Corporate Exposure: Payroll Deduction Insurance Sales

Harry P. Mirijanian

A growing number of corporations are establishing means for their employees to purchase a variety of insurance coverages through payroll deduction programs. These programs are by no means new; they began to surface in the 1960s. Originally, employees secured supplemental life insurance and selected AD&D coverage through payroll deduction plans. In fact, at one time nearly one quarter of all such policies were secured through payroll deductions. But employees have come to realize that if they move on to a different company, those policies are not transferable; years of payments will not have accrued to their benefit. Some carriers have addressed this issue and now allow a limited accrual benefit for employees who resign or who are terminated.

Because of their nature, payroll plans are perceived as an employee benefit that can be offered at no cost to the employer. For their part, employees believe that they are getting a special rate for coverage—for which they are grateful. If your company is considering payroll insurance plans, there are several points you should consider first.

Insurance payroll deduction programs are usually less expensive for the employee because the insurance carrier can mass-market the product and drive down costs. Naturally, a corporation's bulk buying power also plays a role in setting cost boundaries. Overall, the cost to the employee should be 10 to 20 percent less than an equivalent policy purchased outside the company. Companies should understand that employees believe the organization has conducted a due diligence review of these products—even though in fact that may not necessarily be the case. But employees depend on the firm for its expertise and research activities. As a result, companies offering this type of insurance must receive a hold-harmless agreement from each carrier—in the event that an employee names the company in a lawsuit. The employee might, for example, bring a discrimination suit against the carrier and the employer. A hold harmless agreement would indemnify and protect the company's interests.

Employees need to understand that these are not group policies; each applicant is individually underwritten. Although most employees will satisfy underwriting standards, the company must be prepared for those who do not. An employee who is turned down, canceled, or dissatisfied with a claim will be heading straight for the human resources or risk management department. Be certain the carrier you are promoting has the resources to handle these sorts of issues. Most proven payroll deduction carriers will provide toll-free claims reporting and customer service numbers as a means of ensuring against complications. We are aware of one company that actually retained an independent firm to serve as the liaison between the carrier and the employees. An interesting point: Some research shows that employees tend to file fewer claims and that the claims that are filed are smaller if their coverage comes from a payroll plan.

What types of coverage are available through payroll deduction plans? Virtually everything the employee requires. Companies have offered automobile insurance, homeowners/renters insurance, umbrella coverage, and even boat owners insurance. Corporations with at least 500 employees seem best suited for these types of plans. Who benefits most from these programs? Everyone. The corporation provides what is perceived as a benefit, at minimal expense (even adding in the time needed to coordinate the sale and set up the program). The employee gets coverage at a reduced premium and the cost is spread out across the entire year. For some employees, this cash flow advantage cannot be minimized. Automobile coverage, for example, can be extremely expensive in the northeast; having payments spread out across 52 weekly installments can be a significant benefit. This is a benefit for the employer as well if the employee does any driving on company business. Carriers benefit from these types of arrangements because they can offer group services to the entire work force.

For example, they are able to offer group safety services to a company's entire work force. They can provide sessions on safe driving, good ergonomic practices, fire prevention, and such during lunch hours or via payroll stuffers. Benefits like this are useful, but are often not considered when these programs are being set up.

As beneficial as payroll coverage may be, we offer this caution: Do not let a carrier bully your employees into buying coverage they do not need. Some less-than-scrupulous companies have tried this—and been cited for their tactics.

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