

## GOOD CHOICES FOR YOUR FUTURE — HOW KNOWLEDGE CAN PLAY AN IMPORTANT PART IN HEALTH

When making choices about long-term disability (LTD), the most common option is to increase the maximum monthly benefit of the LTD contract.

“Your health is your wealth!” — How many times have you heard that? Knowledge certainly affects one’s ability to make good choices. We choose what food we eat, whether to buckle our seatbelt, even how we exercise. When we make the right choices, we’re rewarded with vitality.

But what about financial wealth in the corporate environment? You make choices there, too. As a financial advisor, you may be focused on providing a group long-term disability (LTD) plan for your corporate client. Did you know that in addition to providing the ability to help employees protect their income while disabled, you’re also providing a third-party adjudicator (the insurance carrier) in the event of a dispute over whether an employee can or should return to work? From an employer’s “economic” perspective, it’s important to help a disabled employee return to work as soon as possible, because the expense to hire and train a new employee can be an unexpected financial burden.

When making choices about LTD, the most common option is to increase the maximum monthly benefit of the LTD contract. This is usually done when there are highly compensated executives whose benefit replacement percentage falls below the benefit replacement percentage offered in the plan for rank-and-file employees.

**The Situation:** LTD Plan = 60 percent of salary to a maximum monthly benefit of \$10,000 per month.

- Supervisor making \$75,000 annual salary would receive \$3,750 per month, or 60 percent.
- C-level executive making \$250,000 annual salary would receive \$10,000 per month, or 48 percent.

**Choice 1** – Employer changes the LTD plan from \$10,000 to a maximum monthly benefit of \$12,500 per month. Now the C-level executive has 60 percent replacement to match other employees.

**PROBLEM:** The rate (price per hundred of monthly covered payroll) goes up, and the employer bears the cost for this change. Now the C-level executives have a better plan, but there’s no added benefit to the employer. In fact, there’s no difference in the level of service provided by the carrier for rehabilitation or return-to-work benefits.

**Choice 2** – Employer keeps the LTD plan maximum at \$10,000, but now offers a voluntary supplemental individual disability plan to those executives who have a gap in their income protection. See Figure below.

**SOLUTION:** By offering the supplemental plan, those executives who want to fill their gap can do so with a simple payroll deduction, usually with guarantee issue and permanent, portable discounts on their individual policies. Also, by keeping the LTD plan design, there’s no rate increase to the employer.



Figure

**PROBLEM**

Title	Base Salary	Bonuses	Total Annual Salary	Total Monthly Salary	Group LTD*	Individual DI	% Salary Replaced
CEO	\$200,000	\$150,000	\$350,000	\$29,167	\$10,000	\$0	34%
Sr. VP	\$175,000	\$100,000	\$275,000	\$22,917	\$8,750	\$0	38%
VP	\$100,000	\$75,000	\$175,000	\$14,583	\$5,000	\$0	34%
Manager	\$75,000	\$50,000	\$125,000	\$10,417	\$3,750	\$0	36%
Manager	\$50,000	\$25,000	\$75,000	\$6,250	\$2,500	\$0	40%

\*60 percent of base salary to a maximum of \$10,000 monthly benefit

**SOLUTION**

Title	Base Salary	Bonuses	Total Annual Salary	Total Monthly Salary	Group LTD*	With Individual DI	Individual DI	% Salary Replaced
CEO	\$200,000	\$150,000	\$350,000	\$29,167	\$10,000	\$11,875	\$21,875	75%
Sr. VP	\$175,000	\$100,000	\$275,000	\$22,917	\$8,750	\$8,425	\$17,175	75%
VP	\$100,000	\$75,000	\$175,000	\$14,583	\$5,000	\$6,000	\$11,000	75%
Manager	\$75,000	\$50,000	\$125,000	\$10,417	\$3,750	\$4,100	\$7,500	75%
Manager	\$50,000	\$25,000	\$75,000	\$6,250	\$2,500	\$2,200	\$4,700	75%

\*60 percent of base salary to a maximum of \$10,000 monthly benefit

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