

# What is 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, 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%—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% 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 over time (e.g., heart disease, hypertension and diabetes).

## 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 and disabilities caused by injuries (e.g., a 7-day waiting period for illness and no waiting period for injuries). A typical waiting period for STD benefits is 15 days but this varies, usually depending on 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 he or she 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 employee cannot perform the essential work functions of the occupation in which he or she was employed. 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 employee 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 benefits provide 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.** These plans typically replace 50% to 60% of income, although many carriers now offer up to 80% 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.