Summary

Disability insurance is one of the four most important employee benefits including medical, retirement, and life insurance. Inadequate disability coverage can cause devastating financial consequences if an individual were to suffer a prolonged or permanent illness or injury yet it is frequently undervalued in the hierarchy of employee benefits. This occurs largely because employees do not expect to become disabled; yet one in three Americans between ages 35 and 65 will become disabled for more than 90 days (Statistics, Social Security Administration). Group sponsored Long Term Disability (LTD) plans are often capped at $10,000 or $15,000 per month, do not cover non-salary cash compensation, and are frequently taxable, leaving higher paid employees particularly exposed to risk.

Employers can mitigate the risk for higher paid employees through a group sponsored supplemental Individual Disability Insurance (IDI) program. An IDI program can provide a critical benefit to employees in firms with a significant number of higher paid earners whose total compensation (including cash bonuses and commissions) is not adequately protected under a conventional Group LTD plan. IDI can be provided on a “guaranteed issue” basis on top of a Group LTD plan to cover any gap.

Crystal & Company, a privately owned insurance broker and consultant, has successfully implemented IDI programs for a number of clients providing the following advantages.

Key Advantages for Higher Paid Employees

An employer sponsored IDI Program can provide essential coverage to higher paid employees including:

- Protection of a significant portion of their income stream (including salary, bonuses, and commissions) in the event of disability
- Guaranteed Issue basis if certain conditions are met, which eliminates:
  - Invasive medical exams
  - Physician statements or review of medical records
  - A review of tax filings
  - Examination of net worth
  - Personal history interview
  - An extensive insurance application
- Coverage defined on an “own occupation” vs. the more general “any occupation”, which may not apply to an employee’s specific job duties as an attorney, chief financial officer, VP for human resources etc.
“Portable” coverage that remains in effect if the employee leaves the firm
- Significant group discount compared to individual retail rates
- Tax-free benefit if paid by employee with after-tax income
- Fixed rates guaranteed not to change up to age 65

Key Advantages for the Employer:
IDI programs can be used by the employer:
- As a key recruitment and retention tool for senior and middle management staff
- To deter a higher paid employee from returning to work too early due to financial hardship
- To provide a choice in how to offer the program:
  - As a voluntary employee-paid benefit at no cost to the company
  - As a non-contributory employer-paid benefit with a significant group discount
  - As a “hybrid-paid” benefit where the premium is shared by employer and employee
- With no significant commitment of HR staff resources to implement or administer

How is it Implemented?
Supplemental IDI is available through select insurance carriers including MassMutual, UNUM, and MetLife among others. It can be implemented with the assistance of a broker/consultant and requires limited resources from often overtaxed human resource departments. The enrollment normally occurs after bonuses are paid, but generally not during open enrollment for health and other benefits. A robust communication and education effort conducted by the IDI carrier and the broker/consultant, under the direction of the employer’s HR department, is integral to a successful implementation. The plan includes individual consultation and online and telephonic enrollment.

Will this Benefit My Employer and Higher Paid Employees?
In general, an employer willing to pay for the coverage needs only ten or more employees to obtain an IDI offer. If the program will be paid by the employee, and thus be voluntary, there should be at least 50-75 employees earning more than $75,000 in total compensation.