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Latest on long-term disability

The details make the difference on insurance

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In recent years, group long-term disability (LTD) coverage, which provides an income stream for employees who become injured and are unable to work, has emerged as an important employee benefit for many companies.

Employees value the benefit, and it is often an effective tool for recruitment and retention of key personnel. But not all LTD plans are created equal. Unlike health insurance plans, which are offered by a relatively small number of carriers and tend to have many of the same standard coverages, LTD plans are far more variable. They have many combinations of coverages and parameters, and they are offered by scores of insurance carriers, making for a far more competitive marketplace than the health insurance market.

The result can be a confusing array of plan designs, options, coverages

and rates for employers seeking to evaluate and implement an LTD plan.

The growth in the LTD market is driven largely by a gap that has opened up as a result of improved medical treatments for many serious diseases. Over the past twenty years, national studies have found that deaths of working age people from major diseases has dropped dramatically, while disability claims for those same diseases has increased. (See chart).

Advances in diagnostic techniques and medical treatments help millions of people avoid death from these serious conditions. The flip side of coin, however, is that many of those people who perhaps would have died from their condition 50 years ago, are today left disabled for an extended period of time for treatment and rehabilitation. Some may eventually return to work, while others are never



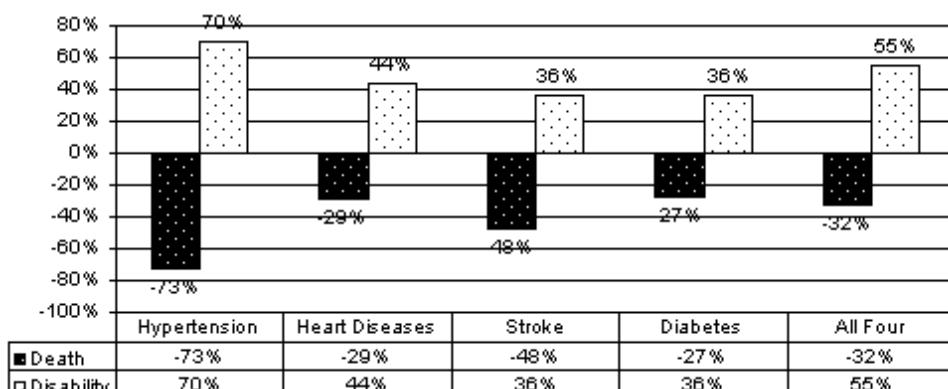
Vanessa Costa: Plans differ widely.

able to work again.

This dynamic creates an economic gap for most working people, who are often better prepared financially for death, with sufficient levels of life insurance, than they are to handle a debilitating injury or illness that is not fatal, but prevents them from earning a living.

So to fill that gap, employer sponsored group LTD plans have become a more valuable part of a person's overall financial plan. In general, LTD plans are an affordable benefit for a company to offer. Rates for LTD plans are quoted based on the amount of a company's covered payroll, and are often very reasonable when compared to health insurance costs. For example, many LTD policies start with a standard coverage of paying 60-percent of an employee's wages, up to a maximum of \$5,000, for a covered disability. A company with 50 employees can

Deaths versus disabilities, past 20 years, by diseases for people under age 65



often find basic LTD coverage for as little as \$500 a month. (The premium to the employer would be based on a quoted dollar amount for every \$100 of covered monthly payroll for all employees in the plan.)

When evaluating various LTD plans, however, employers need to look past a straight comparison of rates. They must pay close attention to the details of what is covered, and how it is covered, for those in the group. For example, what is the definition of "total disability" in the plans. Will the insurance company force employees to be retrained for another occupation if they can not perform their previous tasks? Does a plan offer a partial payment option for people who can work part-time? Is there a rehabilitation benefit, which will help employees financially while they are getting the therapy they need to return to work? Does the plan include a day care benefit, which will cover the cost of child care while the employee is out of work?

The treatment of pre-existing conditions will also vary from carrier to carrier. Typically, LTD policies will have a one year look-back period for pre-existing conditions, and a waiting period going forward once the policy is in place before it will provide benefits for disability from a pre-existing condition.

Also, even within one company, the LTD coverages can be customized for various employee groups. For example, coverage for senior management can be extended to cover more of lost salary, given the higher levels of compensation for that group.



All of the aforementioned elements are available in the LTD market today, but not in every policy. So it is important for employers to take stock of the needs of their particular employee pool and seek out LTD coverages that best fit those needs, then solicit several bids from different carriers, quoting LTD plans with equivalent coverages.

To make matters more complicated, in the past several years many insurance carriers have added in new "limitations" to coverages in their LTD policies, carving out various kinds of conditions that may not be covered, such as chronic fatigue, numbness, muscle pain and other self-reported syndromes.

For the most part, insurance carriers have instituted these limitations in an effort to reduce claims and thereby lower premiums, so they can be more competitive in the marketplace. Whether or not the limitations are having the desired effect remains an open question, however, as some analysts have reported an increase in contested claims based on the limitation criteria. Nevertheless, these limitations are embedded in many LTD policies today, so when employers are evaluat-

ing LTD plans they need to look beyond the rates and make sure they are comparing policies that are equivalent in coverages and limitations.

At the end of day, LTD plans are fast becoming an expected element a company's benefits program. Industry studies estimate that some 40-percent of companies with more than 25 employees now have LTD programs in place, with that percentage expect to rise as more employees demand the coverages as a condition of their employment.

As companies compete for the most talented employees, especially in key industries where there is a flight of talent to lower living-cost states, LTD plans should be a part of a company's benefits program. But when deciding on which plan is best, employers must not simply shop for the lowest premium-they must understand the specifics of each policy and make an informed decision on which LTD plan meets their needs.

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