




The Four Pitfalls of Self- Managing Your Employee Benefits Plan

Some employers believe they can save money on administration by self-managing their employee benefits plan. However, it's important to know that self-administration often results in high costs, lost time, and other drawbacks.

Before you determine whether to use a third party administrator or self-manage your plan, you need to understand the disadvantages of self-administering your benefits plan.



Here are the top four pitfalls
employers can expect to
encounter when administering
their own benefits plan:

1. PRIVACY CONCERNS

2. TAX REQUIREMENTS

3. EXPERTISE

4. OPPORTUNITY COST

1. PRIVACY CONCERNS

THE FIRST ISSUE WITH SELF-MANAGED BENEFITS PLANS IS A CONCERN OVER PRIVACY.

Under privacy legislation, employers are not entitled to know the details of an employee's or dependent's personal medical condition or treatments. An employee who is required to submit their medical expenses to their employer for reimbursement **could file a complaint** under privacy legislation.

There is also the possibility that employees who do not wish their employer to know details of their

personal medical condition or treatment would not submit those claims. Therefore, **the employee is significantly disadvantaged** by internal processing of claims by the employer.

On a more indirect basis, there is the **potential for bias or inappropriate treatment** by an employer as a result of the employer's knowledge of an employee's personal details.

EACH OF THESE ISSUES COULD CONTRIBUTE TO A TOXIC WORK ENVIRONMENT.

For example, if your employee has an ailing family member, you do not have the right to know unless they choose to tell you – forcing them to

either tell you or forfeit the right to be reimbursed can create animosity.

2. TAX REQUIREMENTS

THE SECOND CHALLENGE FOR EMPLOYERS IS THE SPECIFIC TAX REQUIREMENTS FOR AN EMPLOYEE BENEFITS PLAN.

Often, employers who administer benefits plan internally **do not correctly remit the required taxes**, which a third party would collect and remit automatically. Different taxes must be remitted to different levels of government, and the requirements can vary depending on the province and the type of benefit. It can be challenging for an employer to properly calculate

the applicable taxes – particularly if they have employees in multiple provinces.

We have encountered situations in the past where employers' internally managed benefits plans were audited and **several years of back taxes** were owed to the government – in addition to fees for incorrect or omitted filings.



3. EXPERTISE

THE THIRD ISSUE WITH A SELF-ADMINISTERED BENEFITS PLAN IS THE QUESTION OF EXPERTISE.

With outsourced administration, eligibility of the submitted expense is reviewed by professional claim adjudicators. This helps to ensure that only eligible expenses are reimbursed.

Without professional claim adjudicators, staff and HR may disagree about whether specific items should be covered. **Costs can spiral** when the

person overseeing claims is not 100% certain of coverage – and defaults to paying when in doubt.

In the event of an audit, if expenses deemed ineligible by CRA were reimbursed by the employer, these **expenses could be disallowed and appropriate taxes levied on the employee** who should normally receive medical and dental reimbursements without being taxed.



4. OPPORTUNITY COST

FINALLY, THERE CAN BE AN OPPORTUNITY COST FOR THE EMPLOYER.

It is time-consuming for an internal administrator to review claims, determine their eligibility, apply plan maximums or deductibles correctly, and then reimburse claims. Instead, employers should keep their employees focused on the core of their business and what they are trained to do.

In addition, if claims are disputed, this can create internal conflict in your business. One of the reasons you want to outsource to a third party administrator is to reduce the impact of this kind of dispute, and not let it hurt morale.





SELF-ADMINISTRATION IS YOUR DECISION

Ultimately, it is up to you to determine whether a third party administrator or self-administration is the right approach for your business.

From our experience, self-managing your benefits plan causes more problems than it solves. Be sure to thoroughly research your decision and know the disadvantages if you choose to self-administer.



The Benefits Trust is a third party administrator of benefits plans, who can help you build (and manage) a better benefits plan than you can get anywhere else!

Start the conversation today!

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