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Insurance Solutions: Why Customizing Is Crucial

by Jim Mooradian and Bryan Lambert

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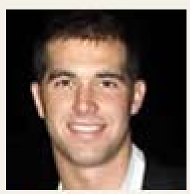

Bryan Lambert

One size does not fit all when it comes to some insurance solutions. Whether you are planning for your own insurance needs or a client is seeking your advice about insurance plans, it may be useful for you to recognize that employers and employees often misunderstand the types of coverage they own, why this or that particular insurance solution is right (or wrong) for them, and whether a particular insurance "solution" has real value for them and/or their firm. You and your clients should know that *customizing* insurance solutions—focusing on the needs of specific groups within employee populations—is the pragmatic way to go, since needs and solutions are rarely the same for everyone.

When assessing employee benefits, for example, an effective plan design typically starts with employer-paid group insurance at some level. Because these plans are subject to ERISA and nondiscrimination rules, these plan designs are more limiting from a customization perspective. Such plans are meant to give coverage across an entire employee population, with one plan design formula giving all employees some coverage. This is typically the baseline for employee benefit plans and is otherwise known as part of a core *benefit* offering.

Some employers look to supplement their core benefit offerings with voluntary programs, which can include many different types of products, from auto and home insurance, to disability, dental, prepaid legal and even pet insurance. Because voluntary benefits programs are employee-paid—typically with after-tax payroll deductions—there are usually accompanied with enrollment and communication strategies. There is

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also some scope for customization, depending on the enrollment communication strategy. These voluntary programs are becoming increasingly more popular in the marketplace because they give employers the ability to offer more products to their employees on a competitive and streamlined basis, typically at no cost to the employer. Because these programs are supplemental, they are not subject to the nondiscrimination rules that apply to the core group employee benefits.

The fact that voluntary benefits programs are not subject to nondiscrimination rules makes them easier to customize. That said, most enrollment firms still don't provide much customization with voluntary benefits due to the costs associated with the additional employee communication and education that must happen with customized programs. However, depending on your employee population and their needs, you can provide effective and meaningful customization by offering a combination of core and voluntary benefits.

As an example of a situation where one solution does not fit an entire employee population, let's use a college offering a supplemental disability program. Colleges have a wide variety of employees from a job and income perspective. The higher earners at a college are faculty members and some administrative employees. A disability solution for this segment of the college employee population might be more income replacement, above and beyond the standard 60 percent ratio used in group employee benefits. Many times, a supplemental program will allow an income replacement ratio of up to 75 percent of an employee's salary.

However, colleges also have many lower-paid employees who work in such departments as landscaping, building maintenance and food services. More income replacement for this employee population might not be relevant, depending on the underlying plan design of the college's group long-term and short-term disability programs. Instead, their customized solution might look more like a simple and affordable product, such as accident or critical illness insurance benefit that has a premium of approximately $3 to $4 per week.

As an example from the for-profit sphere, we put together a customized plan for a very large fitness company that operates multiple sites in multiple states. The largest proportion of the employee population is on the lower end of the pay scale and works in the fitness clubs. A smaller number of the employees work in the corporate offices and make higher salaries. All employees had a minimal amount of short-term disability coverage, with a low weekly benefit. Because of this, there was a large appetite for additional disability protection. The higher-paid corporate employees were looking for long-term disability insurance, so we offered them a voluntary disability program. In addition, we offered a variety of voluntary benefits—including additional short-term disability coverage—to the entire employee population, targeting the people who worked in the fitness clubs.

With this level of customization, we had to create several different messages to communicate with and educate the different employee groups. This took a bigger enrollment commitment (e.g., labor, expenses, enrollment costs) from the brokerage firm and carrier than communicating with employees about a one-size-fits-all plan. However, the effort paid off, in the form of a 50 percent enrollment rate, which is a very good participation rate in any industry.

Targeted Offerings Increase Participation

Unfortunately, as we mentioned earlier, very few enrollment firms or carriers offer customized plan designs, even in the voluntary benefits area. The reasons have to do with the widespread perception that one size fits all makes for greater efficiencies and reduced costs related to enrollment and communication. As a plan design gets more "outside the box," the communications strategy necessarily gets more complex and has added costs in the form of additional education sessions and more brochures and other materials targeted to the different employee populations. However, as explained above, we've seen participation rates go up because the customized benefits *actually meant something* to the employees to whom they were being offered.

Ultimately, the success of any voluntary benefits program is predicated on your education strategy for your employee population. A more customized solution that is targeted to specific employee segments based on compensation, underlying plan design, etc., will be more meaningful to employees in each particular group. Because the voluntary offering is more targeted to their needs, the overall success of, and participation in, the program will go up. This creates a win for the employer, the employees (due to increased education about and understanding of their benefits), and ultimately, the carrier or enrollment firm executing the program. We think this is the only truly effective way to offer voluntary programs that are meaningful for all parties.

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