Today's Objectives

- To discuss employer plans for disability

Module 4 – Poor Health – Disability
→ Poor Health Financial Security (Overview)

Recall:

- The **Three**-Legged Stool of Poor Health – Disability
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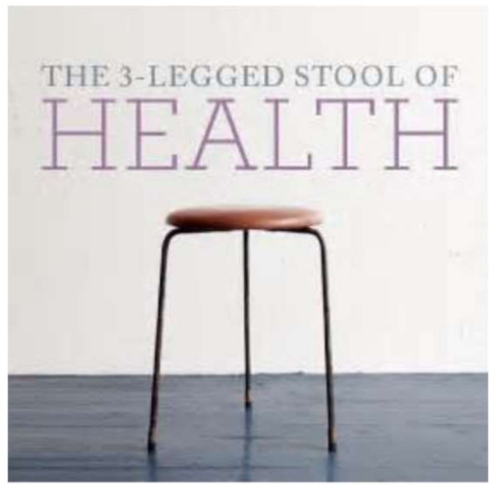

I – Government – Employment Insurance (STD), CPP (LTD), WC

II – Employer - Short Term (STD) & Long Term (LTD) Disability

III – Individual – Individual Disability Insurance

Employer Disability Benefit Programs

- Most employers provide some form of disability income replacement in the event of sickness or accident whether or not the cause is related to work
- They **may offer one or more (usually 2) of:**
  1. Sick Leave (Salary Continuance) Plans
  2. Short-Term Disability Plans (STD)
  3. Long-Term Disability Plans (LTD)

- We will review the above benefits plus a few related topics (DI cost trends and challenges, adjudication, Burden of Proof), and also look at a plan example

Module 4 – Poor Health – Disability
→ Employer Plans (Ch 21 of *Social Ins. & Economic Security*)

Employer Disability Benefit Programs

1. Sick Leave (Salary Continuance) Plans
   - Sick Leave Plans are also referred to as Salary Continuance Plans
   - These plans **allow an employee (e'ee) to miss up to a certain number of days of work due sickness/illness and still receive pay** (often 100% of salary)
   - A typical sick-leave plan may allow up to 20 sick days yearly
   - In some plans, unused sick leave days may be carried forward for use in future years (referred to as a sick leave bank) or e'er 'buys them back', while other plans don't allow this
     - Many plans have eliminated or reduced number of days that can be carried forward or 'banked' and also the 'buybacks' of unused sick days
     - Several have also reduced the number of sick days with pay allowed each year

<u>Employer Disability Benefit Programs</u>

1. Sick Leave (Salary Continuance) Plans
   - **Some sick leave plans are more formal**:
     - benefits may begin after a waiting period (sickness) or on first day of absence (accident/hospitalization)
     - benefits often are 100% of income but can be less
     - benefit period can be stated as a fixed number of sick days per year or as a number of months
   - **Sick leave plans are usually "self insured"**, that is:
     - They are adjudicated/administered by the employer (e'er)
     - Benefits are not funded, but are paid out of payroll
   - **When a plan is "self insured"**, this means that the **employer takes all the financial risk** and benefits are considered wages (which means e'er must make CPP, EI, WC contributions, etc.)

Employer Disability Benefit Programs

2. Short-Term Disability Plans (STD)
   - Many employers offer only one of STD and sick leave plans
   - While both are intended for short term coverage, key differences between STD and Sick leave plans are that **with STD**:
     - Plan is usually insured, or **at least has some involvement by an insurance company** (such as adjudication of claims)
     - **Maximum benefit period is longer** than for a sick leave plan
   - If an e'er offers both a sick leave and STD benefits, the sick leave plan is less formal
   - If an e'er offers a sick leave (salary continuance) plan only, it would be more formal and more akin to an STD plan

Employer Disability Benefit Programs

2. Short-Term Disability Plans (STD)
   - Funding Methods:
     i. Fully Insured Plans
        - Financial risk is transferred to insurer in exchange for a premium paid by the e’er
        - Fully Insured plans are underwritten by an insurance company
        - E’er has a contract with insurer to provide STD plan to their e’ees
        - Insurer agrees to adjudicate and pay all claims out of insurer’s money

Employer Disability Benefit Programs

2. Short-Term Disability Plans (STD)
   – Funding Methods:
      ii. Self-Insured Plans
         – Benefits are paid by e'er out of payroll
         – This means that e'er must make CPP, EI and WC contributions plus pay payroll taxes on any disability benefits paid out
         – E'ee will have CPP, EI and income tax deducted from any disability benefits received
         – Self insured plans tend to use a 3rd party for claims adjudication

Employer Disability Benefit Programs

2. Short-Term Disability Plans (STD)
   - Funding Methods:
     - iii. Administrative Services Only (ASO) Plans
       - These are STD plans that use an insurance company only to provide administrative services, such as adjudicating and paying claims
       - With ASO plans:
         - » Insurer provides services to the e'er such as adjudicating disability claims and mailing out the disability checks
         - » E'er provides the money for the disability claims, and
         - » E'er pays a flat fee to insurer for the ASO services (fee may be based on the number of claims)
         - » E'er still pays the benefits

Employer Disability Benefit Programs

2. Short-Term Disability Plans (STD)
   - Funding Methods:
     - iii. Administrative Services Only (ASO) Plans
       - Benefits of ASO plan:
         - » If it is structured so that there is an "arm's length" relationship for claims adjudication, then benefits would NOT be subject to payroll taxes or CPP, EI and WC contributions (↓ e'er cost)
           - Disability benefits however would still be subject to income tax for the disabled e'ee, along with CPP and EI deductions

Employer Disability Benefit Programs

2. Short-Term Disability Plans (STD)
   - STD Benefits - highlights:
     - STD benefits are **usually stated as a percentage of pay** (usually **between 55% and 70%** of gross weekly earnings)
     - Payments begin on the first day of absence if disability is caused by an accident or hospitalization or on the 4th or 8th day for absences related to illness
       - The latter is to discourage casual absences
     - **Benefit period usually covers the elimination period before LTD** benefits begin and is **usually between 15-26 weeks** (can be up to 104 weeks but this is rare)

Employer Disability Benefit Programs

2. Short-Term Disability Plans (STD)
   – STD Benefits - highlights:
     - **STD benefits are often integrated with other disability benefits** (to ensure e'ee does not receive total DI income > working income)
     - Benefits are taxable income to e'ee unless plan is insured and entire premium has been paid by e'ee

Employer Disability Benefit Programs

3. Long-Term Disability Plans (LTD)
   - E'er sponsored or **Group LTD** has some similarities to Individual disability insurance (DI) in that they are **fully insured**, but with group LTD **whole e'ee class is underwritten** (not each individual)
   - **LTD waiting period (or EP)** is linked to any STD/salary continuance benefits offered
   - **LTD** Disability definition is **often "own occupation" for 1st two years then "any occupation" thereafter**
   - Can be quantitative tests, e.g.:
     - Own Occ: unable to perform at least 80% of normal duties
     - Any Occ: unable to perform a job that pays at least 2/3 of pre-disability earnings

Employer Disability Benefit Programs

3. Long-Term Disability Plans (LTD)
   - **Pre-Existing condition clauses** that limit liability are especially common in small plans or industries with high turnover rates
   - **Exclusions** are also part of the LTD policy (e.g. injuries as result of self-inflicted injury, criminal act excluded)

Employer Disability Benefit Programs

3. Long-Term Disability Plans (LTD)
   - LTD Benefits - highlights:
     - LTD benefits paid only when e'ee meets plan disability definition
     - **LTD payments** continue for as long as e'ee is disabled but **typically end at age 65** (even if still disabled at that time)
     - **LTD Payments** are made monthly and are expressed as a % of pay
       - Range is **50-70%** of pre-tax income
     - **LTD benefit taxability depends on who pays for benefit**
       - If e'er pays premium, LTD benefit is taxable income to e'ee
       - If e'ee pays premium, LTD benefit is not considered taxable income

Employer Disability Benefit Programs

3. Long-Term Disability Plans (LTD)
   - LTD Benefits - highlights:
     - **Most LTD plans have a rehabilitation benefit** which allows e'ee to work under an approved rehab program
       - Plan may only partially offset income earned under the approved rehabilitation program (e.g. 50% offset: if LTD monthly payment is $2,000 and income under approved program was $800 then only $400 would be offset, so e'ee would get $1,600 LTD plus the $800)

Employer Disability Benefit Programs

3. Long-Term Disability Plans (LTD)
   – LTD Benefits - highlights:
     - **LTD benefits are integrated** with other sources of Disability Income such as WC, CPP, and other employer and government sources
       – This is done to limit income received from all sources to a reasonable % of pre-disability income
       – Goal is to still provide adequate income to the disabled e'ee but also needs to be an incentive for e'ee to return to work

Employer Disability Benefit Programs

3. Long-Term Disability Plans (LTD)
   - LTD Benefits - highlights:
     - Integration example - direct offset method:

       Suppose LTD provides for 60% of gross income prior to disability

       Assume gross annual income is $60,000

       LTD benefit = (60,000)×(.60) = $36,000 yearly or $3,000 monthly

       If e'ee is receiving CPP monthly Disability benefit = $800, e'er then adjusts the e'er sponsored LTD benefit down to $2,200

Employer Disability Benefit Programs

- Other Related Topics
    i. Group Disability Plan Costs
    ii. Current Challenges
    iii. Changes in Adjudication of Claims - shift to Insurer
    iv. Burden of Proof