

Disability 101

A guide to disability insurance



Today's agenda



Defining disability



Need for disability insurance



Features/provisions of disability plans



Disability market and sales trends

Defining disability

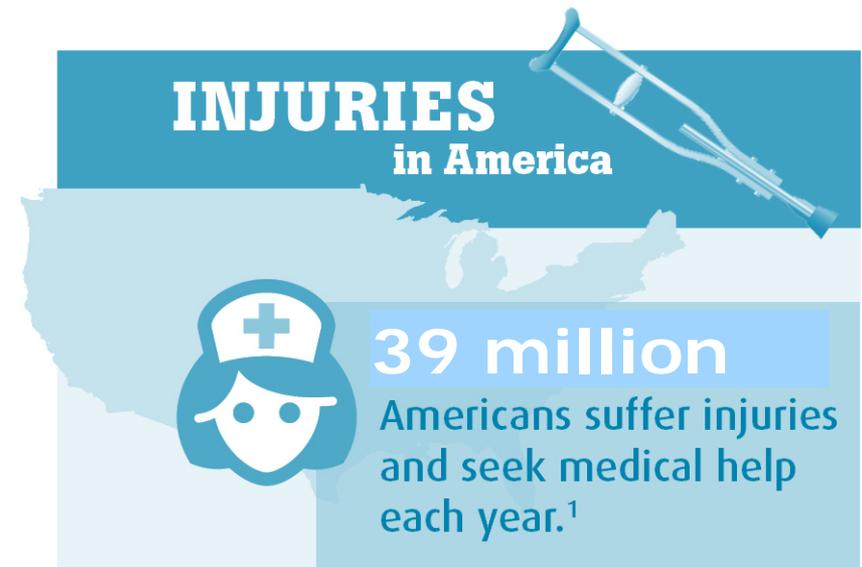
What is disability?

Disability:

- A physical or mental impairment
- Caused by a covered illness or injury
- That keeps an individual from working for a period of weeks or months

Disability can take a financial toll:

- Loss of income to support daily living
- Reduced savings
- Increased out-of-pocket costs for care



¹ National Safety Council, *Injury Facts* (2017).

Types of disability coverage

Disability coverage is offered in a variety of plans:

- Short term disability
- Long term disability
- Individual disability
- 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">• Generally chosen by employer• Applied to all employees	<ul style="list-style-type: none">• Plan customized to specific needs of an individual or group of employees• Earnings coverage includes bonuses and commissions
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)

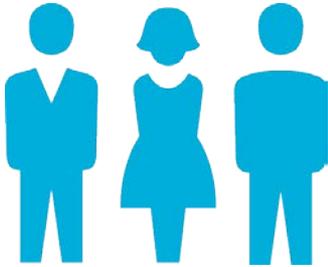
Can be purchased as a standalone policy or as a complement to long term disability

- 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

The need for disability insurance

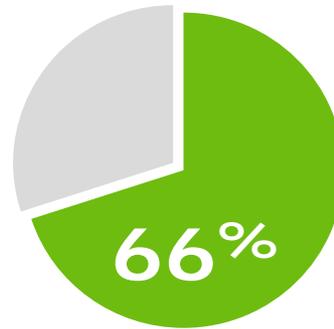
Working-age employees need protection



One in four

of today's 20-year-olds **will become disabled** before reaching retirement age due to an accident or illness¹

Americans lack disability coverage



of private sector workers do not have access to employer-provided long term disability insurance²

Workers' compensation may not help



Most disabilities are **not** work-related, and therefore **not covered** by workers' compensation³

¹ Social Security Administration, "Social Security Basic Facts" (July 5, 2017).

² Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States, March 2015" <http://www.bls.gov/ncs/ebs/benefits/2015/ebbl0057.pdf>

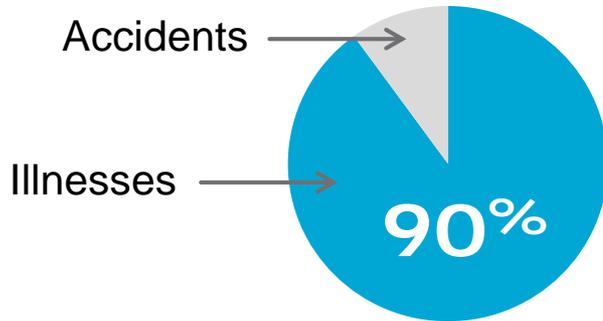
³ National Safety Council, *Injury Facts* (2017).

Disabling injuries affect many people

Frequency of medically consulted injuries

Injury type	Occurs every	Total each year
All	1 second	37M
Motor Vehicle	9 seconds	3.7M
Work	6 seconds	5M
Home	2 seconds	18.8M
Public (non motor vehicle)	3 seconds	9.7M

The odds of disabling illness are even greater



Approximately **90%** of all disabilities are caused by illnesses rather than accidents¹

Top reasons for disability claims among Unum customers ^{2, 3}	
Short term disability	Long term disability
Pregnancy	Musculoskeletal and connective tissue disorders
Musculoskeletal and connective tissue disorders	Cancer
Injuries	Behavioral health issues

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

² IBI, "Short-Term Disability Program: IBI Health and Productivity Benchmarking" (2017). ³ IBI, "Long-Term Disability Program: IBI Health and Productivity Benchmarking" (2017). Based on unpublished data.

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 benefits are denied¹
- The worker must be disabled at least one year or have a disability expected to result in death
- The future Social Security disability insurance trust fund is always in doubt

Workers' compensation only covers disabilities that happen on the job

- The majority of disabilities occur off the job²

1. Social Security Administration, *Selected Data from Social Security's Disability Program*, 2018.

2 National Safety Council, *Injury Facts* (2017).

Summary: the benefits of disability insurance

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

Short term disability plan features and provisions

Benefit amount

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

- Typically expressed as a **percentage of weekly income**



For example:

60% of pay to a maximum of \$500 per week

- **Minimum weekly benefit** after deducting other sources of income



For example:

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

Short term disability plan features and provisions

Maximum duration of benefit

- Typical benefit durations range from 13 to 26 weeks

Waiting period

- Typically expressed as a set number of days or months
- Begins on the date the employee is in active employment in an eligible group

Elimination period

- Most common are 7 or 14 days

Long term and individual disability features and provisions

Benefit amount

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% to a maximum of \$5,000

- Minimum monthly benefit after deducting other sources of income

For example:

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

Maximum duration

How long will benefit payments continue?

- Typical long term disability and IDI durations are:
 - To age 65, 67 or 70
 - To the Social Security Normal Retirement Age (SSNRA)
 - For a set number of years (e.g., 2, 5, 10)

Long term and individual 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

When is disabled person eligible for benefits?

- The most common elimination periods are:
 - 90 days
 - 180 days

Exclusions to disability contracts

When will benefits *not* be paid?

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

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**.

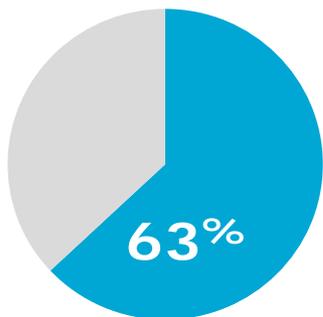
Plans paid with a mix of pre-tax and post-tax dollars

- **A portion of the benefit is taxable**, so the employer may have to “look back” three years to compute the percentage that is taxable.

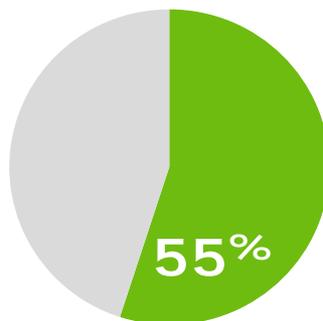
Disability market and sales trends

Personal finances: tough choices for employees

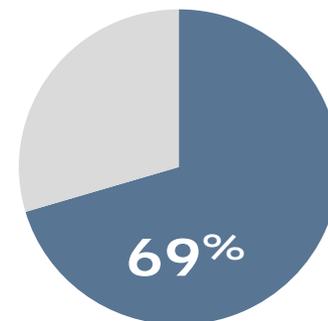
Consider these troubling numbers:



of workers would find it somewhat or very difficult to meet current financial obligations if their paycheck were delayed by one week.¹



of American workers live paycheck to paycheck.²



of Americans have less than \$1,000 in savings.³

¹ American Payroll Association, "2016 'Getting Paid In America' Survey" (2016).

² 20something finance.com, "The Shocking Percentage of Americans that Live Paycheck-to-Paycheck" (2016).

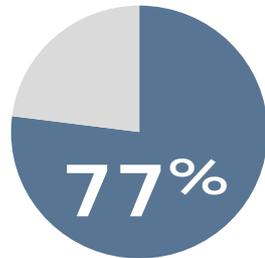
³ Go Banking Rates, "60% of Americans have Less Than \$1,000 in Savings" (2016).

Disability: a valuable employee benefit

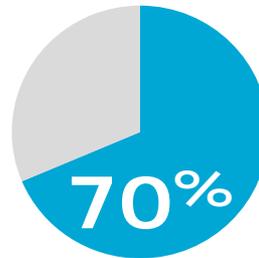
The majority of employers offer this coverage



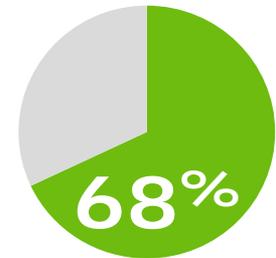
An important benefit as economic recovery begins to revive the job market



of employers surveyed offer **long term disability** insurance¹



of employers surveyed offer **short term disability** insurance¹



of employers with at least 10 employees offered at least one voluntary benefit²

¹ SHRM, 2016 Employee Benefits (2016).

² Eastbridge, MarketVision: The Employer Viewpoint (2016).

Employees' Need for Coverage

Employees know they need the coverage.



9 out of **10** employees think they should be offered disability insurance at work.¹

But most don't have it.

Only **33%** of the employees have access to disability coverage.²



Employees want it so bad, they are willing to pay for it.

Nearly **75%** of employees would pay **\$15** or more deduction from their paycheck for disability coverage.³



¹ Consumer Federation of America and Unum, "Employee Knowledge and Attitudes about Employee Provided Disability Insurance" (2012).

² Bureau of Labor Statistics, "Disability insurance plans, trends in employee access and employer costs" (Feb. 2015).

³ EBRI and Greenwald & Associates, "2014 Health and Voluntary Workplace Benefits Survey Funders' Presentation" (2014).

Disability benefits help attract and retain workers

The power of employee benefits¹

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

- Based on the benefits and insurance an employer offers:
 - 63% of employees say that benefits are one of the reasons they work where they do.
 - 66% of employees agree that their benefits make them feel appreciated by their companies.



77% of workers say that the benefits package is an important factor in their decision to accept or reject a job. ²

¹ Mercer, "Inside Employees' Minds" (2015).

² EBRI, "Views on the Value of Voluntary Workplace Benefits: Findings from the 2015 Health and Voluntary Workplace Benefits Survey" (Nov. 2015)

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