Articles

Group Long-Term Disability Insurance: A Crash Course

About this Article

In this comprehensive *Executive Update* feature article, Kathy Simmons provides the latest information and trends concerning disability insurance. As she provides the facts and figures, it si clear that when it comes to disability insurance, what you don't know can hurt you and your employees.

Group Long-Term Disability Insurance: A Crash Course

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A recent survey conducted by the American Council of Life Insurers and the Consumer Federation of America indicates that most workers have inadequate or no disability insurance coverage. Although 41 percent had coverage, they considered it inadequate to cover their family's financial needs.

Many of those covered didn't know the extent of their coverage: Half of the respondents did not know what percentage of income would be replaced by their long-term disability policies.

Indeed, a long-term disability can be a "living death." It is more likely than death for people between ages 20 and 65 and is often more financially devastating. As modern medicine turns formerly deadly diseases into disabling ones, long-term disability insurance is a benefit that few can afford to do without.

Most large employers offer group long-term disability insurance, even though they are not legally required to do so. In fact, a full 98 percent of employers with 5,000 or more employees include long-term disability in their benefit packages. The number sharply declines for smaller employers. Only 72 percent of companies with 100 to 500 employees and 33 percent of those with less than 100 employees offer group long-term disability coverage.

The Basics
Although there are endless variations of policy designs, the following provisions compose the backbone of a group disability policy.

Elimination period. As the name long-term disability suggests, employees must be impaired for a period of time before receiving benefits - usually three or six months. Depending on the policy, "impaired" can mean unable to perform any work or a substantial decrease (20 percent) in functional ability.

Offsets. Group disability is designed to provide a level of income replacement, not a financial windfall. Therefore, workers' compensation, Social Security,

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state-mandated disability plans, and other disability-related income are considered "offsets" and reduce the benefit paid.

Benefit amount. Benefits are paid monthly. They are a percentage of pre-disability earnings (60 percent, for example) to a set maximum.

Own occupation. Group disability insurance usually protects an employee's "own occupation" (i.e., regular occupation) for two years, after which time a stringent "any occupation" (i.e., gainful occupation) provision applies. During the any-occupation phase, the claimant must be unable to perform any reasonable occupation based on his or her education and work experience.

Maximum duration. Payments cease at normal retirement age. More limited insurance packages include a maximum duration of five or ten years, regardless of the claimant's age.

Why It Makes Sense

Employers who think disability won't affect their employees and employees with no disability coverage may be in for a rude awakening. Consider these sobering statistics.

- Government mortgage statistics show that only three percent of American families lose their homes due to a death in the family, while 48 percent of all foreclosures are due to disability.
- Seven out of every ten workers between the ages of 35 and 65 will be unable to work for 90 days or more sometime during their working lives.
- Nearly one in five workers will be disabled for five years or more.

When employees are away, the work doesn't magically disappear; it still must get done. Often, those left behind pick up the slack, resulting in exhausted — or in some cases, resentful — employees more prone to make errors. Without formal insurance, employers are in a moral quandary. When a valuable employee is impaired, companies with a conscience feel an obligation to support him or her financially. On the other hand, when a mediocre employee is unable to work, the company may be less obliged to help.

Employers cannot afford to play such games of favoritism. Today's legal climate frowns upon preferential treatment based on the employee's perceived value. Introducing an objective third party (the insurance company) with the expertise to fairly evaluate disabilities can protect employers from lawsuits and ill will.

The Cost and Who Pays

Naturally, the richness of the policy greatly influences the ultimate cost. The following variables also have an impact on cost.

Industry. Insurance companies use industry factors based on actuarial morbidity studies, their own block of business, or a combination thereof. Some industries (e.g., those with seasonal employment or highly dangerous occupations) are considered uninsurable, while others (such as banking) are highly desirable.

Most frequent causes of disability

13 percent	Cancer
12 percent	Complications from pregnancy
11 percent	Back
9 percent	Cardiovascular
5 percent	Depression

Source: UNUMProvident, 2001

Gender and age. Gender-wise, women have a higher incidence of disability at younger ages and a lower incidence at older ages. Their overall morbidity is approximately 10 percent higher than for men, according to the Society of Actuaries. Therefore, organizations with a high percentage of young female workers will pay more for disability coverage.

Concerning age, the probability of becoming disabled due to sickness is much higher at older ages. Further, claims often last longer among older workers.

Experience. History repeats itself; therefore, insurance companies pay close attention to it when setting rates. Larger groups have "credible" experience. Consequently, the premium and claims history will play a role in the ultimate rates charged. Smaller groups (with less than 300 employees) will not be considered as reliable as actuarially derived "manual" rates.

As to who should pay, there are pros and cons both ways. Benefits are nontaxable to the extent that employees contribute pay with after-tax dollars.

Miami-based disability insurance specialist Caryn Montague notes the trend toward shifting cost to employees. "Personally, I like employees participating in the cost - for more than the tax reasons. When employees pay for even a small part of their benefits, they understand the plans better and appreciate what the employer is offering."

Disability Dilemmas

Employers can easily fall into several disability dilemmas — mainly based on lack of knowledge of the product or the legal climate surrounding it.

Privacy/discrimination matters. You'd have to have been hiding under a rock for the past few years not be aware of the heightened attention to privacy rights.

In addition to the federal laws, many states have invasion-of-privacy laws protecting employees and former employees from unreasonable releases of information by employers.

The number of emotional/psychiatric-impairment discrimination complaints recorded by the EEOC increased from 91 in 1992 to 2,789 in 1997. Clearly, employees' behavior reflects the shift in public policy on privacy rights.

As Greg Russi, a Colorado-based attorney specializing in workplace disability issues explains, "The employer should never release information to former employees' prospective employers about the health of a worker or status of any disability claim."

Sub-par returns to work. Employers play a critical role concerning when a disabled employee returns to work. Some disabled employees may have difficulty returning to "business as usual" after being away for even a short period of time. Even the most productive employees can become accustomed to not working. Timing is critical in getting them back to work.

According to John Barilla, vice president of disability products at the Prudential Financial Insurance Company of America, "Considering today's tight budgets and declining headcounts, it is more important than ever to manage a disability claim as early as possible. Getting someone back on the job who knows how to do the work is so much more cost-effective than hiring and training a new person." Implementing a return-to-work program is a good way to get this done.

A return-to-work program is a clearly defined teamwork approach combining the efforts and expertise of the employee's physician and the company's onsite coordinator to identify appropriate tasks during an employee's recovery. The benefits include the following.

Morale. The message is clear that the company wants to work with disabled employees to bring them back on a modified basis

Financial. According to the Integrated Benefits Institute, "Return-to-work programs have shown up to 40 percent cost savings for employees with work injuries and up to 23 percent savings for absences due to other medical conditions."

Legal. Compliance with ADA and FMLA is enhanced through a formal return-to-work program.

Unfortunately, employers have hardly jumped on the bandwagon, despite the obvious benefits. A 2001 survey by John Hewitt and Associates found that 53 percent of companies surveyed offered return-to-work services to resolve workers' compensation claims, while only 37 percent offered work accommodation to employees who were absent with nonoccupational conditions.

Ensuring Employee Understanding
The employer should ensure that employees understand the fine print concerning restrictions, such as the following.

Pre-existing conditions limitation. A disability occurring during the first year won't be covered if it is due to a pre-existing condition (i.e., if the employee had medical treatment three months prior to becoming insured).

Offsets. Many are not aware that Social Security, paid by employers and employees per their wages, is not just for retirement. It includes a disability and beneficiary benefit.

Maximum duration on certain disabilities. A two-year maximum benefit is standard for disabilities due to a psychiatric disorder, though this policy is changing. Many plans also include a two-year limit on self-reported diagnoses and disabilities due to alcohol or drug addiction.

What are the odds that you will become disabled?

The chances that you will suffer at least one long-term disability that lasts three months or longer:

Age	Probability
25	44%
30	42%
35	41%
40	39%
45	36%
50	33%
55	27%

Evidence of insurability requirement. Contributory plans require employees to enroll within 31 days after becoming eligible. If they sign up after the 31 days, they must provide satisfactory evidence of insurability.

Proactive employers make it their business to frequently communicate all aspects of benefits to employees. Maggie Albright, CPA, director of finance at the Indianapolis-based National Precast Concrete Association, conducts regular sessions with staff. "We hold 'lunch and learn' meetings each month to review particulars of our plans. Whenever possible, a representative from the insurance company attends to answer questions and remind employees of what is available."

Group vs. Individual Coverage	
Group Long-Term Disability Insurance	**Individual Disability Insurance**
• No rate guarantee - the insurance company can increase rates and the employer can increase employee contributions • Benefits are taxable if your employer pays the premium • Policies include restrictions that may cause claim denial • Most plans do not allow you to take the coverage with you if you leave your current job	• Benefits are tax free if you pay the premium • Fewer restrictions, so you are more likely to receive benefits • More liberal monthly benefits for high-end salaries • Rates are guaranteed, but are more expensive than group rates

Future Trends
Disability insurance will continue to transform during this decade and beyond. According to a mid-year 2002 study by John Hewitt Associates, long-term disability sales showed strong growth, up approximately 12 percent.

Intense profitability pressure exists as more companies have moved from mutual to stock. Many companies are selling or closing lackluster group-insurance operations. To compound the problem, the incidence of long-term disability claims is on the rise, and so is the length of time people stay out on disability.

As a result, insurers are emphasizing heightened underwriting discipline with a growing wariness concerning overall economic developments. Companies with shaky financial status will find it difficult to secure long-term disability quotes. More intense case-management efforts, detective work by CPAs, and video surveillance will be used to determine the viability of a claim.

The job of "claims processor" is fast evolving to "claims professional." According to Mark Taylor, director of claims consulting at Minneapolis-based ING Re, "Insurers will use more specialized claims professionals. Rather than referrals to a nurse or a vocational expert, a hybrid — the disability manager — will emerge as the professional who combines those competencies needed to reduce duration and frequency of disability by melding aspects of medical and vocational case management."

Another factor affecting the future of long-term disability insurance is that, as the workforce ages, American businesses realize compliance with the Americans with Disabilities Act (ADA) is essential. According to the Bureau of Labor Statistics, the number of workers aged 55 and over will increase twice as fast as the total labor force. By 2015, 40 percent of the workforce, roughly 55 million workers, will be 50 or older.

Many ADA lawsuits have been brought involving corporate long-term disability plans, which typically provide coverage for physical disabilities but frequently limit coverage for mental health disabilities. Because of such challenges, many employers now take closer looks at their benefits packages to ensure that all employees are offered the same plan. In some cases, employers are actually expanding their long-term disability plans by eliminating coverage caps.

Forward-thinking employers and employees understand the nuances of disability insurance. Sure, it is unpleasant to consider the likelihood of such an event as disability, much less plan for it. However it is a decision few have regretted. In the words of the wise biologist Louis Pasteur, "Chance favors the prepared mind."

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