

# The Evolution of Employee Benefits at the Economical Insurance Group

Jennifer Hubbard<sup>1</sup> and Parbudyal Singh<sup>2</sup>

## Abstract

Employee benefit plans can be an important part of an organization's employment deal and can help differentiate one employer from another. This article defines *employee benefits* as an extensive offering of programs that is broader than the conventional definition. Not only does it include traditional benefits; it also includes pension and savings, time off work, wellness and flexible work arrangements. The article reviews one company's experience as its employee benefit program has evolved from one of fixed and defined benefits to one that provides greater choice, flexibility and control to better support the organizational and human resource strategy and to better meet the needs of its diverse workforce. Several lessons have been learned by this company and are shared in this article. Although the company has focused on continual improvement of its employment deal over the past several years, it cannot halt the progress it has made thus far.

## Keywords

employee benefits, flexible benefits, total rewards

Employee benefits can be defined as the programs that employers provide to augment the cash compensation an employee receives for the work he or she does.<sup>1</sup> They usually include government-mandated benefits such as employment insurance, pension plans, employer health tax, workers' compensation and so on. They also include employer-provided benefits such as medical, drug, dental, disability, life insurance, pension plans and so on. In this article, we define *employee benefits* as a more extensive offering of programs to include the traditional benefits, as well as retirement and savings, time off work, wellness initiatives and flexible work arrangements (see Figure 1).

Employee benefits have seen significant evolution over the past several decades, with some firms experiencing more success than others. In this case study, we focus on one success story. In just 7 years, employee benefits at The Economical Insurance Group (TEIG)<sup>2</sup> have evolved from the traditional "one-size-fits-all" fixed and defined benefit approach to a more comprehensive and flexible employee benefit offering. This article provides an overview of benefits at TEIG and discusses the reasons for and processes involved in the evolution of the benefits plan. We refer to the relevant research throughout the article. Finally, implications for managers are discussed.

## The Evolution of Employee Benefits at TEIG

### *Fixed and Defined Benefits*

The employee benefits offering at TEIG has evolved significantly over the past several years. Prior to 2002, TEIG provided a traditional fixed benefit plan that gave the same coverage to all employees, the only choice being whether to obtain coverage for dependents. In addition to the fixed benefit plan, TEIG offered a defined benefit (DB) pension plan.

Several scholars and practitioners have commented on the strengths and weaknesses of various types of benefit plans.<sup>3</sup> A fixed benefit plan is relatively straightforward to communicate and administer as there are few options and combinations for individual employees. Fixed plans are commonly used by smaller employers, where the culture is more paternalistic, as well as in unionized environments.

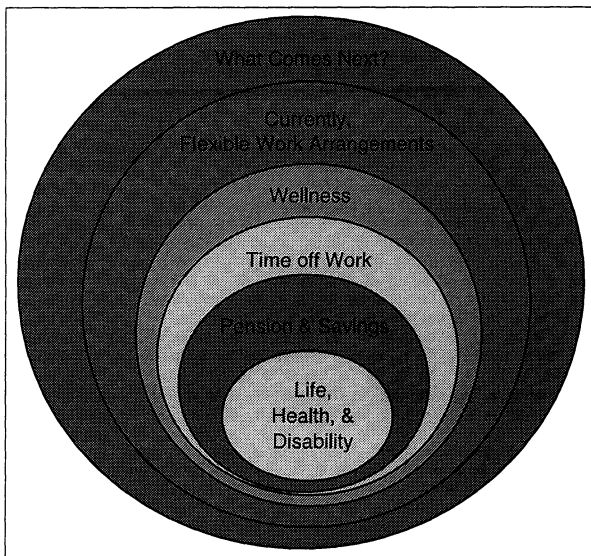
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**Figure 1.** Employee benefits at The Economical Insurance Group (TEIG)

In addition to the above components, the employee deal at TEIG also includes a base and variable pay, a rewards and recognition program and a comprehensive blended learning and development strategy. Source: TEIG's Employee Handbook (2009).

Conversely, there is little employee choice regarding the types of coverage that are meaningful to the individual, his or her dependents or his or her lifestyle. Employers have less control over the costs of the benefits. In addition, very few employees understand the actual value of employer-provided benefit plans.

A DB pension plan is relatively safe for the employee as the employer bears the investment risk. It requires no decision making on the part of the employee and, as a result, an employer can get by with less communication and education. The downside, however, is that with little understanding of the benefit, employees tend to attach little value to it. Employees are not able to make choices based on their investment risk tolerance and stage of life. They are also not impacted by the investments made by the company; that is, they do not benefit from investment market upswings and do not suffer from market downturns. These plans usually appeal more to older employees who have long service with the employer or who are closer to retirement. DB pension plans are very common in North America but are increasingly being replaced with or supplemented by defined contribution (DC) plans.

At TEIG, as in most firms with traditional benefits, very little was communicated about these fixed and defined plans, other than basic employee handbook information. The plans were generic and the same for everyone, regardless of their individual need. As a result, they lacked value to employees and did little to attract or retain them. TEIG

was not able to leverage the investment the company made in them.

### *The Need to Change*

In the late 1990s and early 2000s, TEIG's corporate strategic focus was on acquisition and growth. The organization had expanded from 1,500 employees and almost \$800 million in gross written premiums in 1998 to 2,100 employees and more than \$1.3 billion in gross written premiums in 2002. The company was launching initiatives to reshape operational capabilities and integrate the acquired companies and employees. TEIG's market share was increasing, and it was moving away from its image as a "sleepy little mutual insurance company" to a contender in the property and casualty insurance market. To do so successfully, TEIG began to realize it needed to be able to attract and retain the right employees in the right jobs, and one way to do that was through an attractive, comprehensive benefit package.

TEIG provided a benefit program to attract and retain employees, to provide financial protection, and to meet competitive practices. Given these objectives, the company felt the need to change its employee benefit plan on several fronts. In around 2002, TEIG became more aware of the need to develop an employee value proposition or employment deal. As defined by the Corporate Leadership Council (CLC), the employment deal is the set of attributes that employees perceive as the value they gain through employment in an organization.<sup>4</sup> The CLC states that the employment deal is the key driver of attraction and commitment in the labor market.<sup>5</sup>

The formerly traditional and conservative property and casualty (P&C) insurance industry was starting to evolve. The presence of flexible benefits and DC pension plans in competitor companies, and the increasingly aggressive war for talent, created a need to develop a more attractive employment offering or deal.

From a corporate culture perspective, TEIG was starting to evolve from a paternalistic company that made decisions for employees to one that provided employees with the information and tools to make their own decisions. The traditional fixed plan promoted an organizational mentality where employees believed they were entitled to benefits, without necessarily having to understand or make decisions about them because the company made the decisions for them. Employees did not see, understand or appreciate the actual cost and value of each benefit.

Through an employee benefits satisfaction survey conducted in 1999, employee focus groups conducted in 2000, as well as in anecdotal feedback, employees indicated they wanted to take an active role in choosing the benefits that were right for themselves and their families. The employee

**Table 1.** Generational Characteristics

Generation	Characteristics	Attract	Retain
Veterans—born between 1930 and 1945	<ul style="list-style-type: none"> <li>• Fought in or were children during WWII so recall horror of war</li> <li>• Have sense of duty, sacrifice</li> <li>• Have great respect for authority, institutions</li> <li>• Follow rules</li> <li>• Are uniform member of team, don't want to stand out</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Flexible, tailored benefits</b></li> <li>• Job security</li> <li>• Opportunities to use experience</li> </ul>	<ul style="list-style-type: none"> <li>• Respect for experience</li> <li>• <b>Flexible, tailored benefits</b></li> <li>• <b>Flextime arrangements</b></li> <li>• Loyalty</li> </ul>
Baby boomers—born between 1946 and 1964	<ul style="list-style-type: none"> <li>• Initiated civil rights movement; believe in diversity, democracy</li> <li>• Obey rules unless contrary to what they want, then they break them</li> <li>• Run governments, companies</li> <li>• Had to compete for jobs and promotions</li> <li>• Work long and like to be seen doing it</li> <li>• Are relationship oriented</li> </ul>	<ul style="list-style-type: none"> <li>• Salary, title, status</li> <li>• <b>Flexible, tailored benefits</b></li> <li>• Learning opportunities or challenges</li> </ul>	<ul style="list-style-type: none"> <li>• Advancement opportunities</li> <li>• Respect for experience and expertise</li> <li>• Continually interesting work</li> </ul>
Generation X—born between 1965 and 1976	<ul style="list-style-type: none"> <li>• Grew up quickly amidst increasing divorce rates and recession</li> <li>• Were the first latchkey kids</li> <li>• Saw parents laid off</li> <li>• Are sceptical toward authority</li> <li>• Are free agents rather than loyal</li> <li>• Believe hard work is effective output not hours</li> </ul>	<ul style="list-style-type: none"> <li>• Company values that match theirs</li> <li>• <b>Salary and benefits package</b></li> <li>• Growth opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Career development opportunities</li> <li>• <b>Control of their time, flexibility, freedom</b></li> <li>• <b>Work-life balance</b></li> <li>• Company with values and integrity</li> </ul>
Gen Y—born between 1977 and 1991	<ul style="list-style-type: none"> <li>• Are children of boomers</li> <li>• Have known affluence entire lives</li> <li>• Are protected by parents and were raised as equals/friends</li> <li>• Are ubiquitous with technology</li> <li>• Companies compete for them</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Salary</b></li> <li>• <b>Friendly, casual work environment</b></li> <li>• Growth opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Ideas, input valued and respected</li> <li>• Career development opportunities</li> <li>• Quality service or product</li> <li>• <b>Looking for ways to shed stress</b></li> </ul>

Adapted from Gravett, L., & Throckmorton, R. (2007). *Bridging the generation GAP: How to get radio babies, boomers, Gen Xers, and Gen Yers to work together and achieve more*. Franklin Lakes, NJ: Career Press. Douglas, M.J. (n.d.). Generation Clash! Making Generational History. Retrieved February 16, 2009 from [http://content.monster.ca/7371\\_en-CA\\_pl.asp](http://content.monster.ca/7371_en-CA_pl.asp)

population was becoming significantly more diverse in terms of age and generation and, therefore, values. The fixed employee benefit and defined benefit pension plan did not fit this increasing diversity. Table 1 provides a brief profile of characteristics for each generation as well as what attracts and retains them.

From the profiles, it is clear that each generation is different; how they see the world and what they value have been formed by the experiences through which they have lived. It takes something different to attract, motivate, reward, train, coach and retain individuals from each generational cohort. Due to administrative and equity issues, it is quite unrealistic for organizations to have distinct or customized employment deals for each generational cohort. What is more realistic, however, is that organizations create programs within their employment deal that are sufficiently adaptable to provide employees with the choice, flexibility and control required to meet their individual needs.

Although cost was not an explicitly stated driver for change, TEIG had experienced significant benefit cost escalation. The company felt it had little ability to contain growing costs in the fixed benefit plan design. When benefit costs increased, the company absorbed the increases, passed them along to employees or did a combination of both. Flexible benefits provide a greater degree of cost control for employers in that they enable employees to trade off among coverages<sup>6</sup> by choosing the benefits they want and rejecting those they do not.<sup>7</sup> Employees who have coverage elsewhere (e.g., through their spouse) can opt out of or into lower coverage levels. Employees, who wish to have the highest level of coverage can contribute to the cost through payroll deduction.

TEIG also became more interested in employee engagement and began to question how components of the employment deal impacted engagement. Given the cost of employee benefits, which is typically about 30% to 35% of its salary expenses,<sup>8</sup> it became more important

for TEIG to ensure the investment was worth it in terms of attraction and retention of talent, employee satisfaction, employee engagement and ultimately productivity. Benefits, pensions and work/life programs help to create the right conditions for engagement to increase, and if these foundational pieces are not right, an employer will not be able to impact engagement, no matter how innovative it is in other areas.<sup>9</sup>

### *Flexible Benefits*

Although flexible benefit plans had been around for more than two decades,<sup>10</sup> it was not until 2002 that TEIG focused on enhancing its fundamental “inner circle” of life, health and disability benefits (as per Figure 1) by introducing a flexible benefit plan that allowed employees choice, flexibility, and control in selecting benefit coverage that fit their individual and family needs. In the flexible benefit plan design, employees choose from a range of options in several benefits categories. In TEIG’s case, the plan design included the following:

- Both employees and TEIG contribute toward benefits costs.
- The first source of money is flex dollars from TEIG.
- The second source of money is payroll deductions from employees.
- If employees choose to buy enhanced levels of coverage (above what they can buy with flex dollars), they may need to make additional payroll deductions.
- Once employees have chosen and paid for all their benefits, if they have flex dollars left over, they initially had two options: “health care expense account” or Group RRSP (Registered Retirement Savings Plan) as a lump-sum contribution. Later, more options were added as indicated in the Time Off Work and Wellness sections of this article.

See Figure 2 for an overview of TEIG’s flexible benefit plan.

Unlike the fixed benefit plan design, the main challenge of flexible benefits is its complicated administration. This made it necessary for TEIG to hire a third-party benefits administrator as record keeper and provider of expert assistance to employees via the telephone and Internet.

Although employees’ understanding of their benefits is enhanced through a flexible benefit plan design (because they are involved in the decision making based on their individual and family needs<sup>11</sup> and have to determine how much they are willing to pay<sup>12</sup>) a great deal of effort must

go into education and communication. In their study of flexibility and employee benefit satisfaction, Tremblay, Sire, and Pelchat (1998) found that “communication was by far the most important predictor of benefit satisfaction.”<sup>13</sup>

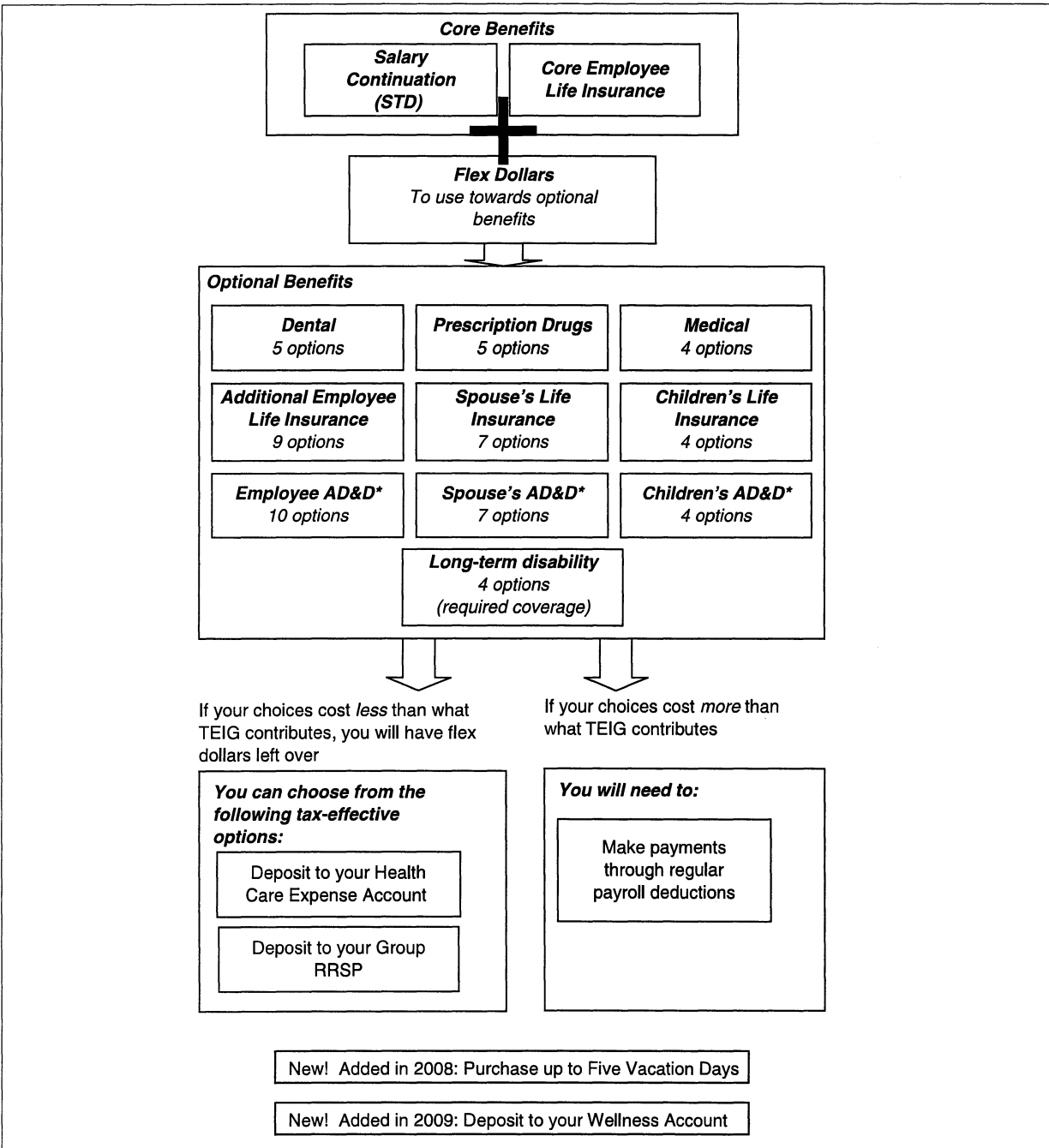
At TEIG, intensive, time-consuming, and relatively costly promotion was conducted when the flexible benefit plan was launched, including the following:

- Introductory online slide shows that gave an overview of each flexible benefit area
- Employee information sessions
- Flexible benefits kit including a written plan description, worksheets to manually test and price various scenarios and enrollment forms
- TEIG Benefits Centre was introduced as a dedicated phone line that employees could call for assistance during enrollment and throughout the year for questions about the plan, options, enrollment process and so on
- The carrier was introduced as a source of information on eligible expenses, claim status and so on
- Questions-and-answers intranet postings

New employees learn about the flexible benefits plan through a computer-based training (CBT) module received during their orientation period. They enroll initially and annually via the third-party benefits administrator’s sophisticated Web site. Annual reenrollment allows employees to revisit their choices based on their current needs and gives TEIG the opportunity to build awareness and understanding of the plan each year. A postreenrollment confirmation statement outlines chosen coverage options, associated company and employee cost and overall employee deductions (both biweekly and annually). This helps to educate employees on the investment the employer is making in them from an employee benefit perspective.

Plan information is included in the online employee handbook and several communications are posted on the company’s intranet. The third-party administrator and carrier Web sites and call centers are available to assist with regular issues while more complex issues are escalated to the TEIG HR benefits analyst for handling.

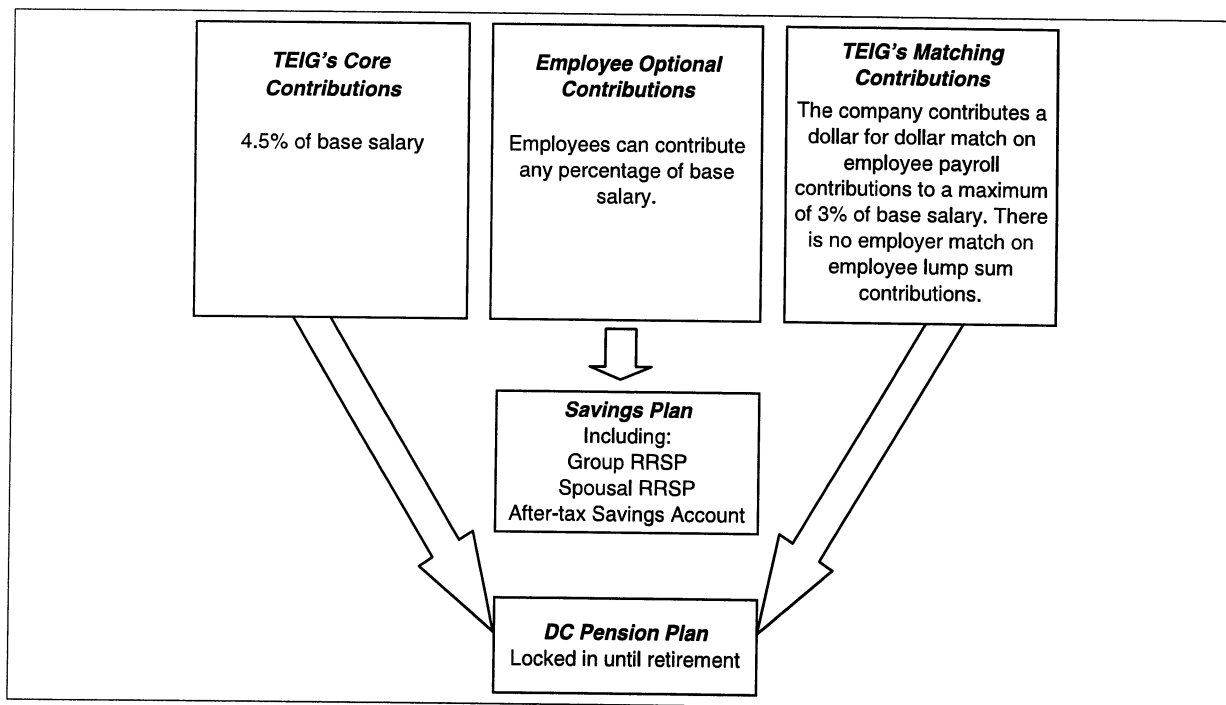
Every 2 years, employees are surveyed as to their satisfaction with and understanding of the flexible benefit plan. Results have improved over the three surveys that have been conducted as employee understanding of the plan increases and TEIG’s ability to effectively educate and communicate also grows. The results of the most recent survey conducted in 2008 indicated that well over 80% of respondents were satisfied or very satisfied with



**Figure 2.** The Economical Insurance Group's (TEIG's) flexible benefit plan  
Source: TEIG's Employee Handbook (2009).

the plan. Overall, 86% of respondents agreed or strongly agreed that they have a good level of understanding about the program (the survey had a 37% response rate). This compares extremely favorably to the survey conducted in 1999, before the change to flexible benefits, which indicated that the then current plan met the needs of only 47% of employees.

Although expensive to administer and communicate, TEIG's flexible benefit plan is effective in terms of employee satisfaction. Given the labor market, though, flexible benefits are becoming more commonplace and are an expected part of the employment deal. No longer can a flexible benefit plan be relied upon to distinguish one employer's deal or value proposition from another.



**Figure 3.** The Economical Insurance Group's (TEIG's) defined contribution pension plan

### *Pension and Savings*

TEIG next enhanced the pension and savings sphere of the benefits offering by introducing a DC pension plan in 2003 (as per Figure 1). See Figure 3 for an overview of TEIG's DC pension plan. The company not only contributes more to the DC pension than the former DB plan; the DC arrangement provides employees with more choice, flexibility and control over their pension investments.

When the new plan was introduced, employees had the opportunity to remain in the DB plan, convert the commuted value of their DB balances to the new DC plan or retain their history in the DB plan and go forward in the DC plan. They were provided with a modeler to help them make this decision. Again, intensive promotion was conducted when the new DC pension plan launched, including the following:

- Employee information sessions
- Retirement Program Kit including a written plan description, a CD-ROM pension modeler to understand the current and new plan impacts based on age and income and enrollment forms
- The carrier was introduced as a source of information with tools on investment risk profiles, fund performance and so on
- Questions-and-answers intranet postings.

Most employees chose to move to the DC pension plan. Employees were surveyed after the launch, and about 70% of respondents were satisfied or very satisfied with the choices available to them and the contribution structures (i.e., stay in old plan, move to new plan etc.). Approximately 65% indicated they were satisfied or very satisfied with the communication strategy (i.e., decision kit materials, modeler and information sessions).

New hires also learn about the DC pension plan through an orientation CBT. They enroll in the pension and savings program through the carrier's Web site. Plan information is included in the online employee handbook, and the carrier Web site and call center are available to assist with regular issues. Pension statements are provided quarterly and outline the performance of each fund, as well as the company and employee contributions.

In years when the organization's incentive bonus plan pays out, employees are able to direct their incentive bonus to their savings plan (Group Retirement Plan, Spousal Retirement Plan or After-Tax Savings Account). The plan links to the flexible benefits plan in that excess flex dollars can be directed to the employee's group or spousal retirement plan.

TEIG has found the effectiveness of the pension more challenging to assess than the flexible benefit change. TEIG has the sense that most employees pay little attention to their pension investments, and even in these times

of investment market downturn, TEIG's human resource managers have heard very few concerns from employees. Once employees enroll in the plan, it is important for them to revisit and rebalance their portfolios to stay true to their investment risk profiles. There is a need to create and implement a more comprehensive pension education strategy with the appropriate tools and resources to ensure employees are sufficiently well informed to make investment decisions that match their personal and family needs.

Whether TEIG's DC pension plan is working as a key component of the employment deal is questionable. Although growing in popularity, given the current market downturn, a DC plan may not be seen as beneficial to employees as might a DB plan. Also, the prevalence of DC plans makes them the standard and expected offering, as opposed to something unique and interesting to employees.

### *Time Off Work*

In 2007, TEIG focused on the time off work realm of its rewards offering and introduced the ability to purchase up to 5 extra vacation days through excess flex dollars in the flexible benefit plan. This further enhanced TEIG employees' ability to take time off work. Some companies offer vacation buying through payroll deduction as well; however, due to the administrative payroll complexities and resource restrictions, TEIG did not implement this benefit. TEIG purposely did not introduce vacation selling because of its philosophy that vacation should be used each year to provide a needed break to employees. Employees have the ability to carry over 5 vacation days into the next year. If unused, anything beyond 5 days will be forfeited. Forfeiting has not occurred at TEIG.

Over the 2 years that vacation buying has been offered, an average of 7.5% of employees participated. They purchased an average of 433 vacation days, which is about 2.5 days each. Although not a significant participation rate, TEIG has offered employees several ways to spend their flex credits. Employees are able to truly assess their choices based on lifestyle and need.

The benefit of providing more vacation days is that there is no hard-dollar cost to the employer. Although productivity may be impacted, it is not as evident as a bottom-line employment expense. Although it is a growing benefit, vacation buying is relatively uncommon offering of P&C employers. Vacation days also appeal to every demographic, and the flexibility to purchase additional days for those who have sufficient flex dollars is also positive. However, TEIG cannot rely on this benefit alone to make its employment deal unique.

### *Wellness*

Foray into the sphere of wellness began in earnest in the fall of 2008. A wellness campaign was introduced complete with biometric clinics, wellness assessments and the introduction of a new Personal Wellness Account through the flexible benefit plan.

The biometric clinics involved voluntary, confidential, 15-minute appointments with registered nurses during which employees were measured for six heart disease risk factors. Employees were also encouraged to complete confidential wellness assessments on the benefit carrier's Web site, after which they received an individualized report summarizing the results of their assessment and providing them with tips to improve any areas needing attention.

Employees who completed the assessment within the promoted timeframe were provided with \$300 wellness credits deposited into a personal wellness account through their flexible benefit plan. Approximately 50% of employees participated in these initiatives, and feedback was overwhelmingly positive.

Again, communication of this program was highly intensive and critical to its success. Over the course of 6 weeks, employees received information in the form of posters, e-mails and links to more detailed information. They were asked to sign up for biometric clinic appointments and did so via a highly developed online calendaring system. Leaders were provided with information so that they could "chat up" the initiative. This initiative definitely created a great deal of interest, enthusiasm and positive feedback.

TEIG received an aggregate report of biometric clinic and wellness assessment information to focus future wellness initiatives on specific risk areas. In his article on curbing benefit costs and engaging employees, Osterdorf (2006) reviewed the results of the Towers Perrin 2005 Health Care Consumerism Study, which indicated that when employers support good health for employees, employees become better health care consumers.<sup>14</sup>

Starting in 2009, employees are able to file wellness claims through the benefits carrier and are reimbursed via their wellness account (taxable to the employee). Employees can also allocate excess flex dollars into their personal wellness account. Wellness claims are adjudicated based on a predetermined list that will include sports and fitness equipment, memberships and fees and weight loss programs.

In 2009, TEIG is developing a wellness challenge campaign focused on the particular risk areas identified in the aggregate report. Ultimately, it is hoped that this benefit offering will enhance employee health and engagement

and help to contain rising health care costs. It also has the potential to be a key differentiator for TEIG that, if sustained, will set the organization apart from its competitors who are not investing in this type of program.

### *Flexible Work Arrangements*

An examination of TEIG's demographics illustrates that veterans make up 3% of the employee population, baby boomers compose the largest cohort at 43%, generation X makes up 31%, and generation Y is growing at 23%. Like other organizations, TEIG faces the demographic challenges of the retirement of the baby boomers and the need to attract younger workers. These challenges reinforce the need for TEIG to continue to evolve its benefits offerings to ensure they do not become outdated, uncompetitive, and therefore disengagers.

Flexible work arrangements (FWAs) can meet the diverse needs of all generational cohorts, whether they are in the midst of their demanding childrearing years, taking care of elders, want time to pursue continuing education or wish freedom to travel. Flexible scheduling is a strategy employers are using to help employees achieve a better work-life balance.<sup>15</sup>

Although there are many benefits of being able to offer FWAs to the organization, there are also serious challenges. TEIG's corporate culture is conservative and traditional. TEIG's leaders will require a thorough understanding of workflow, remote leadership and the ability to work with a more fluid and mobile workforce. Leaders must also have the ability to manage performance within an arrangement that potentially has shorter hours and requires adjusted performance measures.

TEIG is currently investigating the types of roles within the organization that work with the various FWAs (compressed work week, flexible hours, flexible work scheduling, job sharing, gradually reducing workweek, sabbatical and remote work). It is also gaining a full understanding of the implications of each FWA on the employment deal (i.e., impacts on pay, bonus, benefits, pensions, time off work etc.). Clear policies, guidelines and tools for FWA agreements will also be developed. Critical to success will be a clear and thorough communication strategy including the above.

### **Lessons for Managers and Conclusion**

The key to an effective reward strategy is to ensure that it aligns with and links to the overall HR strategy and the organizational strategy, values, mission and culture. The benefits strategy must provide a distinctive value proposition for attracting and retaining employees.<sup>16</sup> TEIG has focused on continual improvement of its employment

deal over the past 7 years, and although the changes have been well received and have enhanced the organization's ability to achieve its goals, the company cannot halt the progress it has made thus far.

There are several lessons for managers and organizations as they contemplate changing their fixed benefit plans.

- *Ensure alignment.* Is your corporate culture about taking care of employees? Is it about enabling them to take care of themselves? Ensure your employee benefits fit with the way your organization works.
- *Understand that change is inevitable.* Legislation, competitors, organizations and the people within them are constantly evolving. To continue to offer relevant employee benefits and reap the payback from them, you have to understand the changes and be able to respond to them.
- *Conduct systematic diagnostic surveys on employee attitudes and desires.* There is no point introducing change to employee benefits unless you know what people think of them and whether they will derive value from them. It is also important to seek feedback on existing programs to learn where they need minor tweaking or major overhaul.
- *Use technology wherever you can.* Increasing flexibility in your benefit plans means more complexity. Very often the people resources required to manage them are increasingly overworked! Technology can play a significant role in implementation and administration.
- *Understand the trade-offs.* Complex plan design that educates about benefit value does not necessarily come with simple communication and easy administration. Ensure you know both the strengths and weaknesses of the approach you plan to take.
- *Communication is key.* Communicate early, often and in a variety of ways. Use technology, use paper, use in-person communication techniques. Be straightforward. Be creative. It takes all methods to meet the communication needs of all employees.
- *Give yourself enough time.* It takes a significant amount of time to discern what needs changing in your employee benefit plans, to develop and design the programs and to deliver the changes. Do not rush it.

Employee benefit plans can be an important part of an organization's employment deal. In an era when the war



for talent is hard-fought, they can help to differentiate one employer from another. To remain relevant to the changing needs of employees, however, it is critical that organizations continue to ask, "What comes next?" and to keep in mind the lessons above as they embark on their own evolution.

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### Notes

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