Benefit Costs Top CFO Worries

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Your client's number crunchers are most concerned about employee benefit costs, according to a new survey from Grant Thornton.

The group found that nearly 55% of responding CFOs and other senior financial executives say they are most concerned about the pricing pressures presented by employee benefits (health care and pensions). Benefits trumped energy concerns (40% of respondents saying that was their top pricing concern), raw materials (38%), insurance (16%), other (12%) and commercial property (4%).

The survey also found that while 65% of respondents agree that the average CEO - considering total pay and benefits - is overpaid, just 24% believe their own CEO falls into that category.

"The take away for me is that companies continue to be very concerned about health care costs. In fact, it's at the top of very many of their lists," says Eddie Adkins, a partner in the Grant Thornton's national tax office in Washington D.C.

Sherry Whittle - Grant Thornton's compensation and benefits practice leader for North and South Carolina, a practicing health and welfare broker, and a former Fortune 500 human resources director - is particularly interested in the broader trends surrounding health care costs and how CFOs appear to be reacting to those movements.

She notes that the general health care premium trend is generally more palatable today - estimated at 5% for this year, down from 6% to 7% last year, and down considerably from earlier his decade.

"We had some years where things were double digits and really rough and terrible," she says. "The general economy during that period of time was dong fairly well and so health care cost and it being sort of out of control and not managed stuck out."

Today it's the reverse - health care costs increases appear to be moderating yet the broader economy has worsened significantly - and it may be hard to get CFOs to recognize that, Whittle says.

"I think we've kind of conditioned CFOs to think that this is going to be something that is going to be tough for us to wrestle, however it is getting more manageable," she says.

While the survey notes CFO price concerns, it is unclear whether that can be read as a euphemism for willingness to cut. Adkins says that might be too big a leap.

"The fact that they are concerned about it we clearly know from the results," Adkins says. "Are they really likely to do anything about this? I really wonder how much they might do. Obviously when you start trying to cut benefit costs you are going to have a direct impact on your employees. I would guess that if we asked, 'Are you going to do anything about this?' The percentage would be much lower."

Ray Berry, a GT actuary and pension plan expert, generally agrees, though he says that the numbers may indicate that those CFOs who have not already transitioned their company from a final-average pay pension plan to a cash-balance plan might be on the precipice of such a move. Doing so has its own associated costs and risks, however.

"In the pension area, I think it's possible if they haven't switched to a cash-balance plan ... they may do that," Berry says. Some companies, of course, have frozen their plans or terminated their defined benefit plans. "When they do that they usually make a strong effort to beef up their 401(k) profit-sharing plans, [for example] increase employer matches," Berry says. They do that because freezing the DB plan sends a chill down workers' spines, especially the ones that have been around a long time.

"When you terminate that person's plan, that's a big take away ... they are not going to be happy with that. You have to do something to keep retention as high as you can at a reasonable cost," Berry says.

Ultimately the best way to find out what the CFO might be thinking about benefits programs is to ask. This survey offers HR and benefit managers and their advisers an opportunity to do that. Berry, for instance, says that CFOs and CEOs like predictability in areas like benefit costs and that cash-balance plans can offer more of that.

"I think it is an opportunity for someone in HR or benefits to say, 'Hey, wait a minute we can do something that is manageable and that also has some retention aspects to it.'"

Adkins offers a word of caution, however. Not only does the benefit manager need to be prepared to answer some basic questions - Why are CFOs concerned generally? Why would my company's CFO be concerned? - but also be ready to offer some suggestions. They should also be prepared for potentially unfavorable response.

"If I go initiate that conversation am I opening up the door for the CFO to actually want to reduce the level of benefits?" Adkins says.

http://www.eba.benefitnews.com/

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