Employee Benefits Report

MSI Benefits Group, Inc.

TownPark Ravine One, 245 TownPark Drive, Suite 100, Kennesaw, Georgia 30144
Office: (770) 425-1231 | Fax: (770) 425-4722 | E-Mail: info@msibg.com

Life Insurance December 2021 Volume 19 • Number 12

How the Pandemic Is Making Employer-Sponsored Life Insurance More Attractive

COVID-19 has driven up mortality rates, so it's no surprise that life insurance companies are taking note.

Currently, they are reevaluating their requirements for offering coverage, making it harder to get coverage — especially if someone has COVID-19.

There are two ways to buy insurance, as an individual and in a group. While individual policies will be harder to get, so far, at least, group policies are not. Here is a short overview of the individual life insurance market.

continued on next page

No More "Surprises" for Patients

People using a PPO network will no longer have to worry about surprise medical bills beginning next year.

A surprise medical bill, also known as a balance bill, occurs when a provider bills a patient for the difference between the amount the provider charges and what the patient's insurance pays. This usually occurs when a patient has PPO coverage and unknowingly goes to an out-of-network provider — for instance, when they need to be transported in an ambulance or receive treatment at an out-of-network hospital. Some patients might even get surprise bills even though they used an

continued on next page

The Individual Market

Although insurers haven't yet formally issued new rules regarding the virus, they want applicants to fill out risk questionnaires and undergo medical exams. They are especially interested in learning more about the long-term health effects of COVID-19 and how underlying conditions impact it. They know, for instance, that conditions like pneumonia or sepsis triggered by severe cases of COVID-19 can cause permanent damage to a person's respiratory system. Likewise, if someone with type 2 diabetes, obesity, high blood pressure or a history of smoking contracts the disease, they would be a high-risk prospect.

In both cases, if insurance can even be written for these people, higher rates would apply.

Observers say that currently insurers are just being cautious with no fundamental changes expected until next spring. Insurers need to learn more about lingering symptoms among virus survivors. Plus, they need to make sure their rates are supported by actuarial analysis.

Employer-Sponsored Market

The good news for employees who want life insurance is that employers can offer it — without having employees go through questionnaires or medical tests.

A good life insurance policy can help protect an employee's family's finances, such as replacing lost income, paying debts, paying for college or supplementing retirement savings. It also can be an important factor in attracting and retaining top talent during a time when finding workers has been difficult.

Group life insurance premiums are overall lower than individual life insurance policy premiums because insurance companies base group life premiums on the overall risk of the company or group, not on individuals. And, since group life insurance is typically bundled with health insurance, sales and administrative costs usually are low.

There are two main types of group life insurance policies:

- Term life insurance covers the employee for a specific length of time and usually ends when the employee leaves his job. Employers typically provide term life insurance coverage equal to an employee's yearly salary and pay the premiums. This is the least expensive type of coverage because it is provided for a limited time.
- Whole life insurance — also called permanent — lasts for the duration of the employee's life. This type of insurance is more expensive. The employee usually pays the premiums for this type of coverage. The policy holder can cash in the policy before they die — making this an investment, although one with a small rate of return.

In addition to determining the type of coverage to offer, employers who want to offer life insurance must determine:

- Which employees to cover — for instance, there are nondiscrimination requirements that must be met, such as offering plan benefits to at least 70 percent of all employees and making sure that 85 percent of the participating employees are not key employees.
- Which insurance company to use.
- Whether employees will be allowed to purchase additional coverage or raise their coverage level.
- Whether to pay all or a portion of the premium.
- If employees will automatically be covered, or if they must opt in.

One consequence of the pandemic is that it has made group life insurance a little more important for many employees. Give us a call if you're interested in group insurance for your employees.

in-network facility because the care they received at the in-network facility was from an out-of-network doctor.

The "No Surprises Act" takes effect beginning Jan. 1, 2022. Patients only pay what they would have paid if their care had been performed in network. Insurers and the out-of-network medical providers must work out a compromise within 30 days. If that's not possible, unsettled bills can enter arbitration.

There's disagreement on the possible effects of the act. The Congressional Budget Office estimates that provisions could reduce premium growth by 0.5 percent to 1 percent, while the Centers for Medicare & Medicaid Services believe premiums could slightly increase due to the act.

How to Make Annuities Work with 401(k)s

The SECURE Act has made embedding annuities in 401(k)s more appealing to employees and safer for employers.

However, there are steps an employer must take to ensure compliance with the safe harbor provision.

President Trump signed the SECURE Act (Setting Every Community Up for Retirement Enhancement) into law on Dec. 20, 2019, to promote better access to retirement income within the 401(k) market. One of the highlights of the act was to make it safer for employers to include annuities in their 401(k) plans. Previously, employers were hesitant to use annuities in the plan because of the high-level of legal liability risk. The Secure Act's safe harbor provision relaxes the fiduciary responsibility of plan sponsors when choosing an annuity provider.

Annuities

An annuity is an insurance contract that provides a fixed income stream for a fixed period or a person's remaining lifetime. It can be viewed as an additional benefit to employees for protection against economic uncertainty — particularly during retirement.

An individual annuity can be purchased with a lump sum or a series of payments. The annuity can begin paying out almost immediately or sometime in the future. An annuity also can be used to leave money to beneficiaries. Some annuities can also be used to help pay for long-term care.

With a deferred annuity, the participants pay an insurance premium which will grow tax-deferred throughout the annuity's accumulation phase, typically 10 to 30 years. After that, once the distribution phase starts, the participant begins receiving regular payments.

While, the insurance company makes money by charging fees for investment management, contract riders and other administrative services, the annuity owner is protected from the possibility of outliving their money. If the annuity owner takes the money out early, they will have to pay a surrender charge. Plus, insurance companies impose caps, spreads and participation rates on indexed annuities which can reduce the amount of money the policy owner gets back.

If the annuity was purchased with after tax money, only the earnings will be taxed when the money is withdrawn.

Success Story

Known as the personal pension, the 403(b) plan offers tax-advantaged retirement saving for employees in the nonprofit or government sectors. These plans have had in-plan annuities for decades. Employees contribute to an annuity throughout their employment. Both 403(b) and 401(k) participants can pur-

continued on next page

chase an annuity using their accumulated retirement savings. But contributing to an in-plan annuity has advantages, including no riders; lower fees than if a retiree buys an immediate annuity; and higher returns and reduced interest rate risk.

Safe Harbor

The Secure Act added a safe harbor provision for the selection and use of annuity products underwritten by insurance companies. This provision was added to the Employee Retirement Income Security Act (ERISA). The safe harbor provides a plan sponsor with immunity from legal action should the insurer become insolvent. To qualify, the plan sponsor must select an annuity carrier with the following attributes as outlined in Section 204(2):

- It must be licensed to offer guaranteed retirement income contracts
- At the time of selection and for each of the preceding seven years, it:
    - Was/is operating under a certificate of authority from its domiciliary state
    - Filed audited statutory financial statements
    - Maintains reserves which satisfy statutory requirements
    - Was/Is not under an order of supervision, rehabilitation, or liquidation.
- It undergoes a financial examination by its domiciliary state at least every five years.

Experts recommend that in order to choose the best investment option for embedding an in-plan annuity, an employer should consider these two steps:

- Establish a Compliant Insurer Selection Process, as defined by the safe harbor in the Secure Act legislation
- Identify several acceptable carriers, then establish a compliant product selection process to choose the best program.

The Future

Annuities are still rare in 401(k) plans. Willis Towers Watson reports that only about 5 percent of 401(k) plans provide an in-plan annuity option. The Secure Act was supposed to change that, but the onset of the global pandemic in early 2020 acted as a brake on new initiatives, along with long standing reluctance of plan sponsors to introduce retirement income solutions.

This may be changing. Numerous new plans have been launched. But employers should proceed with caution. A guaranteed lifetime income option shouldn't be the only product in a retirement plan. A retirement portfolio should be diversified. Experts recommend directing only a portion — for instance 20 percent — of retirement plan contributions to an annuity. This allows plan participants to take advantage of more aggressive growth opportunities while building a source of guaranteed income during their retirement years. ■

Voluntary Benefits That Could Move the Needle for Employees in 2022

An increasing number of employees view health and other benefits among their top three reasons for job satisfaction, according to studies by Ameritas Life Insurance Corp.

Two recent studies reveal the kinds of benefit programs uppermost on employees' minds:

- The five fastest-growing benefits for 2022 and beyond are identity theft, hospital indemnity, pet insurance, critical illness and group legal, according to Willis Towers Watson's Emerging Trends in Health Care Survey.
- DirectPath, a benefits education, enrollment and health care transparency firm, believes 2022 will be a big year for contagious disease riders; critical illness plans; hospital indemnity plans; expanded employee assistance programs (EAPs); and increased mental health support.

What these and other studies show is that employees are increasingly turning to employers for health and other solutions and that employees have diverse needs.

continued on next page

Here is more about some of the most popular voluntary benefits mentioned in these and other recent studies and surveys:

- **Hospital indemnity:** Also known as critical care insurance, these plans help pay for certain unexpected medical expenses. Hospital indemnity insurance is added to a health plan and pays the employee a predetermined dollar amount each day they are in the hospital.
- **Pet insurance:** Pet adoptions increased dramatically during the pandemic and pet care can be expensive. The American Pet Products Association reports that pet owners spent $103.6 billion on pets in 2020, compared to $90.5 billion in 2018. Like health insurance for people, pet insurance helps cover the cost of care if a member's pet becomes ill or injured. Some plans also provide reimbursement for vaccinations, heartworm testing and spaying/neutering.
- **Critical illness:** This type of health care insurance pays a lump sum if the member is diagnosed with a severe illness — although the types of covered illnesses are specified and have their own limits.
- **Identity theft protection:** Identity theft is one of the top three fraud complaints. The Federal Trade Commission reported a 2,920 percent increase in the annual reporting of identity theft cases. Identity theft protection services monitor credit reports, financial information, social security numbers and public records for a member.

Job applicants are placing greater emphasis these days on the quality of benefits they will get when considering a new position. If any of these voluntary benefits sound like a good fit for your company, talk to your broker about your options.

more on next page

How to Legally Use Premium Discounts to Encourage Vaccinations

Three federal agencies have issued guidance indicating that employers may legally offer a reduced health benefit premium to employees who are vaccinated for COVID-19.

However, employers must comply with federal wellness program regulations. The Departments of Labor, Health and Human Services, and Treasury addressed the issue in a Frequently Asked Questions (FAQs) document. The FAQ explains that since wellness programs are designed to promote health or prevent disease, they are allowed to offer a reward for completing an activity related to health. Therefore, a premium discount that requires an individual to perform or complete an activity, such as obtaining a COVID-19 vaccination, would be considered part of a wellness program.

However, the reward can't exceed 30 percent of the total cost of employee-only coverage, and the plan can require that participants qualify annually for this premium discount.

In addition, employers must provide a reasonable alternative for certain employees who find it unreasonably difficult to get the vaccine to qualify for the discount. According to the FAQ, employees who would qualify for a waiver would include those who have certain medical conditions or for whom it is medically inadvisable to obtain the COVID-19 vaccination. For instance, the plan could mandate that the employee complies with the CDC's mask guidelines for unvaccinated individuals.

The plan also must maintain a toll-free hotline to provide information to employees about the COVID-19 vaccine. The hotline also must include information about how to receive a COVID-19 vaccination or how to fulfill the requirements for the alternative.

What an employer offering a plan can't do is discriminate against participants, beneficiaries and enrollees in determining eligibility for benefits or coverage based on getting the vaccination.

Also, employers may not deny employee benefits coverage based on whether an employee obtained a COVID-19 vaccination.