

Illness or Injury: How Your Business Can Protect Your Employees

According to a recent survey, four in 10 American workers live paycheck to paycheck. This means that an unexpected illness or injury that takes someone off the job for more than a few days can have devastating consequences for many of your employees who depend on their wages to survive.

You as an employer can help by offering group disability insurance to your employees.

What it covers

This insurance helps replace a portion of a worker's income if they loses their income due to an injury or illness. Generally, the benefits are paid monthly for the duration of the illness or injury, and only cover a portion of lost wages.

Typically, disability insurance policies will replace between 50 and 65% of a worker's income.

Broadly speaking, there are two kinds of disability insurance policies – short-term disability insurance for events that disrupt income for less than 90 days, and long-term disability policies, which cover benefits for a longer period of time.

Advantages of group coverage

Group disability coverage has advantages for both the employer and the workforce. Advantages to the employer include:

- Reduced costs compared to offering individually underwritten policies to everyone.
- Increased employee loyalty – especially after someone on the payroll has a claim and word gets out that these valuable benefits kicked in.
- Tax-deductible premiums.
- Easy, streamlined administration.
- List billing.

Advantages of group disability insurance to the worker include the following:

- Affordability. The employer subsidy makes it possible for workers to get coverage they would be unable to get on their own.
- Pre-existing conditions that would make it impossible for employees to get coverage as individuals, may be waived in a group plan.
- Streamlined application process – no medical exam required.

- No prior year tax returns or income verification are required. The employer reports income information to the disability insurance carrier.

In addition, some policies are portable: If an employee leaves the company, they can sometimes keep the policy, though they lose the employer subsidy. Portability is an important feature, because disability insurance can be difficult to qualify for on the individual market.

Disadvantages

All coverages have advantages and disadvantages. These are some of the disadvantages:

- Less flexibility. Managers and supervisors may have different needs and risk profiles compared to rank and file employees.
- Less coverage. Some workers may be able to get more robust plans on the individual market than carriers offer via group plans.
- Benefits are taxable to the recipient.
- More restrictive definitions. With disability insurance policies, the definition of the word "disability" in the contract itself is of paramount importance. For example, some policies, known as "own occ" policies, pay benefits if you cannot work in your own profession. Other policies will not pay benefits if the worker can work in any occupation. All things being equal, own-occ policies are preferable but they tend to have higher premiums, and are less prevalent in the group disability insurance market.

Taxation of disability insurance

Group term premiums are generally deductible to the company as a business expense, just like any other wage expense. The value of the premiums, however, is not usually taxable as income to the worker.

Disability insurance benefits may or may not be taxable, depending on the circumstances.

Generally, if the recipient didn't pay taxes on the premiums, then the benefits are taxable as ordinary income. This is true for most employer-paid group health insurance plans. If the employee paid part of the premiums, then a similar percentage of benefits will be tax-free.

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