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Employers shift disability insurance costs to workers and trim benefits

By Michelle Andrews, Published: September 19

Disability insurance is one of those under-the-radar benefits you may take for granted, especially if your employer picks up the tab for the coverage, as many firms do. Because of that, as annual benefit enrollment time approaches you probably aren't worried about examining your disability coverage details and costs the way you will your health insurance plan options. But you should.

The same pattern that has emerged in health insurance — employers' shifting more costs onto workers' shoulders and trimming or eliminating benefits — is occurring in disability coverage. This fall, as employers spell out insurance options for next year, evaluate what's offered and what it will cost, and make sure you're adequately covered.

Of course, one of the main reasons people give disability insurance short shrift is that they don't think they'll ever need it. Meanwhile, they routinely buy coverage to protect their lives and their homes, even though "for most people, the risk of long-term disability is far greater than of [early] death or their house burning down," says Rich Fuerstenberg, a partner with human resources consultant Mercer.

According to the Social Security Administration, a 20-year-old has about a [30 percent chance](#) of becoming disabled by the time he retires. Although many people assume that accidents are the most common reason for a disability insurance claim, illness accounts for 90 percent of all claims, says Barry Lundquist, president of the [Council for Disability Awareness](#), a nonprofit education group funded by the disability insurance industry. The top reasons for new claims last year, according to the organization's [annual claim study](#), were musculoskeletal conditions such as arthritis or back problems, followed by cancer. A [typical disability insurance claim](#) lasts about 2.5 years, according to research compiled by CDA.

When Monica Soltes took a buyout from Merrill Lynch and decided to start her own financial planning business 10 years ago, she made sure she had health insurance but never considered buying disability insurance. "You're 38 years old and you think, 'What's going to happen to me?' I didn't even think about it," she recalls. Soltes moved from the Detroit area to sunny Del Mar, Calif., and rented an office with a view of the ocean.

Not long after the move, she slipped when she stepped off the porch at her cousin's Santa Monica home and shattered her elbow. After multiple surgeries and an unsuccessful bone graft from her hip, she was no better

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off. Inadequate supply of blood to her upper arm and hip caused those bones to, effectively, die. Soltes also received a diagnosis of Cushing's disease, a hormonal condition in which the body produces massive amounts of the hormone cortisol, which can cause bone loss.

Unable to work because of Cushing's and other medical problems, Soltes moved back to Michigan, where she lives with an uncle. She receives Social Security disability benefits and is insured through the Medicare program. She hopes to start another business soon, perhaps helping disabled people get back to work.

A long-term-disability insurance plan could have helped Soltes maintain some of her income following her accident and subsequent medical problems.

If she was unable to perform her job, both individual and group plans would typically pay an amount replacing roughly 60 percent of her salary. In a group plan, payouts would be reduced by the amount she received in Social Security disability payments; individual policies would not deduct those payments.

There are other wrinkles in these policies: The group plan payout may be capped at \$5,000 a month, for example, and after a few years many plans will continue to pay benefits only to claimants who are unable to perform any work that they're suited for, not just the occupation they were trained for.

About a third of working Americans — about 50 million people — have disability insurance of some sort, says Lundquist. Since Soltes was self-employed, she would have to have purchased an individual policy. The majority of people with disability coverage, however, get it through their jobs.

But employer coverage no longer offers the protection it once did. For one thing, only 47 percent of employers offer long-term-disability coverage to their employees, according to [Limra](#), a financial services trade association. (Companies with at least 100 employees are almost certain to offer some sort of disability benefit, say experts.)

Of employers that do offer disability coverage, just 37 percent paid the entire premium last year, down from 49 percent in 2002, according to Limra. At the same time, voluntary programs for which the employee pays the entire premium now make up half of all long-term-disability offerings, up from 41 percent in 2002.

When employees have to pay the entire premium, only about 40 percent generally sign up, says Lundquist. A typical employee-paid disability plan cost \$350 a year in 2010, according to Limra. (Individual plans are more expensive but may also be more comprehensive, say experts. They typically cost between \$600 and \$2,000 annually, says Limra.)

In addition to being pricier than before, employer coverage is sometimes skimpier. The benefit may cover only 50 percent of an employee's salary, rather than 60 percent. Some plans may offer employees the option to "buy up" to the 60 percent level, but that extra coverage may be costly because people who choose it are probably at higher risk of becoming disabled, says Richard McCabe, a director in the PricewaterhouseCoopers Human Resource Services health-care practice.

If your own company's coverage is inadequate, consider supplementing it with an individual policy, say experts. No insurer will write a disability policy that replaces 100 percent of your salary: With that kind of coverage, no one would have an incentive to go back to work. But a combination of employer and supplemental individual coverage will generally replace 70 percent of someone's income, says Lundquist. And that can buy you some peace of mind.

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