



## Employees Pay All Short Term Disability is a “No-Brainer” Decision for the Employer

By Greg Hatcher, RHU, CLU, ChFC, ChC

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When I meet with my employer groups, I'm constantly amazed by how many of my prospects have a nice group health, dental, life and even long-term disability plan set up for their employees, but very few of them have short term disability benefits for their employees either on an employee-pay-all or an employer-pay-all basis. Most individuals in America have homeowners insurance, car insurance, life insurance, liability insurance, health insurance and dental insurance, but they forget about the most important insurance they can have which is "paycheck insurance" or short-term disability.

Short-term disability benefits pay for loss of income due to a disability caused by either an accident or sickness for a certain period of time. A typical short-term disability plan might begin paying benefits on the first day of disability due to an accident, on the eighth day if a disability is due to a sickness, and would be payable for 13 to 26 weeks. After the 13 or 26 weeks, typically a long-term disability plan kicks in.

I have found a lot of employers are just simply not aware of how inexpensive short-term disability benefits can be purchased for their employees or how affordable these benefits can be offered to the employees as a voluntary benefit. For example, an employee making \$20,000 per year can purchase short-term disability benefits for \$2.65 a week under a typical group plan. This \$2.65 a week amounts to about one-half of one percent of the employee's annual income. Who in their

right mind wouldn't pay half of one percent of their income to insure 60 percent of their income for 13 weeks?



Maternity is the #1 Short Term Disability Claim.

Short-term disability can be paid for by the employee, the employer or a combination of the two. The IRS rules, however, concerning the taxation of disability benefits make a voluntary program for short-term disability even more attractive. The IRS rules state that if the employee pays for his/her premiums with an after-tax dollar, then the benefits received will be tax free. In other words, an employee who pays his \$2.65 a week for his short-term disability benefits will receive 60 percent of his income tax free. This comes close to replacing his/her loss of earnings because the take home pay that the average employee ends up with is about 70 percent of their gross wages because taxes are taken out. In this case, the 60 percent tax-free benefits received from the short-term disability plan can allow that employee to continue during this interim period without a change in lifestyle.

If the employer pays for the short-term disability benefits, the employer can take a deduction as a necessary and ordinary business expense, but the benefits received under the disability plan by the employee will be taxable. In other words, the employee's benefits have been reduced to 60 percent of what he or she was making, but after taxation of those benefits, the actual replacement ratio of income drops to about 42 percent. The advantage, of course, to the employer paying for the benefits is that there is no out-of-pocket outlay for the employee and all of the employees are covered under the plan.

When I have offered short-term disability benefits to my employer groups, I have always gotten more than 90 percent participation in the plan because the premium rates are so affordable and because of the way it is marketed. We usually use a company who pre-prints one-page employee proposals that show the employee's name, date of birth, social security number, salary, the 60 percent of salary benefit he/she will receive and the weekly premium. This one-page enrollment form has a yes and a no election so that the employee can indicate whether or not they want the coverage and a place to sign. That is all there is to the enrollment.



After explaining to the employees the value of paycheck insurance, it is a simple decision for each employee to determine whether or not it is worth spending \$2.65 a week for every \$20,000 of income they earn to insure 60 percent of their salary. As mentioned before, there are not a whole lot of people who do not see the value of spending less than one-half of one percent of their income to protect 60 percent of their income on a tax free basis should they become disabled.

We find that by taking care of our accounts on these ancillary coverages and making sure that they are protected in all areas helps to solidify our relationship with the group in regard to their health, dental and life plans. Many agents pass up a short-term disability sale because they either don't understand the simplicity or do not feel it is a big enough ticket item to get their attention. For us, "paycheck insurance" both on a short-term or long-term disability basis are the two most important coverages a group can provide. Hospitals will treat you without health insurance coverage. It is possible to recover from a stolen car without insurance coverage, and a former spouse can get remarried if there is not enough life insurance coverage to provide for them, but virtually no one will be willing to pay your income for you when you are out of work for a few weeks or the rest of your life. "Paycheck insurance" is a necessity to protect all of us against this risk.