

ROCHESTER BUSINESS JOURNAL

VOLUME 18, NUMBER 8

DAILY EDITION: <http://www.rbjdaily.com>

MAY 31, 2002

Supplemental benefits have many advantages

With the rising cost of employee benefits, supplemental benefits, or "voluntary" benefits, provide employers the opportunity to fill in what is missing from existing programs.

For companies already straining under the weight of growing health insurance costs, funding new benefits is simply not an option.

Many employers have implemented a supplemental-benefits program without any additional cost to their organizations.

Supplemental benefits also give small employers and non-profit organizations a way to compete with the benefit offerings of larger firms without having to fund a new array of expensive choices. When integrated with an organization's total benefit package, supplemental benefits can help boost employee productivity and loyalty.

Supplemental benefits are individually owned plans that provide employees the opportunity to meet personal health and financial needs. These individually owned programs shift control to the employee who wants greater freedom and diversity when making personal financial decisions.

Choice is particularly important in a dual-income household and in organizations with a diverse population of employees of different ages and income levels. But perhaps the greatest attraction among all buyers is the total command over claim dollars that these plans provide, with no coordination of benefits. The ability of participants to use these benefits as they see fit with no conditions or prior approval has a powerful appeal.

For employees, supplemental plans offer a way to customize benefits, plug gaps in coverage, obtain coverage for spouses and children, and be insulated from a significant drop in living standards through income-protection options.

An example of coverage gaps is the mandatory New York State disability insurance program. New York State disability insurance only provides a benefit level of 50 percent of salary to a maximum of \$170 per week for 26 weeks.

Many employers and employees are under the impression that they have adequate disability protection under the state-man-



VIEWPOINT

Michael King

dated disability insurance, but in reality most employees cannot meet monthly living expenses at the current maximum levels of coverage. Enhanced supplemental short-term disability insurance coverage provides employees adequate income while they are disabled.

These gaps in coverage can also include larger deductibles, co-pays and increased cost that is being shifted to employees. Supplemental plans help make this "cost sharing" more palatable to employees. If employers choose, they can match or partially contribute to employee-owned benefits. Many supplemental benefits can be purchased on a pre-tax basis under Section 125 of the Internal Revenue Code. This reduces the overall cost to the employee and provides the employer with savings on its portion of Social Security tax.

Supplemental benefits offer attractive features for those who purchase them through a workplace program. These features can include discounted group rates, payroll deduction, liberal underwriting, guaranteed renewability and portability.

In recent years, the insurance and financial service industry has developed an array of supplemental benefits products designed to meet just about any health or financial need. An example of these benefits offerings can include short- and long-term disability insurance, life insurance, critical illness or cancer insurance, hospitalization coverage, personal accident insurance, dental insurance, long-term care insurance, and auto and homeowners insurance. In addition, there are also deductible and co-pay medical supplements, group legal plans, mutual funds, Section 529 educational savings plans and, for those employers who hire animal lovers, pet insurance!

The key to offering a successful supplemental benefit program is employee

communications. Organizations can offer the best benefits available, but without effective communications, employees will never fully recognize the value of these benefits.

One of the most effective forms of communication for supplemental benefits is a one-on-one presentation with each eligible employee. This gives employees the opportunity to fully understand the new benefit offerings and customize their selections along with discussing their particular needs with a benefit counselor.

Though this method of communication is labor-intensive for the average human resource manager or department, many benefit brokers and supplemental benefit carriers are staffed to undertake this enrollment method.

In larger organizations, this method might not be practical or available. In this case, employer-sponsored group meetings, written communication and Internet-based information that is incorporated with well-developed enrollment materials provide the communication message.

It is important from a liability perspective to effectively communicate new supplemental benefits to employees.

As with core benefits, employees are asked to sign a waiver or "opt-out" form when electing not to enroll for a particular benefit (such as 401(k) and health insurance).

Supplemental benefits should be treated no differently; employers should require all eligible employees to waive benefits that they elect not to participate in.

There is simply no downside for employers and employees for implementing a supplemental-benefit program. Today more than ever, it makes good financial sense for organizations of all sizes to incorporate supplemental-benefit options in their overall benefits package.

Michael King, a certified retirement service professional, is principal at Century Advisory Group in Rochester, an independent firm that specializes in retirement plans and employee benefit programs for companies, non-profit organizations and individuals. They also provide enrollment services for benefit brokers, insurance companies and insurance agents. Contact them at century100@aol.com or (585) 224-8138.