Covering expatriate employees

David G. Tompkins / January 01, 2010

Terminating work agreements with employees who have been sent overseas represents a huge investment and responsibility for many employers.

It's been estimated the cost of a failed overseas assignment for a high-level expatriate employee can cost a company as much as $500,000. And expatriate employers bear some responsibility for the wellbeing of their expatriate employees, who often feel more vulnerable when posted overseas.

If your corporate clients are typical, more and more of them are sending employees abroad as expatriates for long-term positions. And if the client is putting those expatriate employees on their domestic Canadian group insurance plans, overseas claims may be denied or mishandled as such policies are not designed for expatriates (Canadian group insurance plans are generally only for Canadian residents, especially the extended health insurance coverage).

Canadian domestic health coverage is primarily extended to cover what the provincial governments do not cover; so for workers in Canada the provincial government coverage is required. If a Canadian company is sending employees overseas for long periods of time, their provincial coverage will usually end after six or 12 months and many domestic group travel insurance plans only cover up to three months outside of Canada per trip. Also, Canadian domestic plans usually don't have the ability to pay disability, dental or health claims directly to a medical facility overseas except for short-term travel medical insurance claims.

For these and many other reasons, the only solution for Canadian expatriates is a group expatriate benefit plan.

Group expatriate plans vary across the market from basic to deluxe, but in my opinion only a large global carrier can really meet a multinational corporation's expat group insurance requirements. That essentially leaves employers with three choices:

an extension to existing Canadian group insurance plan;
a Third Party Administrator (TPA) expatriate plan; or
a large global expatriate insurance plan.

Domestic solutions

Some Canadian insurers have recognized the needs of Canadian companies that send employees overseas and have added expatriate coverage as an extension of existing domestic group insurance plans.

Unfortunately, they have developed policies that only partially meet the needs of Canadian multinationals. I have found that Canadian group expat insurance plans usually are not able to cover third country nationals (TCN) and key local nationals (KLN).

Third-party plans

The other choice for Canadian companies with expatriates is Third Party Administrator (TPA) plans.

Essentially, a TPA lets a Canadian company administer a group insurance plan that's backed up by one, or several different, insurance companies that may or may not be based in Canada. The TPA handles the marketing, administration and claims. By virtue of its very structure, smaller size and limited resources and reliance on a variety of insurers, a TPA is not my professional choice for a multinational corporate client. The TPA usually leverages someone else's insurance paper and someone else's network, particularly in the United States.

Further, the TPA usually has no control over the network or the paper itself, so they may be at the mercy of their insurance partners which may withdraw their support from the administrator. The TPA probably doesn't have a large network outside of North America where expats can get direct payment to medical providers, and most TPAs do not have the resources to be compliant in Gulf State countries such as Saudi Arabia and UAE.

Many expat insurance brokers feel a Third Party Administered expat benefit carrier generally will not have the resources to provide a level of coverage and service that most multinationals require or deserve. Some TPA plans are making improvements, but they still have a long way to go.

Large global expatriate insurers

My professional preference for international group insurance is to place clients with a large, respected and direct global insurance company that will have hundreds of thousands of expatriates insured around the world and also service Fortune 500 firms. And there are firms that fit this bill but still provide the same level of service and access to companies with as few as five expats.

The large global expatriate insurer also has the ability to draw upon the resources and systems of their domestic divisions, which may have thousands of employees and cover millions of people for their domestic clients. Such a large global player will generally have access to a direct pay provider network of more than 500,000 medical providers in the U.S., but perhaps 90,000 outside of North America where the expat employee can have his or her medical procedures paid directly by the insurer.

If the medical facility is outside the network, the expat insurer should be able to provide an instant guarantee of payment to the provider as no employee wants to dig into his or her pocket to pay for a large medical bill.

These insurers will also have medical doctors on staff who can deal with complex claims on a 24/7 basis and work with on-site medical staff to make sure the treatments provided are covered and appropriate, and provide or source a second opinion if necessary. The insurance will be both underwritten and administered jointly and the client will even get compliance in numerous countries, including Canada. The global carrier will also be able to cover key local nationals and third country nationals.

War risks

For companies sending employees to high-risk regions such as the Middle East and Africa, obtaining a policy that covers war and terrorism is vital. Most TPAs and large global carriers will provide this coverage at an additional cost or individuals can obtain specialty insurance benefits from another carrier such as Lloyds of London. TFG Global Insurance Solutions Ltd. has had extensive experience in covering people traveling to high-risk countries such as Iraq and Afghanistan.

Global workers compensation

Many expatriate group insurance plans don't provide coverage for workplace accidents, but this coverage can be added in at little or no extra cost. Employers can also obtain quotes for standalone international workers' compensation plans from a variety of sources.

Defense base act

If an employer is working on a U.S. government contract on a direct or indirect basis, it most likely has to obtain Defense Base Act (DBA) coverage. DBA is a specialized form of workers' compensation insurance mandatory for anyone working on a U.S. government contract outside the United States. The coverage was developed to compensate employees working in war zones or under threat of terrorist activity.

Any civilian company performing under a U.S. government contract outside the United States is required to have DBA coverage, and contractors as well as sub-contractors are required to purchase this insurance for all employees regardless of the country of origin. DBA for foreign employees may only be waived with the pre-approval of the Department of Labor.

Failure to secure DBA coverage can result in fines.

DBA coverage is usually sourced through specialty insurance brokers and the premiums are reimbursed by the U.S. government. Finally, DBA is not a replacement for a comprehensive international group insurance plan.

Local plans

Some employers will place their expatriate employees under a domestic insurance company that also insures the local employees in that country. While this may save the employer some premium, it is not a good idea for a variety of reasons:

The domestic carrier may not be able to cover expatriates and certainly will not cover them outside the insurer's country of origin - this can be a serious problem if the expatriate gets seriously sick and wants to seek treatment back home or in another country;
Payments can only be made in the domestic insurer's home currency;
Domestic plans are designed to work in their home countries and comply with domestic rules and administration, not the rigors of international administration and claims payments;
Disability payments from the firm's domestic insurer may have to be made if the employee returns home for treatment and often may not cover disabilities occurring overseas;
Many expatriates leave their spouses and dependents back home and the domestic plan will not cover those dependents;
The domestic plan will not be portable if the expat moves to another country; and
The domestic carrier may be in a developing country with limited benefits and financial strength.
Some expatriate employers feel they have to provide their employees with the same benefits as their local employees, but expatriate assignments require a separate level of coverage and benefits that domestic plans cannot offer.

International health insurance

Most international benefit plans will provide international health insurance, dental, vision, life, AD&D and Long Term Disability (LTD) insurance. As one might guess, the most used benefit is the global medical insurance plan. Most Canadian advisors are used to selling extended health insurance coverage as part of a group insurance plan. International health insurance essentially covers what the provincial government provides its citizens plus what extended health plans provide. Put simply, think US healthcare insurance plans, except the plan covers the employee globally. Medical evacuation is also available and should be considered an essential benefit. Some employers have their expatriates under an access-only evacuation plan through carriers such as ISOS, but one should make sure the benefit plan will cover those expenses on a seamless and timely basis.

Probably the largest factor in the pricing of an international health insurance plan is where the employee can access treatment. Many expat health plans will price their health insurance to either cover or exclude treatment in the United States and Canada due to the high cost of medical treatment in North America. If a client has American citizens covered, it's always a good idea to pay extra to make sure they are covered for treatment back in the United States. If an American expat becomes seriously ill or injured, they usually want to get treated in the U.S. and Americans also like to keep access to their regular doctors back home.

Most global medical plans will cover both in-patient medical care that's delivered at a hospital and out-patient care delivered outside a hospital, such as medical check-ups, paramedical services, prescription drugs, scans, x-rays and many other procedures. A high quality carrier will have a large policy maximum to cover almost any eligible claim. Some group international benefit plans do not cover maternity or place limits and conditions on it because of the inherent high-claims risk. As one might expect, covering maternity is going to increase your costs. As a result, some expatriate group plans will have a 12-month waiting period for maternity while others will cover it right away and also cover at birth. Maternity and newborn expenses can easily run into the hundreds of thousands, so an expatriate employer should include this benefit.

In terms of fine print, it obviously makes sense to examine the expatriate insurance plan carefully, paying particular attention to the exclusions. A high quality group medical plan will cover pre-existing medical conditions and not put the employees or their dependents through medical underwriting.

Other common exclusions or limited benefits in group insurance plans are participating in a crime, alcoholism, mental illness, nuclear or biological attacks or accidents, contraception, obesity, cosmetic surgery, and fertility treatments. Some of these exclusions can be removed depending on the insurer or carrier.

Administration

Another important factor in choosing an expatriate group insurance plan is the ease of administration. A high-quality carrier will provide a 24-hour helpline for employees with queries about their memberships or medical coverage.

Personalized membership cards and booklets to effectively communicate the plan are also important. Many insurers provide online administration for the management and online access for the expatriates - including being able to search out medical providers in their region or country. Some large expat carriers have even made the effort to check out and pre-certify overseas medical facilities.

Generally, if an insured person is going to undergo a high-cost medical procedure, it makes sense for the expat to contact the insurer to make sure the claim is covered, necessary and that the facility is up to Western Standards. As you'd expect, the level of medical treatment outside of the developed world is quite varied and can be well below Western standards. Medical claims that are not paid directly can often be mailed or e-mailed for reimbursement in a variety of currencies.

An expatriate employer need not be large to obtain an expatriate group insurance plan. Global benefit plans are available for as few as three employees who may be in one or several countries. Usually, if an expat employer has more than 20 employees, the plan design can be even more flexible. As with Canadian group insurance plans, the larger the number of employees, the more the claims experience becomes part of the renewal premium. Health insurance inflation trends are not dissimilar from what you find in Canada.

At the end of the day, expatriate benefits are simply another way of compensating employees and also fulfilling the employer's obligation to those employees. For Canadian companies operating overseas, expatriate plans offer the best combination of cost, portability, coverage, ease of administration, and security.

In our experience, we have found Canadian multinationals are best served by a large global expatriate insurer which has the resources available to adequately deal with a global assignment. International group insurance is a vital part of an employer's remuneration package for its expatriate employees, so making sure that the plan is well received by the employees is an important part of both the employer and employee's success overseas.

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