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Navigating the Executive Benefits Landscape
with The Todd Organization

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Supplemental Disability Insurance for Key Employees

SUPPLEMENTAL DISABILITY income insurance can be one of the most cost effective and compelling benefits a company offers to its key personnel. In fact, while the benefits to employees and their families are obvious, there are also tangible benefits to shareholders and companies, such as promoting employee retention and productivity, attracting key talent, and keeping recruiting and related costs under control.

Disability is on the minds of a lot of people today. With the advancement of life saving medical procedures, it has been said that within our lifetime each of us can expect to have a disability, in some form and for some time frame. With the baby boomer generation aging, many employees know someone who has become seriously disabled and have seen its impact on the family's financial picture. Disability can be devastating to the employee and substantial to the company, unless there is adequate protection in place.

Even though there is such a great need for supplemental disability income insurance, the reality is most employees are unaware of this need. Many do not have a clear understanding of even the group disability benefits currently offered by the company, and the percentage of total compensation it represents. Many highly compensated employees are surprised to learn that there is a monthly benefit cap and some forms of compensation are not covered under their current group long term disability plan.

Most group plans are not designed to cover bonuses, commissions, contributions to nonqualified retirement plans, such as deferred compensation, or other forms of incentive compensation. They have a cap on the maximum monthly benefit that is far below the financial obligations of many highly compensated employees. In short, this could mean that a high percentage of total compensation for these employees is "at risk".

A typical group long term disability plan might cap the disability benefit at \$10,000 per month, or \$120,000 annually. Frequently, group plans have a 60 percent replacement ratio that covers base salary only. This means any base salary over \$200,000 would be lost. In addition, any incentive compensation would not be covered. The net result is that many employees might receive a much lower replacement percentage of total compensation than expected in the event of a long term disability.

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Supplemental Disability Insurance for Key Employees... cont'd

Adding a supplemental disability plan would provide a key building block for the financial security of employees by maximizing the replacement percentage of the total compensation protected. This is especially important for employees with high base salary or incentive compensation.

In the slowly recovering economy, and with executive compensation costs under scrutiny, many companies are hesitant to increase employee benefits. However, companies can provide additional disability benefits at little to no cost, by leveraging their buying power and facilitating the ability for key employees to purchase disability policies at or near group rates through a company-sponsored supplemental disability plan. These plans can be paid by the employee, the employer, or in combination.

A company-sponsored offering further benefits employees because they are able to buy on a simplified issue basis, which means few medical questions and often no exam unless there is a pre-existing condition. This supplemental disability insurance is also offered at deeply discounted rates as compared to buying as an individual, and if the premiums are employee-paid, the benefits are received tax-free under current tax laws.

The research shows that while these supplemental long term disability plans help employees to have greater financial security, they can also help reduce corporate costs by promoting retention and productivity, as well as attracting key talent. These plans also help companies to keep recruiting and related costs under control.

The Todd Organization provides a turn-key option for companies to add a supplemental disability program. Our team of disability specialists makes it easy by providing strategic planning, enrollment and critical ongoing administration. For more information about these programs, please contact your consultant at The Todd Organization.



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