NFP®

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

Insurance Challenge

Billy Karlin, an NFP broker based out of Bethesda, Maryland, 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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CASE STUDY

Insurance Challenge

Mike Walsh, a property and casualty broker in South Burlington, Vermont, heard from a construction client that they were frustrated with their insurance coverage and pricing. Despite the fact that they'd worked diligently to reduce workers' compensation claims and thus improve their experience modifier with the National Council on Compensation Insurance (NCCI), they still weren't realizing a corresponding reduction in premiums. The insurance carriers explained that due to the type of construction they perform, there was a minimum amount of premium they needed to charge — despite their improved loss experience.

Problem Solved

If the old carrier can't get the job done, NFP finds another way. Walsh presented the client a group captive option that helped them get back a significant portion of their premium payments if their claims remained low. Walsh also worked to cap the maximum premium per year if the client had a rough claims year. As a result, the client paid lower out-of-pocket costs from the beginning — and earned the opportunity to save even more if the claims experience continued to improve. In just five years, the company saved over $1 million in insurance costs. "We leveraged the resources of our entire team," Walsh said when asked how he'd done it. "We called on the expertise of our in-house loss control team to prevent claims and our claims service team to help close claims when they did happen."

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Mistake #2: Treating Insurance as a One-and-Done Transaction

Commercial property and 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 to 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 an 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

Benefits Technology Challenge

How do companies find the HR technology suite they actually need without paying for the extra bells and whistles they'll never use? Chris Burnah, Vice President of Client Technology in Lehi, Utah, was presenting on just that at our annual Turning Point Conference a few years ago when he was approached by a prospective client: a tech company with 120 employees that creates back-end software for direct selling companies. The prospect said they liked their current benefits broker but they didn't like the HR management company they were working with on the technology side. Their current vendor was clunky, inflexible and expensive.

Problem Solved

Burnah understood that one size doesn't fit all. The prospect wanted a cleaner, more advanced system that could link to the payroll system they had, even if they changed later, and that they could customize so that the interface looked and acted like their own company. So Burnah and his team created a solution that's intuitive, customizable and cost effective. He leveraged bswift, created a solid infrastructure that would allow other systems to talk to each other, and included all of the features the prospect really wanted without any of the bloat. It was that attention to detail and personal service that turned this prospect into a client. "We believe in doing business personally," Burnah said. "Every interaction is very personal. That we listened to the client and worked to give them what they wanted, person to person, is what convinced them to do business with us."

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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

Benefits Challenge

Dave Lewis, a corporate benefits advisor in Cleveland, Ohio, started working with a group of area public schools. They were part of one of the biggest consortiums in Ohio but felt they weren't getting a fair deal on many of their benefits. Between unchecked stop-loss coverage, outdated pharmacy benefits management and high administrative fees, the school system suspected they were overpaying — but they didn't have the skills to verify their suspicion. When the NFP dug into the numbers, they found that the clients' carriers didn't make the grade. What looked like just 2 - 5 percent on paper actually added up to millions of dollars of lost savings annually.

Problem Solved

Lewis, backed by his boss, Brian Hirsch, and the entire NFP network, was able to negotiate a better benefits pool, a stronger PBM and lower stop-loss costs for the school system — all without negatively affecting employees' costs or quality of coverage. By digging into the details of each piece of the overall benefits package and leveraging existing NFP relationships with a wide variety of carriers in the region, Lewis found ways to shave a few percentage points off of a number of price tags. "It was beneficial to have the resources and the different relationships with vendors who respect NFP, listen to NFP and are willing to negotiate with NFP," said Lewis. "Now the school enjoys lower rates and, as part of a different consortium, they have a stronger voice and a vote in how their money gets spent."

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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) or 401(b) retirement plan with the best-producing funds and the cheapest fees for a nonprofit, 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 that even your most competent employees may be lost when it comes to compound interest and understanding the magnitude of 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.

CASE STUDY

Wealth Management 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 transporting 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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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 doesn't.

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.

CASE STUDY

Risk Management Challenge

Brian Wilkins, a risk management specialist in Plainsview, New York, knows that the way to best serve startup clients is to communicate regularly with them. No matter the size of the client or its policy, the answer is never to just set it and forget it. One startup Wilkins was working with – now a large company with a $4 billion valuation – was growing by leaps and bounds. "They're revolutionizing their industry," Wilkins said, "doing what they do best. They're not insurance experts, so they need someone knowledgeable to have their backs." Without the right experts in place, this startup was throwing away tens of thousands of dollars a month — and they were at risk of employee theft and other vulnerabilities common to new organizations in their early, rapid growth phase.

Problem Solved

By staying in touch monthly, Wilkins proactively worked with the startup's carriers to reduce their insurance rates and save them hundreds of thousands of dollars each cycle. Then, because of Wilkins's experience watching startups grow successfully, he was proactive in offering the client the types of coverages bigger companies should have. He sold them a crime coverage policy just in time, mitigating almost $1 million in stolen funds. "We like to be your adjunct risk management department," Wilkins said. Acting in partnership with their clients, NFP anticipates companies' needs so they can focus on what they do best.

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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

Wealth Management Challenge

Stephen Jans, an NFP wealth management advisor based out of Plymouth, Minnesota, recently worked with a client who had two young children who were each named as beneficiaries in their grandmother's IRA. While well-intentioned, naming a child as a beneficiary can result in a costly and time-consuming court process upon the account owner's passing. If a minor is named beneficiary without a specific custodian in the beneficiary designation, then the parent or guardian will need to petition the court for conservatorship, which can cost upwards of $1,000 per beneficiary. This is the situation one of Jans' clients recently faced.

Problem Solved

Jans and his team dug into the issue and soon discovered that the client's original financial advisor at another firm wasn't aware of the petitioning consequences. What's more, he had encouraged the client to name two other minor children as beneficiaries as well. Upon the grandmother's passing, this account was unable to be distributed to the beneficiaries without their parents obtaining proof of conservatorship. Jans and his team worked with the original financial advisor to ensure his client would not be liable for the additional attorney and court fees. Unfortunately, the parents still needed to petition the court for conservatorship, but the expense was covered by the original advisor. By working closely and compassionately with the clients, Jans was, in his own words, "able to help them understand what had happened and why. That care and transparency ultimately earned us a deeper level of trust with the client. We're now going to be taking over all the family accounts."

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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, a good broker 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

At NFP, our solutions and expertise are matched only by our personal commitment to each client's goals. We're a leading insurance broker and consultant that provides employee benefits, property & casualty, retirement and individual private client solutions through our licensed subsidiaries and affiliates.

NFP has more than 4,700 employees and global capabilities. Our expansive reach gives us access to highly rated insurers, vendors and financial institutions in the industry, while our locally based employees tailor each solution to meet our clients' needs. We've become one of the largest insurance brokerage, consulting and wealth management firms by building enduring relationships with our clients and helping them realize their goals.

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