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Confidential

Employee Short Term/Long Term Disability Overview

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I. NFP Overview

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Who We Are

NFP is a leading insurance broker and consultant that provides employee benefits, specialized property and casualty, human resource consulting, retirement, and individual private client solutions through our licensed subsidiaries and affiliates. Our expertise is matched by our commitment to each client's goals and is enhanced by our investments in innovative technologies in the insurance brokerage and consulting space.

WHAT WE PROVIDE
Employee Benefits Consulting
Group Retirement Services
HR Consulting, including Compensation Studies
Property & Casualty Solutions
Expertise: move from one self-funded to fully insured

Public Sector Overview

NFP specializes in the Public Sector providing many years of expertise and resources. Please see a list below of some of the highlights:

OUR EXPERIENCE

25
Years working with Government Agencies

30+
Utah Public Sector Clients

Trusted to represent Utah @ request of the governor

TAILORED EVENTS

4th Annual Local Government HR Conference April 2021

11th Annual Turning Point Conference September 2021

13th Annual Utah Employee Benefit Study 2021

RECOGNIZED EXPERTS IN THE SPACE

Work with experts on our team, who have been invited to speak for, and participate in many industry organizations, including:

- Utah Association of Counties (UAC)
- Society for Human Resource Management
- SelectHealth & PEHP Broker Advisory Boards
- Utah League of Cities & Towns (ULCT)
- The Governor's Office

II. Need for Disability Insurance

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Disability benefits defined and why is Disability Insurance so Important?

- Disability benefits can be broadly defined as any employee benefit that provides income replacement and/or job protection to employees who are unable to work due to illness or accident. These impairments can be either temporary or permanent.
- Almost 4 out of 10 American adults indicate that they can't pay an unexpected $400 bill without borrowing/using credit card.
- A study of consumer bankruptcy from 2013-2016 found that 78% of debtors cited income loss as a contributory to bankruptcy. This included 44% specifically citing medically-related work loss as a contributor.
- At least 51 million working adults in the U.S. are without disability insurance.
- From 2008-2017, only 33% of Social Security Disability applicants had their application approved.

Source: Council for Disability Awareness, 2020 Fact Sheet

Workers' Compensation and Social Security do not cover most of these challenges

- Workers' Compensation only covers time away from work if the disabling illness or injury was directly work-related. In 2016, only one percent of American workers missed work because of an occupational illness or injury.

- It generally takes three to five months from time of application for SSDI benefits to get an initial decision. The backlog of appeals cases was more than one million in 2017, with associated processing time averaging more than 18 months.

- The average SSDI benefit as of January 2018 was $1,197 a month. That equates to $14,364 annually — barely above the poverty guideline of $12,140 for a one-person household, and below the guideline of $16,640 for a two-person household.

III. Short Term Disability Insurance

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The ABCs of STDi

1. Employers may offer short-term disability (STDi) insurance plans that replace all or part of income due to temporary disabilities.
2. A STDi insurance plan does not provide an employee with job protection; requirements to hold an employee's job and reinstate the employee after a disability leave will generally be determined by an employer's internal policies and practices, as well as by state and federal laws such as the Family and Medical Leave Act (FMLA) and the Americans with Disabilities Act (ADA).
3. STDi plans typically have a short front-end waiting period, such as seven days, for benefits to begin because many employers have paid-time-off programs that cover shorter-term absences. This waiting period also discourages abuse of disability insurance benefits.
4. Income benefits are paid on a scheduled percentage-of-pay basis, typically 60 to 75 percent of the employee's base pay, and benefits may be coordinated with other income such as paid sick leave to ensure that income benefits do not exceed 100% of base pay.
5. An employer can allow or disallow the supplement of paid sick leave or other benefits in coordination with short-term disability insurance as a matter of plan design.
6. According to the BLS, the median length of short-term disability insurance coverage is 26 weeks.
7. You may offer STDi disability income plans on a fully contributory, partially contributory, or noncontributory basis.

The Most Common Reason for STDi Claims are:

1. Pregnancies (25%)
2. Musculoskeletal disorders affecting the back and spine, knees, hips, shoulders, and other parts of the body (20%)
3. Digestive disorders, such as hernias and gastritis (7.8%)
4. Mental health issues including depression and anxiety (7.7%)
5. Injuries such as fractures, sprains, and strains of muscles and ligaments (7.5%)

Group STDi Overview

- STDi benefits are generally paid weekly

- Benefit Amount / Benefit Percentage
  - Percentage of Income to a stated maximum (e.g. 60% to $1,000)
  - Increments to a stated maximum (e.g. increments of $100 per week to $1,000)
  - Flat Benefit (e.g. flat $200)

- Elimination Period: Defines how long an insured must be disabled before benefits begin
  - Standard options are 7 days, 14 days, & 30 days
  - May vary between accident and sickness (e.g. 0 days for accident and 7 days for sickness)
  - First day hospitalization is an optional benefit – benefits begin on the first day if the insured is hospitalized for 24 hours or more

- Benefit Duration: Defines how long an insured can receive benefits (such as 11 weeks)

Group STDi Overview

- Work-related illnesses or injuries are generally not covered

- Definition of Disability
  - Residual – can satisfy the elimination period with days of total or partial disability (total disability never required); this is the standard definition in the industry today
  - Partial – must be totally disabled through the elimination period and then can work part-time and receive a partial benefit
  - Total – must be totally disabled to be eligible for a benefit

- Recurrent Disability
  - If employee returns to work for less than a specific number of days (typically 15 days) and then has a recurrence of the same condition, it's considered one period of disability and they would not be required to satisfy a new elimination period.

- Earnings Definition
  - Salary only, including deferred comp; can also include bonuses &/or commissions

Pre-Existing Condition Exclusion

- Limits or excludes benefits for conditions that are pre-existing prior to the effective date of coverage
- Generally only included on voluntary or contributory plans to mitigate anti-selection risk
- Employer-paid STDi generally does not have a pre-existing condition exclusion whereas voluntary does

Maternity is a Covered Condition

- Benefit duration for normal delivery = 6 weeks minus elimination period
- Benefit duration for C-section = 8 weeks minus elimination period
- May be longer if there are complications before or after delivery

Group STDi Overview – Self Funded

- Utilized by employers who want to self-insure their STDi risk, but want a carrier to manage claims
- Employer is plan and claims fiduciary
- Per employee per month fee

FYI Group Statutory STDi Overview

- There are eight jurisdictions that have state-mandated disability insurance requirements:
  - California
  - Hawaii
  - New Jersey
  - New York
  - Rhode Island
  - Puerto Rico
  - Massachusetts
  - Washington
- If the employer has employees who work in one of the above states, they must provide STDi benefits that match or are better than state requirements
- Some states allow coverage to be obtained through either the state or a private carrier
- Benefits vary widely from state to state
- Group STDi benefits are reduced by statutory benefits payable

2021 Benefit Benchmarking Survey- STDi- ~40 Public Entities Participating

1. What type of short term group disability plans are offered by your company, not including non-group ancillary coverage through vendors like Aflac or Colonial Life?

40%	Voluntary 100% employee paid short-term disability
13%	Partially employer paid short-term disability
7%	100% employer paid short-term disability
40%	Not Applicable

2. What is the waiting period before short term disability benefits are paid?

Waiting period before STDi benefits are paid range from 7 days to 60 days

3. What is the maximum short term disability benefit period?

Maximum STDi benefit periods range from 11 weeks to one year

4. What is your monthly short term disability benefit amount?

Most employers have designed their monthly STDi benefit amount at 60%

IV. Long-Term Disability Insurance

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The ABCs of LTD

1. Many employers also offer long-term disability (LTD) plans that work in tandem with their STDi plans, so that when STDi plan income benefits end, income replacement benefits under the LTD plan begin. LTD benefits for permanently disabled individuals may continue through the individual's normal retirement date, or until the employee becomes eligible for Social Security disability benefits. However, some policies provide more limited income replacement benefits. For instance, for up to 24 or 36 months. Paid LTD income benefits are also coordinated with income from other sources, when available.

2. More than seven out of 10 organizations (72%) report offering a group long-term disability plan for their employees, according to SHRM's 2018 Employee Benefits report.

3. BLS reports that most employers pay the full premium for LTD insurance plans, and that employees are eligible for LTD insurance after a three to six month waiting period once they become disabled.

4. As with STDi benefits, LTD insurance does not provide an employee with job protection; requirements to hold an employee's job and reinstate the employee after an LTD absence will generally be determined by an employer's internal policies and practices, as well as by state and federal laws such as the FMLA and the ADA.

The Most Common Reason for LTD Claims:

1. Musculoskeletal disorders (29%)
2. Cancer (15%)
3. Pregnancy (9.4%)
4. Mental health issues, including depression and anxiety (9.1%)
5. Injuries such as fractures, sprains, and strains of muscles and ligaments (9%)

2021 Benefit Benchmarking Survey- LTD- ~40 Public Entities Participating

1. What type of Long Term group disability plans are offered by your company, not including non-group ancillary coverage through vendors like Aflac or Colonial Life?

80%	100% employer paid long-term disability
7%	Voluntary 100% employee paid long-term disability
7%	Partially employer paid long-term disability
13%	Not Applicable

The majority of employers offer 100% employer paid long-term disability

2. What is the monthly long term disability benefit amount (as a percentage)?

66%

3. What is the maximum Long Term Disability payment benefit period?

33%	To SSNRA Social Security Normal Retirement Age
27%	Other (Age 72 with reduced benefits, based on Utah Statute 49-21-403 (d))
20%	To Age 65
20%	Until eligible for URS Retirement benefits

4. What is the benefit period for mental health-related long term disability claims?

- There are a wide variety of benefit periods listed for inpatient mental health related to LTD claims. Periods range from a low of 24 months to a high of 5 years and Social Security Normal Retirement Age
- The outpatient mental health related to LTD benefit periods also widely vary from a low of 90 days up to 2 years and Social Security Normal Retirement Age.

Group LTD Overview

- LTD benefits are paid monthly
- Benefit Amount / Benefit Percentage
  - Percentage of Income to a stated maximum (e.g. 60% up to $5,000)
  - Increments to a stated maximum (e.g. increments of $500 per month up to $5,000)
  - Most common benefit %'s are 60% and 66 2/3%
- Elimination Period - defines how long an insured must be disabled before benefits begin
  - Standard options are 90 days and 180 days
- Benefit Duration - defines how long an insured can receive benefits
    - Social Security Retirement Age (SSNRA)
    - ADEA I (aka to age 65)
    - 2 Years
    - 5 Years

Group LTD Overview

- Return to Work Benefit – provides an incentive for employees to return to work
  - An employee can receive up to 100% of their pre-disability earnings between their part-time earnings and LTD benefit
  - Generally lasts for 12 or 24 months – following this period the proportionate loss formula is utilized
- Rehabilitation Program – carriers offer rehabilitation services to claimants to assist in their return to work efforts
  - May also include an increased benefit while participating in the rehab program
- Trial Work Days/Temporary Recovery – allows the employee recover during the elimination period and again become disabled without being required to satisfy a new elimination period
- Recurrent Disability - If employee returns to work for less than a specific number of months (typically 6) after receiving benefits and then has a recurrence of the same condition, it's considered one period of disability and they are not required to satisfy a new elimination period

Group LTD Overview

- Offsets / Other Sources of Income - other sources of income that are deducted from the employee's gross LTD benefit to arrive at the net LTD benefit. This provision helps to control costs and more importantly ensures that claimants don't receive more income during a disability than they received while working.

  - Social Security Disability Income (SSDI)
  - Salary continuation or accumulated sick leave
  - Worker's compensation
  - No-fault automobile policy
  - Judgement/settlement
  - Some retirement benefits or disability benefits within a retirement plan
  - Other group or government disability policies
  - K-1 income

  Some offsets may be removed, subject to underwriting approval (example – removing worker's comp. offset for public safety officers)

Group LTD Overview

- Pre-Existing Condition Exclusion - excludes benefits for conditions that are pre-existing prior to the effective date of coverage
  - Credit given to coverage under a prior plan so when an employer moves coverage to a new carrier a new pre-ex would not apply to currently insured employees
- Mental Health or Nervous Disorder Limitation - limits the benefit duration for claims resulting from a mental or nervous disorder (24 mo.)
- Drug and Alcohol Limitation - limits the benefit duration for claims resulting from a drug or alcohol disorders (24 mo.)
- Special Conditions Limit (subjective or self-reported) - limits the benefit duration for claims resulting from specific disorders
  - Arthritis, migraines, chronic fatigue, fibromyalgia, environmental allergies, carpal tunnel, musculoskeletal and soft tissue
  - Approach varies from carrier to carrier – no limitation or 24 months

Group LTD Overview

- Survivor Benefit – pays a benefit to an employee's beneficiary, or estate, if the insured dies while receiving an LTD benefit
  - 3 months gross benefit is the industry standard, with other options available (6 & 12 months)
- Workplace Modification – reimburses the employer for modifications they make to an employee's workplace to allow them to return to work
  - Generally needs to be agreed to in writing, and is subject to a maximum reimbursement
- Optional Benefits
  - COLA Benefit
  - Pension Benefit
  - Activities of Daily Living
  - Family Care Deduction Benefit

Tax Implications with Disability Insurance

- FICA Match – disability income is subject to FICA for 6 months of disability
  - If FICA Match is included, the carrier will pay and remit the employer's portion of FICA. Otherwise, the carrier will provide reports to the group and they are responsible for remitting the employer's portion of FICA
- W-2 Service – if elected, carrier will furnish a W-2 to anybody who receives benefits

V. Management of STDi, LTD, and Best Practice

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Managing STDi and LTD-FMLA & ADA Considerations

Individual Solutions

The FMLA entitles eligible employees to take up to 12 weeks of unpaid leave in a 12-month period for medical reasons. This includes the birth or adoption of a child, or for the care of a child, spouse, or parent who has a serious health condition.

The ADA requires employers to consider reasonable accommodations for employees with disabilities. Leave from work may be a form of accommodation, if it is reasonable and does not create an undue hardship for the employer.

How do I know if an employee's medical absence qualifies for FMLA leave?

Under the FMLA, a serious health condition is an illness, injury, impairment, or a physical or mental condition that involves *inpatient care* (defined as an overnight stay in a hospital, hospice, or residential medical care facility; any overnight admission to such facilities is an automatic trigger for FMLA eligibility) or *continuing treatment* by a health care provider.

Policy Best Practice - Run FMLA concurrently with any STDi and/or LTD

Best Practices & Strategy

1. Integrate your core programs in health and wellness (e.g. employee assistance programs) and disability management

   - Among the main benefits of this approach is that employees can avoid unnecessary absences by being connected to proactive care and assistance across different programs, including support through early identification and intervention.

2. Up your game in case management

   - Case managers manage risk for your company. They should be well trained in best-practice disability management and supported by the best tools, resources and information – both legislative and health-related. This is critical for them to succeed at helping people navigate the health-care system towards recovery – and a timely return to work – enabled by active, evidence-based treatment modalities

3. Guarantee privacy

   - Employees tend not to come forward to get help until they are assured their private lives and medical health issues are not under scrutiny by their employer. Employees rightfully expect this protection.

4. Equip your people leaders

- Your people leaders are always going to be a critical part of a successful solution. They too need the right tools and knowledge to identify risk, to support smooth and supported reintegration of employees after prolonged absence, and to manage workloads for those who remain on the job.
- How you treat employees when they are unable to work is a very important part of the employer/employee relationship and the overall employment brand.

5. Policy and Plan design

- Have defined and clear policies for disability management.
- Ensure your policies, regulations or guidelines are communicated to your workforce.
- Measure and track.
- Incorporate into policy, how the employee will pay for health, vision, dental employee share of premiums.
- Must also review how different leaves-parental, sick vacation, personal preference, PTO etc. are incorporated into policy.

Questions

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