Continuity of coverage

When changing life insurance carriers, make sure all employees stay covered

Whether for new features or better service, changing group life insurance carriers is a common practice for employee benefit administrators.

For most employees, a change in carriers is a seamless—perhaps even unnoticed—process. However, one employee constituency may be at risk of actually losing coverage during a carrier transition: those not actively at work on the new policy's effective date.

Employees not actively at work could find themselves cut off from life insurance coverage—sometimes when they are most at risk—if they are not on the job at the time of transition and are not advised of key decisions and the time frame for making them.

Fortunately, many carriers include continuity of coverage provisions in their contracts to help protect these employees. "No loss/no gain" provisions enable the new carrier to continue providing life insurance at the lesser amount of coverage provided by the new or prior carrier. It may be necessary to initially file the claim with the prior carrier to determine the amount.

What does "actively at work" mean?

For most carriers, it means employees are at work and performing the regular duties of their job, in the usual way, for the usual number of hours. Employees are also considered actively at work on any regularly scheduled vacation day or holiday, as long as they were actively at work on the preceding work day.

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How does continuity of coverage work?

Under a no loss/no gain provision—named because employees will not "lose" coverage, but also will not "gain" any additional coverage provided by the company's new group life policy—life insurance coverage can typically be extended to qualified employees for up to 12 months from the date last actively at work if they are out of work due to injury or sickness. If the employee returns to "actively at work" status, they generally are eligible to enroll in the new carrier's standard employee coverage.

Be sure to carefully review both your current and prior group life insurance policies before making any recommendations. This helps ensure employees are choosing the best option for their circumstance.

Making the transition

When transitioning to a new carrier, employers may be asked to provide a list of their employees not actively at work. Carriers will want to understand how many employees may be affected by the no loss/no gain provision.

If it is determined that some employees will not be actively at work on the effective date, the new carrier may ask questions to help determine next steps. Carriers may need to know:

- **When was the employee last actively at work?**
- **What is the reason for the absence?**
- **What is the expected return date?**
- **What is their current life insurance amount?**
- **Has a short- or long-term disability claim been filed with the prior carrier?**
- **Has the employee been terminated?**
- **Has premium continued to be paid?**
- **Has a life waiver of premium claim been filed with the prior carrier?**

Additional points to consider

Employees who are totally disabled (i.e., unable to return to even part-time work) can typically retain their life insurance coverage under the waiver of premium provision offered by the prior carrier.

A **waiver of premium provision** generally provides a longer period of coverage than the standard leave provisions found under no loss/no gain. For qualified employees, it is often in their best interest to apply for a waiver of premium with their prior carrier, even if they have not yet satisfied the waiting period. Some carriers may require employees to first convert their group life insurance coverage to an individual policy before applying.

Employers should be mindful of **age requirements for a waiver of premium**. Typically, employees who become disabled after age 65 are not eligible. In these cases, the carrier will usually recommend that employees continue their coverage until the end of the policy term, and then apply for coverage through a conversion or portability provision.

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Typically, **employees on an approved short- or long-term disability leave** may continue their life insurance under the group plan by paying premium for up to 12 months from the date they stop working. After this 12-month period, employees must apply for continuation options such as portability or conversion.

If the prior carrier's continuation provision allows, **employees on an approved leave of absence or layoff** may be able to continue their life insurance under the group plan by continuing to pay premium for a designated period following the date they stop working. After this period, employees must apply for continuation options such as portability or conversion.

Carefully review both policies to avoid surprises. Some carriers may not approve a waiver of premium if the employee files the claim after the carrier transition date. Others may require employees to convert their coverage until a waiver of premium is approved.

Employees on an approved leave of absence or layoff may be able to continue their life insurance under the group plan by continuing to pay premium for a designated period.

Claim scenarios

An employee becomes disabled while covered under the prior policy is not actively at work on the effective date of the new policy. How should this situation be handled?

Each situation must be evaluated based on its facts and on the relevant policy provisions. Typically, however, the employee in this situation should file a life waiver of premium claim with the prior carrier within the time limit specified in the prior policy, and preferably before the prior policy terminates. If the prior carrier denies the claim, and the new carrier's policy has a provision continuing coverage during sickness or injury and a life waiver of premium provision, the new carrier should be provided with a copy of the prior carrier's denial. At that point, a claim may be filed with the new carrier for review. Premiums should be paid until a waiver of premium claim is approved.

An employee is not actively at work on the effective date of the new policy because they were on an approved leave such as sickness or injury, FMLA, layoff, etc. How should this situation be handled?

Each situation must be evaluated based on its facts and on the relevant policy provisions. Typically, if the employee in this situation returns to active work on or before the date on which the approved leave ends, they will be eligible for coverage under the new policy as long as the premium is paid. On the other hand, if the employee in this situation does not return to active work on or before the date on which the approved leave ends, the employer should offer conversion and/or portability within the time period specified in the policy.

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Communication is key

Processes and procedures vary by carrier, so it's important to leverage the expertise of your broker to help ensure a seamless transition. With access to both carriers' policies, your broker can help you understand and compare the provisions in both contracts and address important questions such as:

- **What is the prior carrier's waiver of premium process? Does it differ for employees on approved disability leaves?**
- **What steps must be taken if employees leave the company?**

Changing carriers can produce a degree of anxiety for employees who are not actively at work at the time of transition. Taking time to ensure they are aware of the steps they must take to protect their benefits will go a long way in easing the transition.

Fair treatment for employees not actively at work is both a requirement and a best practice for employers. No loss/no gain provisions help ensure that new group life coverage benefits all parties—the employer, regular employees and those who are absent.

For more information on continuity of coverage, contact your group benefits representative.

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