

Plan Designs

Group Disability Insurance

Disability insurance has become an increasingly valuable part of a comprehensive employee benefits package. Not only does disability insurance fill the gaps in financial protection offered by other programs like Social Security, but it is also a highly sought after component of a competitive benefits package for employers who need to attract and retain talented employees. And while employees appreciate the peace of mind they receive as their income replacement benefits are being paid, employers can use the resources offered by insurers to manage time and productivity losses and find the most effective ways to return employees to work.

Employer-Sponsored Disability Insurance

Employer-sponsored disability insurance coverage is an important benefit for every employee. For most workers, the ability to earn a living is their most significant financial asset, and a lengthy period of disability can be devastating. Employers can help protect against that risk by providing group disability income insurance — a group insurance product that provides income replacement benefits to an employee should he or she become sick or injured and unable to work.

Disability insurance protects workers and their families against financial catastrophe by helping them meet daily expenses — bills, mortgages, and other expenses — and maintain their standard of living. Disability insurance replaces a percentage of pre-disability income if an employee is unable to work due to illness or injury for a specified period of time. Employers may offer short-term disability coverage, long-term disability coverage, or integrate both short- and long-term disability coverage.

Short-term disability coverage

Short-term disability (STD) coverage provides disabled employees with a specified percentage of pre-disability income — typically 60 percent — once their sick leave has been exhausted. The duration of STD coverage varies, but is typically not more than six months.

Conditions that may trigger payment of STD benefits include pregnancies, strains, sprains, and minor surgeries. These conditions typically resolve quickly and employees usually are able to return to work before the benefits are exhausted.

Long-term disability coverage

Long-term disability (LTD) insurance provides income to workers whose earnings are interrupted by lengthy periods of disability. Long-term disability benefits usually begin when sick leave and short-term disability benefits are exhausted, and typically

replace about 60 percent of pay. LTD benefits can continue for anywhere from five years to the remainder of an individual's life. LTD is generally considered protection from the effects of a catastrophic illness or injury, but claims are often a result of common ongoing medical conditions that worsen overtime (e.g., heart disease, hypertension, and diabetes).

What about workers' compensation?

I already provide workers' compensation coverage. Doesn't it help?

Not if the employee became ill or was injured in a non-work setting. Workers' compensation is state-mandated insurance that covers both lost income and medical expenses for work-related illnesses or injuries. Workers' compensation cannot help for injuries or illnesses that occur **outside of work**. This is where STD and LTD provide protection.

Why Provide Disability Insurance?

Disability insurance is both an employee benefit and a health and productivity tool. The rehabilitation and management tools available from most insurers can yield significant savings to employers. While helping your employees avoid financial disaster, disability insurance also helps you mitigate the indirect costs of disabilities, such as finding replacement workers and the costs incurred by time and productivity losses. These problems are amplified for small businesses where the absence of just one key employee can have a lasting impact on productivity and can even impact the continuation of day-to-day operations.

Issues to Consider

Benefit Selection and Funding

Ideally, employers should offer an integrated STD and LTD package. This allows for claims experts to be involved early and find the best ways to return a person to work as quickly as possible. One insurer can provide the early intervention offered with STD benefits and the protection of LTD. This coverage can be fully paid by the employer, cost-shared with the employee, or offered as an employee-paid, voluntary benefit. Employers often fund a basic plan to protect employees, and employees may then purchase supplemental coverage to better address their individual needs.

Coordination of Benefits

Larger employers often provide a disability program that coordinates STD and LTD benefits with other health and welfare benefits, such as group health insurance and workers' compensation. Smaller companies with little or no human resources personnel simply need a quality plan that works well along the entire continuum of the disability —from effective employee communication and customer service to easy integration with other benefits.

Plan Components

A variety of key plan components have a direct impact on how claims will be paid and on the cost of the plan.

Waiting or “Elimination” Period

A plan’s *waiting* or *elimination period* is the period between disability onset and the point at which disability benefits become payable. STD benefits may have different waiting periods for disabilities stemming from illnesses, versus disabilities caused by injuries (e.g., a 7-day waiting period for illness versus no waiting period for injuries). A typical waiting period for STD benefits is 15 days but these vary, usually dependent upon the employer’s sick leave plan. Waiting periods for LTD plans usually start 30 to 180 days after the disability occurs. All coverage should be coordinated to ensure that long-term disability benefits start immediately after any sick pay and short-term disability benefits have been exhausted.

Definition of Disability

Short-term disability plans typically provide income when an employee is unable to work in his or her “own occupation” due to injury or illness.

Long-term disability plans provide income when an employee is unable to work in his or her “own occupation” or unable to work in “any occupation” for which the person is suited by education, training, and experience. Typically, plans use the “own occupation” standard for an initial period — usually two years (longer periods are available) — with occupation protection covered to age 65 for certain industries or classes of employees.

During the “own occupation” period benefits are paid if the person cannot perform the essential work functions of the occupation in which the person was employed when he or she became disabled. The “own occupation” period can then be followed by the more broad “any occupation” standard. Under this standard, a plan would continue to pay benefits only if the person was unable to perform any job functions for which he or she might be qualified based on education, experience, or training.

Residual or Partial Disability

Residual or partial disability benefit provisions provide for a disability plan to make reduced benefit payments for employees who are able to return to work, but on a part-time or otherwise limited basis due to reduced capacity. The partial payments offset earnings loss while the employee makes the transition back to full-time employment.

Income Replacement

Plans typically replace 50 to 60 percent of income, although many carriers now offer up to 80 percent of income replacement. A typical weekly maximum benefit for STD policies is \$1,000, while LTD policies may provide up to a \$10,000 monthly benefit. Plans should be structured to balance financial assistance in a time of great need with incentives for the employee to return to work.

Benefit Integration

Most group plans assume that disability benefits or payments from other sources (SSDI, workers' compensation, etc.) may be paid to the employee and thus policies should be constructed so that the amount payable can be reduced by the amounts payable by other sources. This provision is vital to ensure that return-to-work efforts are not compromised because the disabled worker earns more while he or she is disabled than while actively working.

Employees Can't Count on State and Federal Programs

Your employees may believe that the state or federal government will provide the necessary financial help if they become disabled. Some assistance may be available, but it will probably not be adequate to accommodate the needs of their family for an extended period of time.

Most U.S. workers participate in the federal Social Security program and are familiar with the retirement benefits it provides. The Social Security Administration also administers disability benefits under the Social Security Disability Insurance (SSDI) program.

An employee's salary and the number of years he or she has been participating in the Social Security program determine how much he or she can receive under the SSDI program. SSDI employs a strict definition of disability and benefits are thus difficult to qualify for, with about only 40 percent of those that apply for SSDI benefits actually qualifying for them. And, even if an individual does qualify, a lengthy application backlog has resulted in a waiting time of two to three years for an individual to receive his or her benefits.

- ✓ The standard to qualify for SSDI is more stringent than for most private plans. A person must be unable to engage in "any substantial gainful work which exists in the national economy." This contrasts with private coverage which usually defines disability as the inability to do one's "own occupation" or an occupation that matches training, education, and experience.
- ✓ The SSDI definition of disability also requires that a person be severely disabled. The person's inability to perform work must result from a condition that is expected to result in death or that has lasted (or can be expected to last) for a continuous period of not fewer than 12 months.
- ✓ SSDI doesn't provide full coverage for all workers. A worker has to build a work and earnings history to be fully covered by the SSDI program, leaving younger workers with added exposure.

Some states offer short-term disability protection, but both SSDI and state-funded programs provide limited disability income protection to individuals who qualify for the benefits. And they are only the most basic safety net. In most cases, they will not provide the adequate financial support to maintain a worker's pre-disability standard of living.

Important Terms: Disability Insurance Glossary

Active, full-time Employee: An individual must work for the employer on a regular basis in the usual course of the employer's business to be considered an active, full-time employee and thus be eligible for coverage. Usually, a minimum number of hours of regular work are specified.

Benefit percentage: The percentage of the insured's pre-disability income, up to an overall maximum benefit amount, that will be the amount payable to the insured upon disability.

Benefit period: The longest period of time for which benefits are payable for continuous disability.

Definition of total disability: Probably the most important provision in the disability contract. The definition of total disability is used to determine an employee's eligibility for benefits.

Own occupation: A definition of disability which states that as long as the insured is unable to perform the duties of his or her regular occupation (or occupations) at the time of disability, the insured will be considered eligible to receive the full benefit under the policy.


Any occupation: An insured will be considered disabled only if he or she is unable to work in any occupation for which he or she is qualified by education, training, or experience.

Disability: An individual's physical or mental inability to perform the major duties of his or her occupation because of sickness or injury.

Elimination or waiting period: The period of time between the date the disability commences and the beginning of the benefit payment period. It is the period during which an employee must be disabled before payment of benefits begins.

Evidence of insurability: Group disability coverage is generally sold as a "guaranteed issue" policy, which means that evidence of insurability is not required. However, under certain circumstances (e.g., late enrollment or a high benefit maximum), an employee must provide medical or financial information as proof of insurability.

Exclusions: Certain conditions and causes that are not covered by the policy. These are listed in the policy. For example, a plan will typically



exclude coverage for disabilities resulting from war, participation in a riot, commission of a felony, or a self-inflicted injury.

Injury: Accidental bodily injury that occurs while a policy is in force.

Lifetime disability benefit: A benefit that is payable for the lifetime of the insured if he or she is continuously and totally disabled before a specified age (i.e., 45 or 55).

Limitations: Specific provisions included in the group disability policy that limit coverage in certain situations. For example, often only limited benefits are payable for disabilities caused by mental illness and pre-existing conditions.

Maximum benefit period (benefit duration): The maximum length of time for which benefits are payable under the plan as long as the employee remains continuously disabled.

Maximum monthly benefit: The highest dollar amount a disabled employee can receive on a monthly basis under the long-term disability policy.


Minimum monthly benefit: The minimum amount paid as a monthly benefit after reductions for *other income benefits* (see below).


Other income benefits (benefits integration): While disabled, an insured may be eligible for benefits from other sources. Benefits payable under the group LTD plan may be offset by other sources of disability income (Social Security, workers' compensation, or other disability benefits).

Partial or residual disability: An insured's physical inability to perform some, but not all, of the duties of his or her regular occupation due to sickness or injury.

Pre-disability earnings: The amount of an employee's wages or salary that was in effect and covered by the plan on the day before the disability began.

Pre-existing condition limitations: Most plans exclude or reduce disability benefits for any illness or injury for which an employee received medical treatment or consultation within a specified time period before becoming covered under the plan.





Presumptive disability: The presumption that the insured is totally disabled, even if still at work, if sickness or injury results in the total and complete loss of sight in both eyes, hearing in both ears, power of speech, or use of any two limbs. The elimination period is waived from the date of the loss and the total disability benefits are payable while such loss continues until the end of the benefit period.

Return-to-work provision: To encourage employees to return to work as soon as they become physically able, an additional incentive is provided for a certain period of time. Typically, the employee can receive up to 100 percent of pre-disability earnings based on a combination of disability benefits and return-to-work earnings.

Sickness: A sickness or disease, including a pregnancy, which is first diagnosed and treated while the policy is in force.

Total disability: The physical or mental inability to perform the major duties of one's occupation because of sickness or injury.

Waiting period (for plan enrollment eligibility): A specified number of continuous days of service as an active, full-time employee that an employee must satisfy in order to become eligible for coverage under the group disability policy.

Waiver of premium: The provision under the group disability policy that waives the individual's premium payments for as long as benefits are being paid out.

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