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ADVICE

Read the fine print in disability-benefit plans

Guest Column:
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It was a Friday afternoon and Bob's doctor had just told him that he had advanced Lyme disease. He would be disabled – indefinitely. Bob's financial time bomb was about to explode!

When this happened, Bob was 48 years old and a successful corporate executive with a $700,000 annual income that included a $400,000 base salary.

He was frequently tired and having difficulty focusing on some of the complex analyses his job required. His wife, Carolyn, noticed that his typical high-speed memory and quick wit just were not there. When Bob went in for his annual physical, he mentioned these symptoms to his doctor, who ordered a full battery of tests, including blood work, CT scan and MRI. Bob then received the devastating news from his physician confirming the Lyme disease diagnosis.

Bob knew his company had a disability-insurance plan and somewhere in the back of his mind, he recalled reading something about it covering 60 percent of his income. With such protection, he wasn't overly concerned with the financial implications of his disability. Even so, he and his wife, Carolyn, scheduled a meeting with the HR director for the following Monday.

After getting over the initial shock of his totally unexpected medical condition, he and Carolyn began focusing on their significant financial situation. Since becoming an executive, Bob's income had increased steadily over the past eight years, with their lifestyle and expenses following closely the same path.

They had three children, all in private schools. Then, there was the large suburban home and all the trappings that go along with it. There was a constant stream of shopping trips and traveling with the kids to fun and exotic places during school vacations. They enjoyed summers at their beach home and were just finishing a new high-end ski condo.

That Monday, they sat down with the firm's director of human resources to discuss the process of initiating the disability-insurance benefit. Bob and Carolyn assumed, like so many other executives who find themselves in their position with similar disability-income plans, that they would receive a benefit based on 60 percent of his total compensation, $700,000 or $420,000.

It came as a total shock when the HR director explained just how the disability-benefit plan worked. She indicated that the company's plan is limited to 60 percent of Bob's base salary, with a maximum of $20,000 per month. Based on the provisions of the plan, Bob was entitled to a $240,000 yearly benefit, a far cry from the $420,000 he and his wife assumed they would be receiving. They were now faced with the extent of their financial loss.

Unfortunately, this disability-benefit scenario is tragically common with highly compensated executives, particularly those with a base salary plus a bonus. It's a simple fact that, in most instances, their income is inadequately protected. This may seem negligent, particularly when the single largest financial exposure an individual faces is the inability to earn an income due to a long-term disability caused by an accident or illness.

The causes of the problem are two serious limitations of employers' group disability insurance plans: the benefit formula and the benefit cap.

First, the benefit formula for most corporate group disability plans protects the base salary only and leaves bonus income exposed.

Second, the maximum monthly benefit caps are essentially the same as they were 15 or more years ago, even though incomes have increased dramatically. This disparity exists since insurance carriers are not interested in taking the additional risk of increasing group coverage sufficiently to protect high-income earners. Traditional supplemental coverage is available in conjunction with the group coverage, but in most cases to a combined maximum monthly benefit of $25,000 per month.

Fortunately, there's a solution available that makes it possible for executives to avoid having to settle for a highly diminished disability benefit. This can be accomplished by taking a product designed to meet the disability income requirements of highly compensated athletes and entertainers and modifying it in appropriate ways to fit the income objectives of executives. With a $700,000 total compensation package the 60 percent figure would be $420,000, instead of $240,000 or 34 percent as in Bob's case.

Without question, one of an individual's most important assets is the ability to earn an income and enjoy a lifestyle and financial security that accrues from that income.

It's interesting that, until quite recently, the four major killers were hypertension, heart disease, Cerebrovascular disease (stroke) and diabetes. However, with the many advances in medical care, these four are no longer the primary killers; they are now the four major disablers.

With improving mortality and increasing morbidity, the focus has shifted to managing the risk of income loss due to a prolonged inability to work. •

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