

# Benefits Insights

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## Understanding the Importance of Disability Benefits

Over the last few years, employers have been expanding their voluntary benefits offerings as a way to address their employees' needs and improve overall attraction and retention efforts. While voluntary benefits have become increasingly important to employees as they deal with challenges and increased financial pressures due to record-high inflation and the lingering impacts of the COVID-19 pandemic, knowing what benefits to offer can be difficult. Understanding the various types of disability benefits and why employees value them can help employers decide whether to include them in their voluntary benefits offerings.

This article explains the importance of disability benefits and provides a general outline of the different types of such benefits.

### What Are Disability Benefits?

Disability benefits provide guaranteed income or job protection to employees who are unable to work due to serious illness or injury. The illness or injury can be either temporary or permanent, and it does not need to be work-related to qualify for disability benefits. Chronic illness, pregnancy, anxiety and depression are some of the common causes of disability for U.S. workers.

Disability benefits can be vital to employees experiencing a qualifying disability and often offer a much-needed safety net, allowing employees to pay bills and provide for their families when they're unable to work. The most common disability benefits are short- (STD) and long-term disability (LTD) insurance; however, workers' compensation insurance, paid leave programs and long-term care insurance are also forms of disability benefits. While disability benefits are often voluntary, employers may be required to participate in federal or state-mandated disability benefits programs.

### The Value of Disability Benefits

One in 4 working adults will become disabled before reaching retirement age, according to data from the Social Security Administration (SSA). Unfortunately, many workers are unprepared to lose their income or unable to afford unexpected medical expenses. Income or job loss due to an illness or injury can be devastating for employees and their families.

Providing disability benefits can be important to an employer's overall benefits strategy and aid in their attraction and retention efforts. It also allows employers to demonstrate their commitment to their workers' well-being. Employees value disability benefits because they provide financial support when illness or injury prevents them from working. As such, they can be critical to protecting an employee's future earnings as well as peace of mind.

Rising medical costs related to treating chronic conditions, disabilities and serious injuries make disability insurance more critical than ever. Additionally, they're relatively inexpensive for employers. The costs for STD and LTD insurance is approximately 1% of an organization's total compensation costs based on sampled data from 7,400 private industry employers, according to the U.S. Bureau of Labor Statistics (BLS). Employers who integrate their health and disability benefits can improve their workforce's overall health by coordinating employees' care, allowing earlier interventions and decreasing workplace absenteeism.



### Types of Disability Benefits

Disability benefits can take many forms. While STD and LTD insurance are the most common, long-term care insurance, critical illness insurance and paid leave programs are also types of disability benefits. Understanding the different types of disability benefits can help employers evaluate and determine which benefits to offer their employees.

#### *Short-term Disability Insurance*

STD insurance replaces all or a portion of an employee's income due to a temporary disability. Under STD plans, employees receive a percentage of their income, typically 40% to 70% of their base pay, but employers can allow employees to supplement their STD benefits with paid sick leave or other benefits. An STD insurance policy is paid either fully or partially by the employer, and the median length of STD insurance coverage is 26 weeks, according to the BLS.

To qualify for STD insurance, an employee files a claim under their insurance policy. The employee must prove their illness or injury qualifies as a disability under the plan's terms. STD insurance generally requires employees to wait for a short time period—on average, seven days—before they start receiving benefits to discourage abuse and because many employers' paid-time-off benefits cover shorter absences than those covered by STD insurance. While STD insurance plans do not guarantee job protection, employees may be entitled to it through their employers' policies or under state and federal laws, such as the Family and Medical Leave Act (FMLA).

Employers who offer STD insurance benefit because it helps employees to remain financially stable while recovering from an illness or injury, allowing them to stay productive and focused when they're physically able to return to work. Since the income employees receive under STD insurance is paid by insurance companies, employers have the financial resources and flexibility to hire temporary or contract workers to fill workforce gaps without experiencing high labor costs. In states that don't require employers to participate in disability income plans, employers can offer fully, partially or noncontributor STD insurance plans.

#### *Long-term Disability Insurance*

LTD insurance provides employees with income for long-term illnesses and injuries. Employees generally receive 60% to

80% of their base pay; however, some employers' LTD plans offer more limited income replacement benefits. Similar to STD, employees receive income benefits until they're able to return to work or have exhausted policy limits. LTD benefits requirements tend to be more rigorous than STD because workers need to demonstrate they're unable to perform any job, not just the job they were working prior to the illness or injury.

These plans often work together with STD, so when an employee exhausts their STD benefits, LTD benefits continue to provide the employee with income. As with STD benefits, LTD does not provide workers with job protection. Employees who become permanently disabled may continue to receive LTD benefits through their retirement date or until they're eligible for Social Security disability benefits.

#### *Long-term Care Insurance*

Long-term care insurance provides employees with coverage to treat chronic illnesses and disabilities outside of a hospital when individuals can no longer care for themselves. These policies cover services such as home health care, nursing home care, hospice care, assisted living facilities care and respite care. Long-term care insurance can help employees safeguard their financial futures. Employers tend to offer this benefit to help their aging workforce.

#### *Critical Illness Insurance*

Critical illness insurance gives employees a fixed lump-sum payment after being diagnosed with an illness that's covered under the policy. These policies may cover conditions such as kidney disease, stroke, heart attack and cancer. Payments are made directly to the employee and can be used to cover deductibles, co-payments, household expenses and other costs. Critical illness insurance premiums are typically paid by employees.

#### *State and Federal Disability Benefits*

In some instances, employees may be entitled to disability benefits under state or federal law. For example, the FMLA provides eligible employees of covered employers with up to 12 weeks of unpaid, job-protected leave for certain family and medical reasons. Under the Americans with Disabilities Act, employers must consider providing disabled employees with reasonable accommodations. Leave from work may be an accommodation as long as it's reasonable and doesn't

create an undue hardship for the employer. Employees who experience work-related injuries and illnesses resulting in a disability may be entitled to workers' compensation benefits. Such benefits are mandated in most states and provide employees with wage replacement and medical benefits. Additionally, the SSA provides disability benefits to workers as long as their disability will last for at least 12 months.

Several states have enacted their own leave-related laws, many of which provide injured or disabled workers with job-protected leave. Employers should consult with local legal counsel to discuss any state-specific disability or leave requirements.

### Summary

Disability benefits can provide sick and injured workers with financial stability and peace of mind when they're unable to work. Understanding the different types of disability benefits—and their value—can help employers decide which benefits their employees need and desire. Offering these benefits can be a powerful tool to improve an organization's attraction and retention efforts.

Reach out to National Insurance Services for more information on voluntary benefits.