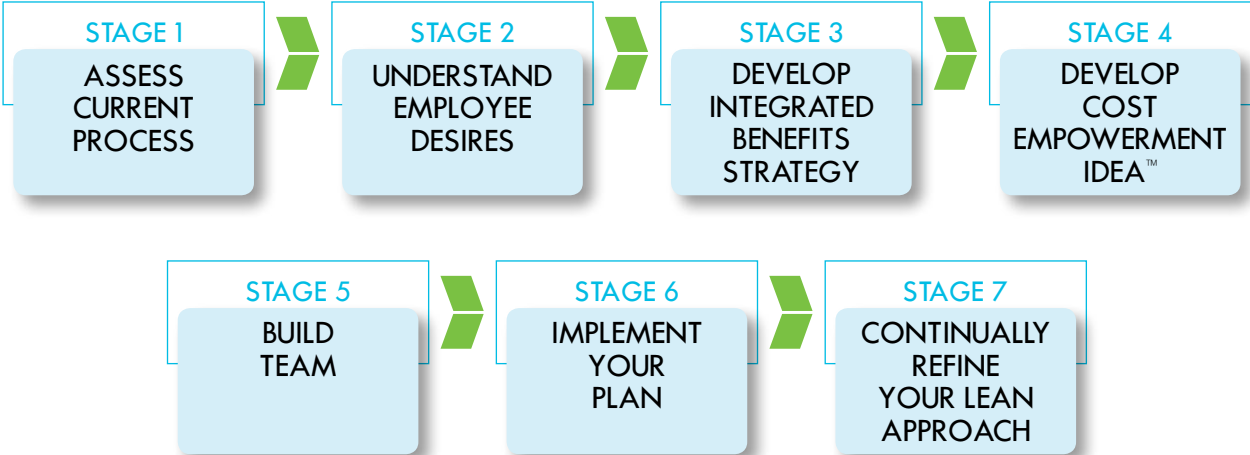
As proponents of a lean benefits approach, we tell our clients that they have a clear choice in the future. They can remain stuck in The Bottom-Line Trap™, and suffer

the impact of rising benefits costs, or they can take charge of their situation and become more strategic about their benefits program. We do not promise that the strategic lean approach is easy. It requires a commitment of time, money, and effort. However, given the alternative, it is apparent that the lean benefits approach is vastly superior, and worth the investment.

Ron Hansell is the president of BHH Benefits, and the creator of **The Integrated Benefit Strategy**® Process, which helps organizations use lean benefits strategies to control their costs, and empower their employees.

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The Lean Benefits Approach™



BHH unites the well-being of companies and their employees through quality, responsiveness and innovation in benefits.

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