INSIGHTS

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Avoiding costly problems
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Enrolment in group life & health benefit plans should mandatory

No one likes fixing mistakes that shouldn't have happened in the first place. Advisors try to provide the best possible advice to their clients, all the while trying to minimize, if not eliminate, the chance of their client being sued. One thing every benefit plan sponsor should do to avoid problems and minimize future liability issues is to insist on mandatory plan participation by all of their eligible employees.

Enrolment in a group life and health benefit plan should be mandatory. Period. Employers need to demand that participation in their group life and health plan is a condition of employment, and that it be treated no differently than their expectation that all individuals who enter the work site wear safety goggles or steel-toed work boots.

Employers may be reluctant to make their group life and health plan mandatory because they don't want to deal with complaining employees who gripe about paying the premium, or having to provide additional medical information beyond what they have already provided to the insurer. But what do they do if an employee dies or becomes disabled and they have 'opted' out of the plan? Well, the employer's first call should be to their lawyer, because in all likelihood they will be getting a call or a letter from the estate's lawyer asking for claim forms. Having a letter from the employee waiving their participation in the plan in my opinion is useless. We live in a litigious society. Lawyers are prepared to sue because they can, and because they know that the courts will side with the widow or the injured party. The group life and health provider has never received a nickel of premium for the individual's life or disability benefits so they will not be kicking in any money. So, where does that leave the plan sponsor? On their own, that's where. They will be trying to argue they explained to the deceased or disabled employee that for $60 a month they could have had a comprehensive life and disability insurance plan, but due to a lack of understanding they decided not to take it. Good luck with that. I can hear the trial judge now, as she looks over her wire-rimmed glasses, "Are you telling me that for $15 a month this employee refused to take $60,000 of life insurance and for an additional $45 a month they declined a $2,500 a month disability policy?" The defendant, with a straight face, will say, "Yes, that's exactly how it was", and the judge, with a not so straight face, will try not to laugh as she explains to the employer that they will be paying the death or disability claim to the family or employee. Remember, courts look for those with the deepest pockets to pay for someone else's bad judgement. Forcing employees to participate in the plan, even if it means hearing the griping, or the reasons why the employee doesn't need the protection, means that you will not be losing sleep worrying about how you as the plan sponsor are going to come up with the money to pay for the claim. The cost of not demanding that an employee join the benefits plan is similar to a workplace safety inspector finding that you are not in compliance with some safety aspect of their policies. If you're lucky it's just a fine. If you are not so lucky, and someone dies or gets hurt, it's years living a nightmare.

Here is an explanation that Dave Patriarche of Mainstay Insurance provides to his clients:

Your employer has implemented a benefit plan because they think it is a good investment in maintaining a healthy workforce and it offers a degree of protection to their staff in the event of a major health,

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Does having benefits make a difference to employees?

The average employer pays between $3,000 and $5,000 per employee, per year for a benefits program, depending on the plan design and the group's demographics. On that basis alone, you would think employers would want to know if they are getting good value for their investment. However, most employers don't know. As such, before coverage is changed or reduced you need to step back and do some research with an employee benefits survey. A carefully planned and executed survey will help to better understand how to strategically allocate the benefits plan budget while preserving, or even increasing, employees' perceived value of the plan.

I am not naïve enough to think that benefits are more important than what one is being paid, but since employees are not aware of the value of their benefits program more needs to be done to probe employee perceptions about those programs before making any changes, because most of us don't have an appreciation of the program until we make a claim. Conversely, a poorly designed benefits plan or the absence of coverage can become a significant source of dissatisfaction or worse, a public relations nightmare.

So, in order to enhance awareness and to make sure employees are satisfied, use technology to reach employees in new and innovative ways. Create a buzz about your benefits program and its value. One of the easiest ways to do that is through a survey.

Did You Know?

RWAM may apply an administrative fee of up to 15% of the monthly premium if a written request to terminate a group life and health plan is not received in their office prior to 31 days of the cancellation date.

Proper notice ensures that claims that shouldn't be paid aren't, avoids having RWAM's administration personnel making the day-to-day changes to a case that is moving on, and eliminates the production of a billing statement.

There are potential implications to a broker and their client when the cancellation notice is sent at the last minute.

An information breakdown damages the relationship among the client, broker, and insurer. In addition, the perception of the quality of service and the level of trust between the parties is diminished.

In the business of group insurance, insurers and brokers work closely in the information exchange required to provide group benefits to their clients. Things can go wrong if, in the haste to leave one carrier, one little bit of the information exchange is incorrect. There is a chain reaction of problems for the client that could result in any or all of the following:

- Errors in the contract and booklets resulting in re-issue
- Delay in the client receiving contracts and booklets
- Delay in paying claims because of the time to set the new group up on the system.
- Claims being denied- no two contracts are ever the same
- Errors on the billing statement
- Incorrect pricing, resulting in unexpected rate adjustments, either immediately or at renewal
- Cancellation of the new contract due to a misrepresentation
- Liability for the error/omission falling on the shoulders of the broker/consultant

Proper notice is the courteous thing to do. It ensures that clients get good service, minimizes E&O suits being lodged, and it avoids RWAM having to charge an administration fee, a fee that could have been avoided had the terms of the agreement between the client and themselves been honoured.

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life or disability claim. If you opted out or failed to complete the necessary forms the plan could fail to protect you. The costs you could incur could run into the millions of dollars. In many cases, these costs may have been covered by the plan.

As an example, at times your employer or the insurer will require you to complete health questionnaires in order to obtain the proper life or long term disability coverage that your income level dictates. It is essential that you complete and return these forms immediately in order to obtain coverage. Why is this so important? Imagine a 35 year old making $50,000 a year. A typical LTD benefit might pay $2,500 a month in the event of total disability. If this person failed to apply for LTD protection or to supply the required health information, they could be giving up as much as $900,000 in future disability benefits.

If a client has an employee who is unwilling to be enrolled in their plan for any reason, they should contact their advisor immediately to try and rectify the situation. In most cases it is as simple as making the employee aware that their privacy is protected and, if the form is submitted directly to the insurer, that the information will not be shared with the employer.

Employers need to understand the risk they expose themselves to by not making participation on the plan mandatory. Sending an employee home until the necessary information for the plan has been supplied is extreme, but using the analogy that getting employees enrolled onto the plan and ensuring they are provided with the proper coverage is as important as ensuring that employees wear work boots, and not sandals, in a factory setting. After all, if the employee did show up in sandals the employer would send them home until they had the right protection.

Having all employees properly insured reduces the chance of the employee or their legal representative seeking damages for their poor or ill-informed decision to opt out of the plan. When a benefit plan is mandatory everyone is protected – plan sponsor, employees and the benefits advisor. Employers reduce their liability and employees are sheltered from potential financial disaster in the face of death, injury, and illness.

Until next time...