

WHY DI RIGHT NOW

Disability insurance should adjust to cover increased earnings over the course of one's career.

Many employers provide group long-term disability (LTD) insurance to their employees, but is this coverage sufficient? Not if you're a high-income professional who risks an unexpected coverage gap if an illness or accident occurs. When coupled with recent labor and economic market changes, now is a good time for employers and high-income professionals to reassess their disability insurance (DI) plans.

WHY HIGH-INCOME PROFESSIONALS NEED TO REVIEW THEIR DI PLAN

- **Wage Inflation** — Salary and/or bonus compensation income has increased for many employees driven by overall inflation and a competitive talent market, and if a professional has changed jobs, it's likely their compensation has increased. These forces raise the risk of inadequate DI coverage, or even no coverage if a new employer does not have a DI plan.

Peak Earning Years

As high-income earners reach peak earning years, they may not realize the risk of disability increases as they age and become vulnerable to forced early retirement. This heightened risk occurs during a time that is crucial for maximizing savings and investments and protecting those assets with a comprehensive income protection plan.

QUESTIONS TO ASK

- Does the new employer offer DI? If so, has the new employer's group LTD plan been reviewed?
- Are benefits more or less than previous employment?

- **Lower Savings Rate** — While many workers accumulated savings during the pandemic, these cash reserves are now on the decline, and both consumer debt and interest rates are on the rise. Even high-income (six-figure) earners experience this squeeze with 50% living paycheck to paycheck.[1] Cash reserves and emergency funds typically run out after three to six months, but if a disabling event lasts that long, research suggests that a person may be unable to work for an average of two to five years.[2]

  QUESTION TO ASK

  – How long can expenses be covered without an income?

- **Increased Medical Costs** — The expense of a disabling event is often overlooked and is compounded when the individual is unable to work. Not only does income stop, but medical expenses including deductibles/co-insurance, rehabilitation, travel, and other related out-of-pocket expenses typically increase after an accident or illness. Discretionary spending is reduced, and long-term financial goals are impacted as contributions to investment accounts (e.g., 401(k)s, and IRAs) cease. Unanticipated expenses may force individuals to use credit cards as a temporary solution with interest rates of 20% or more, the highest in years.

  QUESTION TO ASK

  – Are savings available to meet medical insurance out-of-pocket maximums and other related expenses?

CONSIDERATIONS WHEN REVIEWING EMPLOYER-SPONSORED DI PLANS

- **Tight Labor Market** — Keen competition for talent is being fueled by the ongoing retirement of baby boomers and the exit of many individuals from the workforce during the pandemic. A strong employee benefits package can help attract new talent and retain valuable employees, while also minimizing the costs associated with employee turnover. A comprehensive disability plan is an essential inducement to attract talent that is no longer restricted by geography.

- **Increased Wages** — Recent compensation increases have likely outpaced coverage provided by group disability benefits for key employees. Group LTD monthly benefit maximums don't adjust for inflation and need to be actively monitored, and consideration given to what types of income are insured. Total cash compensation includes salary and variable income. It's prudent to review the group LTD contract to verify covered compensation.

- **Time to Review Disability Plans** — Annual benefit planning often focuses on core medical benefits due to the significant cost to the company. LTD plans should also be reviewed as the financial risk to a high-income employee can be millions of dollars in lost income over the course of their career. Consider the following questions to help determine if an existing plan needs further review.

  – When was the group LTD plan implemented?

  – When was it last reviewed?

  – How much compensation does the group LTD plan cover?

  – Has cash compensation increased since implementation?

  – Is variable compensation covered (i.e., bonus), or does the plan only cover salary?

  – Does the plan align with the employer's benefit philosophy?

[1] Lending Club and Pymnts.com, https://www.bloomberg.com/news/articles/2022-06-01/a-third-of-americans-making-250-000-say-costs-eat-entire-salary. June 1, 2022.

[2] 1985 Society of Actuaries Disability Tables as presented by Gary L. Kiontke

COMMON EMPLOYER SOLUTIONS

- **Group LTD** — This coverage provides a foundation for long-term income protection planning. While some adjustments may need to occur for the reasons discussed, not all issues can be addressed due to product and plan design limitations.
- **Executive Individual Disability Insurance (IDI)** — Employer-sponsored supplemental plans wrap around group LTD benefits providing individual policies to key employees with multi-life discounts, which offers a more permanent form of long-term, portable coverage. Implementing plans today is more streamlined than ever due to guaranteed standard issue coverage (no invasive medical or financial underwriting), and census enrollment (no individual applications or signatures).
- Completing a disability insurance plan analysis requires only basic employee information and a copy of the existing group LTD plan.

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