

Group Long Term Disability (LTD) is NOT Enough

If your client has Group LTD Insurance through their employer/company, you may think they have adequate coverage. **This is a common mistake.** Group LTD products do NOT provide the most comprehensive definitions of disability and may leave your client underinsured. Below are some of the most common problems with Group LTD.

1. Most Group LTD programs only cover **base salary**. If part of your client's income comes from bonus compensation, incentive compensation or commissions, this portion of their income **may not be insured**.

Example: Base salary is \$100,000 per year (\$8,333 per month) and the bonus is an additional \$100,000 per year. If the Group LTD only insures base salary, **the benefit would only be 60% × \$8,333 = \$5,000 per month**. So, the Disability Income benefit is equal to 30% (\$5,000/\$16,666 per month) of income.

2. Many Group LTD plans **cap their benefits**. As a result, the high income earners in the company have less than 60% of their income insured.

Example: If the maximum benefit an employee can collect under their Group LTD plan is \$6,000 per month, any employee earning more than \$10,000 per month **has less than 60% of their income insured**. For example: an employee earning \$20,000 per month is only insured for **30%** of their income (\$6,000/\$20,000 = 30%).

3. The definitions of disability contained in Group LTD policies are typically **more restrictive than those in Individual Disability Policies**. This means that they may pay less benefit under the same claims scenario than an Individual Disability Income policy, and in some cases no benefit at all.

Examples:

- Group LTD benefits are reduced by Workers' Compensation, Social Security benefits, earnings the insured receives from their employer, business or any other sources.
- If the insured is totally disabled from their occupation and the insurance company thinks they can work in some other occupation, the insurance company can require them to do so, after the insured has been disabled for a specified period of time (typically 2 or 5 years).
- Benefits for mental and nervous disorders, **which include stress related disabilities**, may be limited to 24 months unless institutionalized. The term "stress related condition" means a physical condition that is caused by stress (e.g., chronic headaches, sleep deprivation, hypertension, etc.).
- Rehabilitation may be mandatory. This means if the insurance company feels the insured can be rehabilitated into any occupation, the insured has to agree to the rehabilitation or the insurance company does not have to pay.
- Benefits may be limited to 24 months for "self-reported symptoms" or other specified conditions in the policy. An example of a "self-reported symptoms" definition from a Group LTD policy is:

"The manifestations of a condition(s) that is/are reported to a doctor and are **not verifiable using tests, procedures, or clinical examinations**. Self-reported symptoms include, but are not limited to, chronic fatigue sickness, environmental sickness, musculoskeletal/connective tissue

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injury, headaches, pain, fatigue, and stiffness, soreness, ringing in ears, dizziness, numbness, and loss of energy.”

This covers a lot of conditions that could cause legitimate disabilities.

4. Even if bonuses and/or commissions are insured under the Group LTD plan, the Group LTD benefits may be inadequate to continue retirement savings during periods of total disability. When the insured reaches age 65 and Disability Income Benefits stop, **the retirement accounts may be inadequate to support the insured and their spouse.**

Does this mean your clients should cancel their Group LTD policy?

Absolutely NOT!

However, your clients may want to consider supplementing their Group LTD with an individual policy.

Group LTD is an inexpensive way for business owners to provide a base level of coverage for themselves and their employees. The individual Disability Program can be used to supplement Group LTD, as follows:

- The **Disability Income Policy** provides comprehensive definitions of disability not found in Group LTD products and combined with the Catastrophic Disability rider (not available in CT), can insure up to 100% of income against catastrophic disabilities.
- The **DI Retirement Security Policy** insures that retirement savings continue during periods of total disability. This coverage is available in addition to the maximum Disability Income (not available in CA).
- The **Overhead Expense Policy** pays the fixed overhead of a small business/office if a self-employed owner is disabled. When a self-employed business owner is disabled, not only does he/she need money to pay personal expenses and to continue saving for retirement, the business owner also has to pay the fixed overhead of their office/business. Rent, staff salaries, loan payments for equipment, etc. don't go away simply because the owner is disabled.

To refer a client to DSI, click the *REQUEST A QUOTE* link and complete the first two sections, "Personal Details" and "Contact Details." In the "Notes" section at the bottom of the page, please include your name and contact information. A DSI representative will call you back to discuss your referral.

If you prefer to discuss your client's circumstances before making the referral, or have questions about how DSI works with you and your client, contact Bill Pollock at (888) 279-8304 x2003 (7 am to 4 pm Pacific Time) or wpollock@gotodsi.com.