What's Happening With Disability Plans?

By Leanne Fosbre, CEBS, and Nicholas Melillo

In December 2006, Society members representing employers were asked to share their experience with disability plans. The results of the survey are indicative of significant employer interest in short-term disability (STD) benefits: 19% of employers (154 out of 800) responded to the survey. The survey revealed that salary continuation/short-term disability is the black hole of employee benefit plans in terms of quantifying cost and controlling utilization. Most employers treat disability as a payroll practice, making it difficult to determine costs for disability. Employers want tighter control of this benefit, but union contracts, employee perception of benefit value and management buy-in are the biggest hurdles to making plan changes that would facilitate achievement of this goal.

Who responded to the survey?

Respondents were evenly distributed across the nation, with the exception of the Mountain area. The Mountain area was not represented in this survey. Manufacturing is the primary industry of respondents. Employer size in terms of employee population is as follows:

- 18% of respondents have fewer than 500 employees.
- 58% of respondents have 500-10,000 employees.
- 24% of respondents have more than 10,000 employees.

How much do employers pay as a percentage of payroll for short-term disability benefits?

Most employers provide salary-continuation plans that they consider payroll practice. Few employers offer a short-term disability plan through an insurance program governed by the Employee Retirement Income Security Act (ERISA). Employers with employees working in states that mandate temporary disability insurance provide an equivalent disability benefit for employees working in nonstatutory states.

- 53% of respondents indicate that they spend between 0-5% of payroll on short-term disability benefits.
- 6% of respondents indicate that they spend between 6-10% of payroll on short-term disability benefits.
- 2% of respondents indicate that they spend between 11-15% of payroll on short-term disability benefits.
- 41% of respondents don't know what they spend as a percentage of payroll on short-term disability benefits.

Do employees contribute to the cost of short-term disability benefits?

The majority of respondents (86%) offer a noncontributory disability benefit. Only 14% of respondents require employee contributions. Respondents who require employee contributions indicate that contributions are a detriment to enrollment:

- 30% indicate enrollment of 75% or more.
- 56% indicate enrollment of 25-74%.
- 13% indicate enrollment of less than 25%.

How many employers offer different plans based on employee population?

Respondents were split evenly between those that offer different STD plans depending on the employee population and those that do not offer different plans based on the employee population.

How many plan options do employers offer?

The survey revealed that most employers offer at least one STD plan option through their group insurance program:

- 52% offer one or two different plans.
- 27% offer three or four different plans.
- 4% offer four or five different plans.
- 16% offer more than five different plans.

Do employers benchmark their short-term disability plans against others in their industry?

Fifty-three percent of the respondents benchmark their STD plan against others in their industry. Forty-nine percent do not benchmark. Of those who do benchmark their plan:

- 39% rank their STD plan as among the most generous.
- 59% rank their STD plan as middle of the road.
- 3% rank their STD plan as among the least generous.

What kinds of changes have employers recently made to their short-term disability plans?

Two-thirds of the respondents have not made any recent changes to short-term disability, and the majority of the respondents do not anticipate making changes in the near future. One-third of the respondents have made

(Continued on next page)

changes to the STD program with the majority having made changes in the last five years. Changes fell into three categories:

- 27% outsourced administration.
- 22% decreased the percentage of income replacement.
- 61% made other changes with switching vendors, increasing benefit levels and lengthening the elimination period as the most prevalent changes.

Only 4% changed some of or the entire plan from employer paid to voluntary.

What are the biggest hurdles to changing short-term disability plans that employers face?

Respondents indicate that union contracts, employee perception of benefit value and management buy-in are the biggest hurdles for changing STD plans. Respondents volunteered that employee entitlement, Family and Medical Leave Act (FMLA) integration, a lenient culture that does not enforce returning to work and a California state-mandated plan are among the other hurdles to changing short-term disability plans.

Thirty percent of employees, from ages 35 to 65, will become disabled for at least 90 days, at least once during their working years.

How do employers communicate to their employees about short-term disability benefits?

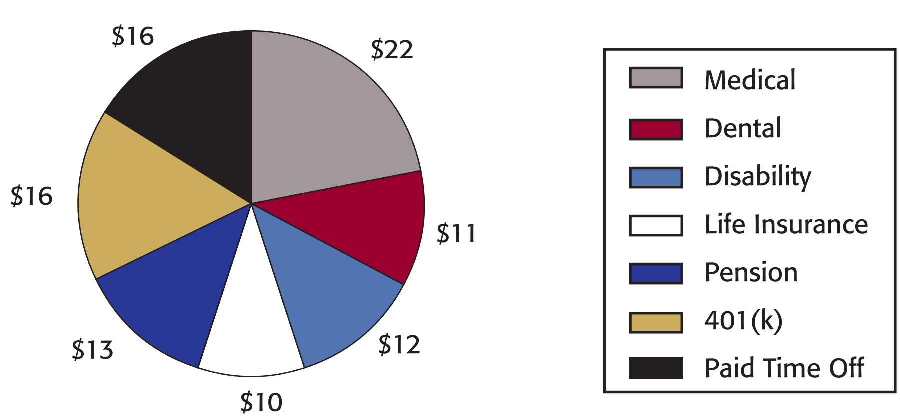
Most employers take a hands-off approach for communicating STD plan details to employees, relying most heavily on the summary plan description (SPD) as the form of communication. Benefits newsletters ranked second as a means of communicating STD benefits to employees, followed by electronic media. Of respondents, 79% send employees communication regarding expectations while on leave of absence, and 21% rely on a carrier/third-party administrator (TPA) to provide this information.

How do employees and employers rank disability benefits among other group insurance benefits?

Only 25% of respondents survey employees about their benefits program. The respondents indicate that employees ranked STD as important but not as important as other benefits.

Employers were asked to rank medical, dental, disability, life insurance, pension, 401(k) and paid time off in terms of value to the employee from first through seventh in terms of value to the employee, with first place being the most valuable and seventh place being the least valuable. The order in which respondents ranked the benefits is:

Allocation of $100 Toward Benefits



1. Medical
2. 401(k)
3. Paid time off
4. Pension
5. Disability
6. Dental
7. Life insurance.

The chart below illustrates how respondents would allocate $100 among the seven benefits.

Summary

The results of the ISCEBS survey on STD indicate that employers don't have a firm grasp on what they're paying for STD and employees don't understand the value of the benefit. Employers rank disability near the bottom of the benefits that provide value to employees. Employees agree that disability is important but not as important as other benefits. Respondents displayed minimal interest in modernizing STD benefits.

Thirty percent of employees ages 35 to 65 will become disabled for at least 90 days at least once during their working years. A 45-year-old disabled person has a 75% likelihood that he or she will still be disabled two years later. The Social Security Administration states that there will be a 37% increase in disability insurance incidences due to the aging workforce.[1] The cost of income replacement for disabled employees is expected to increase. The liability for paying for disability is daunting. There are direct costs as well as indirect costs such as:

- Lost productivity
- Strain on the healthy workforce to accommodate productivity caused by the absence of the disabled employee
- Decreased morale of the healthy workforce.

The time for reevaluating disability benefits has arrived. Employers need to strike a fine balance between providing disability benefits without encouraging malingering. A healthy productive workforce positively impacts bottom-line profitability.

Respondents indicate that union contracts, employee perception of benefit value, and management buy-in are the biggest hurdles for changing the STD plan.

Endnote

1. *A Year in the Life of a Million American Workers,* Ronald S. Leopold, 2003 Metropolitan Insurance Co., New York, NY 10010.

Special thanks to Leanne Fosbre, CEBS, manager of group insurance administration for Wyeth in Madison, New Jersey and Nicholas Melillo, client services manager for MetLife in Bridgewater, New Jersey for developing this survey and providing the commentary on the findings.