

Provisional basics for group disability

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Benefit design

Basic components Optional provisions

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Primary basic components

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Primary basic components

- Own/Any Occupation Periods
- Definition of disability
- Elimination period
- Benefit payment period
- Benefit percentage
- Integration/coordination of benefits
- Minimum and maximum benefits

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Own/any occupation periods

- Definition of disability typically comprised of the Own Occupation and Any Occupation Periods
- Own Occupation Period— period of time an employee must be disabled from his or her own occupation
- Any Occupation Period – period of time an employee must be disabled from any occupation for which they're suited based on education, training, and experience

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Definition of disability

- Establishes criteria to determine disability
- Provide income when an employee is unable to work in their own occupation during the Own Occupation Period, or any occupation during the Any Occupation Period
- Residual disability policies are the most common
- Total only, total with Social Security approval required, and partial definitions are available but less common

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Residual definition of disability

- Covers both partial and total disabilities
- Elimination period can be satisfied by days of either total or partial disability
- During the benefit payment period, employees can work on a limited basis while still qualifying for benefits
- Standard definition of disability in the industry

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Total definition of disability

- Requires that an employee be unable to perform all or the majority of duties of a given job
- Total disability is required during the elimination and benefit payment periods for an employee to qualify for disability benefits
- Requires 100% loss of income

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Total disability with Social Security approval

- Same requirements as total definition of disability
- Also requires employee be approved for Social Security Disability Insurance (SSDI) benefits after the Own Occupation Period
- If not approved for SSDI, benefits will cease

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Partial definition of disability

- Covers total or partial disabilities
- Employee must be totally disabled during the elimination period
- During the benefit payment period an employee can work on a limited basis and still qualify for benefits

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Elimination period

- Amount of time an employee must be disabled before receiving disability benefits
- Can be a period of days or months – 3 or 6 months most common
- Depending on the definition of disability, the elimination period can be satisfied by either days of partial or total disability

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Benefit payment period

- Maximum length of time benefits can be paid to a disabled individual
- Begins after the elimination period is complete
- Includes the Own Occupation and Any Occupation Periods
- Can range from 2 years to Social Security Normal Retirement Age (SSNRA)
- The Age Discrimination in Employment Act (ADEA) permits the reduction of either the level or the benefit payment period for individuals over 60 who become disabled

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Benefit percent

- Percentage of an employee's pre-disability earnings covered by the disability benefit
- Should be high enough to allow an employee to meet financial obligations, yet low enough to provide an incentive to return to work
- Options range from 20% to 70% for Group LTD
- Benefits are taxable if employer-paid

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Integration of benefits

- Disability benefits are reduced by other income received by a disabled individual
- Also referred to as "offsetting"
- Prevents overinsurance

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Integration of benefits

Examples of other income sources:

- Social Security Disability Insurance (SSDI) benefits
 - Primary Only
 - Primary and Family
- Workers' Compensation benefits
- State disability insurance benefits
- Paid family and medical leave benefits

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Maximum monthly benefit

- Maximum monthly dollar amount an employee can receive
- Carriers have a formula to determine the maximum benefit available based on employee earnings – common methods are Top 3 and Top 5 salary tests
- Should allow for normal growth of salaries

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Minimum monthly benefit

- The minimum dollar amount an employee will receive if disabled
- Ensures that claimant receives an LTD benefit even if actual benefit is reduced to zero
- Common options include a flat dollar amount or a percentage


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Additional components

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Additional components

- Recurrent Disability
- Reasonable Accommodation
- Work Incentive Benefit
- Survivor Benefit
- Limitations
 - Mental Health
 - Drug/Alcohol
 - Special Conditions
 - Preexisting Conditions

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Recurrent disability provisions

- Allow disabled employee to return to work for a period of time without penalty should they again become disabled
- Different variations of this provision:
 - Recurring Disability
 - Temporary Recovery

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Reasonable accommodation benefit

- Pays additional benefit
- Assists with covering the cost of modifying the worksite to allow disabled employees to return to work
- Typically pays percentage of the accommodation expenses, up to a maximum amount

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Work incentive benefit

- Provides an incentive for disabled employees to return to work
- Applies when an employee returns on a limited or part-time basis
- Incentive is usually paid for a limited period of time – typically 12 months
- Benefit amount varies by carrier

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Survivor benefit

- If an employee dies while receiving disability benefits, a survivor of the employee receives a specified benefit
- Often payable on an accelerated basis
- May impact public assistance and taxes

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Mental health limitations

- Benefits are often limited for disabilities resulting from mental health conditions
- Usually specified mental health conditions are excluded from the limitations
- Benefits are payable for specific amount of time – most common is two years

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Drug/alcohol limitations

- Limits benefit payment period for disabilities resulting from drug, alcohol, or chemical abuse or dependency
- Benefits paid for a specific period of time – most common is two years
- Often tied in with mental health limitations

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Special condition limitations

- When a disability results from a "special" condition, the benefit payment period is limited
- Examples of special conditions include:
 - Headaches
 - Chronic fatigue sickness
 - Environmental allergies
- Typically limited to 12 or 24 months

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Preexisting conditions exclusion

- Denies benefits for conditions that are considered preexisting
- Preexisting condition usually defined as a condition for which a person received medical treatment, care or services, or took prescription medication in a specified amount of time prior to the effective date of disability coverage
- Common time periods for preexisting conditions limitation are 3/12, 3/6/12, and 6/12/24

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Optional benefits

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Optional benefits

- Activities of Daily Living benefit
- Cost of Living Adjustment (COLA)
- Dependent Education benefit

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Activities of Daily Living benefit

- Pays an additional benefit to employees who are unable to perform a specified number of activities of daily living
- Typically pays a percentage above the regular disability benefit payment

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Activities of Daily Living benefit

Activities of daily living include:

- Bathing
- Dressing
- Eating or feeding
- Toileting
- Transferring
- Continence

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Cost of Living Adjustment

- Helps protect employees from the cost of inflation during prolonged disabilities
- Benefit amount is increased by a specified amount for a set number of adjustments
- Different options for this include
 - Flat benefit percentage increase
 - Increase based on Consumer Price Index (CPI)

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Dependent Education Benefit

- Pays an additional benefit to disabled employees to assist in paying for dependents' post-secondary education costs
- Usually pays a set amount per child, up to a maximum benefit

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Rehabilitation benefits

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Rehabilitation benefits

- Reasonable Accommodation Benefit
- Rehabilitation Incentive Benefit
- Return to Work Childcare Benefit

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Reasonable Accommodation Benefit

- Pays additional benefit
- Assists with covering the cost of modifying the worksite to allow disabled employees to return to work
- Typically pays percentage of the accommodation expenses, up to a maximum amount

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Rehabilitation Incentive Benefit

- Provides financial incentive for employees to participate in a rehabilitation program and return to work
- Typically pays a set percentage or benefit amount for a set length of time

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Return to Work Childcare Benefit

- Reimburses a disabled employee for childcare expenses when the employee returns to work
- Typically pays a percentage of the expenses up to a maximum amount
- Provides financial incentive for employees to return to work if able

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Cost containment provisions

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Cost containment provisions

- Maximum capacity
- 30/40 hour work week
- Mandatory rehabilitation
- Increased income loss

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Maximum capacity

- Employees must work to their full medical and vocational capacity
- Disability benefits are reduced by the amount an individual earns or could earn if he or she worked to maximum capacity

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30/40 hour work week

- Addresses situations where employees work 70 – 80 hours per week prior to becoming disabled
- If a disabled employee is able to work 30 or 40 hours per week, he or she is not considered disabled, even if there is a loss of earnings

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Mandatory rehabilitation

- Requires a disabled employee to participate in a rehabilitation program if he or she qualifies
- If qualified employee refuses to participate without good cause, LTD benefits will be reduced or terminated

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Increased income loss

- If there is an income loss component in the definition of disability, it's usually 20%
- An increased income loss is more restrictive as it requires an employee to have an income loss of typically 40%

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Short-term disability benefits

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Short-term disability benefits: policies

- Many of the same provisions as group LTD policies
- Scaled to be more appropriate with a shorter time frame
- Paid weekly, not monthly

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Short-term disability benefits: definition

- Total, Partial, or Residual
- Similar to the definitions discussed for LTD
- The primary difference is that the entire period of disability refers to an individual's own job period

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Short-term disability benefits: elimination period

- Typically range from 1 to 30 days
- Accident/injury elimination period different than sickness (not hospitalization)
- First day hospital

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Short-term disability benefits: benefits

- Benefit Duration – 13-26 weeks
- Benefit Percentage – 60%, 66 2/3% or flat benefit
- Minimum Benefit – \$15
- Maximum Benefit – \$1,500

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Summary

- Variety of provisions make up Group STD and LTD contracts
- Make sure the provisions chosen are the right fit for your customers

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Questions?

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