Can Salary Continuance continue to be affordable?

BOARD DISCUSSION

Three key ways to combat rising premiums:

- Mitigation
- Engage a Broker
- Redesign / Remarket

As companies ride the wave of the continuing soft general insurance market conditions and take advantage of steady premium reductions across property and general liability insurances, in stark contrast, Group Life (including death, total permanent disability and salary continuance) has slipped into a hard market where premiums have been skyrocketing in 2015.

With over 70% of Australian companies currently purchasing Group Salary Continuance insurance and making it available to their employees[1], the market-wide premium surges will no doubt impact a significant portion of employers nationwide.

"We are seeing standard premium increases of 20-40% across the board for Group Salary Continuance insurance. For long term cover (to age 65) or policies with poor claims experience, we have even seen increases of 100%, or more," says Meaghan Morberger from Mercer Marsh Benefits™. "This is particularly distressing and disruptive for companies who may not have budgeted for such significant increases."

While there were tell-tale signs last year, premium increases have been more prevalent in 2015 as losses are being realised by insurers. Large losses are likely to have contributed to one insurer's decision to exit the Group Life market (Zurich Australia) and another (Suncorp) ceasing to write new Group Life business at the current time.

One of the catalysts behind the rise in premiums is poor claims experience, particularly for long term Salary Continuance claims. One of the key drivers for the claims increase has been the rise in chronic and degenerative health issues across Australia in recent years. E.g. Diabetes, obesity, cancer. It is estimated that at any given time 1 in 5 employees are likely to be experiencing a mental health condition in Australia. Untreated depression results in over 6 million working days lost each year, which has a huge impact on the productivity of the Australian workforce[2]. With mental health illness on the rise, insurers are experiencing a surge in Salary Continuance claims. Ultimately, the cost of these claims is passed onto the policyholder through premium increases.

An attractive and once affordable benefit for employees has suddenly become a major cost burden for today's companies.

[1] Australia Benefits Review 2015, Mercer Consulting (Australia) Ltd

[2] www.beyondblue.org.au

In 2015, Group Salary Continuance insurance premiums are increasing across the board by **20-40%**

Early intervention and rehabilitation efforts such as "Return To Work" programs are key to risk mitigation strategies.

THREE KEY WAYS TO COMBAT RISING PREMIUMS

1. MITIGATION

The underlying cause of a Salary Continuance claim is generally any health related issue which incapacitates an employee and deems him/her unfit for work. Although it may seem difficult for an employer to prevent these claims from occurring given the general health of a person is largely outside of the employer's control, Meaghan advises there are ways companies can make an impact: "There are various programs and risk management approaches that employers can adopt. We work closely with our clients to develop strategies that promote health and wellbeing throughout a company's work culture, which would often be carried through to employees' personal lives."

It is also important for companies to focus on ways to reduce the length/severity of a claim once it has occurred. "Two years is what is typically known as the 'danger threshold'. Once a claim passes two years, it can be very hard to get someone back to work," warns Meaghan.

Early intervention and rehabilitation efforts are therefore key to risk mitigation strategies. "Return To Work" programs (or similar) is a relatively new yet extremely beneficial focus area both for insurers and insureds. Typically driven by insurers, we have observed that companies are now being more proactive, exercising increased rigor and working closer with insurers to assist with getting people back to work sooner, in an effort to improve their claims experience and manage the cost of premiums.

2. ENGAGE A BROKER

A broker acting on a company's behalf can explore multiple markets and options to obtain a comprehensive solution that suits the company's particular needs and risk profile. It is important to select a broker who not only provides broking services during policy renewal time, but also provides valuable advice and information throughout the year, especially under changing market conditions.

"We see a lot of prospective clients who are shocked when they receive their premium increases at policy renewal, as this is often the first time they learn about the hardening market conditions," advises Meaghan. "These clients either place their policies direct with an insurer, or their former broker has not kept them informed on the latest market conditions and trends. Broker communication is key in managing client expectations, in particular, for internal budgeting and renewal strategy purposes."

CASE STUDY

BACKGROUND

Company ABC ("ABC") approached Mercer Marsh Benefits™ after being shocked by their Salary Continuance renewal notice which delivered an almost 100% premium increase as well as a reduced premium rate guarantee period of 2 years (from 3 years). ABC had not used a broker in the past and only gone direct to the insurer. As such, they had not experienced the benefit of competitive marketing amongst various insurers and were also unaware of developing market conditions, hence unprepared for a significant (and sudden) cost increase.

SOLUTION

Mercer Marsh Benefits™ negotiated a time extension with ABC's existing insurer; conducted a comprehensive review of the policy; remarketed the policy and negotiated with 6 key insurers.

RESULTS & BENEFITS

- Achieved a 19% annual premium saving with new insurer compared to ABC's initial renewal premium from the incumbent insurer, without any material reduction or derogation in cover.
- Secured a 3 year rate guarantee with new insurer. The Incumbent insurer was only able to offer a 2 year rate guarantee.
- Increased automatic acceptance level by 19% with new insurer.
- ABC will now have the ongoing benefit of having a professional adviser (broker) to provide guidance and support on the placement and management of their policy, as well as other areas such as claims and risk management strategies.

3. REDESIGN / REMARKET

Redesigning your cover and remarketing are ways to potentially manage premium increases. While premiums have increased across the market, we are still seeing competitive tension amongst insurers, who are generally willing to negotiate on both terms and price.

Policy renewal is a good time to review your policy and explore various options to potentially redesign your program to ensure the cover continues to be suitable and cost effective. Some key areas to consider when selecting the appropriate benefit design include:

- **Waiting periods** – Typically 30 days, 60 days or 90 days – the shorter the waiting period, the higher the premium.
- **Rate Guarantee Periods** – Until recently, it was common practice for insurers to guarantee a premium rate for 3 years. Over the course of 2015, we are seeing some insurers reduce this to only 1-year or 2-year rate guarantee periods. However, it is not all doom and gloom. Meaghan observes: "We have seen instances where insurers are willing to relax their restrictions after we spend more time with them to better explain the risk, provide more information, and improve their level of comfort. So our advice to clients is often: don't always accept the insurer's first offer. Speak to your broker as there's likely to be room for negotiation."

- **Definition of "Salary"** – There are various ways to define "Salary" under a policy which can impact premium. Broadening the definition can typically increase premium as the claim payout will be a larger sum compared to if "Salary" was defined more restrictively.

- **Superannuation vs. standalone policy** – Group Salary Continuance can be provided to employees via a company's default superannuation fund ("the fund"), or alternatively, outside the fund as a separate company owned arrangement. Traditionally, the former approach was commonly adopted; however, recent trends have shown an increase in separate company owned policies.

This is likely due to the fact that the latter approach allows a company more control over the design, placement and management of the policy, as compared to being controlled by a trustee via a fund. A fund approach may be subject to more legislative constraints on benefit design. A company owned policy is more likely to cover all employees and claims can generally be better managed via risk management strategies. Premium administration, tax and cost control will also often vary subject to whether you choose a superannuation fund approach or a separate company owned policy approach.

CONCLUSION

Although the rising cost of claims has taken its toll on both insurers and insureds alike, recent premium spikes in the Group Life insurance market is increasingly placing a new focus on a company's internal risk management strategies to handle such claims. It is promising to see some companies now treating Salary Continuance claims in a similar manner to Workers Compensation claims, i.e. with more vigor, consistent follow ups, and ongoing monitoring and management to help workers return to work. Companies are realising that early intervention and proactive management is key in seeking to prevent long term claims, potentially assisting in keeping premiums down.

Looking into the future, we would envisage premiums to level out as some insurers have already made larger adjustments for past losses. As the trend for employers is to become more active in assisting employees to manage their health and wellbeing, we expect Salary Continuance will continue to gain popularity amongst employees and employers as a benefit of choice, which also sees employers' ongoing efforts contributing to making a positive impact on overall workplace productivity.