

How Group Disability Income and Individual Disability Income Policies are Similar and Different

As you review the Draft standards, you will find that in many respects provisions for group disability income policies and certificates are similar to individual disability income policies. At their most basic level, both products provide a disabled insured with partial income replacement, payable on a periodic basis, for a specified benefit period.

	Group Disability Income	VS	Individual Disability Income (IDI)
Relationship	Relationship is between Employer and Insurance Company to insure Employees of the Employer.		Relationship is between Individual Insured and Insurance Company.
Plan Options	<p>Employer elects who pays for Coverage for all (Classes of) Employees.</p> <p>Coverage may be Employer paid or Employee paid or a combination of both. Any Employee contributions are withheld from paychecks.</p> <p>Definition of Disability and Benefit amounts, including minimums and maximums, are chosen by the Employer.</p>		The individual is the owner of the policy and can request changes to coverage.
Taxability of Disability Benefit	<p>May vary, depending on who pays for cost of coverage.</p> <p>If Employer paid, the Disability Benefits paid to the Employee are taxable to the employee.</p> <p>If Employee pay all coverage (or if the coverage is partially paid by Employee), Disability benefits paid to the Employee may or may not be taxable to the Employee, depending upon if Employee paid with pre or post tax dollars. (If Employee portion was paid with pre tax dollars, that portion of the Disability Benefit will be taxable to the employee.)</p>		Non Taxable.

	Group Disability Income	VS	Individual Disability Income (IDI)
Cost	Typically, more affordable than individual coverage.		
Coverage	<p>Under a group policy, eligibility for coverage is usually based on active employment with the employer who purchased or sponsored the coverage.</p> <p>Upon termination of active employment, insurers may provide coverage continuation, conversion or portability, but are not required to do so in a group disability income policy.</p>		<p>Eligibility is tied to earnings either as an employee of an employer or through self-employment.</p> <p>Most policies are either non-cancelable or guaranteed renewable. As long as premiums are remitted, coverage remains in force, even if individual changes job or occupation.</p>

Risk Issues			
Statement of Insurability (SOI)	<p>Seldom required.</p> <p>May be required of late entrants and for increases in coverage. Everyone receives the same plan regardless of health.</p>		Always required.
Preexisting Conditions	Once the insured is covered for the specified period of time (e.g., 12 months), there is no limitation or exclusion for Preexisting Conditions.		May permanently limit or exclude from coverage a preexisting disease or physical condition disclosed in the application.

Long Term Disability Elimination Periods	May be longer than Individual Disability Income policies as employees are most likely covered for the first several weeks or months of weekly income benefits either through a sick pay or salary continuation or short term disability plan.		
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Conclusion:

As you can see, while group disability income and individual disability income policies are both designed to provide partial income replacement to disabled individuals, these policies do have significant differences.

A few of the differences we highlighted today are:

- cost (group policies are generally more affordable),
- relationship of employer (instead of individual insured) with insurance company. (This impacts who chooses the plan options, and who pays for the coverage.), and
- risk issues (as demonstrated by the statement of insurability requirements and how Preexisting Conditions are treated).

Although we highlighted some of the more obvious differences between group and individual disability income policies, you will likely see more subtle differences as you review these standards.

Group Short Term Disability (STD) vs. Group Long Term Disability (LTD)

Short Term Disability

Short term disability insurance provides income protection for individuals who cannot work due to injury or sickness. STD coverage pays benefits for a relatively short period of time (usually not longer than 13 or 26 weeks).

STD insurance **typically** has these characteristics:

- **Short elimination period** (0 to 7 days). An elimination period is the period once someone becomes disabled before benefits are payable. Elimination periods may differ, according to whether the elimination period applies to accidents or sicknesses (i.e. 0/7).
- The benefit is paid on a **weekly** basis
- Typically covers only **non-occupational disabilities** - since most employers are required to provide Workers' Compensation benefits for occupational (work-related) injuries or sicknesses.
- Guarantee Issue - no medical evidence of insurability is required
- Can replace a percentage of income (for example, up to 66 2/3% of income) to a benefit maximum or a flat dollar amount
- **Claims are generally paid quickly**, due to the short term nature of the claim

STD definitions of disability available typically include Total Disability, Partial Disability and Residual Disability, which will be explained in more detail later.

Optional provisions/incidental benefits available include:

- Occupational coverage;
- Survivor benefits;
- First day hospital;
- Outpatient surgical.

Five states and the commonwealth of Puerto Rico also offer some type of state plans for short term disabilities – CA (State Disability Insurance SDI), HI (Temporary Disability Insurance TDI), NJ (Temporary Disability Benefits TDB), NY (Disability Benefits Law DBL), & RI (Temporary Disability Insurance TDI).

Long Term Disability

Long Term Disability insurance provides a monthly benefit for individuals who cannot work due to injury or sickness. As the name implies, LTD coverage pays benefits for an extended period of time (often until the person reaches retirement age). It is generally designed to begin after a person's payments from a short term disability plan would end.

LTD insurance **typically** has these characteristics:

- Lengthy elimination period (90 to 180 days). LTD coverage provides income protection when an illness or injury prevents the Employee from performing in an occupation for a considerable length of time. Therefore, the EP should be long enough to establish a true Long Term Disability, and should also be designed so that benefits do not begin until the expiration of any benefits payable under an STD plan or Salary Continuation Plan.
- Generally replaces a certain percentage of income (for example, 66 2/3rds%) to a benefit maximum
- Benefit is paid on a **monthly** basis
- Written on a **24-hour basis** meaning that it covers both occupational (work-related) and non-occupational disabilities
- Guarantee Issue - no medical evidence of insurability is required
- **Pre-existing condition exclusion or limitation is normally required**
- **LTD claims can be extremely complex.** As you can imagine, the degree to which an illness or injury can impact a person's ability to work depends not only on the severity of the illness or injury but also on the person's occupation, age, general health, etc.
- LTD definitions of disability available typically include Residual Disability and Partial Disability.

Optional provisions/incidental benefits available include: COLA, Conversion, Recovery, Spouse disability and many more.

Long Term and Short Term Disability Plans

Short term disability and long term disability insurance plans frequently “dovetail” or work together, in order to avoid either overlapping coverage or a gap in coverage between the two. For example, an STD plan with a 26 week maximum period of payment could be paired with an LTD plan with a 180 day elimination period to ensure seamless coverage.

“Own Job” versus “Own Occupation”

The purpose of Disability Income insurance is to protect the income that persons receive from their employer should they become disabled. The most common definitions of disability are based on the ability to perform their Regular Job or Regular Occupation. These are similar concepts but there are subtle differences.

Regular Job - **“Regular job”** means the job that a person was performing on the day before Disability begins. “Job” means a person is performing the Substantial and material duties routinely performed at a required location for wage or profit. This is the actual job description that a person has with his/her employer.

“Substantial and material duties” means the important tasks, functions and operations generally required by the policyholder, or in the national economy or marketplace, as applicable, from those engaged in a Job, Occupation or Specialty that cannot be reasonably omitted or modified. This term may include the person’s ability to work on a regular work schedule for a specified number of hours.

Regular Occupation - **“Regular Occupation”** means the occupation that a person was routinely performing on the day before Disability begins. **“Occupation”** means a group of jobs or related jobs in the national economy or marketplace, as appropriate, in which a common list of tasks is performed, or which are related in terms of similar objectives or methodologies and which may be related in terms of materials, products, work actions or worker characteristics. Occupation refers to a person’s trade, profession or business as it is normally performed in the national economy – not how the work tasks are performed for a specific employer or at a specific location.

An example of the difference between “job” and “occupation” is of the paint salesman. For his regular job he may be required by his employer to lift 50 pounds. In the case of his regular occupation based on the national marketplace for a salesman’s position he would typically have a 20 pound lift limit.

Regular Specialty - There is also another description that a person’s occupation can be based on **“Regular Specialty”**. We see this type of request for mainly physicians and attorneys. “Regular specialty” means the specialty that a person was performing on the day before *Disability* begins. **“Specialty”** means a general specialty or sub-specialty recognized by the American Board of Medical Specialties, the American Bar Association, the state where a person’s certificate is issued for delivery, or any other state, as applicable/appropriate.

The most broad category for describing a person’s occupation is **“Any Occupation”**. “Any Occupation” is any occupation for which the person is qualified by reason of education, training or experience.

All of the different definitions of what type of occupations are being insured have a place in group disability income insurance. These definitions are the “specialty definitions”, the person’s specific job, the person’s occupation and the most broad category which is “any occupation”. These are the predominant approaches to defining being disabled from your occupation in the marketplace today and the product standards need to be flexible to accommodate future innovation.

Benefit Triggers Used for Partial or Residual Disability, Presumptive Disability, Total Disability and Catastrophic Disability

While there are some common elements that all definitions of disability share, there are also a myriad of additional benefit triggers that companies combine in different ways delineate the requirements necessary to get the basic income replacement benefit. These benefit triggers may also be used in a provision describing Incidental or Catastrophic Disability benefits that provide amounts separate from or in excess of the basic income replacement benefit. Accordingly, the group disability standards need to be broad and flexible to address all of the numerous benefit options that are currently available to group employers and their employees.

The typical elements that may be included in a definition of disability are as follows:

Definition	Work Related Test	Work Status	Other
Total Disability	Job, Own Occupation, Specialty, Gainful Occupation	Not Working	Minimum Required Coverage
Partial/Residual Disability	Job, Own Occupation, Specialty, Gainful Occupation	Working	May be required to follow period of Total Disability May include loss of earnings threshold (such as 20%)
Presumptive Disability	Not Applicable	Not Applicable	Loss of hearing, sight, use of a limb

Other triggers have been approved for use and combined with the elements listed above to describe when an individual qualifies for the basic income replacement benefit. Examples of these triggers are:

- diagnosis with a terminal illness;
- inability to perform certain activities of daily living (ADL);
- diagnosis of cognitive impairment;
- nursing home confinement;
- receipt of hospice care;
- medical determination of a specified impairment rating (such as used in Workers' Compensation);
- receipt of Social Security Disability Insurance benefits; or
- diagnosis with a contagious disease.

The Role of Rehabilitation Benefits in a Typical GDI Plan

The primary role of disability income insurance generally remains to provide income replacement benefits to those individuals who have lost the ability to provide financially for themselves, and their families if any, as a result of Illness or Injury. The business owners who sponsor and often pay for group disability income insurance plans certainly want to provide financial security to those workers genuinely incapable of work. However, they are also committed to improving the productivity of their work forces and to providing plans that both actively address the obstacles in the way of return to work and that are structured to ensure that those who can work, do, with whatever assistance is needed. In addition, laws such as the Americans with Disability Act demonstrate the strong public policy in supporting the rights of individuals with physical or mental impairments to stay in the work force. Group disability income insurance plans often include rehabilitation provisions to achieve these goals.

A rehabilitation provision is designed to provide individuals with the training, education and accommodations necessary to remain in or re-enter the workforce. As an incentive to participate in a rehabilitation program, the provisions offer certain rewards. For example, it may increase the basic benefit payment for the duration during which an individual is participating in a rehabilitation plan, or it may agree to continue payments for a time even after an individual has recovered if that person has not yet found work.

Also impacting group disability insurance rehabilitation provisions and related provisions is a legal concept requiring that an individual who has suffered a loss has a responsibility to take reasonable steps to mitigate the loss. Accordingly, these provisions can also include consequences, such as reduction or termination of benefits, if an individual who is capable of participating fails to do so without good cause.

Integration With Other Sources of Benefits or Income:

Both group and individual products are intended to supplement and integrate with federal and state disability benefits and workers' compensation benefits. Just as state and federal disability plans operate, employer sponsored plans are intended to provide a meaningful benefit, but at the same time prevent the combination of income from all sources from replacing too much or exceeding the employee's wages while working. As workers age, benefits provided under group plans are designed to end around the time that an employee begins collecting social security and other retirement income. Individual disability policies may only continue coverage up until the time an individual is age 65 or eligible for Social Security retirement. Group policies typically cover the person as long as they are working and instead integrate with federal, state and employer provided retirement benefits.

Group plans may also integrate with employer provided disability retirement benefits as well as other sources of income as a result of the disability.

Group plans usually offer an insured an option to receive a full benefit while waiting for federal or state disability benefits and workers' compensation awards and then repay any overpayments to the insurer.

The Role of Conversion and Portability Benefits in a Typical GDI Plan

In today's marketplace, companies are providing conversion to an individual policy, or under another group policy that has been issued specifically for, and limited to, providing conversion coverage for *Covered Persons* whose coverage ends under an employer's plan. These group conversion policies are approved for use in all Compacting States and may provide one option or the other, but never both. Accordingly, we are recommending standards that address both conversion options on an optional basis.

It should be noted that under traditional group *Disability* income plans, companies may provide either a conversion option or a portability option. However, the industry prefers to provide as much flexibility as possible and is recommending that the standards also accommodate a plan that may provide conversion and portability options.

It is important to note that under group *Disability* income plans, conversion and portability provide different benefits. Conversion may result in amounts of insurance which are less than what the *Covered Person* was insured under the employer's plan. Portability allows a *Covered Person* to "port" the same coverage that was in effect on the day coverage ended under the employer's plan.