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When Insurance Fails

Cheaper Policies Bought in the Workplace Can Have Drawbacks



Many people assume insurance offered by their employer is a better deal than they can get on their own. But while the premiums can be lower, such policies have drawbacks.

But whereas traditional insurance is subject to state laws and disputes can be tried before juries, with the potential for punitive damage awards, policies sold through employers typically fall under the 1974 federal Employee Retirement Income Security Act, or ERISA—with a federal judge ruling on disputes and no damages allowed.

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Compared to individual insurance policies, employer-sponsored insurance may have lower premiums and may be issued without a medical exam. If you have a medical condition that would prevent you from purchasing an individual policy, employer-sponsored insurance may be your only solution. If you do not have a medical condition that would prevent you from purchasing an individual policy, an individual policy may be your best solution.

Caveat Emptor “Buyer Beware”

Since most employer-sponsored insurance is governed under ERISA, the chances of your claim being denied are higher. Confirm in writing if you can continue your coverage and at what additional premium if you sever employment. In many cases, employer-sponsored insurance cannot be continued or is reduced upon severance of employment or as you obtain a certain age (e.g.: 65 years old). Due to changes in your health or age you may be unable to purchase individual insurance, right at the point you need to purchase insurance.

Long Term Care Insurance

Like other types of employer-sponsored insurance, long term care insurance may have lower premiums and may be issued without a medical exam or without full underwriting. Unlike other types of insurance, long term care insurance is not governed by ERISA.

There are no free lunches when it comes to long term care insurance. Unlike many employer-sponsored and group long term care insurance policies, individual policies require an application and full underwriting by the insurance company. Although full underwriting may require the completion of a health release form or interview, it is a sound way of eliminating high risk policyholders. Since many unhealthy applicants are denied a policy, those issued an individual policy by the insurance company know they are joining a pool of generally healthy people. A healthy group of people will likely have reasonable claims when they need long term care in the future, assuring the viability of the insurance and increased premium stability in the future.

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