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LONG-TERM DISABILITY

GLOSSARY OF TERMS

Insurance
Waiver of premium
Conversion
Pre-existing condition
Work Incentive
Benefit Schedule
Self-reported
Social Security Scheme
Qualify
Private

All group long-term disability (LTD) plans have the same purpose: To replace a portion of the insured's income if he or she becomes disabled. But there can be a big difference in how each plan fulfills that purpose ... and ultimately how well a policy delivers the performance you want.

This booklet provides basic explanations of some commonly used LTD words and concepts. Some of these terms are found in contracts; others are industry jargon. Not all disability contracts or contract definitions are the same; and insurance contract definitions and terms vary. But this glossary can provide you with general information to help you differentiate long-term disability policies and determine which ones have the features you're looking for.



“And” definition – part of how “disability” can be defined. The “and” definition requires that a claimant have both functional loss *and* financial loss due to disability. (See also *definition of disability* and “or” definition.)



Any occupation (any occ) – part of how “disability” can be defined. In this instance, the claimant will be considered disabled if he/she is unable to work in *any gainful occupation* for which he/she is qualified by education, training or experience. (See also *definition of disability* and *own occupation*.)

Contributory plan – a plan in which both the employer and employee contribute toward the premium. (See also *non-contributory plan* and *voluntary plan*.)



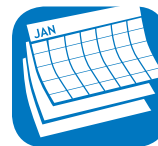
Conversion privilege – the right to change insurance to an individual policy without proof of good health if coverage terminates under the group contract. For example, if an employee leaves the company, a *conversion privilege* would allow him or her to convert the group coverage to an individual policy, pay the premium and maintain uninterrupted coverage.

Core/buy-up – a policy in which the employer pays for a base or “core” plan and allows the employee to “buy up” at his or her own expense. For example, an employer might pay the premium for a disability policy that covers employees for two years of disability income. With a core/buy-up, employees can choose to extend the duration of the benefit and pay the extra premium.

Definition of disability – the criteria used to determine whether a claimant is disabled and therefore eligible for disability payments. It is a key component of any disability policy contract. Some common definitions include the “and” definition, the “or” definition and the *impairment rating* definition. (See also “and” definition, *any occupation*, *impairment rating*, “or” definition and *own occupation*.)

Earnings test – part of the definition of disability. Specifies how much a disabled claimant can earn performing limited work and still qualify for disability benefits.

Elimination period (qualifying period)



– the length of time during a period of disability for which the claimant must be disabled before benefits are payable. Also referred to as “qualifying period” by some carriers. Common choices are three or six months.

Full family direct (FFD) – The most common method of reducing the amount of LTD insurance benefits by the amount the claimant receives in Social Security disability benefits. This provision considers both primary (employee) and dependent Social Security disability benefits as direct offsets to the benefit amount paid by the group disability policy. (See also *offset*.)

A Sample Scenario

Assumptions:

Employee's pre-disability pay:	\$4,000 per month
LTD Rate of Benefit:	60%
Primary SSDI Benefit	\$800
Dependent SSDI Benefit	\$400

Monthly Benefit from LTD insurance payable:

Gross LTD Benefit before offsets (60% of \$4,000)	\$ 2,400
Minus Primary SSDI Benefit	– \$ 800
Minus Dependent SSDI Benefit	– \$ 400
Net LTD Benefit	\$1,200

This example is for illustrative purposes only. Specific policy controls benefit amount.

Gainful employment – means the claimant could reasonably be expected to earn at least as much as the benefit amount (or some other defined percentage). This concept is typically found in the “any occupation” portion of the definition of disability.

Impairment rating (IR definition) – consensus-derived estimates that reflect the severity of medical conditions and the degree to which they result in functional limitations. Whole person impairment ratings have long been used in Workers' Compensation claims as a way to assess permanent impairment. Some insurance carriers are offering alternative definitions of disability that use impairment ratings to reach high-risk markets where traditional, occupation-based definitions may be expensive or unavailable.

Indexing – a provision associated with the *earnings test*. Indexing uses a formula that recalculates the claimant's pre-disability earnings each year, thus increasing the amount a claimant can earn and still be eligible for benefits, as defined by the *earnings test*.



Material duty (or duties) – the set of tasks or skills required in a specific occupation.

These are duties that cannot be reasonably omitted or modified without impairing an employee's ability to perform his or her occupation. Material duties are used to help determine whether the employee is disabled under the contract. Small differences, such as "a," "the," "some," and "all" material duties (or duty), can greatly impact whether a claimant qualifies for disability benefits.



Maximum benefit – the maximum monthly benefit payable to the claimant regardless of income amount or percentage of income insured. Typically \$5,000 to \$10,000 per month.



Maximum capacity – the full use of the employee's capabilities in any occupation that he or she is able to do.

Minimum benefit – the minimum monthly amount payable to the claimant after offsets; ensures that the claimant will receive at least a minimum benefit from the carrier. Typically \$100 a month, although amounts may vary.

Monthly benefit – See *schedule amount*.

Non-contributory plan – a plan in which the employer pays the entire premium and the employee does not contribute. (See also *contributory plan* and *voluntary plan*.)

Offset – specified payments or benefits due or received by the claimant from another source that reduces the amount of LTD benefit payable. Offsets typically include disability payments or benefits from sources such as Social Security and Workers' Compensation. Integrating the insured disability benefit with other plans prevents the claimant from earning more through disability than active work. Benefits from individual disability policies are typically *not* offset on group contracts. (See also *full family direct*.)

"Or" definition – part of how "disability" can be defined. The "*or*" definition requires that a claimant have either functional loss *or* financial loss due to disability. (See also *definition of disability* and "*and*" definition.)



Own occupation (own occ) – part of how “disability” can be defined. In this instance, a claimant will be considered disabled if unable



to perform one, some or all of the *material duties* (varies by carrier) of his or her regular occupation. (See also *definition of disability, any occupation and material duty*.)

Pre-existing condition – a condition that exists prior to the effective date of the policy and for which a person has consulted a doctor or received any treatment. Individuals with pre-existing conditions may not qualify for benefits from their group long-term policies for a specified period of time.

Pre-existing condition limitation –

A limitation requiring a specified “treatment-free period” or period of time the claimant must be insured in order for known medical conditions to be covered.

Qualifying period – See *elimination period*.

Rate of benefit – describes the percent of income the disability plan is intended to replace; ranges from 50% to 80%.



Reasonable accommodation –

any modification(s) to the worksite, the job or employment practices, which would allow the insured to perform the *material duties* of the occupation and would not create an undue hardship for the employer. For example, a modified workstation or adaptive work equipment.

Recurrent disability – this refers to periods of disability from the same cause or causes. If the claimant has satisfied the *qualifying period*, returns to active work and becomes disabled again, some group LTD policies do not require that a new qualifying period be satisfied and consider the period of disability from the same or a related cause to be continuous unless separated by a recovery of six months or more.

Rehabilitation benefits – vocational or physical services a carrier agrees to provide, arrange or authorize as part of a rehabilitation plan to return the employee to gainful work. These may include education, training, family care expense credit, etc.

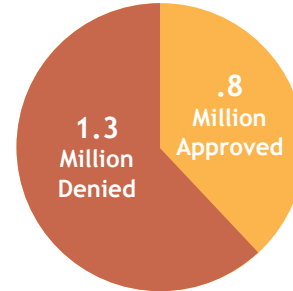
Residual disability – also known as “partial disability.” It allows a claimant to remain eligible for limited disability benefits while working in a limited capacity and earning less than the *earnings test*.

Schedule amount – also referred to as “monthly benefit.” This is the amount determined by applying the rate of benefit to the person’s covered monthly earnings, subject to the maximum benefit amount, as elected by the policyholder.

Self-reported (special conditions) – symptoms that are self-reported by the claimant and that are not easily validated by objective testing. In most contracts, these can be used to limit the duration of disability benefits. Examples may include environmental allergic illness, chronic fatigue syndrome, etc.

Social Security Disability Insurance (SSDI) – wage replacement income for those who have paid FICA taxes for a specified period of time. To be eligible, claimants cannot be able to engage in any substantial gainful activity for at least 12 months. Qualifying for SSDI benefits can be difficult. Claimants who do qualify may wait as long as two to three years to receive benefits.

Social Security Disability Insurance Applications



In 2005, 61.9% of all applicants for SSDI were denied.

Source: Social Security Administration, Office of Disability and Income Security Programs.

Social Security Normal Retirement Age (SSNRA) – Group long-term disability plans may pay benefits to age 65 or to Social Security Normal Retirement Age. Social Security Normal Retirement Age varies, depending on when a person was born. (Many of today’s younger workers would have a SSNRA of 67.)

Special Conditions – See *self-reported*.

Survivor Benefit – the disability insurer pays a “bridge” benefit to eligible survivors between the time of the employee’s death and the point at which life insurance proceeds may be received or the estate should be settled. The typical benefit amount is based on three months of continued LTD benefits.



Voluntary (or employee-paid) – a group plan that employees choose to participate in and pay 100% of the premium. Voluntary plans make coverage available to employees even when the employer cannot afford to fund benefits. (See also *contributory plan* and *non-contributory plan*.)

Waiver of premium – means the person no longer has to pay the premium for the policy after satisfying the *elimination period*.

Work incentive benefit – disabled employees are given the opportunity to earn up to 100% of their pre-disability earnings from all benefit sources and return-to-work earnings.

Zero day residual – a provision that allows disabled employees to work part time from the onset of a disability without restarting the benefit waiting period.

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