The Startup's Guide to Attracting and Retaining Happy, Healthy, High Performing People

A look at employee health benefits plans for Canadian startups and U.S. based startups with offices in Canada

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With contributions from

THE EVOLUTION
of Employee Health Benefits in Canada

If you’re a Canadian, this won’t be news to you. But for those United States-based startups that run satellite offices in Canada, this background information is important to note. Canada is recognized as having one of the best public healthcare systems in the world. The Canadian Government covers basic physician and hospital expenses for all Canadians and provides financial assistance to Canadians who are unable to work because of disability or illness.

In addition, the majority of Canadians are also protected through extended healthcare, which reimburses a variety of expenses, such as prescription drugs, dental, hospital and medical expenses not covered by provincial government plans .[4] These extended healthcare programs covered 24 million Canadians in 2015; 90% of which were provided under group plans purchased by employers, unions or professional associations. [4]

Employee health benefits are an important part of Canadian culture, and this is unlikely to change in the near future. However, what is changing is the way in which Canadians use their employee health benefits, the type of coverage they expect, and how this impacts employers and their ability to compete for talent.

THE CANADIAN WORKFORCE IS CHANGING

The demographics of the Canadian workforce are changing. According to a 2015 study by Sanofi, employers estimate that 42% of their workforce falls into the Baby Boomer generation. While 22% of Baby Boomers expect to retire in the next 5 years, 19% intend to work beyond the traditional retirement age of 65. This aging workforce presents numerous challenges for employers when it comes to health benefits.

A 2016 Sanofi study found that 59% of employees say they've been diagnosed with at least one chronic disease, such as diabetes, arthritis or depression. This climbs to 79% among employees aged 55 to 64. "**Despite the increased incidence of chronic diseases once people reach their 50s and 60s, 44% of [employers] say they're not concerned about boomers' impact on health benefits, while 18% have not considered the issue at all**".[14]

At the same time, Millennials – those born between 1980 and 2000 – will comprise 50% of the global workforce by 2020.[11] Despite their growing influence, only 37% of young workers who have access to workplace health benefits feel their plan fully meets their needs. These needs include access to mental health services, financial health support, and a desire for greater flexibility in their benefits plan.[10]

Moving Beyond Healthcare To "PERSONAL WELLNESS"

Dissatisfaction with health benefits coverage is a trend that's growing across the entire Canadian workforce. The number of people who feel their health benefits meets their needs "extremely well" or "very well" has dropped from 73% in 1999 to just 52% in 2016 .[13]

This may be, in part, due to the changing definition of "healthcare." Healthcare has evolved from a term used to describe physical health to now encompass a state of balance in body, mind, and spirit – aka overall "wellness". [14] Young workers have largely driven this shift. In a survey conducted by Sun Life Canada, the majority of Millennials (76%) and Generation Z (78%) acknowledged mental health as central to their overall health. These generations are looking for different things than their parents had in terms of benefits plans. They place a much greater priority on mental health services, such a counseling and support groups, than their predecessors did.

But while young workers are driving this push, most people could benefit from a greater focus on mental wellness from their employers. According to Sanofi, 41% of employees report feeling overwhelmed on most days due to work and/or their personal lives. That climbs to 58% among those who describe their health as poor or very poor.[14] **"Mental health is now recognized as being one of the key factors in absenteeism and lost productivity, as well as drug claims and long-term disability,"** explains Lisa Callaghan, Assistant Vice-President of Products for Manulife's Group Benefits Division.[11] As a result, 32% of employers have implemented programs specifically to support the psychological health of their employees, and 23% plan to do so.[13]

Of course, achieving overall wellness is different for everybody. For that reason, a growing number of employers are offering more flexible benefits plans, health spending accounts, and greater coverage for alternative medicines and services. From acupuncture, to osteopathy and health coaching, employers are getting creative. Shopify, a technology company founded in Ottawa in 2004, offers its 1700+ employees gym memberships for $10 a month and facilitates wellness programs, such as yoga classes and running clubs. Increased coverage to support mental health, as well as flexible hours and vacation policies, are other ways Shopify encourages employee wellness.[7]

How The Right Benefits Plan Can

MAKE OR BREAK A STARTUP'S SUCCESS

THE WAR FOR TALENT IS ON

Toronto has between 2500 and 4100 active tech startups. [6] When combined with its more established counterparts, the city accounts for 35% of Canada's technology businesses, employing about 159,000 people.[8] A combination of tax changes for foreign investors, an effort to concentrate startups into creative hubs, and the success of a few tent-pole companies, like FreshBooks, Wattpad and Influitive, has put Toronto on the map as a place for more startups to flourish.[6]

"Entrepreneurs and investors speak highly of the linguistic and ethnic diversity of Toronto's talent pool, which is also boosted by its close proximity to several world-class engineering schools and universities".[6] According to TechCrunch, Toronto produces the most engineering-focused university graduates each year in North America.[8] Mayor John Tory believes Toronto is sitting on a talent gold mine that can help the city build the economy of the future .[6]

While this bodes well for technology professionals working in Toronto, it represents huge challenges for employers, especially new tech startups who require top talent to grow their businesses. There is a huge talent shortage in Canada, and too few qualified candidates to fill the jobs available. As a result, tech companies are in stiff competition to attract and retain employees.[12]

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Attracting & Retaining **THE BEST**

Behind salary and growth opportunities, employee health benefits are one of the most competitive ways startups can attract and retain talent. Despite this, 70% of small businesses – which make up 80% of all businesses in Canada – don't offer health benefits at all (Brownell, 2016). This needs to change.

1 in 3 young workers say health benefits are the most important employee benefit they expect (Benefits Canada, 2015). In the war for talent, startups can't afford to ignore these expectations.

> **You can give a developer X amount of dollars, but there's such a shortage of developers in this market. You have to go above and beyond - you've got to take care of them.**
>
> - Chris Gory, Founder of Insurance Portfolio Financial Services (IPFS)

The good news is that some employers are starting to listen. A 2016 Hays Canada poll conducted among 600 employers found that while 67% were using salary packages to attract talent, 53% cited using competitive benefits packages. In addition, 27% said they had changed or planned to change compensation plans to attract top talent.[7]

> Toronto is very competitive and we are all looking for the same A-level talent. We put our money where our month is and ensure we have a plan this is impactful and takes care of our people.
>
> -Bonnie Busby, Head of People, wattpad

EMPLOYEE HAPPINESS = HIGH PERFORMANCE

For startups, the advantages of offering employee health benefits are two-fold:

1. **Employee Happiness**
2. **Greater Productivity**

These two things go hand-in-hand. Happy and healthy workers are more productive, miss fewer days of work due to illness, and are less likely to request costly drugs later on down the road.[11] By offering preventative healthcare services, like remedial massage, acupuncture, gym memberships and Employee Assistance Programs for mental health, employers can foster greater productivity in the workplace. These types of services are especially important for employees working in highly stressful startup environments.

PumpUp, a Toronto-based start-up in the health & fitness industry, is one company embracing this philosophy. On top of flexible hours and vacation policies, PumpUp offers a comprehensive health & dental benefits plan that includes massage and chiropractor services, free healthy snacks and lunches, as well as weekly outings such as rock climbing and biking.[7] **"We try to give our employees the tools they need to live a healthy lifestyle,"** says Phil Jacobson, President and Co-Founder of PumpUp. **"Through empowering them to be both physically and emotionally well, they are more energetic and focused at work."**


What You Need to Know About
EMPLOYEE HEALTH BENEFITS
IN CANADA

WHO TO WORK WITH

When selecting a health benefits plan, Canadian employers have two main options; to work directly with an agent from an insurance provider, or use an insurance broker.

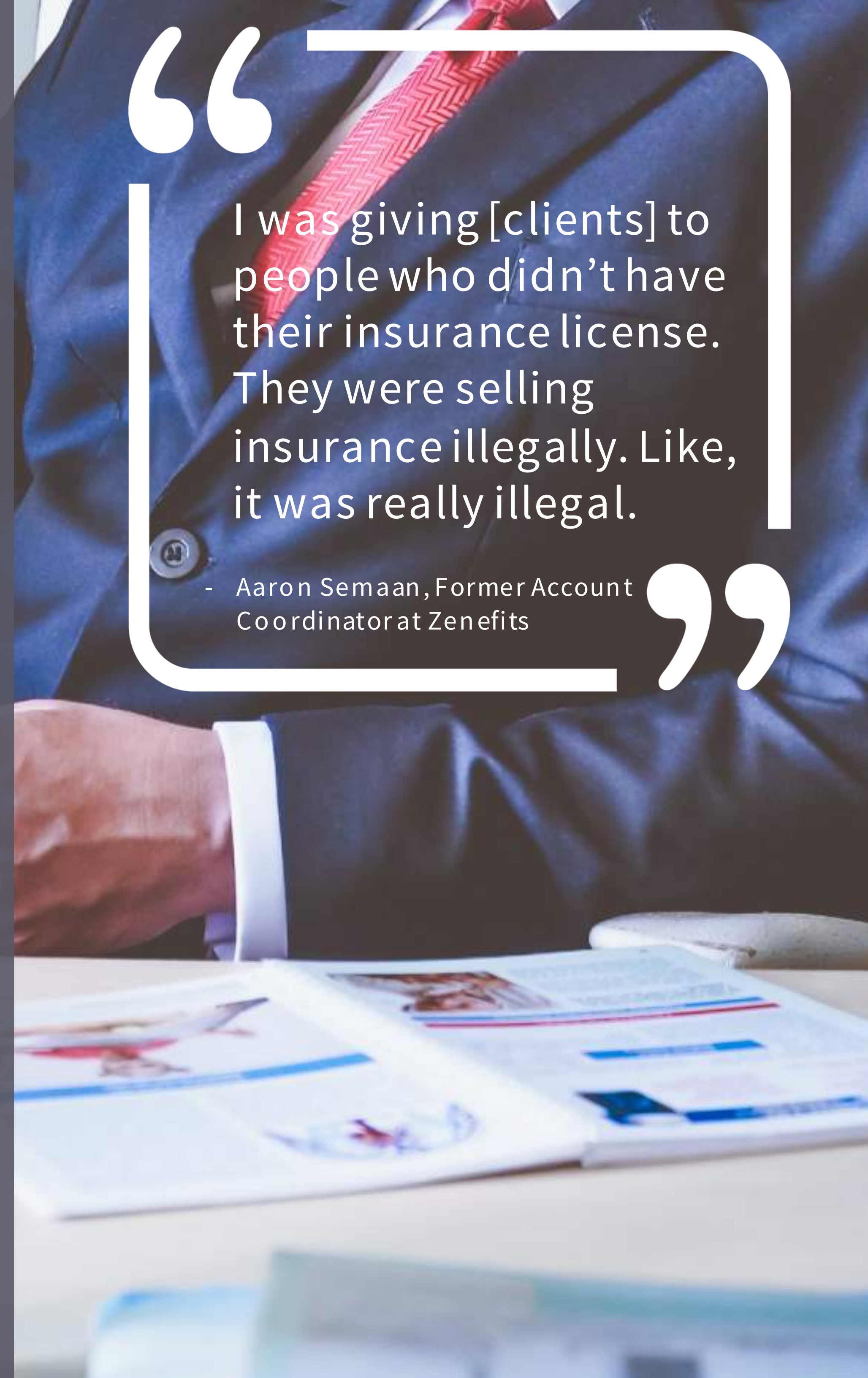
In most cases, particularly for startups, it is advantageous to use a broker. That's because agents who work directly for an insurance provider only sell that carrier's products. An independent insurance broker, on the other hand, can leverage multiple insurance carriers to obtain the best coverage, rates, service and products. They can assess all potential funding arrangements and tax legislation, to ensure you leverage all possible savings while minimizing risk. This is especially important for new startups conscious about cash flow and legal liability.

An insurance broker is paid commissions by the insurance provider, meaning they can offer objective advice on the right kind of products for your business. The reality is many startups don't need all the "bells and whistles" an insurance provider might try and push. In addition, the need for certain areas of coverage contained in traditional benefits plans may be very different for startups. For example, there is a greater demand for acupuncture now than there was two years ago. Having a flexible plan that can adapt to these market trends and appeal to young workers is key. This is where a broker can advocate on your behalf to find the best coverage for your business that's in line with your culture and values.

With that said, not all insurance brokers are created equal, especially in the startup space. US-based software company, Zenefits, serves as a cautionary tale. Zenefits is an online insurance brokerage firm for startups and small businesses that collects recurring commissions from health insurance providers when it sells their policies.

In November 2015, it **came to light** that Zenefits was using unlicensed brokers to sell insurance across the United States.

In 2016, Washington state's insurance commissioner opened a formal investigation into the company; according to BuzzFeed, 83% of all Zenefits sales in the state were made by unlicensed brokers.[1;15] Since then, the California Department of Insurance has also opened an investigation, as has Massachusetts' division of insurance. Zenefits confirms that other states have followed suit, but won't say which ones or how many.



> I was giving [clients] to people who didn't have their insurance license. They were selling insurance illegally. Like, it was really illegal.
>
> \- Aaron Semaan, Former Account Coordinator at Zenefits

In Canada, numerous companies are emerging under the same business model as Zenefits. While there are no claims of misconduct among any of them, these companies, still in infancy themselves, run the risk of employing brokers with limited experience selling group health benefits, and virtually no experience working with the startup community.

"Some brokers don't know the space well enough. They treat start-ups like any other business, throwing everything in to drive costs up. But this is both unnecessary and unsustainable for startups. They need a different approach," explains Chris Gory from IPFS.

This is not to say that choosing a technology solution like Zenefits to secure and manage employee benefits is a bad idea. But, evaluating the legitimacy and credibility of these solutions before opting-in is absolutely crucial.

Here are a few questions to ask:

1. How much experience does the founder have in the insurance industry?
2. Do they have in-house brokers? If so, what are their qualifications?
3. Have they worked with other startups before? Can you contact these startups directly and ask for their objective opinion?

THE GENERALIST vs. THE SPECIALIST INSURANCE BROKER

Most people are unaware that a licensed insurance broker is able to sell a broad range of products; health benefits, individual life products, group RRSPs, individual RRSPs, disability & critical illness coverage, and more. That means they could be a generalist in a lot of different areas, but not an expert in any one thing. They may be unaware of the legal risks associated with a group health benefits plan, and unable to adequately advise their clients.

"At the end of the day, startups don't want to be messing around with somebody who is learning about benefits as they are. They need someone who knows the startup space, what trends are happening in the industry, and how to protect the company in the event of fraud or employee terminations," advises Chris Gory.

BEST PRACTICES AND PITFALLS

When implementing a group benefits plan, one of the biggest mistakes startups make is spending too much upfront. This includes coverage for services that employees don't really want and/or starting at 100% coverage.

"All startups are conscious of burning through cash," explains Chris. **"If you start at 100% coverage and realize you can't afford it and need to scale back, that won't be perceived well by your staff. My advice is to start with the coverage you want, with certain cost containment measures in place, and then (budget permitting) scale up and add more features when the time is right."**

In line with this, startups also need to monitor their claim reports regularly to better understand their costs. Many general insurance brokers won't do this. They will only run the reports at the time of renewal to negotiate a new rate. But according to a 2016 Sanofi study, 81% of employers would like to know where costs are coming from based on the health profile of their organization. By monitoring claims more regularly throughout the year, startups can identify what services employees are using, if costs are in line with company's projections, and whether they need to implement cost restrictions on certain coverage before the time of renewal.

You can't just look at your claims reports once a year. I actually run claims reports every 3 months for my clients to see how the company is doing. The way an employer thinks people will use their benefits could be entirely different to how employees actually use it.

- Chris Gory, Founder of Insurance Portfolio Financial Services (IPFS)

DON'T BE TAKEN FOR A RIDE

Another reason to monitor claims reports more regularly is to identify when employees might be exploiting their benefits coverage. While 43% of employees see their health benefits plan as something to use only to treat or prevent illness or injury, 35% view it as extra compensation to use as much as possible to get their money's worth, and 23% view it as both a resource for health and extra compensation. [13]

> The mentality of some employees is 'let's screw the employers and insurance company as much as possible.' You see people hopping around from company to company just using as much of their benefits coverage as they can.
>
> - Chris Gory, Founder of Insurance Portfolio Financial Services (IPFS)

An employee abusing their health benefits coverage is a real concern for an employer, but so too is the risk of fraud. According to the Canadian Health Care Anti-Fraud Association, fraudulent claims cost the industry anywhere from $1.2 to $6 billion every year.[5] Ultimately, employers bear most of the cost of fraud, either by unknowingly reimbursing employees for claims, or through subsequent increased premiums caused by high claims.

FRAUDULENT CLAIMS COST THE INDUSTRY
$1.2 - $6 billion
EVERY YEAR

Recently, St. Michael's Hospital and the York Region Police both detected benefits fraud within their organizations. In February 2017, 31 employees at St. Michael's Hospital were fired after **"irregularities in some employee health benefits claims"** were discovered during a routine audit. The irregularities are estimated to be worth approximately $200,000.[16] Further north, a police officer from York Region Police was fired for benefits fraud after an ensuing lawsuit that lasted over 12 months. The officer was found to have submitted 15 fraudulent claims for massage therapy, totaling $1,224.97.[17]

These examples demonstrate that employers need to be on the lookout for fraud, and have the right checks and balances in place to ensure their premiums don't skyrocket, or worse still they become embroiled in a lawsuit. For startups especially, these kind of unexpected costs could make or break the company. That's why it's important to work with an experienced insurance broker who understands the intricacies of the industry and can provide expert advice. After all, "health management is as much about the well-being of the organization as it is about the well-being of the employees".[14]

CASE STUDY: TORONTO TRANSIT COMMISSION (TTC)

In February 2016, more than 5% of TTC employees (600 people) were investigated for involvement in a benefits fraud scandal, estimated to be worth more than $5.1 million in false health benefits claims. Police say the alleged scheme involved employees at a local orthotics store providing receipts for services that were never received, or inflating costs for insurance claims submitted by TTC employees to the employer's insurance provider, Manulife Financial.[9] To date, more than 100 TTC employees have been dismissed in connection with the scheme.

Things to Consider When Selecting an

EMPLOYEE HEALTH BENEFITS PLAN

Employees in tech have come to expect benefits outside of the standard health and dental coverage.[7] In addition, they are looking for greater flexibility as to how they can use their benefits.

MEET DEVON

Devon Wright is the Co-Founder and CEO of Turnstyle Solutions (recently acquired by Yelp); one of the world's first Wi-Fi-based marketing platforms. During his three-year tenure as a financial analyst at one of Canada's biggest banks, Devon never once used his company health plan. "**There was just nothing there that was of any interest to me,**" says Wright, 28.

So when Wright quit his job in 2012 to launch Turnstyle Solutions, he decided to create a benefits package tailored to his needs. In addition to the standard drug and dental benefits, Turnstyle covers naturopathic medicine, mental health counseling and provides employees with a fitness subsidy that they can spend on anything from a gym membership, to yoga classes, to participation in a Frisbee league.

For 23-year-old Sam Hillman, an Account Director with the company's sales team, the approach Turnstyle has taken with its employee health benefits plan is a major drawing card. "**This emphasis on living a healthy lifestyle really shows the company's commitment to me as a holistic individual, and not just a Turnstyle employee.**"[11]

Turnstyle is one example of how Canadian companies are tweaking their health plans to appeal to a new generation of employees; a generation that cares about mental health, living an active lifestyle and preventative healthcare.[11] And it's not just young employees who value these things. A 2015 Sanofi study found that 34% of employees (across all age groups) would like to have coverage for fitness/yoga classes, and 45% would use on-site screenings with healthcare professionals to determine their personal risk for chronic diseases.

MORE FLEXIBILITY PLEASE

At the end of the day, employee benefits are only useful if an employee actually uses them. There is growing desire among employees for greater flexibility in their benefits plans.[10] In fact, 64% of employees said they would opt for a flex plan if they could, despite the fact that 77% already had a traditional plan. And 91% would like to be able to choose benefits best suited to their personal needs.[14]

For Toronto-based startup, Wattpad, flexibility is key to their employee health benefits offering. "**We have a diverse talent pool with individual needs,**" explains Bonnie Busby, Head of People at Wattpad, "**so flexible benefits allow our team to focus on wellness benefits that are most valuable to them. In meeting their needs we can attract and retain great talent and highlight our values as an organization. Our people matter!**"

HEALTHY SPENDING ACCOUNTS

For many organizations, the way to become more flexible is to offer Health Spending Accounts (HSA) to their employees. A HSA allows employees to spend money on whatever services they want, up to a set amount. This allows them to use additional services not covered under their traditional plan, or top up their coverage on existing services.

"Our employees love it," explains Bonnie Busby when talking about Wattpad's Health Spending Account. **"By having a flexible benefits plan we are not being prescriptive around what they use and how much they use. The health care spending account is highly valued for "top up" or to put toward a benefit that isn't captured."**

Shopify has taken this one step further by branding its own health spending account. It offers employees and their families an annual health and wellness budget called Sportify. The personalized program provides employees with $250 a year to spend on staying healthy and active. That could include buying new running shoes, attending fitness classes, or however else they want to stay active and healthy.[7]

IN SUMMARY

Employee health benefits are an important part of the Canadian workplace, but employees are outgrowing the "one-size-fits-all" approach of traditional plans. It's no longer enough to offer basic coverage for drugs and dental – today's workers want more flexible or targeted plans that can deliver better value. Generation gaps, aging Baby Boomers and the rise of chronic illness are among the factors that justify heading in this new direction.[14]

So too is the growing competition among startups to attract and retain the best talent. Startups are realizing the importance of preventative health care services to foster greater productivity from their employees; things like remedial massage, acupuncture, gym memberships and Employee Assistance Programs for mental health. These types of services especially matter to young workers, who most often work in the startup sector.

When selecting a group benefits plan, startups can work directly with an insurance provider, or use an independent insurance broker. The advantages of using a broker include the fact that they can leverage multiple insurance carriers to obtain the best coverage, rates, service and products. For startups, where cash flow is important, a broker can assess all potential funding arrangements and tax legislation, to deliver costs savings, while at the same time minimizing risk.

However, not all insurance brokers are created equal. The startup sector is a unique environment, with different needs to large companies. Without the right broker, startups risk spending too much on health benefits upfront, offering the wrong kind of coverage, and overlooking fraudulent claims that can cost the business money. To reduce risk, startups should work with an experienced insurance broker that knows the industry and can offer the right kind of advice that supports both the company and its employees.

ABOUT IPFS

Insurance Portfolio Financial Services (IPFS) specializes in helping startups and fast-growing companies get the right benefits coverage to meet their budgets and the needs of their employees. Launched in 2000, IPFS began doing business with startups in 2010 after realizing their insurance needs were unique, and needed someone who knew the challenges that these companies faced. Chris Gory, the Founder of IPFS, comes from a professional background working in technology, and is pleased to be able to marry his love for technology with employee benefits to deliver a unique perspective for start-ups based in the GTA. Chris has worked with dozens of well-known startups, including VarageSale, 500px and Wattpad, as well as startup organizations such as OneEleven and the DMZ.

Questions about benefits for your startup?
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