



Explaining the Importance of Disability Insurance to Small Businesses

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Say “disability insurance” to a business owner, and you’re likely to get a look of confusion or outright hostility. The reaction is almost certainly not related to the line of coverage, but rather to the economic climate created by the steadily rising cost of health insurance. For instance, employers may be providing medical insurance already and think that providing long or short-term disability insurance (LTD/STD) is just too expensive.

In fact, employer-paid disability insurance is a small outlay that provides extraordinary value. In addition, the employer can offer disability coverage at a nominal cost using the core/buy-up method (employer pays for small, baseline coverage; employees can elect an increased benefit amount at their own cost) or even at no cost, with voluntary (employee-paid) plan options.

Most businesses believe that their employees don’t need LTD/STD because the employer’s health insurance will cover them or that Social Security will pay the bills in the event of an accident. In reality, that’s not the case.

Medical insurance may cover all or part of the medical costs resulting from an accident or injury, but it won’t provide any level of salary continuation. Social Security provides disability income insurance, but the eligibility criteria are stringent and applied only to long-term disabilities. This misperception of the need for disability insurance puts businesses and their employees at great risk.

The key to any business is its employees. When considering a job, most prospective employees look at the total compensation package (especially if they’re married and have children), which usually includes salary, health insurance, and life insurance. Another important, and often overlooked, element to the benefits package is disability insurance — an invaluable protection that can be provided for pennies a day. The following is a “carrot and stick” approach to educating your clients about disability insurance.

The stick

First, let’s explore several misconceptions business owners have about disability insurance:

- “I have a good health plan” — Health insurance pays doctor and hospital bills, not food, mortgage, or car payments. A 1998 Harvard study found that 50 percent of the people who file for bankruptcy do so because of medical bills or illness. Today’s uncertain economic climate further underscores the need for employees to be covered.
 - “Social Security Disability Insurance (SSDI) will pay the bills” — SSDI doesn’t pay until the disability has lasted six months. In light of Americans’ dismal savings habits, most employees’ savings would be depleted long before Social Security payments begin.
 - “Workers’ compensation will cover the disability” — According to the National Safety Council, 60 percent of disabling injuries occur off the job, where employees are not covered by workers’ compensation. In addition, workers’ compensation rarely covers disability caused by an illness such as cancer.
- Now that you’ve had a chance to dispel some of the myths surrounding disability insurance, you can explain some of the benefits.

The carrot

- The need for disability insurance — A worker who is 20 years old today has a 1 in 3 chance of becoming disabled before they reach retirement age. As an employee gets older, the chances of disability only increase.
- Length of coverage — LTD will replace 50 to 66 percent of income until the insured returns to work or up to retirement, depending on the plan selected.
- Cost-effective — This is probably the No. 1 reason that many employers don’t offer LTD. LTD coverage,

however, costs only about \$130 to \$175 per year per employee.

- Recruitment edge — Making disability coverage part of a complete benefits package available to employees can be the deciding factor for potential employees, especially since many would not be able to afford individual coverage.
- Protecting your greatest investment — Throughout an employee's work life, an employer is likely to invest thousands of dollars in training and development to create a productive, valuable worker. No company wants to lose that knowledge or the benefits of the investment they have made. Disability carriers not only offer group rates to make it affordable for every group, but they can also provide various services and provisions to get employees back to work sooner.

These are just a few reasons to speak with your business clients about DI. In the end, most employers will understand that what's good for the employee is ultimately good for business.

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