

Executive Supplemental Individual Disability

Sample Company, Inc.

January 2020



Sample Company Class 1 LTD Review & Shortfall Analysis

LTD Key Points

- Provides 60% income replacement up to \$15,000/month
- Premiums are Non-Contributory/ER-Paid
- Definition of earnings is “W2 Compensation”
- Definition of Disability is “Full Own Occupation”
- This a rich LTD plan with solid benefits

LTD Shortfalls

- Employees earning over \$300,000 are **capped by the LTD max** so they are not receiving the same level of protection.
- LTD benefits are **taxable to the employees**, so their net benefits are actually less than 60%. Taxation of benefits is more impactful at higher tax brackets.
- These are not uncommon shortfalls in even the richest LTD plans.

Recommendations

Implement an “Executive” Supplemental IDI carve-out plan for all Senior Leadership employees providing up to 75% income replacement (*subject to plan maximums*)

- ✓ This will address the highly compensation executives that aren’t truly receiving the same 60% income replacement for most employees (“*LTD Completion*”)
- ✓ This will address the tax impact of the non-contributory LTD plan by providing a higher level of income replacement (“*Tax-bite*”)

Executive Supplemental IDI plans are becoming very common additions to corporate executive benefit packages

28%

FORTUNE 500
have Unum IDI plan¹

35%

FORTUNE 100
have Unum IDI plan²

1,2 Unum IDI Database as of July 2018.

LTD Gap Analysis

CURRENT LTD COVERAGE IS 60% TO \$15,000/MONTH



Many companies offer group long term disability insurance which helps protect income for employees. However, group plans often have monthly benefit maximums that leave high-earning employees with a shortfall in their income protection.

This chart shows your current income protection offering. It shows how much is covered and how much may not be.

The challenge: 13 employees are above the LTD maximum and are underinsured.

If employees become disabled, it could be difficult for them to maintain their financial responsibilities; like a mortgage, car payment and other household expenses. In addition, certain long term disability plans are paid for by the employer. While this can be an advantage, many employees don't realize that this creates a **taxable benefit**, thereby decreasing their monthly income if they were to become disabled.

LTD Taxability Analysis *(employee sampling)*

Group LTD of 60% to \$15,000/month is employer paid and therefore benefits are taxable to the employee

Salary	LTD benefit	% Replaced by LTD benefit pre-tax	% Replaced by LTD benefit post-tax (assume 28%)
\$1,940,205	\$15,000	9%	7%
\$869,761	\$15,000	21%	15%
\$797,768	\$15,000	23%	16%
\$658,000	\$15,000	27%	20%
\$418,002	\$15,000	32%	23%
\$378,998	\$15,000	28%	20%



CAR
PAYMENT



HOUSEHOLD



MORTGAGE



LOANS



SAVINGS

Supplemental IDI Solution *(employee sampling)*

Group LTD of \$15,000/month with \$15,000/month of IDI for a combined maximum of 75% to \$30,000/month

Salary	LTD benefit	% Replaced by LTD benefit	Proposed IDI Benefit	% Replaced by IDI benefit	Total monthly benefit	% Total income replaced
\$1,940,205	\$15,000	9%	\$15,000	9%	\$30,000	19%
\$869,761	\$15,000	21%	\$15,000	21%	\$30,000	42%
\$797,768	\$15,000	23%	\$15,000	23%	\$30,000	46%
\$658,000	\$15,000	27%	\$15,000	27%	\$30,000	55%
\$418,002	\$15,000	43%	\$11,125	32%	\$26,125	75%
\$378,998	\$15,000	47%	\$8,687	28%	\$23,687	75%

How it works:

Unum Supplemental IDI building around an existing Group LTD plan:



Supplemental IDI Highlights include:

- Guaranteed Standard Issue (GSI): GSI requires minimal underwriting with only a few brief questions making providing IDI simple.
- Guaranteed coverage increase (GCI): Coverage increases to the individual policies are conducted annually based on an updated census file. Increases are processed without medical underwriting. Coverage amounts do not decrease if compensation is reduced.
- Discounted premiums: premiums are discounted from retail rates and guaranteed level at least until age 67
- Portable benefits: policies are portable at the same discounted premiums
- Additional monthly and/or lump sum benefits for more severe types of disabilities

Proposed Income Protection Plan

Current Group LTD plan design

Plan design	60% to \$15,000/month
Contributory status	Employer Paid, Taxable
Definition of earnings	W2

New Supplemental IDI plan design

Eligibility	All Full-Time Directors & Sr Leadership Team <i>(currently 13 eligibles)</i>
Plan design	75% less LTD benefit
GSI benefit maximum	Up to \$15,000/month
Definition of IDI earnings	W2
Additional Catastrophic Disability Benefit*	Flat \$5,000/month for more severe disabilities <i>Unum LTD provides 20% to \$5,000 for combined \$10,000</i>
Additional Serious Illness Lump Sum Benefit*	up to \$100,000 lump sum for total disabilities due to Heart Attack, Stroke or Cancer <i>(20 times IDI benefit up to \$100K)</i>
Elimination period / Max benefit duration	90 days / to age 67
Contributory status	Employer Paid
Multi-life discount	25% employer paid
Total premium (non-nicotine rate)	\$6,972.28/month

SELECTED PLAN FEATURES

- ✓ Full Usual Occupation
- ✓ 6 months Work Incentive Benefit
- ✓ 6 months Recovery Benefit
- ✓ 24 months Mental Disorder Benefit
- ✓ Full Residual