Why group risk cover is a good idea

By Schalk Malan

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In these uncertain times, group risk cover is a good vehicle to protect employees against the possibility of something happening to them where their ability to earn a living is compromised.

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South African companies and their employees pay an estimated R2bn annually on group risk products. Here are some key points to note if you are considering taking out group risk cover for your employees, or if you want to make sure that they are getting the best value possible out of the premiums they (or the company) are paying.

How does group risk cover work?

With group risk cover, an employer will typically put together a package of death cover, funeral cover, disability cover and/or critical illness cover for their employees. Then, if an employee is temporarily or permanently disabled or suffers from a critical illness, he or she will be paid out, either as a lump sum or as a monthly installment. In the event of their death, the employee's estate or beneficiaries will be paid out. You can also get group risk cover that's bought by the company's pension or provident fund, which could pay out on permanent disability or death. Here, the group risk cover would be paid out together with any retirement funding from the fund.

What kind of cover is the best kind of group risk cover to have?

For permanent disability, it would be ideal to have cover that protects the future pay cheques that an employee would expect to earn if he or she weren't disabled. This means that the lump-sum cover amount would change all the time as the employee earns each pay cheque, and has less to protect.

Similarly, for death cover, this type of structure would be ideal, but you do also need an amount of funeral cover to pay for those deathbed expenses. Temporary disability cover is also important to help pay the employee a salary if he or she is ill or injured and not working but is expected to recover. Lastly, critical illness cover is also a good idea but is often covered by an employee's personal insurance policy.

How would I explain to younger people in my company, in good health, the need for group risk cover?

Firstly, it’s not only ill health that could cause a person to become disabled, or result in their death. A tragic accident could also be the cause of either of these, and being young and healthy doesn’t mean that something like this can’t happen.

Secondly, group disability cover is probably even more important for someone who is young because the younger you are when you become disabled, the more devastating its financial impact can be. This is because there are so many more pay cheques that they would have expected to earn over their working life and so many more now that they won’t get to support themselves.

Lastly, when looking at death cover, although a young person might not have dependents yet, there might be some debt that could be paid off by insurance cover. Also, everyone, no matter what age, will have deathbed expenses such as the cost of a funeral, and these can be catered for with some group risk cover, because youngsters are unlikely to have other cover for this purpose.

How much group risk cover is enough?

Employees of all ages need to understand if their group risk cover is enough to cover their needs. For example, a group risk death cover amount might be five times an employee’s annual salary, which sounds like a massive amount of money. However, if you consider that a 25-year-old has 40 working years ahead of them (in other words, 40 years of salaries to protect), is a payout that will cover an eighth of that enough? If it isn’t, then the employee really needs to seek the advice of a financial adviser to fill in the gap between what their group risk cover provides, and what they really need. Although the financial situation is different, a 60-year-old would also have to consider whether five times their annual salary is enough or too much. They’re on the other side of the spectrum, and might even want to consider reducing or cancelling existing personal cover because they’re over-insured.

If something happens to an employee, what kind of pay-outs can they expect?

This will depend on what cover the company has put in place. In terms of the group risk cover that’s structured, members generally have very little say as to what gets put in place. Some progressive insurers have developed cover that includes claim-stage choice for the member or the beneficiary (in the case of the member’s death). This means that even if the scheme has put a lump sum permanent disability benefit in place, for example, the member can change this at claim stage to rather pay out a recurring monthly amount. This type of flexibility gives the employee or the people who receive the death payment, the flexibility to take the claim as a pay-out that suits their needs at the time.

What happens to an employee’s group risk cover if he or she leaves the company?

Some schemes provide a conversion option, which means that, without medical underwriting, the employee can transfer their group risk cover to an individual life insurance policy. The cost will be different, and the employee will probably have to pay for it themselves, but if they have a health condition that means that they might not be able to access underwritten life cover ordinarily, this may be a great option for them to make sure that they retain cover, and potentially supplement cover that they already have in their personal capacity.

How do I go about getting risk cover for my company?

The best thing to do is to talk to a financial advisor who can source the most appropriate cover for the group at the best price. These financial advisors are often specialists in the field of group risk insurance and would have contracts with insurance companies that provide group risk.

ABOUT THE AUTHOR

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