

Pointers for Finding Disability Coverage

By Linda J. Lerner

Q. I am the office manager of a small-but-growing company, and I handle the administration of our employee benefit programs. The insurance that we offer our 24 employees are health and dental insurance. The owner has asked me to look into getting a long-term disability insurance policy for the employees. Frankly, I know almost nothing about what to look for and which features of such a policy are critical and which are optional. Also, does long-term disability insurance cover everyone who works here or only the full-time employees?

A. One of the first things to consider when purchasing and offering long-term disability insurance is who will pay for the benefit. When an employer pays the full cost for this coverage and an employee becomes disabled and receives payments, this benefit is taxed at the ordinary income tax rate. So while the employee is receiving a benefit at no cost, the amount of claim dollars they receive is slightly diminished. The key phrase here is: “employer pays.” If, on the other hand, the employee pays the premium, then when they receive benefit payments, they do not pay taxes on them. This is usually done through payroll deduction and appears on each pay stub. If the employees are asked to

pay the premiums, the benefit must then be considered “voluntary” and an employee can waive that benefit.

Long-term disability is a relatively low cost insurance when a group plan is purchased. Most employers pay the full cost of the benefit and then all eligible employees are covered.

The actual cost of LTD is based on the demographics of the company and its industry. The insurance carrier will need to know the average age of the employees, how many women and men are employed, and at what salaries. Industries are rated according to risk and therefore there will be an obvious cost difference between an accounting firm and a manufacturing plant. The premiums tend to be relatively low and therefore almost everyone usually takes the coverage.

After health insurance, disability insurance is often considered one of the most important benefits an employer can provide. The economic consequences of being sick or hurt and unable to earn an income can be devastating. According to a recent study, 70 percent of Americans can not go four weeks without a paycheck.

It is important to keep in mind that disability insurance comes in an assortment of types, and plans can vary in cost. Although most employers offer LTD coverage to



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full-time employees, this coverage can generally be extended to any employee working 20 hours a week or more.

As to the group long-term disability contract options and factors to consider, Chris Allen of Jim Mooradian and Associates Inc., a disability insurance consulting firm, says there are three main factors to consider.

First, what type of earnings are you looking to cover, and to what level? Most plans have a 60-percent replacement formula and cover base salary only up to a maximum amount such as \$10,000 a month. This base

salary coverage excludes commissions, bonuses, incentive award payments and the like. Second, as described above, is the company going to pay the premiums or is the employee? Third, some insurance carriers offer value-added options such as Employee Assistance Programs and/or travel assistance programs with their LTD plans, without additional cost, so evaluating the marketplace is important in your analysis.

Most LTD plans define disability in terms of whether or not, or the degree to which, the employee can perform their job, commonly referred to as their “own occupation,” or whether he or she can perform work in other types of jobs, often referred to as “any occupation.”

Allen adds that LTD plans have a waiting, or elimination, period which can vary in time but is often 90 days. During the elimination period the employee must be disabled before they are eligible to receive benefits.

Whatever type of program you end up with, you will have provided the employees of your company with an important benefit. Of the different things we consider insuring in life, insuring our income may be one of the most important when an illness or injury occurs.

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