2013 Employer Perspectives on Disability Benefits

A study conducted by SHRM and commissioned by MassMutual
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A case study: Marie Halperin

When Marie Halperin (not her real name) began experiencing blurred vision two years ago at age 38, she thought at first she might need glasses. An eye exam and follow-up tests, however, revealed the onset of multiple sclerosis. Her vision problems cleared up, but other symptoms appeared – fatigue, difficulty walking and impaired thinking – which made it impossible for her to continue her job as a medical device sales rep.

Fortunately, after 180 days her employer-paid group long-term disability insurance kicked in and began paying benefits. During the initial waiting period, however, Marie had used up her sick days and vacation days – plus a large portion of her savings – to help pay her monthly bills. After the 180-day waiting period, she began receiving 60% of her base monthly salary of $6,750, or $4,050.

Unfortunately, this disability insurance, which was issued as a percentage of her base salary only, didn’t take into account Marie’s bonuses and commissions, which in the previous year had totaled $75,000. Her income therefore went from an average of $13,000 per month to only $4,050 while receiving disability insurance claim payments. Because her employer paid the premiums, the benefits were taxable, further reducing her benefit amount. During that time, her expenses remained essentially the same.

Unable to work, unable to meet financial obligations

The chance of becoming too sick or injured to work, like Marie, is more common than many people realize. Just over one in four of today’s 20 year-olds will become disabled before they retire. As in Marie’s case, and for most individuals, a disability is likely to be caused by an illness rather than an injury. Though the disability may not be long-term or permanent, the financial effects can still be devastating. More than two out of three respondents surveyed by the American Payroll Association in 2012 said it would be “somewhat difficult” or “very difficult” to meet their current financial obligations if their next paycheck were delayed by a week. How much more difficult would it be to miss one’s income altogether?

1 Social Security Administration, Fact Sheet May 15, 2012.
Disability benefits: Flexibility to meet a variety of employee situations

America is a nation built on hard work, and as much as we might joke and complain about “the daily grind,” most of us would agree that the ability to earn a living is our single greatest financial resource. Work can allow us to provide for ourselves and our loved ones now and in the future. And while we know that illness or injury could strike at any moment, temporarily or permanently compromising our ability to work, many of us have not taken steps to become adequately prepared for this potential loss of income.

In the United States today, disability benefits may come from a variety of sources, such as the federal government (e.g., Social Security disability benefits), the state (e.g., workers’ compensation), the Veteran’s Administration, an employee group plan, an individual disability insurance policy – or a combination of these sources. According to the Council for Disability Awareness (CDA), 95% of disabling illnesses and accidents are not work-related and therefore are not covered by workers’ compensation insurance.²

Group long-term disability insurance, which pays employees a certain percentage of their income while they are unable to work, can be a great help when paychecks stop, but it usually pays out significantly less than an employee’s pre-disability earned income, thus providing an incentive for going back to work. Unfortunately, while overall income goes down, monthly living expenses might actually go up, due to medical costs, for example.

Individual disability income insurance can provide benefits to supplement these group plan benefits. For some, this supplemental amount could mean the difference between struggling financially or continuing to provide for oneself and one’s family.

In order to gain a better understanding of organizations’ needs and gaps regarding long-term disability benefits, MassMutual recently commissioned the Employer Perspectives on Disability Benefits study in collaboration with the Society for Human Resource Management (SHRM), the world’s largest association devoted to human resource management. SHRM surveyed human resources professionals at over 4,000 firms in the United States. This Key Findings overview examines the variety of disability plans offered by the responding organizations and the perceptions of benefit managers about the value of their offerings.
The base group long-term disability plan

Of those cases where employees pay some or the entire premium, 69% report that the employee portion of this base plan is paid for with post-tax dollars. Larger organizations (2,500 - 24,999 employees) were more likely to pay the employee portion with pre-tax dollars than smaller organizations (100 - 499 employees).

Group long-term disability plans can take a variety of forms. Most plans have a “waiting period” before benefits kick in. This waiting period is three months to a year according to nearly three out of four respondents. Some plans define “disability” as the inability to perform one’s regular occupation; some as the inability to perform any occupation for which one is qualified by reason of education, training or experience. Other plans use a dual definition of disability, and the majority of these plans (78%) have definitions that change from regular occupation to any occupation after 24 months. The dual definition of disability encourages employees who are ultimately unable to resume their former occupation to engage in another occupation if they are reasonably able to do so.

More than eight out of 10 survey respondents reported offering a group long-term disability plan for their employees. Nearly three out of four provide it to them at no cost. The benefit period is typically until age 65 or Social Security Normal Retirement Age. The aggregate expense for providing disability benefits to employees was less than $250,000 in three out of four cases, with larger companies paying more, and smaller companies, less.
The typical benefit amount of a group disability plan is less than employees’ salaries – from just over half to two-thirds of the base salary in most organizations (82%) surveyed.

The majority reported the maximum monthly benefit amount as $5,000 or more. Most employees don’t earn more than the covered limit, so the benefit cap is not an issue for them. Two out of three respondents reported that less than 20% of their employees were “capped” by the maximum monthly benefit amount.

The majority of human resources professionals surveyed (83%) thought that this coverage was adequate. A few, however, believed that the maximum benefit amount would not cover most employees’ living expenses, especially those of highly compensated employees.

The base group long-term disability plan (continued)

Approximately what is the percentage of employees’ base salaries that is covered by your base long-term disability plan?

Note: n = 3,468. Only respondents whose organizations offer a group long-term disability plan were asked this question. Respondents who answered “don’t know” were excluded from this analysis.
What is the maximum benefit amount per month of your base group long-term disability plan?

Less than $2,500: 7%
$2,500 to $4,999: 14%
$5,000 to $7,499: 29%
$7,500 to $9,999: 12%
$10,000 to $14,999: 25%
$15,000 to $19,999: 7%
$20,000 to $24,999: 2%
$25,000 or more: 3%

Note: n = 2,875. Only respondents whose organizations offer a group long-term disability plan were asked this question. Respondents who answered “don’t know” were excluded from this analysis. Percentages may not total 100% due to rounding.

What percentage of employees are “capped” by the maximum monthly benefit amount of your group long-term disability base plan?

Zero: 10%
1% to 9%: 39%
10% to 19%: 18%
20% to 29%: 10%
30% to 39%: 6%
40% to 49%: 4%
50% to 74%: 6%
75% to 99%: 2%
100%: 4%

Note: n = 2,525. Only respondents whose organizations offer a group long-term disability plan were asked this question. Percentages may not total 100% due to rounding. “Capped” indicates that employees earn more than the covered limit.
High earners are at higher risk

One problem, particularly for high earners, is that variable compensation such as commissions and bonuses (in almost 80% of organizations surveyed) is not covered by the group disability plan.

If an employee typically earns a generous bonus, and expects that to be part of their annual compensation, it is unlikely that a benefit equal to 60% of his or her base salary, received after a waiting period of several months, would make up for lost earnings.

Some companies – 22% of those surveyed – include variable compensation in the income protected by their long-term disability plan. Almost all of those companies protect variable compensation at the same benefit percentage as the base plan selection. The study shows that 21% of employers offer the opportunity for some or all employees to buy or apply for additional coverage, either through the group plan or supplemental individual disability income insurance coverage.

Variable compensation inclusion

Still thinking about your base plan, is variable compensation, such as bonuses or commissions, included in the income protected by your base long-term disability plan?

- Yes: 22%
- No: 78%

Note: n = 3,243. Only respondents whose organizations offer a group long-term disability plan were asked this question. Respondents who answered “don’t know” were excluded from this analysis.
For employees of most companies, the base plan is the only option and it can be somewhat limited. However, around 16% responded that they offered “buy-up” coverage to some or all employees, paid for by the employee, usually with after-tax dollars. For about two-thirds of respondents, the maximum monthly amount of base and buy-up coverage combined was less than $15,000 per month.

Although buy-up coverage might help reduce the gap between base benefits and lost earnings for most employees, high earners could find themselves under-insured even with this extra protection. Nevertheless, only about a third of company representatives expressed concern. About half of organizations that offer buy-up coverage had never had a discussion with their benefit providers about these limitations – and less than a quarter of the number of organizations that have not discussed these limitations plan to do so.

Note: n = 3,332. Only respondents whose organizations offer a group long-term disability plan were asked this question. Respondents who answered “don’t know” were excluded from this analysis. “Buy-up” coverage indicates that this program does not include any supplemental individual long-term disability plans that the organization may offer.
An attractive option for employers desiring to help “reduce the gap” would be individual disability income insurance coverage to supplement the group plan.

Less than one in five organizations, however, offers such an option. Reasons for not making this coverage available include the fact that employees can purchase it on their own, even though they could get a significant discount by purchasing it through their employer and the employer’s concern about administrative burden and costs, even though employees can pay 100% of these premiums themselves. Those employers that do offer individual disability income insurance options do not necessarily make them available to all employees, basing eligibility on such factors as compensation, seniority, job title and executive carve-out.

Supplemental coverage can be positioned as useful in reducing the financial risk of disability for employees and as a way for employers to equalize the coverage offered to their most highly compensated employees without having to increase the group plan’s maximum benefit for everyone. It offers the opportunity to customize a long-term disability plan for an individual to meet his or her unique needs. In the event of a serious injury or a long-term illness, expenses such as mortgages, utilities, car payments, repairs, tuition and food are ongoing, while costs for uncompensated medical bills and equipment may mount. Individual disability income insurance provides benefits that can help someone to meet their expenses while they are unable to work.
Carrier satisfaction and future plan changes

Overall, 60% of organizations reported their group long-term disability program is a very important or extremely important element of their employee benefit offering.

Employees’ opinions of this program are rated slightly lower, from the perception of employers. Experienced benefits managers may have observed real-life cases of disability claims during their tenure and have seen first-hand the difference disability income insurance can make to an individual and his or her family. Employees, on the other hand, if they have not been closely impacted by illness or injury, might have an “it can’t happen to me” attitude. Although three-quarters of the organizations surveyed evaluate their long-term disability programs annually, only 15% of organizations are considering making changes to their programs in the future. The most common reasons to consider making carrier changes in the future are comparing with other carriers to obtain cost efficiencies and making changes to benefit offerings. Only about a third of organizations have actually switched long-term disability carriers in the past three years, mainly to reduce the cost of the plan.

Note: n = 345. Only respondents whose organizations offer a group long-term disability plan were asked this question. Respondents who answered “don’t know” were excluded from this analysis. Percentages do not total 100% due to multiple choice options.
Group long-term disability coverage is an important employee benefit. The study indicates that many benefit managers felt employees may not value disability coverage as highly as they themselves do.

Typical group long-term disability plans cover 60% or less of base salary. While most benefit managers believe their base plan is adequate, 17% do not. They are concerned for their employees’ well-being, specifically that the base plan doesn’t provide enough to live on for most employees, and doesn’t adequately cover highly compensated employees.

Some employers do not offer individual disability income insurance to supplement the group plan because they perceive that it will place an administrative burden on them or increase their own costs. In fact, there are cost-neutral solutions for employers with full implementation support available.

Supplemental individual disability income insurance coverage can be offered to employees at a significant discount compared to the cost of employees purchasing it on their own. This supplemental coverage can help reduce the gap between group disability insurance payouts and pre-disability income. Employers are in a unique position to offer a very valuable benefit to current and potential employees, while human resources professionals are in a unique position to supply them with the information needed to make good decisions about the future for themselves and their families.
About the research

- The survey was sent to a randomly selected sample of SHRM members from a variety of industries. A response rate of 10% was achieved with 4,402 responses – margin of error +/- 2%.
- The survey was conducted from July 10, 2012 - August 3, 2012.
- The results include respondents from publicly owned for-profit or privately owned for-profit organizations only.
- Only statistically significant differences with a sample size of 25 or more were reported.
- Organization staff size varied from less than 100 to over 25,000 employees, with 33% of organizations comprising 100 - 499 employees.
- 35% of organizations represented were located in the Midwest, 26% in the South, 22% in the West and 17% in the Northeast.
- 66% of organizations surveyed had U.S.-based operations only; 34% were multinational.
- 26% of organizations surveyed were single-unit, having only one location; 74% were multi-unit. Of the latter, HR policies and practices of 64% were determined by headquarters.

Demographics: Organization staff size

- 25% of organizations had 1 - 99 employees.
- 33% had 100 - 499 employees.
- 18% had 500 - 2,499 employees.
- 17% had 2,500 - 24,999 employees.
- 7% had 25,000 or more employees.

Note: n = 4,382.
About The Society for Human Resource Management (SHRM)
The Society for Human Resource Management (SHRM) is the world’s largest association devoted to human resource management. Representing more than 250,000 members in over 140 countries, the Society serves the needs of HR professionals and advances the interests of the HR profession. Founded in 1948, SHRM has more than 575 affiliated chapters within the United States and subsidiary offices in China and India.

About MassMutual
Founded in 1851, MassMutual is a leading mutual life insurance company that is run for the benefit of its members and participating policyholders. The company has a long history of financial strength and strong performance, and although dividends are not guaranteed, MassMutual has paid dividends to eligible participating policyholders every year since the 1860s. With whole life insurance as its foundation, MassMutual provides products to help meet the financial needs of clients, such as life insurance, disability income insurance, long-term care insurance, retirement/401(k) plan services and annuities. In addition, the company’s strong and growing network of financial professionals helps clients make good financial decisions for the long term.

MassMutual Financial Group is a marketing name for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliated companies and sales representatives. MassMutual is headquartered in Springfield, Massachusetts, and its major affiliates include: Babson Capital Management LLC; Baring Asset Management Limited; Cornerstone Real Estate Advisers LLC; The First Mercantile Trust Company; MassMutual International LLC; MML Investors Services, LLC, member FINRA and SIPC; OppenheimerFunds, Inc.; and The MassMutual Trust Company, FSB.

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