

Today's Objectives

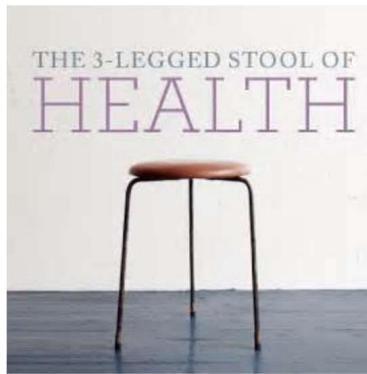
- To discuss employer plans for disability



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

Recall:

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



- - I – Government – Employment Insurance (STD), CPP (LTD), WC
 - II – Employer - Short Term (STD) & Long Term (LTD) Disability**
 - III – Individual – Individual Disability Insurance



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→ Employer Plans (Ch 21 of *Social Ins. & Economic Security*)

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



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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



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Employer Disability Benefit Programs

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.)**



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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



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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



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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



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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



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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



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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)



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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



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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



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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)



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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



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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)



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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



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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 = $(60,000) \times (.60) = \$36,000$ 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

offset from
CPP.



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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

