

Group Disability is a Must

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(Published in *Health Insurance Underwriter*, November 1993)



As a group health specialist I handle more than 170 groups in the state of Arkansas and it is amazing to me how many companies that I take over don't have Disability coverage programs for their employees. When you consider all the group programs: health, dental, life, vision, and voluntary programs such as cancer and supplemental life, it is amazing that implementing a Disability Program may be a company's last plan to consider.

Disability Insurance is "paycheck insurance" and put quite simply, it is the most important insurance coverage you could ever buy. An employee could afford to pay his dental expenses if he had to. Hospitals and doctors will see patients even though they don't have insurance, so we know that an employee could get the medical care he/she needed in a pinch. If an employee died, the spouse could get remarried and have another income source, but if an employee becomes disabled I know of no one who is going to write a check every month and reimburse 60 percent or 67 percent of his/ her salary. Yes, Social Security does provide some benefits, but nationwide statistics show that only 19 percent of the people who are disabled qualify for Social Security benefits. Even when someone does qualify, very rarely do they receive anywhere near the 60 or 67 percent replacement of their income that a group disability policy can provide.

Group Disability is a no-brainer decision for the following reasons:

1) ***It is extremely inexpensive.*** Typically an employer, on average, can purchase disability coverage for all of his employees for somewhere between two tenths of a percent and one percent of the monthly payroll. It is hard to believe employees can't afford to spend less than one percent of their payroll to cover their income and their employees' income to age 65 in the event of a disability: The fact is, most employees do not know that disability coverage can be purchased so inexpensively because a lot of agents are not that familiar with the product and it is not a big ticket premium item.

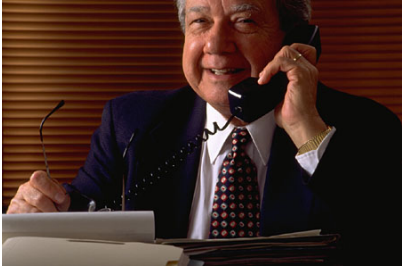


2) ***Group Disability coverage has very easy underwriting.*** Under a group plan there are no individual questionnaires, para-med exams, or in-depth personal history reviews. In fact, in all of my years of writing disability I can't think of a group program that I couldn't write because of a disability risk. Group disability can allow an individual with diabetes or previous heart disease to be covered because he/she is part of the group. Policies do, however, generally have a 12-month or 24-month pre-existing condition clause to protect the insurer.

3) ***For small groups especially, the group disability plan is a nice additional layer of protection for the business owner who has an individual disability policy, if the owner of a business already has an individual disability policy.*** This does not mean he can't qualify for group disability coverage. Although individual disability coverage will only allow a person to have somewhere between 60 and 80 percent of his/ her income insured, a group disability plan does not have limitations or stipulations that prevent an owner from getting a full 60 or 67 percent of his salary in group disability income even if another policy is in force. The very best protection a person can have in regard to disability is to have an individual disability policy and a group disability policy to protect his entire income. The key is that the individual disability policy must be purchased first.

4) A disability policy is cheaper in the long run than continuing the salary for a key employee.

Many employers do not implement their first disability policy until they have had a key employee off work for six to eight months. During the time that this key employee is off, the employer will often pay his/her full salary in hopes that they will return, as well as a reward for being a key employee. It only takes one situation like this where an employer is paying out \$3,000 to \$4,000 in income to the key employee before realizing he/she could have paid 10 years worth of disability premium and allowed the disability carrier to cover that risk for them.



Furthermore, what happens if the key employee is disabled for a period of a lot longer than six to eight months, say 20 years? There is no way any employer can continue to pay out these expenses without any work in return. It creates a very tough situation when the employer has to tell that former employee that this will be his/her last paycheck and that there is no disability income insurance, leaving that family in a destitute situation. It even gets worse than this. The IRS does

not allow the deduction by the employer for the salary continuation of a key employee if a formal salary continuation agreement is not in force.

In most cases, if there is no disability plan, the employer generally has not put in a salary continuation plan, making additional paychecks taxable to the employee and not deductible to the employer. A disability policy sets up the ground rules on how a disability will be handled before it occurs, instead of dealing with the emotional issues of having to continue someone's salary after disability occurs.

5) If family members are involved in a business, a disability plan is an absolute must. Just like the key employee who is out on disability, any employer who has two or three family members at the top of a company needs to have disability insurance, in the event of a disabled family member, the business will feel obligated to pay his/hex income to age 65. It just doesn't make sense to self-insure this risk when you can cover this key family member through a group disability plan for less than one percent of your monthly payroll. This will be the best money ever spent in the case of a disability.

6) I have sold many group disability programs when an owner went out and shopped for an individual disability plan. Although the individual disability policy is stronger because it is non-cancelable and guaranteed renewable, on a typical 10-member group it is very possible to buy a group disability policy on the entire group for a lower price than it is to buy one individual disability policy on the owner.

We present a long-term disability quote to every one of our groups when we initially sell them and at renewal. There is no coverage I believe in more than "paycheck insurance," or disability coverage. Some nice benefits of a disability policy are that it enhances your relationship with your client and there are very few rate increases. As the group's payroll increases, their disability insurance premium does increase, but the rate per \$100 of covered payroll generally stays stable. Most importantly, you should sell disability insurance because it is the most important insurance your client could ever have.