America's Health Insurance Plans

An Employer's Guide To Disability Income Insurance

With our compliments

ASSURANT Employee Benefits

INTRODUCTION

For most workers, the ability to earn a living is their most significant financial asset. Lengthy periods of disability can be financially devastating to workers and their families. Protection against that risk lies in disability income insurance, a product that can provide income to an employee should he or she become sick or injured and unable to work. It can protect workers and their families against financial catastrophe by helping to meet daily expenses.

Although employer-sponsored health coverage is a very significant issue for employers and employees, the vast majority of workers and families do, in fact, have health insurance coverage. By contrast only 30 percent of American workers in private industry currently have access to employer-sponsored long-term disability insurance coverage (National Compensation Survey: Employee Benefits in Private Industry in the United States, U.S. Department of Labor, Bureau of Labor Statistics, March 2006). That means most American workers—and workers' families—do not have adequate protection against one of the most significant financial risks that they face.

More and more employers recognize the value of providing disability insurance coverage to their employees. It fills gaps in financial protection left uncovered by public disability income assistance programs. It is a key component of a competitive benefits package for employers who need to attract and retain talented employees. And disability insurers can also help employers manage time lost to disability and return their valued workers to productivity.

This Guide is designed to serve as an introduction to disability income insurance and to introduce key considerations for employers exploring offering or sponsoring disability coverage to their employees. For more information, contact a broker or visit HealthDecisions.org for information about disability insurers offering coverage in your state.

WHAT IS EMPLOYER-SPONSORED DISABILITY INSURANCE?

Employer-sponsored disability insurance coverage is an important benefit for many employees, providing income replacement to enable employees who are disabled to pay bills, including mortgages and college expenses, and to maintain an accustomed standard of living. Disability insurance replaces a percentage of pre-disability income if an employee is unable to work due to illness or injury for a specified period of time. Employers may offer short-term disability coverage, long-term disability coverage, or integrate both short- and long-term disability coverage.

FEWER THAN ONE IN THREE U.S. WORKERS HAVE PRIVATE LONG-TERM DISABILITY COVERAGE

Percentage of Workers in Private Industry With Disability Coverage

Type of Program	All Employees	White Collar: Professional, Technical, and Related Employees	Blue Collar: Clerical and Sales Employees	Service Employees
Short-term Disability Coverage	**37%**	**41%**	**42%**	**21%**
Long-term Disability Coverage	**29%**	**40%**	**22%**	**11%**

Source: National Compensation Survey: Employee Benefits in Private Industry in the United States, 2006. U.S. Department of Labor, Bureau of Labor Statistics. (includes part-time workers)

Short-Term Disability Coverage

Short-term disability (STD) coverage provides disabled employees with a specified percentage of pre-disability income—typically 60 percent—once sick leave is exhausted. The duration of STD coverage varies, but is typically not more than six months.

Many of the conditions that trigger payment of short-term disability benefits, such as pregnancies, strains, and sprains, resolve quickly and the employee is frequently able to return to work before benefits are exhausted.

Long-Term Disability Coverage

Typical group long-term disability (LTD) benefits start when sick leave and short-term benefits are exhausted, replace about 60 percent of pay, and continue anywhere from five years to the remainder of an individual's life. LTD insurance is generally considered protection against a catastrophic illness or injury, but many long-term disability claims result from common medical conditions that cause an increasing level of impairment over time, such as heart disease, musculoskeletal and connective tissue conditions, hypertension, and diabetes.

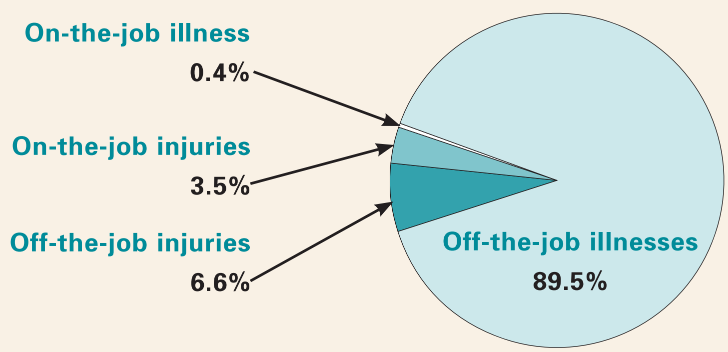
Group long-term disability insurance can provide the means for your employees to be able to sustain themselves financially should disability take them out of the workplace for an extended period of time.

Workers' Compensation Only Covers Work-Related Illness or Injury

Workers' compensation is state-mandated indemnity insurance. It covers both lost income and medical expenses when injuries or illnesses happen *at work*.

This type of coverage evolved as industrialization resulted in increasing risk for America's workers. Today, however, 63 percent of all disabling injuries and illnesses occur *outside of work*. For those injuries or illnesses, workers' compensation insurance can't help. That's where short- and long-term disability insurance fill the gaps. People want the higher levels of security against unforeseen expenses caused by illness and injury that can happen anywhere. Disability insurance offers this security.

MOSTLONG-TERM DISABILITIES ARE NOT COVERED BY WORKERS' COMPENSATION.



Sources: National Safety Council; JHA 2002 U.S. Group Disability Rate and Risk Management Survey

EMPLOYEE NEED FOR DISABILITY INCOME PROTECTION

According to the 2005/2006 MetLife Study of Employee Benefits Trends, nearly half of employees (47%) live paycheck to paycheck. Young families with children under the age of six (48%), in particular, reported sometimes having trouble paying their bills in 2005.

"With many employees living paycheck to paycheck, it's essential that they understand how to protect what may be their most important asset: their income," notes Todd Katz, MetLife senior vice president, Institutional Business. "It is important for employees to have the appropriate amount of coverage for their life-stage and life situation."

Many who have experienced disability say the relief of knowing there is financial protection already in place for themselves and their families greatly enhanced their ability to focus their energies on getting well and returning to productive lives.

State and Federal Programs Offer Only Limited Help

Many people believe that the state or federal government will step in with financial help if they become disabled. While it's true that some assistance may be available, it may not be adequate for a family's needs.

Most workers in the United States participate in the federal government's Social Security program, and most know Social Security for its retirement benefits. But the Social Security Administration (SSA) also administers disability benefits under the Social Security Disability Insurance (SSDI) program. In fact, in a typical month, the Social Security Administration sends more than $6.6 billion in disability payments to more than 6.5 million Americans.

Your salary and the number of years you have been covered under Social Security determine how much you can receive. The average monthly benefit from the Social Security disability program in 2006 was $939, according to the SSA.

However, it is difficult to qualify for disability income benefits under the strict SSDI definition of disability. SSA statistical tables show that, of the 2.1 million applicants for SSDI benefits in 2005, only 39 percent qualified for SSDI benefits. And, because of an application backlog, the waiting time to receive Social Security disability benefits is often two to three years.

There are important points to bear in mind regarding the coverage and benefits under the SSDI program:

- The standard to qualify for SSDI is more stringent than just about any private plan. A person must be unable to engage in "any substantial gainful work which exists in the national economy." This contrasts with private coverage, which usually defines disability as the inability to do one's "own occupation" or an occupation that matches training, education, and experience.
- The same SSDI definition also requires that a person be severely disabled. The person's inability to work must result from a condition that, as described by the SSA, is expected to result in death or that has lasted (or can be expected to last) for a continuous period of not fewer than 12 months.
- Social Security disability doesn't provide full coverage for all workers. A worker has to build a work and earnings history to be fully covered by the SSDI program. This leaves younger workers with added exposure. By contrast, the younger worker usually qualifies under private disability plans within a year, or less, of starting a job.

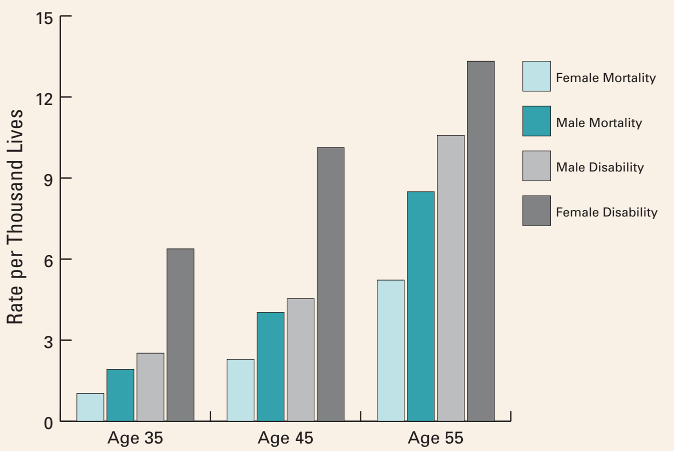
Some states offer short-term disability protection. California, Hawaii, New Jersey, New York, Rhode Island, and Puerto Rico fund short-term disability coverage (26 weeks in most states, except California) through a combination of employer and employee contributions. In all other states—representing about 80 percent of the workforce—employees have no comparable protection unless their employers provide it as a benefit.

SSDI and state-funded programs provide limited disability income assistance to individuals who qualify for the benefits. But these programs are only the most basic safety net—in most cases, they don't provide adequate financial support to maintain a worker's pre-disability standard of living.

DISABILITY INSURANCE COVERAGE OFFERS MANY ADVANTAGES TO EMPLOYERS

Since disability insurance can provide employees with valuable income protection during periods of sudden income loss, it only makes sense that employers want to provide the coverage. Beyond addressing the needs of workers, these benefits offer important advantages to employers as benefits packages can be critical to attracting and retaining talent. "A full benefits package is one of the key elements that employees consider when deciding to either stay with or move to another employer," explained Joe Sevcik, second vice president of voluntary segment marketing at Assurant Employee Benefits. "Disability insurance is more difficult to obtain and more expensive outside of the workplace. A benefits package that includes disability protection can be a real competitive advantage for an employer, especially a small to mid-sized employer."

THE RISK OF DISABILITY* IS GREATER THAN THE RISK OF PREMATURE DEATH

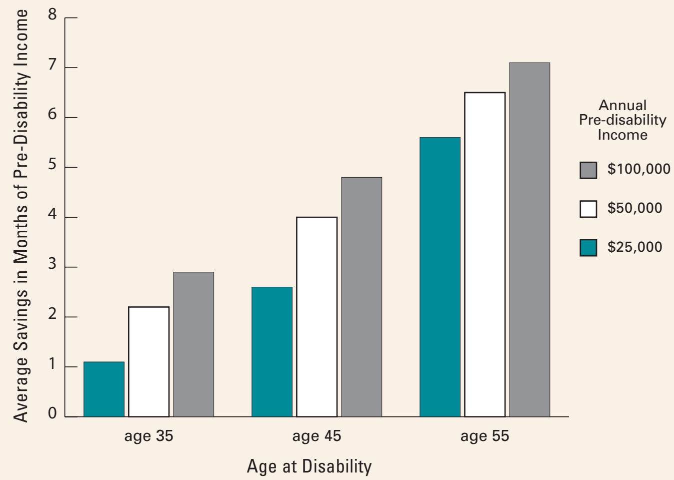


*Disability lasting 90 days or longer

Sources: National Association of Insurance Commissioners (NAIC) Individual Disability Table A (1985); Statistical Abstract of the United States

Savvy employers understand that disability insurance is both a benefit and a health and productivity tool. The rehabilitation and management tools available in many plans can yield substantial savings to employers, particularly in large organizations. Such programs help people return to productivity, relieving huge direct and hidden costs of disability.

MOST WORKERS' SAVINGS WOULD ONLY SEE THEM THROUGH A FEW MONTHS OF DISABILITY



Source: U.S. Census Bureau Survey of Income Program and Participation

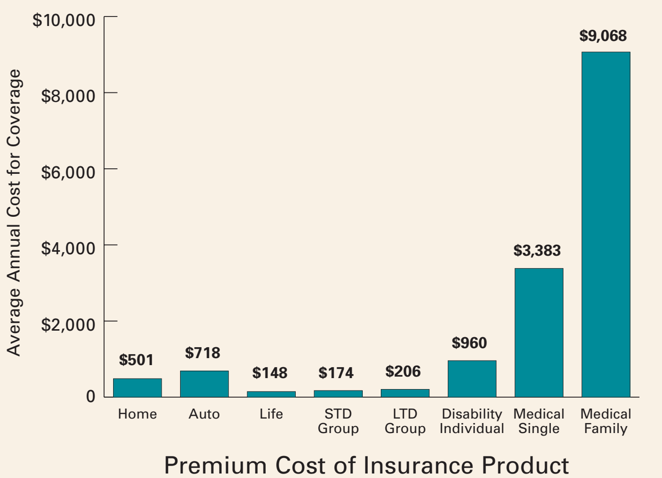
The hidden or "indirect" costs of disability, such as pay for replacement workers and the value of lost productivity, are expensive problems for business. A study by the Work Loss Data Institute reveals that when the total cost of disability is measured, it eclipses medical insurance costs for a business. The study states, "For U.S. employers in 2000, for all conditions together, direct disability lost-time costs were $91,360 per 100 workers, total disability lost-time costs (including direct costs) were $458,150 per 100 workers, and medical costs were $268,539 per 100 workers." The study concludes that, including indirect costs, "lost-time costs exceed medical costs by a substantial margin."

The costs of disability can be an even bigger problem for small businesses, where the absence of a key employee can have a huge impact on productivity and how the business continues to run.

BUILDING YOUR COMPANY'S PLAN

While a handful of states offer short-term disability protection through a combination of employer and employee contributions, employees in all other states have no comparable protection unless their employers provide it as a benefit. Many have done just that. According to the Department of Labor's National Compensation Survey of Employee Benefits in Private Industry (March 2006), more than half of establishments with 100 or more employees offer STD and 43% offer LTD. The percentage of small businesses with disability plans in place is considerably less, which can put smaller employers at a competitive disadvantage.

DISABILITY INSURANCE IS ONE OF THE LESS EXPENSIVE INSURANCE COVERAGES.



Note: Average costs represent total annual cost, whether paid by insured or employer.

Sources: Kaiser Family Foundation, Employee Health Benefits; LIMRA surveys; NAIC website; Best's Review; 2001–2003 data.

When you make the decision to expand your employee's disability protection beyond sick leave or state-mandated benefit, there are a number of issues you should consider:

Eligible Employees

A key finding from a 2005 report from LIMRA International is that few small business owners have made arrangements to protect themselves and their families from disability. By making this coverage available to employees, the small business owner is gaining access to his or her own coverage—at group rates.

Benefit Selection and Funding

Ideally, employers should offer STD and LTD in a seamless package. An integrated program assures that claims experts are involved early, looking for the best ways to return a person to work and leveraging those early intervention opportunities to the benefit of both the employee and workplace. An insurer can provide the early intervention offered by STD benefits and the protection of LTD plans for roughly $300 to $450 per employee in annual premiums. The coverage can be fully paid by the employer, cost-shared with the employee, or offered as an employee-paid, voluntary benefit. In many cases, employers fund a basic plan to protect employees, and employees may then purchase supplemental coverage to better address their individual financial circumstances.

Coordination of Benefits

Larger companies may desire a plan that coordinates the short- and long-term benefit processes as well as coordination with other health and welfare benefits the employee may need to access, such as Workers' Compensation. Coordination of such programs through active management can make for greater potential gains because large companies will have more claim situations. How tightly the different benefits need to coordinate or integrate depends on the size and nature of the organization. Smaller companies, especially those with little or no human resource staffing, primarily need a quality plan that works well at all junctures in the process—communicating the benefit to the employee, serving the employee as a customer, and integrating easily with other benefits.

Important Components of Your Plan

As you build your disability plan, there are certain key benefit provisions that not only have a direct impact on how claims are paid, but on the cost of the plan as well. These include:

Waiting or "Elimination" Period

A plan's waiting or "elimination" period is the period between disability onset and the point at which disability benefits become payable. Benefits in a short-term disability plan may have different waiting periods for disabilities stemming from illnesses versus those resulting from injuries, e.g., a 7-day wait for illness versus no waiting period for injuries. A typical waiting period for short-term disability benefits is 15 days, but may be shorter or longer, depending upon an employer's sick leave plan. Waiting periods for long-term disability plans usually start 30 to 180 days after the disability occurs. It's best to coordinate coverage so that once any sick pay and short-term disability benefits have been exhausted, long-term disability benefits start immediately.

The Definition of Disability

Short-term disability plans typically provide income when an employee is unable to work in his or her "own occupation" or "own job" due to injury or illness.

Long-term disability plans provide income when an employee is unable to work in his or her "own occupation," or to work in "any occupation" for which the person is suited by education, training, and experience. Most commonly, plans use the "own occupation" standard for an initial period—usually two years, although longer periods are available, with occupation protection even covered to age 65 for certain industries or classes of employees.

During the "own occupation" period the plan pays benefits if the person cannot perform the essential work functions of the occupation

in which the person was employed when he or she became disabled. The "own occupation" period is customarily followed by the broader "any occupation" standard. Under this standard, a plan would continue to pay benefits only if the person was unable to perform any job functions for which he or she might be qualified based on education, experience, and training.

Recently, new approaches to defining disability have been introduced in the marketplace. "Innovative carriers have realized that the traditional definition of what constitutes a short- or long-term disability does not fit all employers or employee groups," asserts Angie Makkyla, second vice president of true group segment marketing at Assurant Employee Benefits. "New disability products that condition eligibility for benefits on hospital confinement periods or American Medical Association impairment ratings have been introduced recently. These types of plans can offer an affordable alternative to traditional disability plans for employees in high risk industries. They're also good for small businesses where disability insurance may not have been accessible or affordable previously."

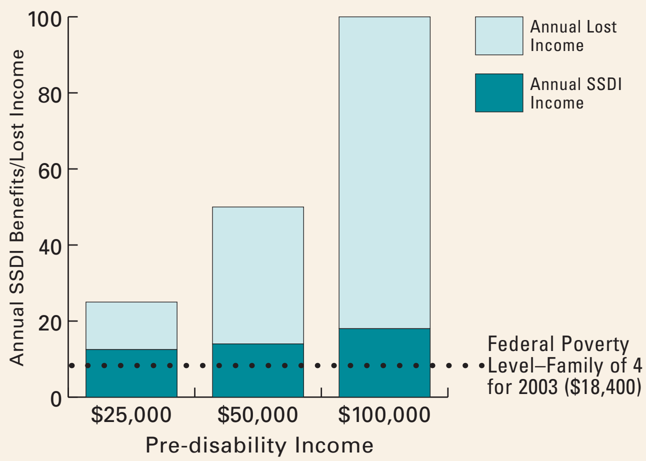
Residual or Partial Disability

Residual or partial disability benefit provisions provide for a disability plan to make reduced disability benefit payments for employees who are able to return to work, but temporarily on a part-time basis due to reduced capacity. The partial payments offset earnings loss while the employee makes the transition back to a full-time schedule.

Income Replacement

Plans typically replace 50 to 60 percent of income, although some carriers now offer up to 80 percent income replacement. A weekly maximum benefit of $1,000 is not unusual for short-term disability policies, whereas long-term disability policies may provide up to $10,000 in monthly benefit. Plans should be structured to balance financial assistance in a time of great need with incentives to return to work.

SSDI BENEFITS ALONE DO NOT REPLACE ENOUGH PRE-DISABILITY INCOME FOR MOST FAMILIES



Source: Social Security Administration, U.S. Department of Health and Human Services

Benefit Integration

Most group plans assume that disability benefits or payments from other sources (such as SSDI, Workers' Compensation, etc.) may be received by the claimant and construct their policies so that the amount payable may be reduced by the amounts payable by other plans. This is an important claims management tool because return to work efforts stand to be compromised if the disabled worker earns more in disability than in active work.

Benefit Duration

Short-term disability plans typically pay benefits from 13 to 26 weeks. Benefit durations for long-term disability plans vary. A long-term disability plan may pay benefits for a five-year period, to age 65, or to Social Security Normal Retirement Age (which is phasing up from age 65 based on an individual worker's age).

WHAT TO LOOK FOR IN A CARRIER

Rehabilitation

Look at the rehabilitation and disability case management capabilities the insurance carrier offers. Consider how successful the carrier has been in helping people return to productive work. Also, look into how well these rehabilitation and management resources coordinate with services your company provides on its own, or through other benefits service providers. Easy integration for seamless administration is key to program success.

Access to Information

It is a big plus when employers and employees have plenty of easy, timely ways to get information. Large employers often value online access or other simple methods to obtain facts about their short- and long-term disability experience. From the employee perspective, plans often work best when there are multiple ways to get information—mail, fax, phone, online. The easier it is for employees to access information they need—such as the status of a benefit check—the easier it will be for the employer's human resource or benefits area.

Coordination with Other Benefits and Requirements

Employers often find value in receiving assistance in meeting their obligations under the Family Medical Leave Act (FMLA), Americans with Disabilities Act, and other regulations. Disability insurance plans are a potential tool for making FMLA notification in a timely, accurate way.

Customization

It is essential for short- and long-term disability insurance providers to customize a plan with an eye on a company's existing benefits and information systems. This is particularly true for businesses that may already have some form of disability insurance and are making a change or addition to their program. Look at how well the plan will work with and transfer information from prior plans. See if the plan offers provisions that solve problems specific to your organization.

It's About Time: The RTW—ROI Connection

Disability insurance coverage is about more than just income replacement. Disability insurance is also about lost time—and the corresponding lost productivity and costs that accompany each disability claim. A disability insurer can help an employer to create a balance between effective disability claims administration and a focus on returning the claimants back to full productivity in a safe and timely manner. Return-to-work (RTW) programs should not be viewed as a cost, but rather as a productivity protection program. Return-to-work pays.

RTW efforts do not begin with a lost time claim. Rather, they start with the creation of a clear set of expectations within the work force and management that a resumption of work is both desirable and expected whenever a colleague experiences debilitating illness or injury.

The return on investment (ROI) generated by a well defined absence management/RTW program can be measured. The typical RTW investment includes:

- Developing a corporate culture that supports continued productivity and guides employees and management alike.
- Creating a flexible work site that allows for continued productivity as temporary work restrictions and limitations arise.
- Assigning specific accountability for RTW planning within the management of the organization in concert with the disability management programs through the disability insurance partner.
- Developing specific return-to-work pathways or accommodations that provide a clear set of guidelines to maintain an individual's productivity during periods of temporary incapacity.

Ken Mitchell, Ph.D., Vice President for Return to Work at UnumProvident Corporation, has recorded the following outcomes resulting from the application of well defined return-to-work programs:

- 7:1 ROI with the application of a transitional work program.
- 25% to 30% reduction in lost work days per claim.
- 40% to 60% reduction in short-term disability claims that go on long-term disability.
- 20% to 25% reduction in repeat short-term disability claims.
- 35% reduction in lost work days on work related lost time claims.
- 40% reduction in healthcare costs for individuals on short-term disability.

Increasingly, employers are working with disability insurer partners to put in place sophisticated disability management programs. Such programs move beyond return-to-work to focus also on the development of combined health and productivity management programs. For example, AOL, Dell Corporation, Washington Mutual, Chevron Texaco, Osram Sylvania, Mayo Clinic, Coors Brewing, and Reed Elsevier have implemented effective programs that support a fuller range of absence management and health promotion initiatives, as well as the return-to-work of their employees.

Likewise, preventing lost time through the promotion of a safe and healthy workforce may also become an additional strategy within the employer's healthcare cost containment program. In a recent study, UnumProvident Corporation demonstrated that within a large pool of short-term disability claimants, management strategies reduced lost work days by 28% over a three-year period. In the same group of disability claimants, over the same time, the average medical cost per claimant was reduced by 40%.

"A successful and timely return to work is not a mystical, lucky event. It is the product of planning between the employer, attending physician and the employee," notes Dr. Mitchell. "The disability insurance partner can be a critical factor in a return to work success."

For More Information

This Guide is intended as a starting point for employers to learn about the advantages of offering or sponsoring disability coverage for their employees—and how to design a plan that is best for your company. For more information, contact a broker or visit www.HealthDecisions.org for information about insurers offering coverage in your state. To find a disability insurance professional near you who has earned the Disability Income Associate (DIA) designation, call AHIP's Insurance Education Program at 202.778.8471.

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