

Advising Today's Business Market ▼

Long Term Disability as a Benefits Tool

by **Bob Klein**



Mr. Klein is Vice President of Voluntary Benefits, Sun Life Financial U.S., responsible for the development, commercialization, and profitability of our Voluntary solutions.

Employers are increasingly shifting the cost of group insurance benefits to workers. Just as employers have largely replaced employer-paid DB plans with DC plans, the same cost-cutting pressures are transforming the group insurance benefits sector. One third of employers are considering replacing employer-paid insurance with voluntary group benefits, according to LIMRA. And many other employers don't currently offer group long-term disability to their employees: 59% of U.S. full-time workers, 65 million people, have no access to group LTD. As more employers offer voluntary group benefits, American workers will need to assume more responsibility for planning and managing their group benefits. If workers don't understand their risks and plan accordingly, they may mismanage their benefit plans and possibly jeopardize their financial security.

Are American workers prepared for employee benefits' new era of choice and responsibility? Not yet, according to the results of a recent long-term disability survey of over 2,000 U.S. workers by Sun Life Financial.

Granted, workers seem to understand the odds and financial ramifications of disability. Many predicted their odds of experiencing a disability lasting one year or more during their professional lifetimes at two in ten, which matches Sun Life's approximate estimates for the average worker. And nearly half said losing one year's salary would seriously impact their retirement savings. However, one-third of surveyed full-time workers don't have long-term disability coverage. And of workers whose employers offered them the chance to purchase voluntary long-term disability, an estimated 60% declined, and most of those have no coverage at all.

Why have many workers failed to connect the dots? We know that many workers who declined to buy group voluntary disability coverage expressed illogical reasoning, which underscores the need for worker education:

- Over one-third of workers declined because they didn't think their chances of suffering a disability warranted paying for coverage.
- One third said no thanks to group disability because they hadn't thought about whether they would need LTD insurance.
- One fifth didn't buy group coverage because they didn't want to think about experiencing a disability.

We also saw irrational thinking in how workers viewed their chances of experiencing a problem versus the scale of their likely financial risk. When asked to choose only one type of coverage aside from health insurance, 32% favored dental insurance as their must-have coverage, over life, short-term, and long-term disability. The value workers place on dental over disability insurance is striking. When asked to choose between paying and owning either dental or long-term disability insurance, over half of workers favored dental. Favoring dental over long-term disability coverage suggests an education gap: Although

forgoing dental insurance might cost a worker roughly \$600 during a year in costs, for issues such as a cavity, root canal, or crown, a one-year disability can significantly impact a worker's entire financial future.

Helping employers educate workers on benefits best practices represents another opportunity for brokers:

- Roughly one in ten workers didn't know if they have any long-term disability coverage.
- Of workers whose employers offered them the chance to purchase group disability insurance, two in ten didn't know if they bought the coverage offered.
- Over three quarters (79%) of surveyed workers didn't know that qualified claimants usually receive long-term disability benefits after a predetermined elimination period, which can last for months after the onset of disability.
- Over three quarters (82%) of workers with long-term disability insurance didn't know that most policies become restrictive about qualification rules after two years of disability.

Such knowledge gaps can lead to complacency and financial disaster: Medical problems cause half of all personal bankruptcies and home foreclosures, according to the American Journal of Medicine and Health Matrix.

With voluntary disability on the rise, workers will demand clearer benefits education to help them make more informed decisions: The group benefits industry can develop the educational campaigns that will allow workers to become well informed benefits consumers.

Sun Life's survey identifies several key markets that might respond to targeted messaging:

- Nearly 30% more men purchased group voluntary long-term disability insurance than women did, although the chances of experiencing a long-term disability are higher for women.
- Respondents age 50 and older were less likely to purchase group coverage than younger workers. Older workers may face more financial demands than younger counterparts, and may figure that the proximity of retirement reduces their disability risks and their need to protect earned income. But disability insurance can protect the income of such workers who tend to be in their peak earning years, especially as more of them work past age 65.

- More full-time, two-income households bought group long-term disability insurance than single income households: 52% more workers with a full-time working spouse bought the group voluntary coverage offered to them, compared to households with only one full-time working spouse. But single income households are generally at relatively greater financial risk in case of disability than are two income households. If its sole breadwinner becomes disabled, a household with only one full-time worker doesn't have another income stream to fall back on.

- Minorities were 24% more likely to buy group voluntary long-term disability insurance than were Caucasians.

Group voluntary long-term disability insurance presents the chance for a triple win:

- You can open new accounts by reaching employers who haven't offered employees long-term disability benefits before.
- Employers can keep overhead costs down while supporting retention and recruiting.
- Workers gain coverage at a competitive rate while integrating benefits planning into their financial plan.

Educating employers about voluntary benefits represents a unique opportunity to help workers protect themselves and employers offer a more flexible spectrum of benefits. ❖