

Laudable Financial Security at Competitive Cost- Employer Can Offer To Employees

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ABSTRACT: Cementing Employer – Employee relationship is found very effective through simple financial planning ensuring financial protection in case of Death of the employee while in service, to his dependents. The Employer ensures the above arrangement by arranging a Group Insurance Contract covering risk on lives of his employees, wins their morale, support and continued service. The Employees who depend solely on their income for maintenance of their dependents providing necessities of life, feel free of anxiety hunting them. The Employer can prudently devise a scheme with insurance company to provide the aforesaid cover of risk- cent percent financial protections to his Employees. It is cost effective but provides much desired financial protections to employees enhancing their motivational level and attachment to the organizations. A delighted employee because of the visible care evinced by the Employer becomes an Asset to the company through his total involvement, commitment and a frame of mind with peace and tranquility to continue with the Employer. A simple but effective decision of implementing financial protection through group insurance coverage brings about stability of satisfied, motivated and committed workforce.

KEYWORDS: service differentiation, crude premium, frequency distribution, master proponent, actual premium method, average age method, annual renewal date (ARD), master policy holder, graded cover, flat cover, average premium rate, notional premium, age nearer birthday (ANB), BB premium table, financial planning, employer-employee relationship.

I. INTRODUCTION

Statutory obligation of employers towards employees from the financial perspective is indeed an important area of concern for both the employees as also the employers. The government too has legislated a number of measures to ensure the employees and their dependents are protected from financial hardship. Provisions such as gratuity and provident fund have been made compulsory for organizations employing certain minimum number of employees and this minimum number is changed from time to time by the government machinery taking into account the changing employment scenario that has been greatly impacted by many factors such as technological advancement, product life cycle, changing customer buying patterns, product innovation and features enhancement meeting the ever increasing demands and wants in product and service differentiation in the competitive market. The basic size in terms of employee force is reducing accompanied by demand for skillful and competent work force matching the sophistication of equipments and processes being designed and put to use by the employer. The expectations in terms of compensation by the employees are on the path of increasing trajectory. Besides they are conscious of risk factors that could decrease substantially their earning capacity or bring it to a grinding halt.

Employers can eliminate this genuine anxiety of the employees by devising a cent per cent sure system to creation of instant estate of fairly good amount for each of their employees and allow them to enjoy this assured benefit so long they continue in the service of the employer. Most of the time – the heart of the day is spent by the employees at the work place involving in economic activities. They facilitate the growth of the organization with their own contributions in the achievement of the corporate objectives.

The two major risks everyone, leave alone the employees, face are early death even before sufficient financial security has been created for the dependents to fall back on and the other is the retirement from service when the regularity of income stops. Insurance is the only answer to this vexing problem that everyone encounters without exception. Be it an

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ordinary employee who depends on his monthly income to make both ends meet, a professional busy with his consultancy, a business man- who faces many other risks related to his business affairs or a self-employed entrepreneur.

How can an employer figure in to ensure financial security to his employees?

The employee depends on the success of his employer's business to continue his earnings and therefore should realize the importance of his part of job and how his contribution adds to the entire cycle of operations to produce quality goods and services the organization as such offers to the society. Co-operate with the employer in accepting changes in methods, processes and technology so essential to survive and grow in the competitive market that is dynamic and changing due to inflow of new ideas, new products with additional features incorporated therein.

The employer or the business equally depends on the continued support of the employees. The employer will provide inputs to employees to enhance their knowledge level, expertise and skills to increase productivity as also ensure quality maintenance to attract new customers besides retaining the existing ones.

The employer must secure the loyalty and good business relationship with his employees so that the employees do not merely and mechanically do the job but own the job. Owning the job by the employees makes all the difference in the employee adding value to his performance because of job satisfaction and job enrichment. He tends to become innovative at his level and cements his relationship with the employer/organization.

The employer needs to be more creative and explore ways and means of retention of such employees. Retention has now become a serious issue of employers as the attrition rate particularly with the small and medium sized employers has been on the increase of late.

Job security and assurance of fairly handsome financial protection to the dependence in case of early death or total disablement will motivate the employees to continue their service with renewed vigor developing attachment to the job as well as to the organization.

His gratuity and PF will be counted for retirement benefit, but the accumulation may be a paltry sum in case of early death. Employees can be advised individually to get covered for life insurance and pay the premium they can afford. The employer on his part can negotiate and institute a group insurance scheme with an insurer and cover risk on the lives of his employees. The sum assured which is the extent to which risk is covered on the life of individual employee can be related to his position / responsibility held and salary being drawn in the organization. This is known as graded cover, recommended for employers hiring sizable number of employees in different positions. It can even be a uniform cover where the sum assured for all the employees will be the same which can be opted by employers having fewer employees with not much of difference in salary positions. However for availing group insurance the insurer will prescribe the minimum number along with other conditions to be satisfied. In case of unfortunate death of any employee the sum assured attached to his case will be the additional payment the dependents will receive.

Advantages of the group insurance scheme:

To the employees:

1. Those who cannot afford to pay premium under an individual policy where the premium could be higher than that under the group policy will not miss the valuable cover of risk.

The premium which is comparatively low can be deducted from the salary of the employees and a consolidated cheque can be sent to the insurer by the employer- a service so rendered by the employer will be much appreciated by the employees and owe allegiance to the employer

2. Alternatively the employer can bear the expense of premium payment on the group policy covering his employees which will further the loyalty of the employees.

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3. Risk assessment is done on group basis and hence liberal. Because of this employees who cannot be accepted for insurance due to high risk assessed after individual underwriting or whose proposal for insurance calls for extra premium due to extra mortality rating can be accepted under the group scheme of insurance. Also depending on the nature and size of each group, up to a certain level of sum assured called the free cover limit the employees will not be subjected to medical test. The only test of insurability is that an employee should not have been on long medical leave during the period of six months prior to date on which the contract is entered into with the insurer.

3. Since the premium will be remitted by the employer on yearly basis, problem of lapsation of the policy is very remote.

4. In case of unfortunate death the employer or an officer earmarked can intimate the insurer and arrange for the required documents to be submitted on time to the insurer who will settle the claim in favour of the nominee of the deceased direct under intimation to the employer.

To the employer

1. In case employer extends the additional benefit of bearing the cost of premium for the benefit of insurance coverage to his employees, it is treated as an allowable expense for tax purpose for the employer to claim tax benefit.
2. He will have the satisfaction of making extra payment to the extent of the sum assured to the dependents of the deceased employee. This will boost the morale of other employees in the organization
3. By maintaining the policy scheme with the insurer the employee can enjoy the benefit of profit sharing on the scheme with the insurer through a system known as experience rating. This is allowed as a deduction in the subsequent year premium payable for the scheme

Is this all?

Apart from the basic group insurance described above which is sure to motivate the employees to remain in service and do their best, the following are other schemes related to group insurance:

1. Group Superannuation Scheme to provide pension after retirement.
2. Group Insurance in lieu of EDLI of the PF department.
3. Group Savings linked Insurance.

II. CALCULATION OF PREMIUM FOR A SCHEME OF GROUP INSURANCE

There are various methods of calculating the premium for a group scheme. Some of the usual methods practiced are as follows:

Method I (Actual premium)

Under this method the data received from the master proponent (the employer in this case) is grouped in a frequency table taking the age as the variable. The underwriter takes a decision as to the table that is to be used depending upon the nature and size of the group which is the first and important step. As against and for each age from the least to the highest in the frequency distribution, the corresponding rate from the selected table is recorded in the next column. The product of the frequency and the respective premium rate noted for each of the different ages forms another column. The total of this column gives the premium for the scheme for the current year. The tabular column will appear as given below.

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Method I – Premium calculation table.

Si. No.	Age	Frequency	Selected Tab. Pr. Rate	Product of Cols. 3&4

The Number of rows will depend on the range of the variable viz the age.

The premium of the scheme divided by the number of lives covered gives a crude premium per life in the scheme. Some insurers who allow entry of new lives in between the date of commencement and the first annual renewal date or even in between two annual renewal dates subsequently may request the master policy holder to furnish the details such as names and date of birth/age of the entrants along with remittance of crude premium per life for each of them, if it is a flat cover for all.

If the master policy holder takes a graded cover, in that case for each of the sub groups premium is to be calculated as above. The total of the sub groups will give the premium for the scheme as a whole. Again the crude premium per life will be worked out for each of the subgroups to facilitate addition of new lives in between.

However in either case, at the time of immediately following renewal date after addition of new members in between, the insurer will calculate afresh proportionately for the partial period of coverage to the these entrants and the difference if any, either excess or shortage will be adjusted .

THE AVERAGE AGE METHOD

This is not a popular method of working out the premium for group insurance, though in the early days this was being used and later was considered only to give an idea of what the premium rate could approximately be for the proposed group insurance scheme. But the approximation so quoted would significantly differ from the actual worked out on receipt of the data. This is attributed to the following reasoning.

Another important factor the premium depends on is the age profile and more specifically its frequency distribution. The distribution will be skewed to the right if the group is relatively of younger aged and to the left if is of older aged. That is the frequency will be more for the younger age or older age respectively. It is a rare situation to come across a symmetric distribution of age among the insured lives in any group. Therefore the weighted average for the grouped data where the frequencies are the weights for the ages will be influenced greatly by the extreme values and their frequencies.

For the average age method the age frequency table is taken and one more column of the product of age and the corresponding frequencies is introduced. The total of this column divided by the total frequency gives the average age. Premium for this age from the chosen table is taken as the premium rate i.e. premium per %o sum assured for that scheme. The columnar table used for this purpose will be:

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Sl. No.	Age (ANB)	No. of members i.e. frequency	Product of columns two and three

The number of rows will depend on the range of age distribution

METHOD III :

The better method would be the one where average premium age is worked out to decide on the premium per thousand sum assured. As usual from the selected table premium rates are recorded in a column as against the various ages in the grouped data frequency distribution. The product of frequency and premium rate relating to each of the ages will be entered in next column. The total of this column when divided by the total frequency of the data gives a certain rate of premium. This premium rate is referred back into the same table and the age corresponding to this premium rate is called the average premium rate. If the premium so obtained does not specify any particular age then the age having premium rate in the table close to the above worked out premium rate will be the average premium age.

The tabular column used for working out the average premium rate will be –

Sl.No	Age (ANB)	No. of members (i.e., Frequency)	Premium rate as per chosen table	Product of columns 3 & 4

Total of the last column is the notional premium for the scheme. Dividing this value by the total frequency gives the notional premium per thousand sum assured for the scheme. It is this notional premium which is used to identify the average premium age from the chosen table i.e., the age in the table that has the premium per thousand sum assured closest to the above worked out figure.

The following two examples, one each for working out the premium per thousand sum assured approximately, using method II & method III, clearly indicate the difference in the premium rates that would be quoted. It is advisable to quote a premium that will not greatly differ from the actual that would be calculated on receipt of full data from the master proponent in practice. It had been found reasonable as also better to quote an approximate premium which may be slightly more than the actual but not less. Keeping this in mind the average premium age method (Method III) is found suitable.

Example – I: (Relating to method - II)

Grouped Data with required additional column:

Sl.No	Age (ANB)	No. of members (i.e., Frequency)	Product of column 2 & 3
1	30	67	2010
2	35	75	2625
3	40	110	4400
4	45	120	5460
5	50	100	5000
6	55	90	4950
7	58	38	2204
Total		600	26649

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Average age for the above group = $26649 / 600 = 44.415$, say 44 years.

Example – II :(Relating to method – III)

Grouped Data with required additional Columns:

Sl.No	Age (ANB)	No. of Members (i.e., Frequency)	Premium rate as per chosen table (Table chosen – BB of LIC)	Product of column 3& 4
1	30	67	2.30	154.10
2	35	75	2.30	172.50
3	40	110	3.15	346.50
4	45	120	4.60	552.00
5	50	100	7.45	745.00
6	55	90	11.95	1075.50
7	58	38	15.15	575.70
Total		600		3621.3

Therefore average premium per member = $3621.3 / 600 = 6.035 =$ say rupees 6.

From the BB table (one of the various tables used by the insurer) it is noted that the premium age is 48 years for which the premium rate is Rupees. 6.10 close to rupees 6.035 of the above calculation

It is therefore seen in the above example that quoting premium based on average premium rate is better than quoting the premium rate based on the weighted average age.

Such method is normally used when an approximate premium rate is asked for by the prospective client who desires to go for group term assurance for the members.

Above is just a group term assurance and it forms the basis for any group insurance contract. Modifications and further addition of benefits give rise to varieties in group insurance contracts.

III. CONCLUSION

With the benefits being laudable, premium being very low and underwriting of risk being liberal, group insurance can be utilized as an ideal tool by the employers to provide exemplary financial support to the employees’ dependents. This is certain to motivate, increase the morale level of employees and reduce the attrition rate drastically. **BENEFIT FOR BOTH EMPLOYER AND EMPLOYEES- A WIN -WIN SITUATION.**

CAN WE CONCLUDE CALLING IT AN EMPLOYER – EMPLOYEE FINANCIAL PLANNING?