
Hybrid Plans: Defined Benefit vs. Defined Contribution

Defined Benefit Plans (Traditional Benefit Plans)

What is Typically Included

- Life, AD&D, Long Term Disability, Extended Healthcare, and Dental.
- Coverage is defined and often does not include all CRA eligible expenses.

Flexibility

- The percentage of reimbursement, eligible and ineligible expenses, and annual and lifetime maximums, are all defined by the insurer.
- Same coverage often applies to all employee.

Cost Control

- All costs are controlled by the insurer.
- Insurance company establishes benefit premiums annually to cover future insurance risks, anticipated routine expenses, administration costs, and reserves.

Defined Contribution Plans (Health Care Spending Accounts)

What is Typically Included

- All CRA eligible expenses.

Flexibility

- Plan sponsor chooses the annual benefit amount per employee.
- HCSA amounts can be customized by employee group.

Cost Control

- All costs are budgeted and controlled by the plan sponsor.
- Contribution amounts are set annually in advance by the plan sponsor.
- Contributions are made monthly. HCSA amounts are adjudicated on an annual basis.

Hybrid plans are the best of both worlds!

Hybrid Plans: Where to Start

What are the Groups Within Your Group?

- ? Executives, Management, Staff
- ? Employees with 5 or more years of service, Employees with at least 1 year of service
- ? Sales, Research and Development, Manufacturing

How Do You Structure a Hybrid Plan for These Groups?

- 1 Determine your benefits spending budget (by group)
 - Include employee benefits coverage in your total compensation package for employees.
 - Coverage can be different by group.
- 2 Decide how big a role a Health Care Spending Account (HCSA) will play in your plan (by group)
 - How much flexibility do you want to give members?
 - Rather than choosing between a conventional benefits plan and an HCSA, provide a basic core benefits plan complemented with an HCSA.
- 3 Make it meaningful (by group)
 - HCSA could be a % of an employee's earnings, or a % of new sales revenue for the sales team.
 - HCSA could be a minimal amount for new employees and a larger amount for employees you want to reward and retain.

