Can the Risks Be Addressed?

Voluntary benefits may be the S.O.S. we need

By Jim Mooradian

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85% of American adults over the age of 18 cite the rising cost of health care as a pressing concern, according to the American Society for Quality/Harris Interactive. Higher deductibles are becoming the norm, co-pays are rising, and the cost of medication is skyrocketing. More than one in four U.S. adults have not filled a prescription or have delayed a medical procedure due to expense. And medical is just the tip of the iceberg; lurking below the surface are a vast array of uncovered expenses like lost wages, child care and transportation. It's no wonder people are worried, they see the threat to be increasing, and there seems to be no clear solution in sight.

Here's the reality for the average working family in America: If you or your loved ones get sick or hurt, chances are high that the financial burden could be devastating.

The statistics are sobering:

- 63% of full-time employees and 75% of young families with children say that having enough money to cover bills during sudden illness is their number 1 concern (Fifth Annual MetLife Study of Employee Benefit Trends).
- 48% of all home foreclosures are due to a disability, with up to 50% of those being for lack of $300 per month. Most of these folks had health insurance at the time of disability. (U.S. DOL)
- A significant number of American households are living paycheck to paychecka statistic that cuts across all income levels. According to a recent Harris poll, the average American family cannot make it more than 7 weeks without income.

Employees are looking to their employers and saying, "Hey! If you want me to take on more costs, I need some help! I need education and access to affordable solutions for my family." The good news is that there are solutions available to help rank-and-file employees weather the financial storm that family illness and accident can bring.

What are voluntary benefits?

Voluntaryor supplementalbenefits include life, accident, critical illness and short-term disability insurance. Premiums are surprisingly affordable, often as little as $3.00 to $4.00 per week. When a covered event, usually an accident or a debilitating illness like heart attack, stroke or cancer triggers a claim, the policy pays a predetermined lump sum that can be used to cover expenses at the policyholder's discretion. It's simple, clean and direct.

While these products may be available to individuals outside the workplace, the reality is that many of today's employees have neither the time, knowledge nor means to explore these options outside of the workplace. And employers can often negotiate better termslike lower premiums, and simplified underwritingwith carriers. While group coverage does exist, most workplace VBs are still written as individual contracts between employee and carrier, hence the term"voluntary." The majority of VB policies today are paid through post-tax payroll deductions, and the coverage is portable.

It's supplemental

One of the biggest issues facing America's working families during a health crisis isn't the cost of care itselfit's the loss of cash flow that results from being out of work, coupled with uncovered expenses associated with aftercare and treatment. For families living paycheck to paycheck, when the primary breadwinner misses a week of work it has a significant impact on their financial stability.

VBs offer simple, affordable solutions to very real problems. An average accident policy, for example, costs an employee about $3.75 a weekabout the same as a cup of coffee and a doughnut. And the terms are straightforward. If your child falls off the swing set and breaks her wrist, the policy could pay $400. You slip and dislocate your shoulder, the policy could pay $500. And, unlike core health and disability benefits, the money can be used to pay anything from uncovered medical to household expenses, such as a utility bill. For rank and file employees, getting cash-in-hand during a difficult time is crucial to their financial well-being.

Here's a common scenario: A 49-year-old light manufacturing worker has a heart attack. He's out of work for three weeks, and then goes part-time for a month, with six specialist follow-up visits. Total medical costs are $41,000. Between co-pays, deductibles and lost wages, his out of pocket is about $5,000. For $3.50 a week (via post-tax, payroll deduction), he purchased a $10,000 critical illness policy. He fills out a one page claim form that pays upon diagnosis. With the $10,000 check, he pays his out of pocket medical expenses, covers the mortgage and car payments, and uses the rest to make up for his wife's lost wages on the days she brings him in for treatment.

Note that the critical illness benefit doesn't replace comprehensive health care, but supplements it. That's why these types of benefits are often referred to as "supplemental" coverage.

Solving HR's challenges

Every HR-benefit manager in the country is struggling with three challenges: 1. How do I attract and retain good people? 2. What can I do to control the double-digit increases in my core benefit plans? and 3. How can I effectively communicate solutions to my employees? The confluence of these three trends points directly to the increasingly popularity of voluntary benefits in the marketplace.

Retention and employee satisfaction

Companies are seeing voluntary benefits as an effective tool for boosting employee commitment at little to no cost. Since voluntary benefits are employee-paid, corporate expenses are minimal, yet they deliver an immediate, tangible benefit to employees. Once the benefit is set up, there are virtually no ongoing demands on HR staff resources, since claims are administered directly by the carrier. That doesn't mean the benefits are invisible, though. In small to mid-sized companies, when Joe or Jill has a heart attack, everyone knows about it. A $10,000 critical illness payout within weeks of a diagnosis becomes good news that travels fast. Maybe that's why critical illness coverage is experiencing double-digit growth.

As a recent MetLife survey shows, employees who feel good about their company's benefit package are much more likely to enjoy their jobs and to feel loyal to their employers. Voluntary benefits have broad appeal. While accident and critical illness insurance are especially important to minimum-wage earners, remember that the most popular benefits in the C-suite are individual disability and supplemental life plans.

It's all about the message

The quality of communication determines how your employees feel about their benefits package. Data show that if you are effective at communicating the messageeven if your plan is not as comprehensive as that of a comparable employer-employee satisfaction goes up. Conversely, the best benefit package in the world can be an enrollment dud if it's not communicated well.

Voluntary benefits are blissfully simpleand simple to communicate. Like old-fashioned scheduled benefit plans, a specific accident or sickness will trigger a defined benefit payout. Period. When employees understand that these products are designed to solve real-life problems like making their bill payments or putting food on the table during a difficult time, enrollment rates soar.

Encourage saving ways

Here's another powerful incentive for employers to make VBs available to employees: They may help boost employees' savings rates. Let's face it, many American workers aren't thinking about retirement planning they're concerned about current cash flow, the "now" issues. What if I get sick? How will we eat? How will I pay the rent? This is particularly true for younger employees or financially strapped families. Voluntary benefits are popular because they address these issues head-on.

According to a recent MetLife survey, 55% of employees feel that payroll deductions for voluntary benefits help them to be more disciplined about saving. This disciplinecoupled with the financial safety net the benefits provide, and an integrated education campaigncan translate into increased enrollment in company-sponsored 401(k)s. At the very least, accident and critical illness insurance might help curb a disturbing new trend: the increasing credit card debt being incurred by participants in HDHPs.

Design options for your demographics

So you've decided to offer a VB program at your company. Where do you start?

The products themselves are "Simple Simon" and fairly generic. You probably won't make a mistake going with any of the name carriers. You can, however, match up your company's needs with various product options. Here are some things you'll want to put on your check list:

- **Simplified underwriting:** What kind of coverage is available without underwriting?
- **Underlying participation requirements:** What are they and what are the restrictions?
- **Portability:** Is it offered and is it restricted? If so, when?
- **Product options:** What's covered? What's not? What are the benefit amounts at payout? Are there eligibility restrictions for pre-existing conditions?
- **Flexibility:** If you have employees in a state with cash sickness rules (Calif., N.J., N.Y., R.I.), you'll want to see if/how the carrier integrates benefits.

Choose a VB partner that stands and delivers

A successful VB offering is all about communication. The messageand how it's conveyed to employeesis what will make your program successful. Keywords here are "empathy" and "education." If you don't hear these words when talking to brokers or carriers, keep looking!

There are three ways to bring VBs to your employees: go directly to a carrier, leverage your existing EB broker, or use a firm specializing in VBs. Each channel has something different to offer and, depending on your company's size, demographics and objectives, may or may not be a good fit for your company. Here are some things to consider:

Go direct. The plus here is the perceived "comfort factor" of working directly with the carrier. You probably won't see significant cost-savings for non-group, employee-paid VB plans. Also, reps have an interest in promoting their company's features and downplaying ones they don't offernot a problem if you have plain-vanilla needs.

Leverage your EB broker. You've already got the relationship. That's good. And brokers are independent, which is also good. But chances are your EB broker is a retirement and/or health expert, with limited working knowledge of VBs or how to communicate them effectively to employees. They will most likely vet carriers, then contract with a VB specialist to handle the nuts-and-bolts of communications and enrollment.

Use a VB broker. The plus here is that they really know the VB business, the carriers, the products, the message, and the process. There are two kinds of VB specialists: large national companies and smaller boutique firms.

The national players are enrollment specialists whose process-driven approach is on admin and enrollment. Using them might make sense if your population is 1,000 employees or more, where economies of scale kick in.

Boutique VB specialists focus exclusively on voluntary benefits. They specialize in the "human touch"getting the message out, employee education, person-to-person enrollment, claims assistance and communications support. This approach can be especially effective for small to mid-sized companies.

A win-win solution

The bottom line is that offering voluntary benefits makes good sense all around. They are a low-cost way to have a big impact on the lives, finances and well-being of your employees if they get sick or hurt. Properly communicated, and with minimal set-up and ongoing claims administration, a voluntary benefit program can be a win-win for everyone involved.