



## Business insights and information you need to know

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### Executive Summary

Most employer-sponsored group long-term disability plans do not meet the needs or expectations of its executives. Because of plan design and limitations, **disability benefits for executives are only a fraction of the benefit received by the rank and file.**

DRG can provide solutions for executive **reverse discrimination.**

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## Overcome Reverse Discrimination with Executive Disability Income Plans

### The Problem:

The executive's greatest financial resource – future-earning power – is exposed to catastrophe in the event of long-term disability. Long-term disability occurs much more frequently than expected.

Age	35	40	45	50	55
Disability - 3 months or longer	50%	45%	40%	33%	23%

Employer-provided group long-term disability (LTD) plans were designed to cushion the risk of disability for each employee. However, plan terms, design and benefit limitations often cause **reverse discrimination** for the highly compensated.

### Group LTD Plans Fall Short For Executives:

**Limited definition of earnings.** Most group plans pay a benefit based on salary. However, a large percentage of an executive's total compensation often comes from bonuses and incentive compensation. Unfortunately, because this income is not considered "salary", it is excluded from the definition of covered compensation. This limitation materially reduces the percentage of income actually replaced by the group LTD plan.

**Benefit caps.** Generally, group LTD plans are designed to pay benefits as a set percentage of salary, commonly sixty percent (60%). However, **maximum** benefits are normally capped between \$5,000 to \$10,000 per month. Thus, executives often receive only a small portion of their total compensation.

**Overly limited occupation definitions.** Many group LTD plans limit "own occupation" to a maximum of 24 months and then switch to "any occupation." The result, after the 24 months, is the executive may receive no disability benefit even though he or she cannot perform former job duties.

**Lack of portability.** When the executive leaves, group plans cease, whereas executive disability policies are portable. Consider a merger or a downsizing where the executive is in transition between jobs. The executive has no disability coverage under group plans because he or she is no longer an employee.

### The Solution:

Implement an Executive Disability Income Plan to make up for the group policy limitations. Such a program typically offers:

- § Compensation defined to include bonuses and other compensation
- § Higher benefit maximums (up to 75% of all compensation, for example)
- § Portable disability policies (i.e. go with the executive)
- § Protection of the executive's "own occupation"
- § Level premium guarantees
- § Optional conversion to a long-term care policy
- § No Benefits offset by social security or retirement benefits as with most group plans.

# Executive Disability Case Study

For illustrative purposes, we created a four-person census and assumed that these highly compensated executives desired long-term disability income equal to 75% of their Total Compensation. It was further assumed that the Group LTD benefit was equal to 60% of Base Salary, up to a maximum of \$6,000 per month.

Executive	Age	Base Salary	Total Comp.	Group LTD	Group LTD as % of Total Comp.	Additional Coverage Required	Executive LTD as % of Total Comp.
A	40	\$75,000	\$100,000	\$45,000	45%	\$30,000	75%
B	45	\$100,000	\$150,000	\$60,000	40%	\$52,500	75%
C	50	\$125,000	\$200,000	\$72,000	36%	\$78,000	75%
D	55	\$150,000	\$250,000	\$72,000	28.8%	\$115,500	75%
<b>Total</b>		<b>\$450,000</b>	<b>\$700,000</b>	<b>\$249,000</b>		<b>\$276,000</b>	

**Note:** Because of the group LTD limitations of the definition of income and the \$6,000 cap, the maximum executive benefit was 45%; and for the senior executive, less than 29% of total compensation!

## Frequently Asked Questions

### Isn't this kind of individual insurance expensive?

An executive LTD plan is normally more expensive than group coverage because of better definitions, guaranteed price, portability and flexibility. However, because of the corporate buying power, the plan is often 15% to 30% less than a normal individual contract. The executive disability as a *percentage of benefit costs* is insignificant when compared to the overall benefit costs.

### Are these individual portable policies hard to obtain, and do they require a medical exam?

The answer is usually no to both questions. The policies can be issued without a medical exam (i.e. "guaranteed issue") if the employer pays for the policies and there are at least 3 executives in the plan. Because of the "guaranteed issue" feature, the applications are simple and the process is easy and quick.

### Is it hard to coordinate with the company group policy?

No, it is not. The group and executive plans dovetail to provide maximum benefits at a very reasonable cost.

### What are the benefits to the employer?

Attracting and retaining executives with a key benefit while obtaining tax deductible business expense.

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#### *The Bottom Line*

*An Executive's most valuable asset – future earning power can easily and economically be protected with an Executive Disability Income Plan.*

*For more information contact your DRG representative at*

*800 945 9719*

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