How a Group Personal Excess Plan Can Help Employees and Boost a Company's Benefits Portfolio

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An appropriate level of risk management is an essential consideration in any well-developed benefits portfolio. While the everyday financial considerations which attend the selection of medical and dental plans generally take center stage, other offerings, such as life insurance and long-term disability, provide critical defense against the often cruel fluctuations of fate. Another such offering is group personal excess.

Personal liability insurance is an important and often-overlooked element of effective financial planning. By protecting policyholders against lawsuits arising from exposures such as bodily injury, property damage and personal injury (e.g., libel, slander, defamation) attributable to the actions of those covered, liability coverage can protect assets accumulated over decades.

Auto, home, and watercraft policies all offer liability coverage, though many carriers only offer limits up to about $1 million. To attain further coverage may require purchasing an excess liability policy. Excess liability sits above the primary policy and provides an additional level of protection.

As a result of the potential for large losses, insurance carriers carefully underwrite excess liability policies offered on an individual basis. Particular attention is paid to things like the driving records and claims histories of household members when making decisions as to what limit, if any, the company is willing to offer. While such scrutiny is sensible, it can leave customers without access to the amount of coverage they require to protect their assets in the voluntary insurance market. This issue is compounded by carriers who are unwilling to offer limits higher than $5 million or $10 million. For individuals whose employers offer a group personal excess program as part of their benefits offering, such concerns can be alleviated.

Removing Blind Spots and Deficiencies

As with most group offerings, the underwriting of group personal excess focuses largely on concepts of scale and risk spread, as opposed to participant-specific considerations. Because of this, these programs can afford access to higher limits and often better coverage than that which can be obtained in the individual marketplace. Additionally, group pricing is typically discounted.

This combination of factors makes access to a group excess program an important consideration for employees looking to build or maintain a comprehensive financial plan which contemplates multiple avenues of risk mitigation, along with capital accumulation. For employers, there are several advantages to adding such a product to their portfolio.

As a competitive measure, group personal excess enables companies to add expanse to their existing benefits package as well as provide a holistic approach to the financial health of their employees. For an organization's key talent, especially those who are highly compensated, such considerations can be very attractive.

Group excess can also provide a measure of stability to an organization in the event a key executive suffers a significant liability loss. In such an instance, the security and peace of mind provided by having the appropriate amount of coverage could represent the difference between the continued services of an important part of an organization's brain trust and losing that individual's productivity for a long time.

What's the Risk?

In the time since the first $1 million personal injury verdict was awarded in 1962, both litigiousness and settlements have increased substantially. To give some perspective on the trajectory the inflation of these settlements has taken, consider the following: In 1973, moderate brain damage awards averaged about $1.24 million. By 1999, that number had jumped to nearly $4 million and at present the amount is closer to $5 million. When the claim involves a case of paralysis, the settlements go even higher, averaging about $9 million.

This loss severity trend is astounding and shows no sign of abating. Currently, 14 percent of personal injury awards in the U.S. are greater than $1 million, and in areas such as the Northeast and Southwest, that number jumps to nearly 20 percent. Today, 6 percent of all auto liability and 17 percent of all homeowners' liability awards are in excess of $1 million.

The factors driving these developments include the increased cost of medical care, general inflation and a great many adverse judicial venues. In addition, juries have been desensitized to large dollar amounts and often see "deep pockets" in cases involving more well-heeled defendants.

Here are some scenarios that could lead to potential liability lawsuits:

- The daughter of an insured is driving home from running an errand and hits a man walking across the street, resulting in him suffering a traumatic brain injury which prevents him from returning to work.
- A large limb falls from a diseased tree on the property of an insured and lands on a passing car, killing two occupants. The insured is sued for wrongful death with an allegation that the tree should have been removed.
- The night of a dinner party hosted by an insured, a guest stumbles up the steps and injures his back resulting in surgery. The insured is sued alleging the steps are unsafe and the lighting inadequate.

These types of events happen with both frequency and alarming speed. Even the most careful and well-prepared individual can be involved in a liability loss in the blink of an eye. The unfortunate reality is that while risk can to some degree be quantified and obviated, the intercession of randomness offers a variable beyond prediction.

Assessment and Implementation

In determining which insurance carrier to use, benefits and human resources management would be wise to consider the soundness of a provider's balance sheet. Owing both to the size of claims and the length of time to their conclusion, it is important to choose a company whose financial strength will enable it to be there at the time of your employee's loss settlement. A simple guiding principle to follow in such matters is that of "making a promise is easy, keeping it is the hard part."

While nearly everyone has a need for some amount of excess liability coverage, the structure of a group personal excess program should reflect the specific needs of the community to which it is being introduced. If the offering is being made only to certain classes of employees (i.e., an executive carve-out), the limits and optional coverages afforded should contemplate the unique needs of this group. For more comprehensive plans, a breadth of limits which provide for a great diversity of income levels is important. As stated previously, excess liability should be a standard part of a long-term financial plan, and the flexibility to make adjustments in that plan is also a key component.

Once designed, a company's group excess program should be given some prominence within the organization prior to and during implementation. Because this benefit may not be as recognizable as others, allowing an educational introductory period prior to enrollment can be helpful. For the first three years group excess is offered, its enrollment should ideally be done both off-cycle and as part of annual benefits enrollment in order to avoid being overshadowed by more established offerings and allowed to take root within the organization. After being fully integrated, group personal excess can be offered just once per annum.

To assure that consequential missteps in the personal lives of employees don't have a deleterious effect on work productivity, employers must seek out benefits which provide maximum financial protection to their workforce. In reviewing available options, group personal excess affords a prime opportunity to implement a high-yield asset to both sponsor and participant and should be a standard offering in any competitive benefits portfolio.

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