

WHAT IS IT?

Long-term disability (LTD) provides long term income replacement to individuals disabled due to a non-occupational injury or illness. Benefits begin after a waiting period and are limited to the duration of the disability, Age Discrimination Employment Act (ADEA) benefit period, or Social Security Normal Retirement Age (SSNRA).

WHY OFFER IT?

- To provide income protection for employees who suffer an illness or injury that affects their earning capacity over an extended period of time (typically at least 90 days).
- Basic component of a competitive benefit package promoting employee attraction and retention.
- Services and support can help facilitate an employee's recovery and return to work.
- Early intervention with a long term disability can have a positive impact on medical costs.

WHAT TYPES OF EMPLOYERS OFFER IT?

LTD is offered by most employers. It is especially valuable for:

- Companies with high dependent coverage ratios where income replacement is important.
- Companies with higher salaried, technical or professional employees.
- Companies located in high cost of living areas where lost income can quickly lead to individual bankruptcy.

WHAT SIZE EMPLOYERS OFFER IT?

Employers of all sizes.

WHAT ARE THE CRITICAL UNDERWRITING OR PARTICIPATION REQUIREMENTS?

- Premiums are based on plan design, coverage amounts, employer industry classification, employee demographics, and claim experience (depending on size).
- If an LTD plan is funded by employees with after tax dollars, benefit payments are non-taxable to the employee. This generally increases premium rates by 5 -10% relative to employer paid or pre-tax employee funded LTD plans.
- Participation requirements apply to voluntary plans, typically the greater of 25+% or 10 employees must enroll.
- Participation requirements also apply to contributory plans, typically 75+% of employees must enroll.
- Typically, no medical underwriting is required if a plan is 100% employer paid.
- If the plan is voluntary, carriers usually offer guarantee issue (up to specific maximums) at initial enrollment but will require medical evidence for late enrollees.
- Group LTD plans typically will not provide a benefit in excess of \$15,000 per month. For example, a 60% benefit will not insure annual compensation above \$300,000.

WHAT'S NEW IN THIS AREA?

- Due to some changes in the legal definition of “disability,” premiums may increase over the next few years.
- Employers with very high wage earners often use some type of individual LTD supplement to address compensation not covered by group LTD plans.
- Many carriers limit to 24 months the benefits payable for drug/alcohol, mental/nervous, and "self-reported" injuries or illness, such as soft tissue injury, or other claims that cannot be definitively supported with medical evidence.
- Insurance companies are including EAP benefits with their LTD plans at no additional charge not only to provide support for the psychological challenges associated with disability, but also to provide a completely confidential counseling and referral service for issues that may affect an employee’s personal life or job performance.
- Some LTD insurers are providing options to extend disability payments beyond normal retirement age. Generally benefits are extended 5 years, provide a discounted benefit and require an inability to perform a certain number of Activities of Daily Living.

HOW MUCH DOES IT COST?

Cost varies based on specific group demographics including industry, geographical location, employee ages, genders, occupations, salaries, and claim experience (depending on group size).

INFORMATIONAL LINK(S)

- [Disability Probability and Other Information](http://disabled-world.com) (disabled-world.com)
- [Disability Statistics](#) (Council for Disability Awareness)
- [Group Long Term Disability: Strategic Concepts For Plan Sponsors](http://benefitslink.com) (benefitslink.com)

PROS AND CONS

PROS

- Offers employee long term income protection.
- Encourages return to work and, if necessary, provides occupational retraining.

CONS

- Limited plan maximums offered by group plans are often inadequate for highly compensated employees.
- Abuses exist by employees who take advantage of income replacement programs.



This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization.