

BLOG

Have you been checking boxes at renewal or checking for appropriate coverage terms?

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Don't just check boxes - check for the right terms

Benefit professionals and advisors are facing numerous challenges entering 2019. Health insurance has historically garnered the most attention due to its cost and complexity. Health Care Reform magnified this focus with new rules, reporting and risk models. Lately, most of us have been following the legal challenge to the Affordable Care Act in Texas that has Congress working hard to continue to protect individuals with pre-existing conditions. Also, short term medical plans made possible through recent Presidential executive order are creating adverse selection issues and unexpected qualifying events for group health plans. Even though health care is just one component of a diverse, and oftentimes broad, offering of total compensations, and it's understandable why other important benefits may not be getting the same level of attention.



Long-term disability (LTD) is one of these frequently overlooked benefits. Quite often we'll encounter an employer who assures us they "have LTD coverage." They sponsor a 60 percent income replacement benefit to \$10,000 a month covering salaries up to \$200,000 a year. Many times this group policy covers everyone at the company and is therefore assumed to be adequate coverage for all participants. However, a deeper look at how a company may actually operate and how that can affect the LTD benefit paid to participants can reveal otherwise.

Most group LTD policies contain offsetting language which "offsets" the LTD benefit payment by other income received. Individual policies on the other hand do not typically offset by these other income sources. Why does this matter? Well, what if a participant is disabled but is still being paid for deals/sales completed prior to the onset of the disability? In this example the LTD benefit would offset by that income amount and provide no benefit payment to the participant until that income stream ended. Trailing income streams can be quite common in real estate development firms or venture capital/hedge funds.

We generally recommend excluding from the group LTD policy owners or employees who may be subject to income streams that may continue while disabled, and instead providing them a group sponsored

individual disability insurance (IDI) policy. The IDI policy can often be offered on a guarantee issue basis with discounted rates, compared to pure individual policies. Further, the IDI policy is portable for participants while providing superior contract language than what is typically found in group policies.

Since the qualifying participants are generally the highest wage earners, the rates for the LTD group policy are reduced once they are excluded from the coverage. This, in turn, means the enhanced disability coverage of the IDI offering can often be achieved at no overall premium expense increase to the organization. . If the participants were earning in excess of the group LTD benefit limit then reverse discrimination issues can also be eliminated through more robust coverage through an IDI policy. And, while rates under the group policy can change over time as the group ages, individual disability insurance policy rates never change. The premiums are fixed, so as participants get older their rates remain level. There are many other creative strategies to be considered when optimizing an employee benefit plan to work in concert with the way a company operates. To learn more about them, contact the Risk Strategies Benefits team or connect with me directly.

TAGS:

Employee Benefits