



## 7 Deadly Sins of Employee Benefits Management

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1. **Failure to pursue evidence of insurability (EOI) for voluntary coverage.** You offer voluntary life insurance to employees, and maybe their spouses. Someone signs up for the coverage; you deduct the premium from the paycheck. The employee fails to complete the health statement (EOI) and dies. (The same could happen with disability, voluntary health or cancer insurance.) Who pays the claim? You! Never deduct premiums unless you have written or electronic approval from the carrier of any coverage. *Be sure that there is an internal system for following up and documenting the pursuit of EOI from the plan participant.*

2. **Failure to apply for Waiver of Premium.** Your employee becomes disabled and is not likely to come back. You are concerned that he might lose his life insurance; you want to do the right thing, so you keep him on the plan even though he hasn't been actively at work for months. Eventually you change life insurers, later the former employee passes away. Who pays the claim? Maybe no one. The former employee was never actively at work, so isn't covered by the new carrier and the old carrier is no longer on the risk. If you indicated that the coverage would continue, you may be liable for the claims. *Always apply for Waiver of Premium during the application period, usually at the same time that permanent disability is established. Once the waiver is approved, that carrier will pay the claim as long as the employee stays disabled, even if the policy is replaced.*

3. **Failure to identify employees not actively at work during carrier changes.** Most insurance contracts have actively at work requirements. If an employee is out sick or disabled on the effective date of the new coverage, he or she could fall in a crack. Also, if a network change means a change of provider for someone seriously ill, transition of care accommodations may be made. *Always identify those not actively at work prior to coverage changes and discuss them with your insurance advisor and make sure your termination policies are consistent with your contract language.*



- 4. Failure to notify dependents of their COBRA rights.** The former employees on COBRA are rarely a problem. It's those who never elected COBRA, then get sick and want back on your plan retroactively. At that point, your carrier has no obligation to cover them; you do. Here's how that happens. You hired Joe three years ago; he divorced Sue (pun intended), one year ago, now Sue has a \$100,000 hospital bill and wants her COBRA coverage. She claims you never sent her a qualifying event notice. You claim she never requested one. She claims you never notified her of her obligation to request it; that would have been in the initial notice you were to have sent to Joe and his dependents at their home three years ago. Can you prove you did? *Always send initial notices to the home of newly eligible addressed to the employee and dependents (not by name), never hand them to the employee. Better yet, hire a COBRA administer who will send them for you with archived proof of mailing.*

- 5. Failure to include incentive compensation in the definition of earnings for disability coverage.** Incentive compensation, bonus and commission, is a growing percentage of American compensation. Those employees with the highest incentive compensation are literally our highest performers and may have 50% or more in the form of incentive compensation. Unfortunately, many life and disability policies still define earnings as base annual salary. Disability policies generally pay 60% of earnings up to a maximum. 60% of 50% is only 30%; can anyone survive on 30% of their pre-disability earnings? Is that any way to treat your highest performers? Would you want that getting around your work place? *Always include incentive compensation in your definitions of earnings. You can use the greater of base annual salary or last years W-2 income. Check to see that the maximum benefit is adequate as well.*

- 6. Providing taxable disability benefits.** When an employer pays the premiums for disability coverage, the benefits are taxable. A 60% benefit taxed at 28% leaves 43%. Who can live on that? *Consider having the employees pay the premium through payroll deduction and grossing them up or just include the premium cost as income on the employees' W-2. The carrier may increase the premium a penny or two, other than that, it's a wash financially. The enhanced net benefit could save a family.*



7. **For self-funded plans, Failure to align the claims payment and reinsurance contract language.** Your employee has a breakthrough treatment for a rare disease; your third party administrator pays the \$225,000 claim; the funds come out of your account. You and the administrator file for reimbursement from the reinsurer who denies the claim as experimental. Your appeal takes months and may not be approved; additional claims come in and the administrator wants to know if they should be paid. *Think twice about separating the reinsurance from the administrator to avoid these expensive disconnects and speed up reimbursements.*