It's a Trap!

How to Avoid the Most Common Mistakes People Make When Purchasing Commercial Insurance, Corporate Benefits and Wealth Management Solutions

COMMERCIAL PROPERTY & CASUALTY INSURANCE

Mistake #1: Choosing Your Broker for the Wrong Reasons

Although having a great client-broker relationship is essential, simply working with someone you like doesn't guarantee that the advisor, or firm, is the best choice for your business. Although the broker might be a great neighbor, golf buddy or all-around human being, that's not a solid business reason to make a sound buying decision.

When buying commercial insurance, it's critical to find a firm that "fits" your company's size, needs and demographics. If you're a broker's biggest client, that firm may not have the resources to effectively manage the complexities of your risk. If you're a small company with a huge brokerage firm, you may not get the level of service you need. Your account team will most likely be comprised of newbies — people who will move on to a larger client after they've been trained on you.

Your best bet? Choose a broker with a focus on clients that "look" like you, in terms of size, revenue and market position. Ask what percentage of clients are in your demographic, get a list of those clients and talk to them about their experience with the broker. Compare the company's internal resources with other firms that insure like-sized organizations. You'll either learn that you have the right broker in place, or you'll be motivated to find one that offers more value.

CASE STUDY

The Insurance Challenge

Billy Karlin, an NFP broker based out of Bethesda, MD, was working with a nonprofit that had run into an insurance roadblock. Although numerous volunteers traveled to and from events, the organization didn't have any formal controls or procedures in place to manage that activity. Organization leaders didn't know how many volunteers were in transit at any given time, they weren't monitoring driving records and they didn't have established protocols to determine who could drive and who couldn't.

As a result, the nonprofit couldn't get the coverage it needed, which put its future and the people it served at risk.

Problem Solved

Instead of leaving his client to "fix" the problem, Karlin took action. He brought in NFP's head of loss control, who designed a program for the organization.

"The new program not only made the organization a better risk to carriers, but it also improved its overall operation," Karlin said. "In my client's eyes, we went above and beyond. To me, I did what a good broker does — use my resources to solve our clients' problems and protect their organizations in the process."

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Mistake #2: Treating Insurance as a "Once and Done" Transaction

Commercial property & casualty insurance is a unique animal, requiring a high degree of interaction between broker and client. To insure your business properly, the broker has to learn everything about the company: what it does, the products and services it offers and its plans for growth.

While most company leaders will spend time with the broker early on, once the policy is written, many just "set it and forget it." And that's a problem.

As organizations grow and change, the last thing the C suite typically wants to think about is insurance. However, at least once a year, it's imperative that you work with your broker to identify what's changed and how those changes impact risk.

Everything from adding products or channels to opening new locations or hiring more people will affect coverage. Not keeping your broker in the loop so he or she can adjust your insurance portfolio as your business evolves could have devastating consequences.

The best approach? Don't just think about insurance when you have a claim or see a rate increase. Every year, set time aside to do a deep dive with your broker, months before renewal. Not only will this assure that your business has the coverage it actually needs, but, by starting the process early, your broker will have time to negotiate your rates with the carriers — so you can get that coverage at the lowest possible cost.

Mistake #3: Buying What's Required Instead of What's Needed

Smaller businesses often buy insurance out of necessity; they hire an employee, lease office or retail space, or bring on a new client that requires liability insurance. Instead of looking at risk, they purchase the minimum coverage they need to meet legal or client obligations.

Although these businesses might think they're saving money, they're actually gambling with their companies. Startups and small businesses still need the right combination of coverage — or one wrongful termination suit, liability claim or cyberattack could take a thriving organization down.

An independent broker who works with small businesses and startups can identify the coverage needed *and* negotiate the best rates on your behalf.

CORPORATE BENEFITS

Mistake #4: Purchasing Plans Based on Deductible, Not Plan Detail

Some employers look at benefits as commodities, believing all companies offer the same plan with different names, deductibles and prices. The reality is: that couldn't be further from the truth.

When choosing a corporate benefits plan, employers have to take a look at the details and work with their broker to fully understand all of the provisions, policies and procedures. It's important to find out which prescription drugs are covered, compare how different companies define "disability" and determine all the other factors that impact the overall value of the plan.

Set aside the appropriate amount of time to review the specifics of the different benefits plans you're considering, and work with a professional who can explain the details behind the costs. Only then can you make the best decision for your company and staff.

Mistake #5: Making Decisions Based on Gut Instinct Instead of Hard Data

Some employers won't consider smaller, tighter networks because they believe broader networks empower more employees to select the doctors of their choice. Others won't look at self-funding as an option, because they think it will significantly increase costs. In some cases, both of these suppositions could be true. But you can't make a viable decision unless you look at the real data.

Before you make a network decision, have your broker run a disruption report to compare the doctors included in the proposed plan with the providers your employees currently use. If there's a big delta, a change isn't desirable. If there isn't, and it's a cheaper plan, that may be the way to go.

A detailed analysis that compares costs of self-funding or level funding versus continuing as fully insured will show the real picture, as well.

Working with a broker with analytic capabilities enables you to make benefits decisions based on real facts, so you make the best choice for your company and the people who work there.

CASE STUDY

The Benefits Challenge

When Beth Robertson, an NFP advisor based out of Bethesda, MD, started working with a 500-person medical association, its self-funded benefits program was on life support. The organization had gone through four different medical carriers in just six years. Because the previous broker and former HR team had focused solely on lowering fixed costs, the plan was short on coverage and not in line with the organization's values and standards. To make matters worse, lowering fixed costs only impacted 20 percent of total benefits spend, while the other 80 percent careened out of control.

Problem Solved

Robertson conducted a full data analysis to get the hard facts on what the organization was getting and what they were paying. She also conducted employee focus groups to better understand their needs and perspectives. Then she and her team put together an in-depth RFP to find the carrier that could both meet the association's values and budget constraints — but also better serve its hard-working employees.

"We were able to find a carrier that aligned with the organization's mission, enhanced the medical and pharmacy benefits for its employees, and reduced spend by 20 percent," Robertson said. "Instead of just consulting a spreadsheet, we listened to the client and the employees and looked at the hard data. That time up front made all the difference."

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Mistake #6: Poorly Communicating Plans to Employees

Your benefits plan is one of the largest line items on your budget — and one of the best tools for attracting and retaining employees. Yet, most benefits meetings fall short, by either giving so much detail that your employees' eyes glaze over or using so much jargon that they simply pick the cheapest plan and hope for the best.

Your employees aren't insurance experts. Although they may be the best and brightest in your industry, most need help comparing and contrasting the features of the different plans you offer so they can choose the best option for their family's needs.

Make sure you communicate the fundamentals clearly, based on what people really want to know: Are the employees' current doctors and hospital system covered? Are their current medications covered? What are the copays and annual maximums? And how does that compare with what they have now?

A good broker can help you put together an effective benefits meeting and easy-to-follow communications materials — as well as be on hand to present options and answer questions.

Just as importantly, don't make benefits communications an annual event. Focused monthly mailings on specific benefits-related topics, from how to use an HSA to the costs of a primary care clinic versus an emergency room visit, are highly effective at helping employees manage their health and reduce out-of-pocket costs.

In addition to helping your employees make more informed plan choices, you can also use this time, and subsequent communications, to underscore the value of your benefits plan. Consider sending out an annual Total Compensation Statement that not only shows employees their salary, but breaks down the dollars associated with each benefit they receive. This document is often an excellent tool for enhancing employee satisfaction and retention, as people can actually see the investment your company is making in them.

Mistake #7: Believing Any Wellness Program Is a Good Wellness Program

Wellness programs can enhance employee health and morale and, in turn, reduce costs for employers. Yet, many companies spend tens of thousands of dollars on programs without really knowing if they're working or not.

For example, one company started a smoking cessation program that paid employees $2,500 to quit smoking. Two years into the program, a new broker did an impact analysis, only to discover that the claims for the smokers who were paid to quit were actually higher than those who still smoked. Most quit after a health issue emerged, like cancer or heart failure, collected the $2,500 and still went on to submit the highest claims.

A better solution for that employer would be to pay employees not to smoke, or to charge those who smoke a higher premium. Then, the employer could offer a mandatory wellness program for those who do quit so they adopt healthier habits.

Wellness programs are outstanding tools, but they have to drive the desired behavior and outcomes. It's critical to look at the data, evaluate what's working and what's not, and make adjustments along the way.

Just assuming something is working, or holding a generic "biggest loser" program and calling it a day, won't help the company or its employees. Wellness has to be part of the overall benefits strategy.

Mistake #8: Listing Policies in the Employee Handbook That Don't Match Up to Carrier Contracts

A university promises tenured professors a six-month sabbatical for research, with full medical coverage. Yet, the actual carrier contract only covers temporarily absent employees for 60 days, then moves them to COBRA. An employee handbook promises medical coverage for retirees and their families, or employees who become disabled. But carrier contracts don't match the stated promises, putting the employer at financial risk.

Make sure you give your broker access to your employee handbook, as well as benefits-related sections of executive agreements, to ensure the policies match up with the realities of your carrier contracts. In some cases, the broker can get carrier approval and contract amendment, if that coverage is possible. In cases where the promised coverage is not legally feasible – like an executive agreement extending medical benefits to an ex-wife or ex-husband, or a policy that conflicts with ERISA benefit termination rules – the broker can help you adjust the policies or accurately assess your liability. The key is keeping your broker in the loop on what you're doing, what you're offering and any changes you make to those stated benefits throughout the year.

CASE STUDY

The Benefits Challenge

Jack Rushing, an NFP benefits advisor based out of Bethesda, MD, worked with a number of public charter schools in the area. These smaller individual clients were paying high rates for their dental, vision, life and disability insurance because their populations were so small. Rates continued to escalate, putting a strain on these institution's budgets.

He knew there had to be a better way.

Problem Solved

Rushing created a program that empowered these like-minded schools with similar demographics to come together to purchase these ancillary benefits products as a group. At this writing, this group now includes 25 public charter schools with a combined population of 3,700.

Instead of being rated on their own populations, which could be as low as 200, this increased volume distributes the risk across the group. In the past five years, none of the participating schools has experienced a rate increase — something that used to be an annual fact of life. Just as importantly, some of the participating schools now have an enhanced benefits contract with lower unit costs.

"I'm really proud of the impact we've made in the educational space by seeing a problem and thinking creatively to come up with an effective solution that works for everybody," Rushing said. "The program continues to expand every year, adding schools, adding population — all of which benefits our clients. To me, that's the job of a good benefits advisor: using our expertise to solve our clients' problems."

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RETIREMENT AND WEALTH MANAGEMENT

Mistake #9: Basing Success on 401(k) and 403(b) Performance, Not Participation

When employers secure a 401(k) retirement plan or a 403(b) retirement plan for not-for-profits with the best-producing funds and the cheapest fees, they might think they have a successful program. But if only 65 percent of eligible employees are saving money in the plan, then it's not successful, no matter what the fees or performance may be.

The reality is: even your most competent employees may be lost when it comes to retirement saving and the concept of compound interest — or understand the magnitude of saving for an event that could be 40 years away. The key to a successful program is educating employees and compelling them to reduce their standards of living today to build a better future.

In so many enrollment meetings, the focus is almost exclusively on how the funds work, which is of far less importance than motiving people to save enough money today. A better option might be using that meeting, and others throughout the year, to help employees understand the long-term benefits of maximizing their plan contributions, the difference saving an extra 4 percent could mean to fund growth, and the realities of what it takes to retire. This transfer of knowledge is as critical to a successful corporate retirement program as the funds themselves — and essential to your employees' financial futures.

Mistake #10: Never Asking About Fees

How much is your advisor making on your business? That's a question every client should be able to answer. Independent wealth planning advisors are product agnostic, which means they evaluate funds and providers and recommend options without conflicts of interest. Based on the products they recommend, they're paid with a combination of commissions and fees — all of which the client has the right to know about but often has no clue.

If you don't know what your advisor is making, you have no way to evaluate his or her value. Advisors should fully and openly disclose all sources of direct and indirect fees. If they don't, ask for a complete breakdown — and an explanation of why you had to ask.

Mistake #11: Never Re-Examining the Impact of the Original Plan Setup

When employers change brokers, and at intervals throughout the life of the plan, it's important to look back at how the original plan was structured — the business decisions made around things like eligibility, vesting loan parameters and withdrawals. Most organizations find that what was decided five or 10 years back may not be the best decisions for today. In some cases, those decisions could even be detrimental.

For example, it's not uncommon for 30 - 40 percent of participants to have an active loan from the plan at any given time. If the company allows these loans to include both their contribution and matching funds, this could erode their chance for a viable retirement.

Some companies allow withdrawals from the plan at age 59 ½, with the assumption that these employees are moving the funds to a different savings vehicle. After analyzing the data, one company realized that of the 150 withdrawals, only eight of these went to personal IRAs. The rest of the employees spent their savings on remodeling projects or vacations, although they were less than 10 years away from retiring.

These represent just two examples of how something that seems like a good decision at the onset proves to be harmful to the plan and, most importantly, to the plan participants.

Mistake #12: Assuming Your Retiring Employees Are Really Ready for Retirement

You've offered a great program; your hard-working, long-time employees have participated; and, one-by-one, they reach retirement age. You say good-bye, wish them well and feel good about helping them prepare for their retirement. Only, they're really not financially prepared.

At least once or twice a year, it's important to study the data. Your broker should be able to provide a per-person and aggregate model that indicates how many people on your plan who are approaching retirement age are really ready for retirement. With this information in hand, you can create educational events on what it takes to retire, how much to save, how to manage money in retirement and overall fiscal health. The goal is to help people right the ship before they sail into the sunset.

Some companies offer voluntary sessions specifically targeted toward those employees within five or 10 years of retirement. These sessions walk them through how to calculate what they have versus what they need — as well as what they can do to bridge the gap.

If you're the kind of employer who wants to help loyal employees enjoy life in their later years, offering a solid plan is only the start of your overall retirement strategy.

CASE STUDY

The Wealth Management Challenge

Michael Hoch, an NFP wealth management advisor in Bethesda, MD, was working with the executive director of a nonprofit organization whose wife was a self-employed therapist. Although they were both doing well, they weren't as prepared for retirement as they thought. He wasn't contributing the maximum amount to the organization's 401(k). Although she was self-employed, she didn't have a simplified employee pension (SEP) account, which is critical not only to retirement planning, but also to tax deferment.

In addition to helping this couple put $35,000 a year toward an annuity product, Hoch also advised them with their overall fiscal health — from paying down debt to setting up medical powers of attorney to drafting a will. Although none of these other areas were something he "sold," they're all critical to overall financial health.

Problem Solved

This client was so impressed with Hoch's approach that he asked him to work with the employees at his nonprofit organization as well.

"Most people are overwhelmed by retirement planning. They don't teach the concept of compound interest in school," Hoch said. "A good advisor does more than deliver the right products to a company. To me, it's about ensuring my clients and their employees achieve their financial goals by educating them on all aspects of fiscal health."

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CASE STUDY

The Retirement Challenge

Randy Riggins, an NFP retirement/wealth management advisor in North Carolina, was working with a national company that rented construction equipment. It operated 650 stores throughout the United States, with around 10 to 15 employees in each location, the bulk of whom spent their days away from the office, either calling on prospects or delivering or picking up equipment.

With a group so widespread and so mobile, effectively educating them on the 401(k) plan was challenging at best. As a result, although the company offered a generous retirement program, the participation stagnated at about 50 percent.

Problem Solved

Though, at the time, the concept was quite new, Riggins suggested automatic enrollment. All eligible employees would receive notification that if they took no action, they would be enrolled in the plan. If they didn't want to enroll, they could fill out a form.

To improve overall education, Riggins conducted webinars and worked with the company to send mailings on the program to the employees' homes, making retirement more of a family discussion.

The improvement was not only dramatic but sustainable. Today, more than 15 years later, the company has 10,000 employees, with a plan participation rate of 94 percent.

"To me, an advisor's job is to help clients create successful retirement programs. Putting together a high-performing plan with the right funds is one small part of that," Riggins said. "As an advisor, it's our job to help educate those employees on overall financial health, drive plan participation and, most importantly, make sure employees who have given a part of their adult lives to that company are comfortably able to retire."

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THE BOTTOM LINE

The Best Defense Against These Mistakes? Don't Go It Alone.

No matter how long you've been responsible for insurance or employee programs, chances are it's not your full-time job. As fast as the industry and regulations are changing, it's impossible for employers to keep up on their own.

The best way to avoid mistakes and navigate the hazards is to work with a broker that has the expertise, resources and data analytics capabilities to help you make more informed business decisions.

At the same time, he or she can help you do some of the heavy lifting — from employee communications to recommending the right technology for your organization.

Know the facts, learn the pitfalls and work with a specialist — and chances are, you'll see better outcomes, control costs and ensure your company is protected for the long term.

Informing Your Solutions — And A Whole Lot More

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