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Group Insurance – an appreciated employee benefit

Introduction

Although all of us have some familiarity with group insurance, if your company is considering adopting its first plan you likely have a number of straight forward questions about coverage, cost and other issues. The following article provides a brief overview of some group insurance basics

For a company, group insurance provides a tax deductible employee benefit that is usually highly valued. For the employee, group insurance can provide basic or enhanced life, disability and health coverage that is less expensive than comparable individual policies.

Why invest in group insurance? – The Aventis Survey

For the past seven years Aventis Pharma Inc., a major pharmaceutical company, has undertaken an Annual Healthcare Survey in Canada focussing on group insurance plans. The survey includes companies of all sizes and 16% of the respondents were employed in small companies with 100 employees or less. A recent survey contains the following:

- *“Among the most compelling findings ... is the fact that most Canadians place a dollar value on their plan far in excess of the cost of the services they are likely to use. Health benefits coverage provides peace of mind for plan members.”*
- *“Not long ago, employer sponsored benefits were considered “fringe” (i.e., not central to the employee/employer relationship). As a result benefit plans had little effect on the perception employees had of the organization. That’s no longer the case. Eighty-five percent of Canadian benefit plan members say that the plan has a positive influence on their opinion of their employer.”*
- *“Employers need to see that providing their employees with top-notch health benefits will translate into reduced absenteeism, increased productivity and greater job satisfaction”*

The survey results consistently show that employees place great importance on a benefits plan.

Mandatory and Optional Features – A cafeteria style overview

“There are ... limitless plan design variations, such as eligibility, contribution requirements, deductibles, reimbursement percentages and maximum benefits. Today an employer can design a health plan to reflect the influence of location, industry, demographics of covered employees, and union involvement, as well as benefits objectives and budgets.”¹

Mandatory features

<i>Basic Life</i>	Can be fixed amounts or based on a multiple of salary. The employer provides basic coverage and may allow an employee to add additional coverage based on criteria and maximums specified in the policy
<i>Accidental Death and Dismemberment (AD&D)</i>	The benefit provides financial assistance for the loss of life, limb, sight or hearing through accidental means and the benefit amount is generally equal to the basic life insurance amount

¹ The Handbook of Canadian Pension and Benefit Plans, Morneau Sobeco, Edited by Nancy Turner

Extended Health Benefits (EHC) Provide employees and their dependents with coverage for various medical expenses not covered under provincial health plans, such as drugs, ambulance, semi private hospital accommodation, vision care and travel health. Health benefits are a heavily used feature of group policies and there are a wide variety of options on coverage provided and coinsurance² requirements.

Optional features

Dependent life Life insurance for a spouse and dependent children available in specified fixed amounts

Dental care Dental care may include only basic services and annual checkups. It can also include dentures, major restorative services and orthodontics. Available with a variety of maximum coverage limits, deductibles and coinsurance requirements

Short term disability (STD) An unusual feature in a policy, STD can provide fixed or salary based benefits subject to maximum amounts for a period until an employee is eligible for long term disability. An eligible STD plan may qualify the company for a reduction in EI premiums that must be shared with the employee.

Long Term Disability Generally provides both partial and total disability payments based on fixed amounts, a percentage of salaries or a declining scale. The benefit can have varied elimination periods³, length of benefits and eligibility limits⁴.

Costs

The cost of a group insurance policy for a company can vary widely depending on the benefits provided, amounts of coverage, co-insurance and eligibility provisions and extent of employee contributions.

Premium rates generally change from year to year because although there are few major group insurance companies in Canada, they are highly competitive and rates do change annually based on the insurer's and company's actual experience. Every quote that an insurer gives for group coverage is customized for each individual employer to take into account their individual circumstances.

In preparing this article in September, 2004, I used standardized quote software to estimate costs for a light manufacturing company with 4 office and 20 skilled employees, with an age spread from 25 to 55, a 50/50 split between men and women, and median and average salaries of \$40,000.

Based on total monthly salaries of \$80,000, monthly insurance costs ranged from approximately 1.5% of wages for the most basic coverage to more than 11% of salaries the most comprehensive and all inclusive coverage.

Realistically a company can expect group coverage that includes dental and long term disability to add between 6% and 8% to its wage costs.

Participation requirements – Employer contributions and Employee Participation

Employer contribution

Employers are required to contribute to all group insurance plans. For larger groups the minimum employer contribution is generally 25% of the premium. For smaller groups the required contribution may be higher. The provider used for the sample quote requires a 50% employer contribution for its plans for small companies with fewer than 25 employees.

² “A coinsurance provision defines that a percentage of the eligible expense will be paid by the plan and the remaining percentage will be paid by the claimant. If, for example, the coinsurance factor is 80%, the plan will pay for 80% of the eligible expenses ...” (Handbook of Canadian Pension and Benefit Plans, page 291)

³ The length of time an employee must be disabled before he or she becomes entitled to benefits.

⁴ Generally an employee is only eligible for coverage to age 65 but this can be extended.

Employee contributions

Employee contributions are optional and are structured to provide maximum tax advantages or minimize the tax consequences on receipt of benefits. Long term disability is almost always paid by the employee or taxed in the employee's hands as an employee benefit. This ensures that the employee's disability benefits are received tax free.

Employee participation

Generally, 100% employee participation is required in plans that are wholly employer paid. Participation rates where premiums are partially paid by the employee are generally reduced to 75%. For the smallest of plans, 100% participation may be required regardless of whether or not the employee pays a portion of the premium.

Saving taxes – an overview of the tax treatment of various plan components

The following is an overview of the tax treatment of the various components of a group insurance plan.

Benefit	Employer		Employee		Benefits Paid Taxable²
	Deductible by company	Employee Taxable Benefit¹	Tax deductible	Eligible for tax credit	
<i>Extended health, Dental, Drug, Hospital, Vision Care benefits</i>	Yes	No	No	Yes ³	No
<i>Short term disability (STD)</i>	Yes	No	N/A	N/A	Yes ⁴
<i>Long term disability</i>	Yes	No	No	No	Yes or No ⁵
<i>Life insurance (Basic and optional coverage)</i>	Yes	Yes	No	No	No
<i>Accidental Death & Dismemberment</i>	Yes	Yes	No	No	No

¹ Added to T4 at year end as part of employee wages

² Taxable benefits received must be added to the employees income in the year the benefit is received

³ Subject to individual medical expense tax credit rules (Subsection 118.2 (2) (q) of the Income Tax Act)

⁴ STD can simply be paid sick leave for an extended illness until EI Disability and/or LTD benefits become payable or a more formal company policy. Usually, if insured, under a benefit plan 100% employer paid and therefore fully taxable benefits.

⁵ **Any employer payment of disability premiums causes all benefits received by an employee to be taxable** but a notch provision allows the deduction from benefits income of the amount of premiums paid by the employee.

The insurance company or independent broker's role

Group insurance can be acquired directly from a group insurer or through an independent insurance broker with no difference in cost. A broker will generally have preferred insurers but can obtain competitive quotes. The broker may also act as a company advocate with the insurer and it is his or her responsibility to the leg work and to create a "turn key" solution.

Given the complexity of group insurance it is important, if an independent broker is to be used, that the company choose one with the experience and resources to be able to provide a "best possible" plan considering not only cost but also intangible factors such as insurer reputation, past claims experience and stability

Setting up a plan

Setting up a plan is a three step process that includes:

1. Introduction, discussion and needs identification – the business owner is introduced to the concepts of group insurance, the options are discussed and a needs analysis is performed.
2. Research, analysis and recommendations – the employer and employee particulars are gathered, possible group providers are researched, quotes from providers are obtained and analyzed and a report and recommended policy illustration are prepared for the owner.
3. Implementation and service – once the final decision is made, it is the insurer or broker's to shepherd the company through the process by completing and submitting the application, assisting where possible with payroll set up, and ensuring employee materials are obtained and initial employee educational seminars are conducted.

Ongoing responsibilities

An independent broker also has ongoing responsibilities:

- To monitor employer and employee satisfaction;
- To educate employers and employees in the various aspects of the plan;
- To ensure the sponsor is receiving the attention and service that the company deserves from the group insurance provider; and
- To advocate for the client in the event of disputes and assist in the claim process when required.

Conclusion

Acquiring a group plan can be a big step forward for any company. A properly structured plan can be a cost effective means of improving employee satisfaction and morale, and retaining key employees.

Employee participation during the needs analysis, recommendations and implementation phase ensures that the employees understand the importance of the plan in meeting their needs.

Given the inherent complexities in any plan and the options available the employer should always seek competent professional advice to ensure that company finds the provider that is best suited to meet its needs.

To be successful in the long term ongoing monitoring and education of employees is required to ensure that a high level of employee satisfaction is obtained on a cost effective basis.

DISCLAIMER: The preceding has been prepared by Randall J. Ladell, from information obtained from a variety of sources. Every effort has been made to ensure the accuracy and clarity of the information provided. The author accepts no liability for any errors or omissions in this document. Any person or company contemplating a group insurance plan should contact a competent professional adviser.

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