

# Product Portfolio | Disability

# Today's agenda



Defining disability



Need for disability insurance



Features/provisions of disability plans



Disability market and sales trends

Defining  
Disability



# What is disability?

- **Disability:**
- A physical or mental impairment
- Caused by a covered illness or injury
- Keeps an individual from working for a period of weeks or months

## Drivers of disability:



An aging workforce



Rising obesity rates



Long term effects of stress

# Types of Disability Coverage

Disability coverage is offered in a variety of plans:

- Short term disability
- Long term disability
- Individual disability (IDI)
- Temporary statutory coverage (required by certain states)
- Workers' compensation
- Social Security disability benefits



## Group vs. Individual Disability Coverage

Group disability	Individual disability
Sold to the employer	Sold to the employer or to an individual purchaser
Employer owns the policy	Individual owns the policy
Plan provisions: <ul style="list-style-type: none"> <li>• Generally chosen by employer</li> <li>• Applied to all employees</li> </ul>	<ul style="list-style-type: none"> <li>• Plan customized to specific needs of an individual or group of employees</li> <li>• Earnings coverage includes bonuses and commissions</li> </ul>
Coverage typically ends when employee leaves the company	Coverage can continue when employee leaves the company
Periodic rate renewals	Typically, rates cannot be changed
No medical underwriting	Guaranteed standard issue or full medical underwriting
Group producers/employee benefits consultants	Individual producers/executive benefits specialists

# Disability Benefits

## Group Short Term Disability

If an employee can't work due to injury or illness, this plan:

- Generally pays a percentage of a disabled employee's weekly salary
- Benefits typically paid for 3-6 months based on employer-selected plan design and durations available from insurance carrier

## Group Long Term Disability

Can pick up where short term disability leaves off

- Generally pays a percentage of a disabled employee's monthly salary, typically 60%
- Employer selects benefits duration – anywhere from two years to age 65/67

## Individual Disability Insurance (IDI)

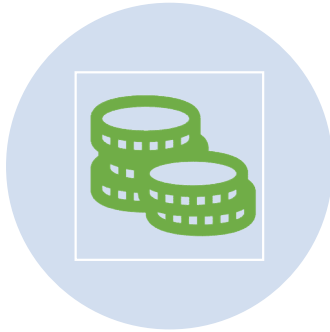
Can be purchased as a standalone policy or as a complement to long term disability

- Pays a percentage of a disabled employee's monthly salary, up to 75%
- Typically the individual selects the benefit period – anywhere from 2 years to age 65/67

The Need for  
Disability  
Insurance



## Disability can take a financial toll:



LOSS OF INCOME TO  
SUPPORT DAILY LIVING



REDUCED SAVINGS



INCREASED OUT-OF-  
POCKET COSTS FOR CARE

# The Need for Disability Insurance

Working-age employees  
need protection



**One in four**

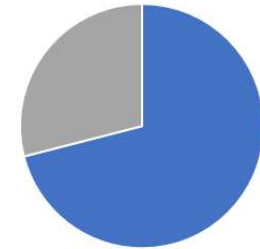
The number of today's 20-year-olds that **will experience disability** before reaching age 67<sup>1</sup>

Americans lack disability  
coverage

**51 Million**

working adults in the United States are without disability insurance other than the basic coverage available through Social Security<sup>2</sup>

Americans live paycheck  
to paycheck



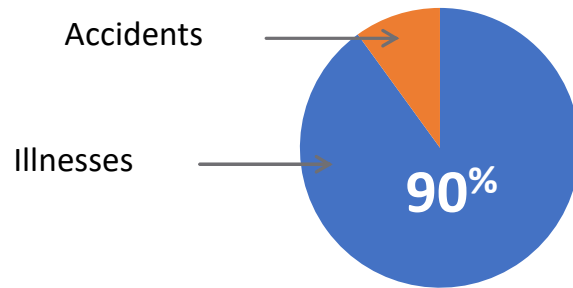
**71%** of Americans would find it somewhat or very difficult to meet current financial obligations if their paycheck were delayed by one week<sup>3</sup>

1 Social Security Administration, "Fact Sheet Social Security" (2019).

2 Council for Disability Awareness, "The Crisis of Disability Coverage in America" (2018).

3 American Payroll Association, "National Payroll Week 2017 Getting Paid in America" 2017

# The Odds of Disabling Illness are Even Greater



Approximately **90%** of all disabilities are caused by illnesses rather than accidents<sup>1</sup>

Top reasons for disability claims among Unum customers <sup>2</sup>	
Short term disability	Long term disability
Pregnancy	Cancer
Injuries, excluding back	Back Disorders
Joint Disorders	Injuries

<sup>1</sup> Integrated Benefits Institute, "IBI Health and Productivity Benchmarking: Long-Term Disability Program" (2017).

<sup>2</sup> Unum internal data, 2018.

# How do disabled employees pay their bills?

## Workers have misconceptions about the help they can expect from government programs:

### **Social Security provides benefits for disabled workers, but:**

- Qualification is difficult – More than 65% of workers who apply for Social Security Disability Insurance are denied.<sup>1</sup>
- Social Security Disability Insurance pays only for total disability that is expected to last for at least one year or to result in death.<sup>2</sup>
- The future Social Security disability insurance trust fund is always in doubt

### **Workers' compensation only covers disabilities that happen on the job**

- More than three times as many injuries requiring medical attention happen off the job than at work.<sup>3</sup>

*According to the latest government report, the Social Security disability insurance trust fund is projected to be exhausted by 2028.<sup>4</sup>*



1. Social Security Administration, "Selected Data from Social Security's Disability Program" (2018).  
2. Social Security Administration, "Disability Planner: What We Mean by Disability" (2016).  
3. National Safety Council, "Injury Facts" (2017)  
4. Social Security and Medicare Boards of Trustees, "A Summary of the 2017 Annual Reports" (2017).



## In Summary:

### Disability coverage can:

- Provide an income stream for employees unable to work due to covered illness or injury
- Offset employees' financial risk at a cost much lower than medical and dental insurance
- Help employers attract and retain employees with critical skills

# Features and Provisions of Disability Plans



Disability  
Plans:  
Three  
Starting  
Points

### Basic Elements of a Disability Plan:

Industry	<p><b>What is the nature of the employees' work?</b> Knowing the industry or business is important for managing risk</p> <ul style="list-style-type: none"><li>• Includes claims experience, trends and other factors</li></ul>
Eligibility	<p><b>Which employees are covered?</b> Based on occupation/employment criteria, such as:</p> <ul style="list-style-type: none"><li>• Job title</li><li>• Location</li><li>• Years of employment</li><li>• Exempt status</li></ul> <p>Employer can choose varying coverage levels or eligibility requirements for different employee groups</p>
Definition of Disability	<p><b>How is "disability" defined in the plan?</b></p> <ul style="list-style-type: none"><li>• The ability to perform the material and substantial duties of one's regular occupation, and/or</li><li>• The associated income loss</li></ul>

## Short Term Disability Features and Provisions



### •Waiting period

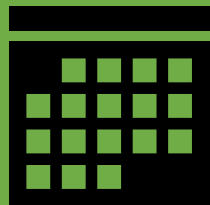
How long before employees are covered?

- Typically expressed as a certain number of days or months
- The waiting period begins on the date the employee is in active employment in an eligible group



### •Elimination Period

Typically 7- 14 days



### Maximum Duration of Benefit Period

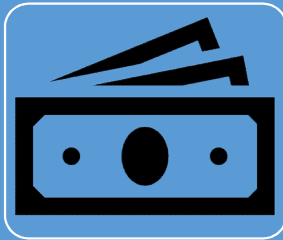
Typical benefit durations range from 13 to 26 weeks

# Optional Provisions for Short Term Disability Coverage

- Cesarean Section (C-section)
- Credit prior service
- Inpatient hospital (first-day hospital)
- Insured salary continuation
- Outpatient surgery
- Occupational coverage
- Survivor benefits
- Waive waiting period

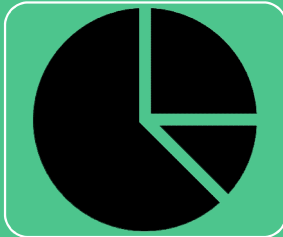


## Long Term Disability Features and Provisions



### •How are “earnings” defined?

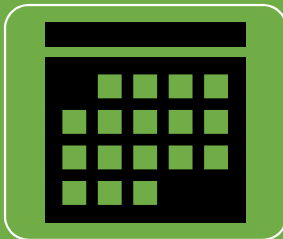
Generally based on **average monthly income** from the prior W-2 or current gross monthly income



### •Typically expressed as a **percentage of monthly income**

#### •For Example:

•60% of pay to a maximum of \$5000 per month



**Minimum monthly benefit** after deducting other sources of income

#### For Example:

The greater of \$100 per month, or 10% of the gross disability payment

# Optional Benefits of LTD Plans

- Spouse Rider
- Severe disability impairment
- Cost-of-living adjustment
- Conversion
- Credit prior service
- Cost containment options
- Education Benefit
- Extended recurrent disability
- Recovery income protection
- Revenue Protection Benefit
- Waive waiting period



# Exclusions: When will benefits not be paid?

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Standard exclusions for short term disability, long term disability and IDI include disabilities caused by, contributed to, or resulting from:

- Intentionally self-inflicted injuries
- Active participation in a riot
- Loss of professional or occupational license or certificate
- Commission of a crime for which the individual has been convicted
- Pre-existing conditions (where applicable)

Typically, short term disability, long term disability and IDI plans also exclude any disability due to:

- War or act of war
- A period of disability during incarceration

# Limitations of Disability Contracts

Under what circumstances are benefits limited?



Many long term disability and IDI disability plans typically limit the benefit period to 24 months for:

- Disabilities due to mental illness
- Disabilities primarily based on self-reported symptoms

# Deductible Sources of Income

## What is deducted from the disability payment?

Typical “offsets” deducted from the gross disability payment include:

- Workers’ compensation
- Social Security disability benefits
- Awards from auto liability or “no fault” plans
- Other group insurance benefits the insured individual receives while disabled

Non-deductible sources of income generally include proceeds from:

- 401(K)
- Profit sharing
- Stock ownership
- Deferred compensation
- Others

# Taxability of benefits

## Are premiums or disability benefits subject to income tax?

- **Employer-paid plans**
  - Premiums paid by the employer are not included in the employee's taxable income; therefore any benefits paid under the plan **are taxable**.
- **Employee-paid plans**
  - Premiums paid by workers are paid with post-tax dollars; therefore benefits paid under the plan **are non-taxable**.
- **Plans paid with a mix of pre-tax and post-tax dollars**
  - **A portion of the benefit is taxable**, so the employer may have to "look back" three years to compute the percentage that is taxable.





# Disability market and sales trends

# Disability: A Valuable Employee Benefit

The Majority of Employers Offer this Coverage

72%

of employers surveyed offer  
**long term disability** insurance<sup>1</sup>

65%

of employers surveyed offer  
**short term disability**  
insurance<sup>1</sup>

60%

of employers with at least 10  
employees offered at least  
one voluntary benefit<sup>2</sup>

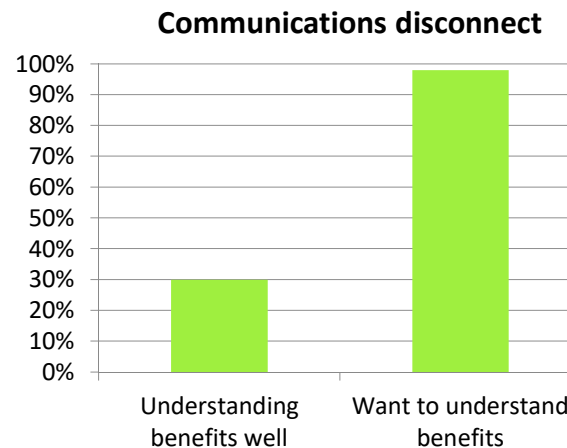


<sup>1</sup> SHRM, *2017 Employee Benefits* (2017).

<sup>2</sup> Eastbridge, *MarketVision: The Employer Viewpoint* (2017).

# Employees' Need for Benefits Education

- When it comes to non-health benefits, just 43% indicate they understand them very/extremely well. <sup>1</sup>
- Although most consumers surveyed say they'd use the Internet for research about buying life insurance, nearly half (47%) say they'd prefer to make the actual purchase face-to-face from an agent. <sup>2</sup>
- 85% of disability beneficiaries agreed that employers should automatically enroll new employees in disability insurance. <sup>3</sup>



<sup>1</sup> EBRI and Greenwald & Associates, "The State of Employee Benefits: Findings from the 2017 Health and Workplace Benefits Survey" (2018)

<sup>2</sup> Unum, 2014 US Worker Benefits Survey (2015)

<sup>3</sup> Consumer Federation of America and Unum, "Employer-Sponsored Disability Insurance: The Beneficiary's Perspective" (2013) The most recent source of its kind.

# Disability benefits help attract and retain workers

## How strongly do benefit plans influence an employees' job choice?

- 62% of employees say that the benefits offered were an important reason they came to work for their employer. <sup>1</sup>
- 92% of employees indicated that benefits are important to their overall job satisfaction. <sup>2</sup>



78% percent of workers say their benefits packages **are as important as their salaries** in keeping them at their current employers. <sup>3</sup>

<sup>1</sup> MetLife, "Experience a More Human Workplace: MetLife's 16th Annual U.S. Employee Benefit Trends Study" (2018).

<sup>2</sup> Society for Human Resource Management, "Employee Job Satisfaction and Engagement: The Doors of Opportunity are Open" (2017).

<sup>3</sup> Randstad US, "Your best employees are leaving, but is it personal or practical?" (2018)

# Employers are Changing Strategy

Employers need to stabilize their costs but also make sure they are taking care of employees any way they can

## Market trends:

**Cost shifting is a growing market trend:**

**First, it affected retirement:**

Transition from pensions to retirement accounts

**Then, it impacted health insurance:**

- Employers are paying less premium while offering a confusing menu of plans
- Others are eliminating their benefit plans and leaving employees to navigate exchanges

**Now, it's affecting disability coverage:**

Employers are shifting costs to employees by offering more voluntary benefits



75% of insured people who had problems paying medical bills said their copays, deductibles or coinsurance cost more than they could afford.<sup>1</sup>

1. Kaiser Family Foundation, "New Kaiser/New York Times Survey finds One in Five Working-Age Americans With Health Insurance Report Problems Paying Medical Bills" (2016).

# Final Thoughts

- As employers continue to shift the cost of ancillary benefits to employees, you will likely see more base/buy and voluntary plans offered.
- Always carefully consider the employer characteristics to help guide clients towards the solution that works best for them.
- Don't hesitate to ask questions of your partners!



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*(Updated September 2019 – A. Russell)*