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## Understanding Individual Disability Insurance for the Executive

Metropolitan Life Insurance Company, New York, NY  
L0809055460(exp0810)(All States)



## Market Place Statistics

- There are 6 million firms with less than 500 employees<sup>1</sup>
- 58% of employers with 2-499 employees do not offer Executive Benefits<sup>2</sup>
- Only 11% of employers with 2-499 employees provide individual disability insurance to their highly compensated employees and only 4% are considering offering it in the next 18 months<sup>2</sup>
- Approximately one-third (31%) of more highly compensated employees say they have no disability coverage<sup>2</sup>

<sup>1</sup> Source: U.S. Census Bureau, 2006

<sup>2</sup> Source: MetLife 7<sup>th</sup> Annual Employee Benefits Trends Study, 2009

# MetLife Employee Benefit Trend Study

- **Changing Work Environment In These Economic Times**
  - 68% of employees are concerned and feel unprepared if a principal wage earner were no longer able to work because of a disability<sup>1</sup>
  - More than 41% of employees consider workplace benefits to be the foundation of their personal safety net<sup>1</sup>
  - 40% of employees say benefits play an important role in their decisions about whether to remain with their employer<sup>1</sup>
  - 50% of employers state employee retention is their top benefit objective entering 2009<sup>1</sup>
  - 73% of Generation “Y” employees are concerned with having enough money to make ends meet, compared to only 56% of Generation “X” employees<sup>1</sup>
  - 69% of employees said that non-medical benefits, including disability benefits, were an important contributor to employer loyalty, while only 41% of employers agreed<sup>1</sup>

# Workplace Trends Affecting Demand for Disability Insurance

- Employers' needs to enhance key employee or executive benefit packages
- Employers' desires to attract and retain high performing employees
- Executive compensation is becoming increasingly incentive driven
- The need to control or cost-shift health and welfare benefits

# Workplace Trends Affecting Demand for Disability Insurance

- Disability Industry Response...
  - Recognition of new opportunity
  - Development of Multi-Life Individual Disability Income products and pricing
  - Creation of Guaranteed Standard Issue (GSI) programs to facilitate easy enrollment
  - Variety of programs to meet employer and employee needs

## Overview of GSI

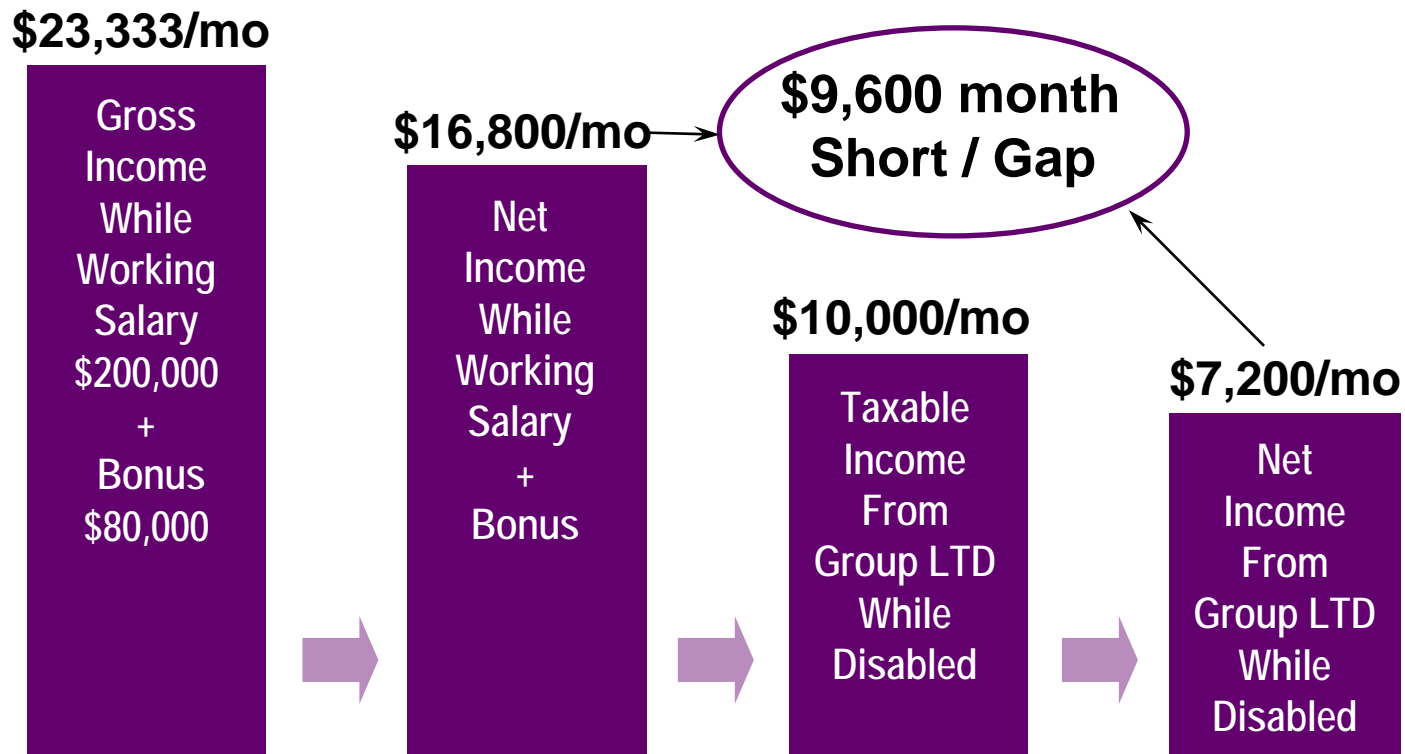
- Guaranteed Standard Issue for a class of employees
- Eligibility subject to consecutive days actively at work
- May be subject to ADL/Presumptive questions only if applying for additional benefit riders
- Amount of GSI based on number of eligible employees, employer or employee pay, % participation, length of EP
- Issued with discounted, unisex rates

## Executives and Group LTD

- Limitations of Group LTD for Executives and Highly Compensated Employees (HCEs)
- Group LTD plans often contain the following limitations:
  - Employer paid benefits are generally taxable
  - Bonus and incentive compensation may not be covered
  - Plan monthly maximum may not cover HCEs at the same level as non HCEs
  - LTD provides a foundation of coverage - not a complete solution

# Gap associated with group LTD

Employer Paid Group LTD Plan: 60% of base salary



*Assumes a 28% Tax Bracket*



# Example - Incentive Compensation

- **Problem:** The employer-paid LTD plan - 60% to \$10,000 of monthly benefit - does not protect bonus or commission income
- **Result:** Many executives will face a serious income shortfall during a disability

Executive	Annual Salary	Monthly Salary	Monthly Bonus	Pre-Tax LTD Benefit	IDI Benefit	% of Total Pre-Tax Income Replaced
Executive 1	\$100,000	\$8,333	\$2,083	\$5,000	\$0	48%
Executive 2	\$150,000	\$12,500	\$4,166	\$7,500	\$0	45%
Executive 3	\$200,000	\$16,667	\$8,333	\$10,000	\$0	40%
Executive 4	\$400,000	\$33,333	\$12,500	\$10,000	\$0	22%

# Solution... Insuring compensation not covered by Group LTD

- **Solution:** Individual Disability Buy-Up, in combination with LTD, provides coverage beyond the “cap”, protecting compensation not covered by group LTD
- **Result:** Executives can avoid serious income shortfalls during a disability
- **Assumption:** Employer Paid GSI offer for 30 eligible executives. Program design of 75% total replacement less Group LTD of 60% to \$10,000 (LTD covers salary only). IDI covers total compensation with a GSI offer of up to \$5,000/mo.

Executive	Annual Salary	Monthly Salary	Monthly Bonus	Pre-Tax LTD Benefit	IDI Benefit	% of Total Pre-Tax Income Replaced
Executive 1	\$100,000	\$8,333	\$2,083	\$5,000	\$2,812	75%
Executive 2	\$150,000	\$12,500	\$4,166	\$7,500	\$5,000	75%
Executive 3	\$200,000	\$16,667	\$8,333	\$10,000	\$5,000	60%
Executive 4	\$400,000	\$33,333	\$12,500	\$10,000	\$5,000	33%

# Group LTD vs. Individual Disability

## Group LTD

- Benefits are generally **taxable** if premiums are employer paid
- May have limitations on definition of covered earnings
- Benefits may be **offset** by legislated benefits
- Coverage may be **lost** if insured leaves group
- Rates may **increase** at renewal time

## Individual Disability Insurance

- Benefits can be **tax-free** if premiums are employee paid with after-tax dollars
- Generally, cash compensation can be covered (**bonus, commissions**)
- Benefits generally **not offset** by legislated benefits
- Coverage is **fully portable** if insured changes jobs
- Rates on Non Cancelable policies are fixed

# Why Employers Offer Individual DI Buy Up

- Employer Objectives
  - Enhanced executive benefits
    - Addresses coverage shortfall for higher income earners
    - Highly paid executives can be under-insured due to plan monthly maximums
    - Covers supplemental income (bonus, commissions often not covered under LTD plan)
- Control benefit costs of employers
  - To stabilize cost on a portion of disability program
  - Risk transfer
  - Cost shift to employees
  - Level premium on non-cancelable policies
  - Alternative to LTD Buy-Up option

## Individual DI Buy-Up Plan: Employer Advantages

- Helps the employer attract and retain talented employees
- Enhances the competitiveness of the employer's benefits package with no direct cost to the employer if premiums are employee-paid
- Provides employees "easy access" to discounted Individual DI

## Individual DI Buy-Up Plan: Employee Advantages

- Opportunity for higher income replacement during a disability
- Provides stronger policy provisions
- Offers discounted premiums due to employer's sponsorship - significantly reduced from non-discounted, sex-distinct rates
- Possible guaranteed issue with limited medical underwriting
- Gives the employee portable coverage - even if he or she changes jobs
- Level and fixed premiums on non-cancelable policies

# Types of Guaranteed Standard Issue (GSI) Plan Designs

- Supplemental Buy-up Plans
  - Individual disability issued on top of initial layer of group LTD
- Combination Plans
  - Coverage split between LTD & individual coverage on a percentage basis
- Reverse Combination Plans
  - Individual coverage and group LTD split, with individual sold on the first level of income

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## *Traditional Buy-Up Plan Design*



## Supplemental Buy-Up Plans

- The purpose is to create a supplemental disability plan that allows employees to **use individual disability income insurance to supplement basic group LTD** or to allow companies to provide this coverage for a “carved out” class of employees

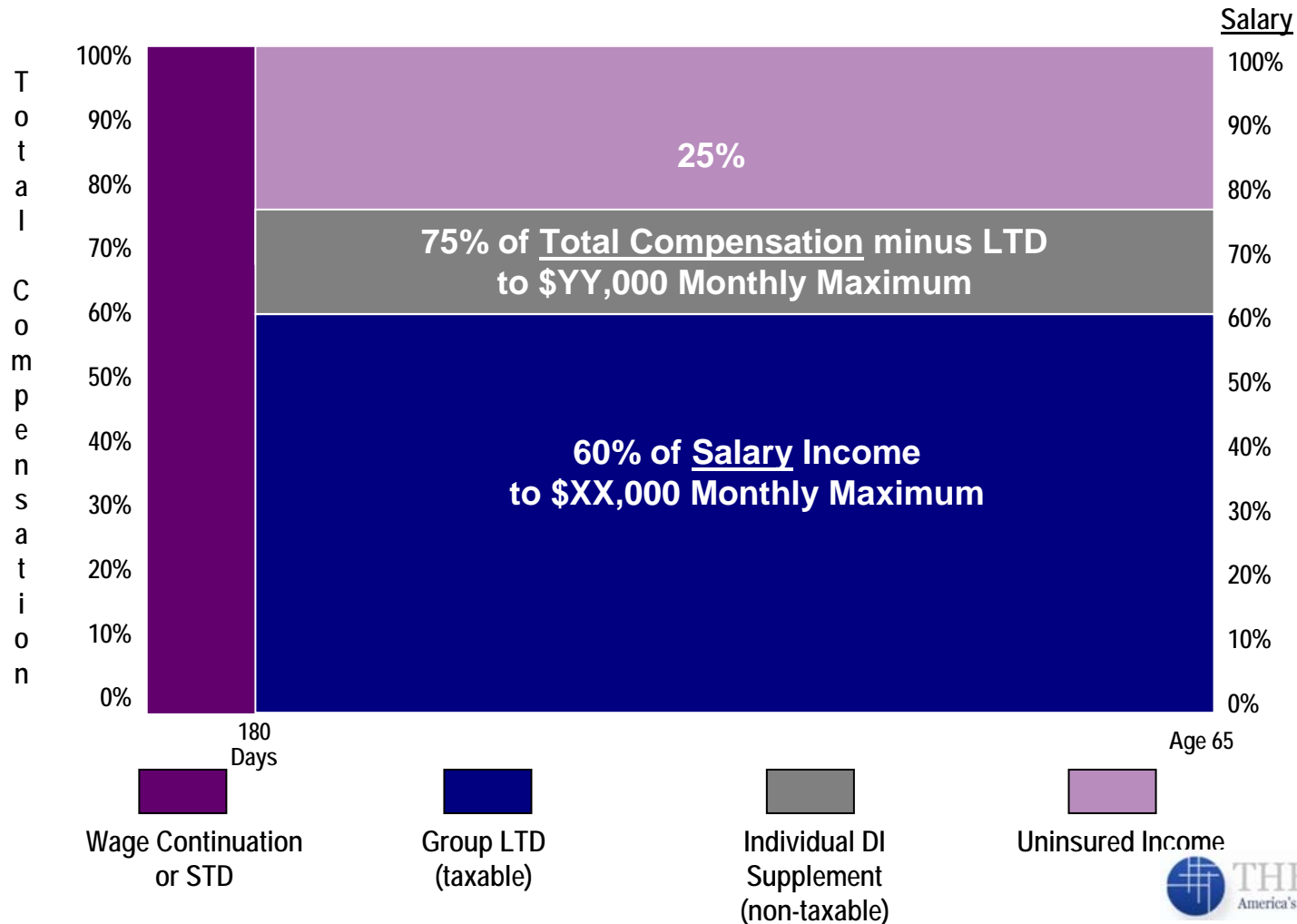
## Supplemental Buy-Up Plans

- Available ER Pay, EE Pay or Split Dollar
- Individual disability coverage is layered on top of initial layer of Group LTD covering either employee's base earnings or total compensation
- Individual disability covers earnings in excess of group cap, any uncovered bonus income, or is used to offset tax obligation of employer paid LTD benefit

## Supplemental Buy-Up Plans

- Percentage of total income replaced depends on group size, income levels, plan design & taxability of benefits
- Income replacement typically varies between 60% and 75% depending on taxability of benefits and whether the plan is employer-paid, employee-paid, or a combination of both

# Traditional Buy-Up: Voluntary DI-Employer Paid LTD



Employer can elect definition of covered earnings in the LTD plan as:  
(a) total compensation; or  
(b) salary only.

Employee may layer Individual DI on top of group LTD based on total compensation.

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## *Combination Plan Design*

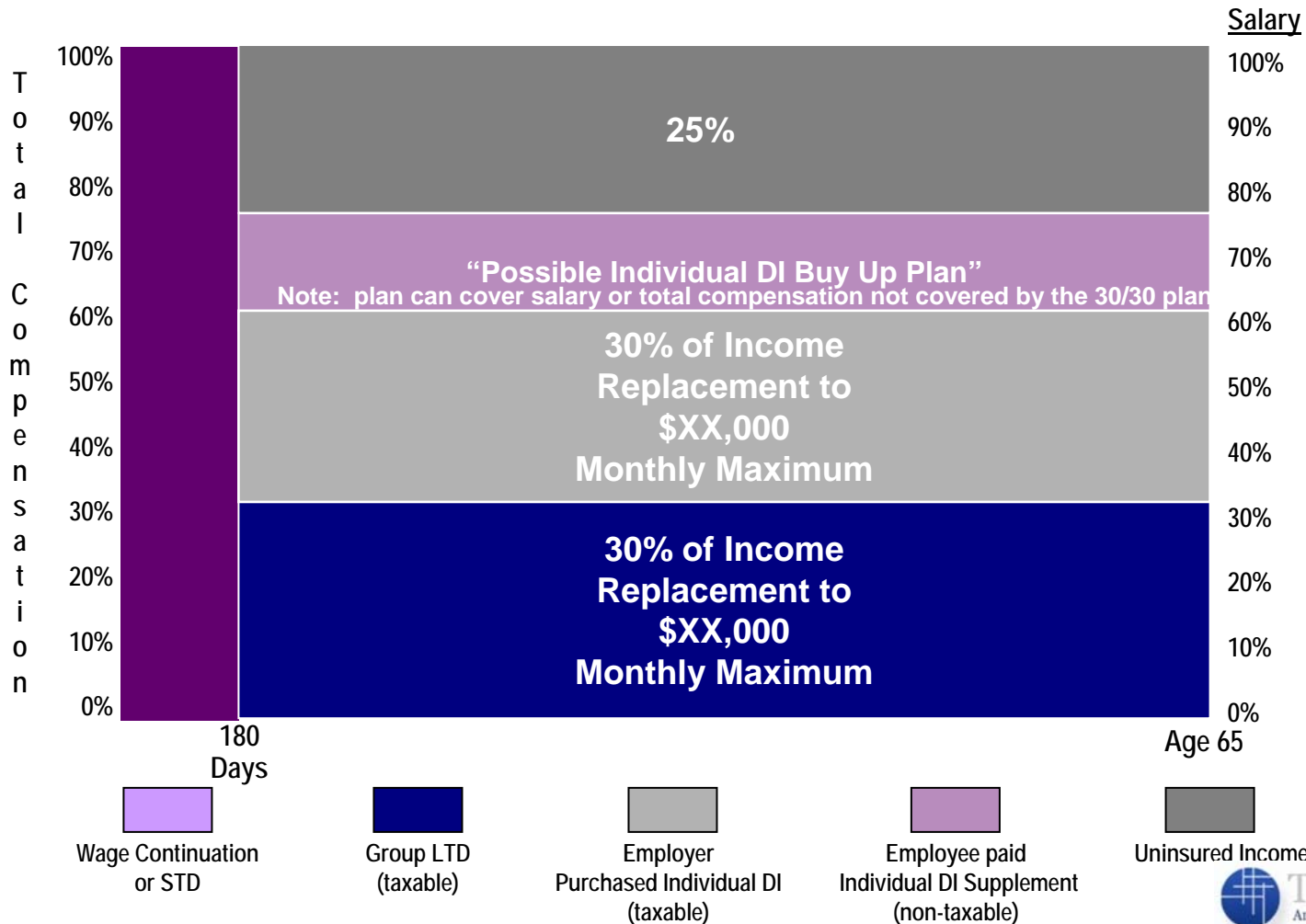
## Combination Plans

- The purpose of combination plans is to utilize **the cost effectiveness of group LTD** with the **higher fixed cost features of individual disability** to provide executives and key employees with comprehensive disability coverage and the highest level of individual GSI coverage

## Combination Plans

- Combination plans require 100% participation and same definitions of earnings under LTD plan and individual DI policies
- Cost is controlled by changing the % combination of LTD and individual coverage
- Benefit mix varies by % of LTD & individual coverage and by the total % of income covered: e.g., 30/30 (60%), 40/20 (60%), 50/20 (70%), or 50/25 (75%)
- An additional supplemental buy-up program may be available

# Combination Plan - 30/30 Formula



Employer can elect definition of covered earnings for a GSI program as: (a) total compensation; or (b) salary only.

Definition of earnings for the employer paid portion must be the same for both the LTD and Individual DI

Employee may layer Individual DI on top of group LTD and Individual DI (paid by employer) based on total compensation.



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## *Reverse Combo Plan Design*

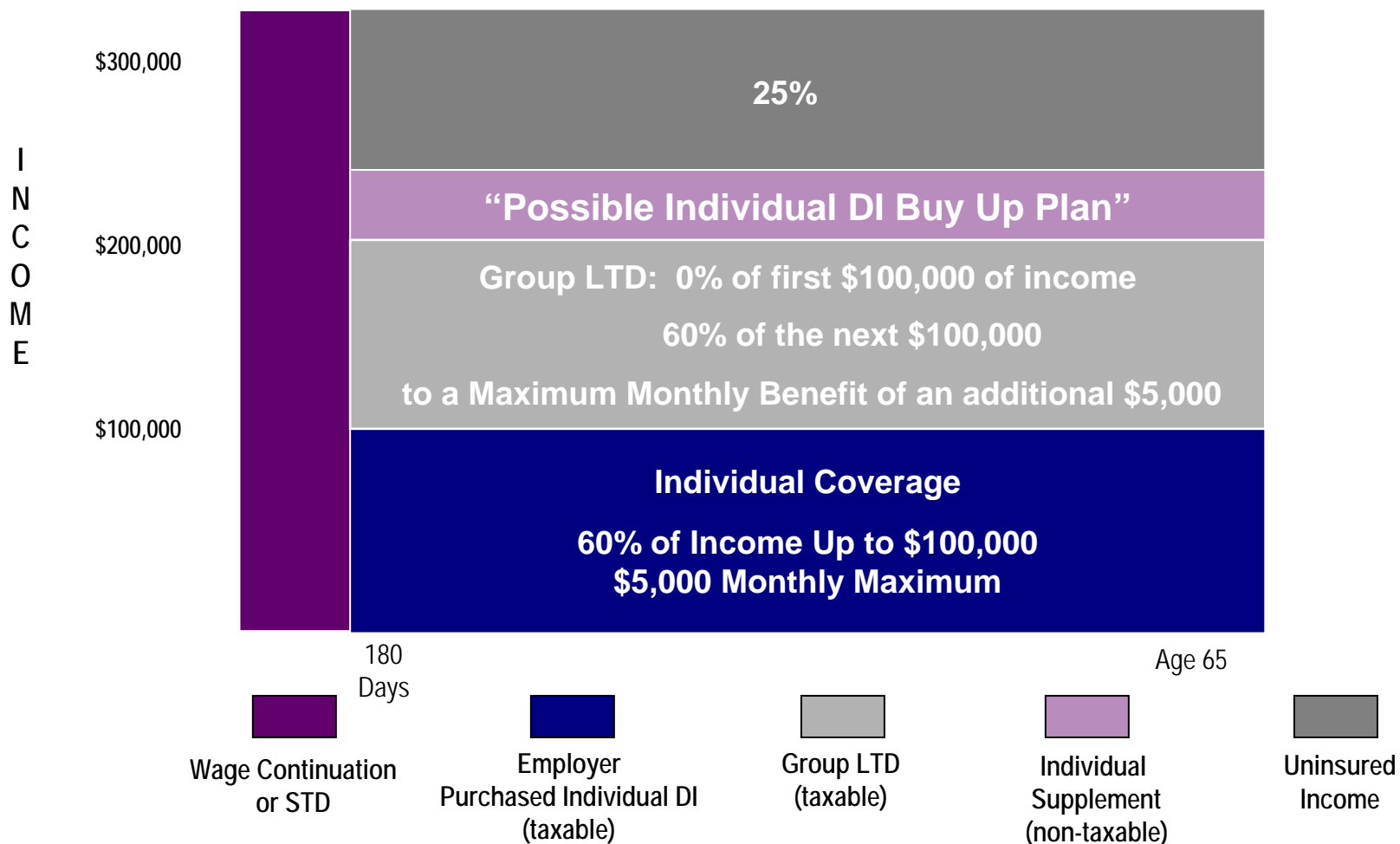
## Reverse Combination Plans

- Purpose is to provide **equal amount of individual disability** coverage on eligible employees so everyone in carved-out class will have the same amount of individual coverage, allowing **group LTD to adjust for all changes to income** and locking in guaranteed rates for a certain % of coverage

## Reverse Combination Plans

- This plan has a base of individual disability coverage with a layer of group LTD on top to provide coverage for income not covered by the individual base plan
- Both individual plan and group LTD should be employer paid and have same definition of earnings
- For example, LTD formula states 0% of the first layer of covered earnings, 60% of the next layer of covered earnings

# Reverse Combination Plan Design



## Target Markets for Voluntary GSI

- Businesses with a minimum of 60+ employees\*  
(Note: executive carve out plans best suited if minimum of 10 insured executives earning \$75,000+)
  - Manufacturing executives
  - High tech and telecommunication industry
  - Service industry
  - Financial industry
  - Transportation (white collar employees)

\*Rule of thumb-each carrier has its own guidelines

## Target Markets for Employer Paid GSI

- Businesses with a minimum of 10 eligible employees\*
  - White Collar Executives
  - Professional Corp (Law, CPA, Architect, Engineers)
  - High tech and telecommunication industry
  - Service industry
  - Financial industry
  - Transportation (white collar employees)

\*Rule of thumb-each carrier has its own guidelines

# Keys for Successful GSI Programs

- Enrollment with high participation
- Higher income (\$60,000 to \$75,000+) market
- Non-medical market
- Integrated plan design that is updated with the same definitions
- Single State enrollments
- Employer Support
  - One-on-one meetings
  - Outbound phone calls
  - Group employee meetings

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## *Case Study*



## Hypothetical Client Profile

- Financial services firm where most employees receive variable compensation
- Basic employer paid Long Term Disability is 60% of base earnings to a maximum of \$12,500 per month.
- There are 524 total employees
- 462 of these employees would receive less than 60% of their combined base and variable annual earnings under the basic LTD plan
- Competition for employees in this industry is fierce. The employer wants to offer the most robust benefit package it can to retain its current employees and attract new employees.

## RFP Process

- The Producer sends the following documentation to the market.
  - Complete Census – Base and Variable Compensation Included, DOB and Occupation
  - Carrier's RFP Request Form
  - Group Long Term Disability Certificate
  - Information about any other individual disability in force

## GSI Offer

- Up to \$7,500 per month Guaranteed Standard Issue (GSI)
- Up to 75% Total Income Replacement Combined with Group LTD
- Own Occupation Coverage to Age 65
- Portable and Guaranteed Renewable
- Mental Nervous/Substance Abuse Coverage to Age 65
- 100% Employee Funded – Tax Free Benefit
- 25% Rate Discount
- 25% Minimum Participation Required For GSI

## Best Practices

- Employer
  - Access to employees
    - Home Addresses, e-mail, work phone numbers, space in office, endorsement letter
- Producer
  - On site group meetings
  - One on one meetings
  - Engaged with employer and carrier
- Carrier
  - Create customized enrollment packages
    - Sent to employees' homes
    - Pre-printed applications
  - 800 line to support the enrollment
  - Electronic enrollment on certain groups

## Expected Outcomes

- Employees value the added disability benefit
  - Covered earnings now include salary, bonus and commissions
  - Possibility for a higher percentage of the employee's income to be covered
- Employer has enhanced its overall benefit offering with no financial cost to them
- A relationship has been built or enhanced which increases the opportunity for cross selling other products

## Conclusion

- The need for individual disability insurance exists for many Executives and Highly Compensated Employees who are participants in an employer paid LTD plan
- An opportunity exists to educate employers and employees on how to “fill” the gaps in their LTD coverage
- A greater understanding of supplemental benefits by executives and HCEs typically results in increased participation

## For More Information

Please contact your local Plus  
Group office for more information.  
Go to [www.plusgroupus.com](http://www.plusgroupus.com) or call  
800/831-1018

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