



**Are you protecting the incomes of your high performers?  
Take this short quiz to find out.**

**1. Do our disability policies cover incentive compensation like commissions and bonus?**

Incentive compensation is an ever increasing share of American compensation, especially among our highest performers and executives. It is not unusual for half or more of a high performer's compensation to be in the form of bonus or commission. If incentive compensation is not included in the definition of earnings a disability could be devastating, especially to these high performers.

Solution: Include commissions, bonuses and K1 distributions in the definition of earnings.

**2. Do they discriminate against short term income losses?**

Depending on group size, Long Term Disability maximums start around \$6,000 per month which, at 60%, covers up to \$120,000 of income. Short Term Disability maximums start around \$750 per week and often cap out around \$1,000 per week which covers less than \$87,000 of income. The maximum weekly STD benefit would need to be nearly \$1,400 to offer the same level of coverage as the LTD. Why the difference? With even high performers living paycheck to paycheck and many STD plans lasting the first six months of a disability, is this any way to treat your high performers?

Solution: Reassess the STD maximum benefit.

**3. Must our high performers experience an actual loss of earnings to be considered disabled?**

In order to be considered disabled, most plans require some "inability to perform" one's duties. Some policies require the inability to perform each, any, or all of these duties. Some have an additional, burdensome requirement of an actual loss of income. The loss of income requirement causes several significant issues. First, if there is a lag in income (trailing billings or commissions), then benefits are delayed (the elimination period may not even start) until sufficient earnings are lost. Second, when the "inability to perform" ends, benefits may stop even though earnings have yet to materialize due to the lag. This is critical to employees dependent billings on incentive compensation like commissions. Also, you may not want to reduce a disabled executive's salary just to get their elimination period started.

Solution: Amend your contract to require an inability to perform **or** a loss of earnings.

**4. What is considered disabled, the inability to perform a specific occupation or any occupation?**

Most plans will not consider them disabled if they are able to perform any occupation ("any occ") for which they are reasonably suited by education or experience. If a lawyer becomes disabled and can no longer practice law, but could still teach law, he or she would not be considered disabled. Some plans consider them disabled if unable to perform their specific occupation ("own occ") so the lawyer who can't practice law would still be considered disabled. "Own occ" coverage is very expensive and so generally reserved



# Benefits Solutions Group

*Improving Value...According to Plan*

for professional groups or the professionals or executives within a group. Some plans use the “own occ” definition for the first few years of a disability only.

FYI: Most disabilities are partial. Some partial disability formulas cater to high performers (50% offset); some don't (proportionate loss).

## **5. Will our high performer's disability benefits be taxed?**

Generally, if they pay the disability premiums then benefits are tax free. If the employer pays, they are taxable. More specifically, they must pay the tax on either the premium or the benefit. High performers are in high tax brackets. Taxes on premiums are typically less than a thousand dollars per year even for the highly compensated. Taxes on a 60% benefit could be tens of thousands of dollars each year of disability, leaving the disabled high performer with less than 50% of pre disability income! (FYI, if benefits are taxable FICA must be paid as well, some carriers do; some don't)

Solution: A recent IRS private letter ruling allows employers to impute the premiums they pay as income on the W2. Employers must notify the high performer and their carrier. The carrier may raise its rate a penny or two. It's worth it.

## **6. Will the benefits keep up with inflation?**

Probably not; Cost of Living Adjustments (COLA) that increase benefits with inflation are expensive.

Solution: Look into deferred COLA that starts after four or five years; an inexpensive solution to the very long term disability.

## **7. Will the benefits be adequate to fund retirement income when benefits stop?**

Disability benefits generally stop at age 65. If their 401K or other savings plans are not funded during disability adequate retirement income is doubtful.

Solution: Look into retirement income riders that continue 401K funding during disability or benefit durations that continue past age 65. Also, look into riders that pay COBRA premiums as well. High performers appreciate both and these riders sound more expensive than they are.

## **8. What if our high performers hurt at or while traveling for work?**

Short Term Disability is usually non-occupational, so an auto or other work related accident would not be covered; leaving the disabled high performer dependent on workers comp only, which, in Florida, only covers up to \$724 per week!

Solution: Get 24 hour coverage or keep the STD period as short as possible.

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