The logo for the National Association of Community Health Centers (NACHHC) is located in the top left corner. It features a stylized blue house icon with a person silhouette inside, and the letters 'NACHHC' in a bold, sans-serif font.

National Association of Community
Health Centers (NACHHC)

Disability Coverage for You and Your Staff: What You Need to Know for 2010



Overview

- What is the need
- Look at some statistics
- Facts, Perceptions and misconceptions
- Salary continuation, qualified sick pay plans, ltd, std, individual coverage
- What does your current plan really pay
- Nachc member discounted plans announced



What is your greatest personal asset?

- Your home
- Retirement savings
- Automobile
- Boat
-
- It's your ability to earn an income.



The Need

Approximately 30% of all people aged 35 to 65 will suffer a disability for at least 90 days, and about one in seven can expect to become disabled for five years or more.*

*Health Insurance of America, 2000



The Need

And . . . during the course of your career, you are three and a half times more likely to be injured and need disability insurance than you are to die and need life insurance.*

*Health Insurance of America, 2000



The Need

“58% of respondents ages 25 to 60 say they are ‘very concerned’ about having sufficient income if they are injured and unable to work for an extended period.”

(Source: National Safety Council Stress Management Study; Risk & Insurance, July 2000)

Disability Benefits amount to about 6% of a company’s payroll, while overtime and replacement works account for nearly 6% more.”

(Source: Watson Wyatt Worldwide; Wall Street Journal, September 1999)



Disability: Facts, Perceptions, Misconceptions

- **Three out of 10** workers between 25 and 65 will experience a Disability of 3 months or longer
- **One in 7** workers will be disabled for five years or more before retirement
- The average long-term disability absence lasts **2.5 years**
- **54.4 million** Americans reported some level of disability in 2005; roughly 1 of every 5; 35 million reported a “serious disability”
- The chances of a 32 year old becoming disabled prior to retirement are **3.45 times greater** than the chance of dying
- Over **80% of physicians** have disability insurance protection; what do they know that others don't?

Worker Disability... ...Rising at an increasing rate...

SS Disability Trends: 1999 - 2009

152,000,000 covered workers: + **12%**

7,789,000 total disabled workers: + **60%**
(plus 1.9 million spouses and children)

986,000 new disabled workers in 2009: + **59%**

2,816,000 new claim applications: + **135%**

35% approval rate in 2009 (lowest since 1982)

Current average hearing backlog: **15 months** (approx.)

Average claimant age: **51**

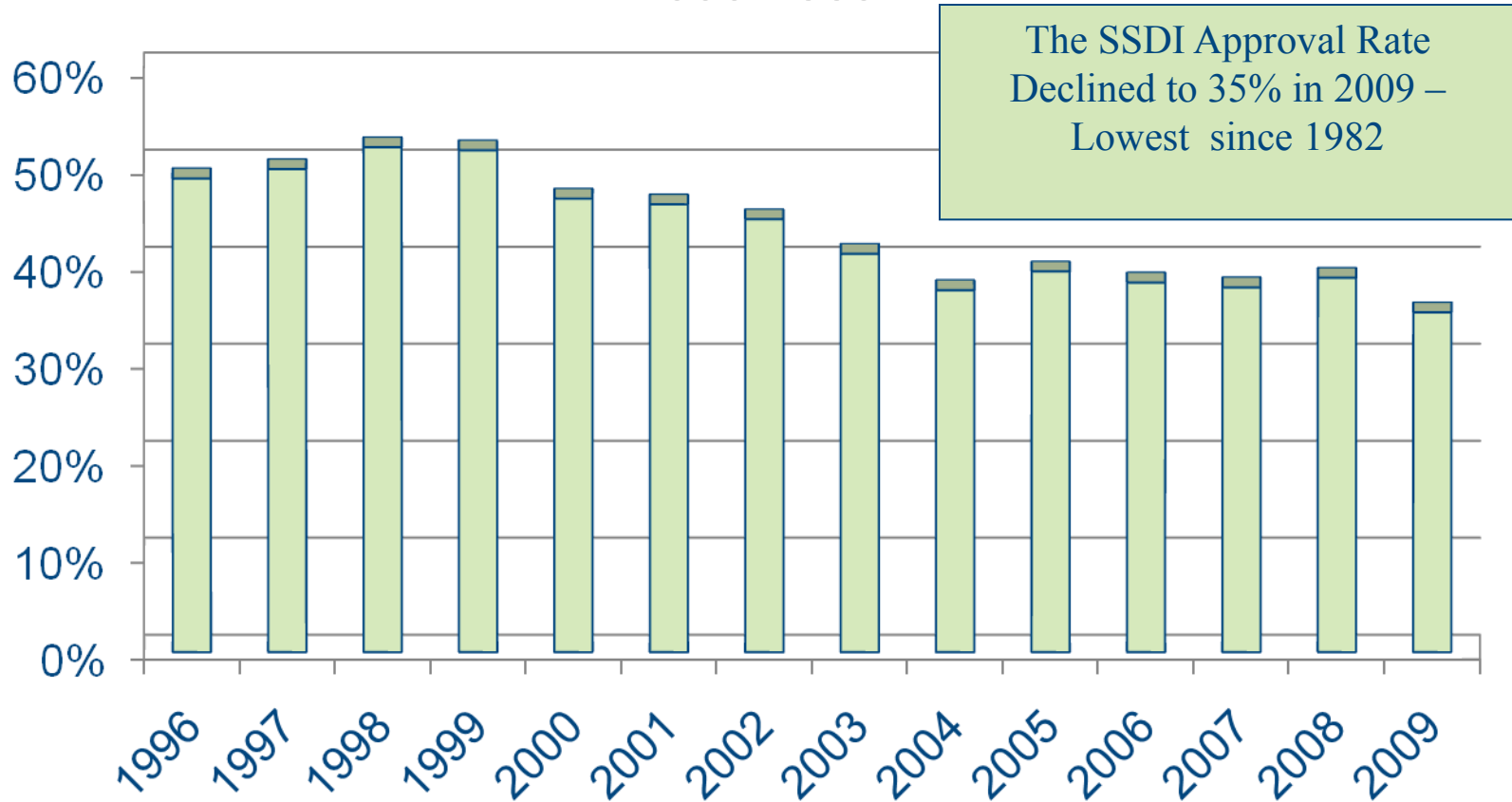
Average monthly benefit: **\$1,064**

97% of monthly benefits less than **\$2,000**

37% increase in rate of disability – 50% increase for female workers

SSDI Claim Approval Rate is Declining

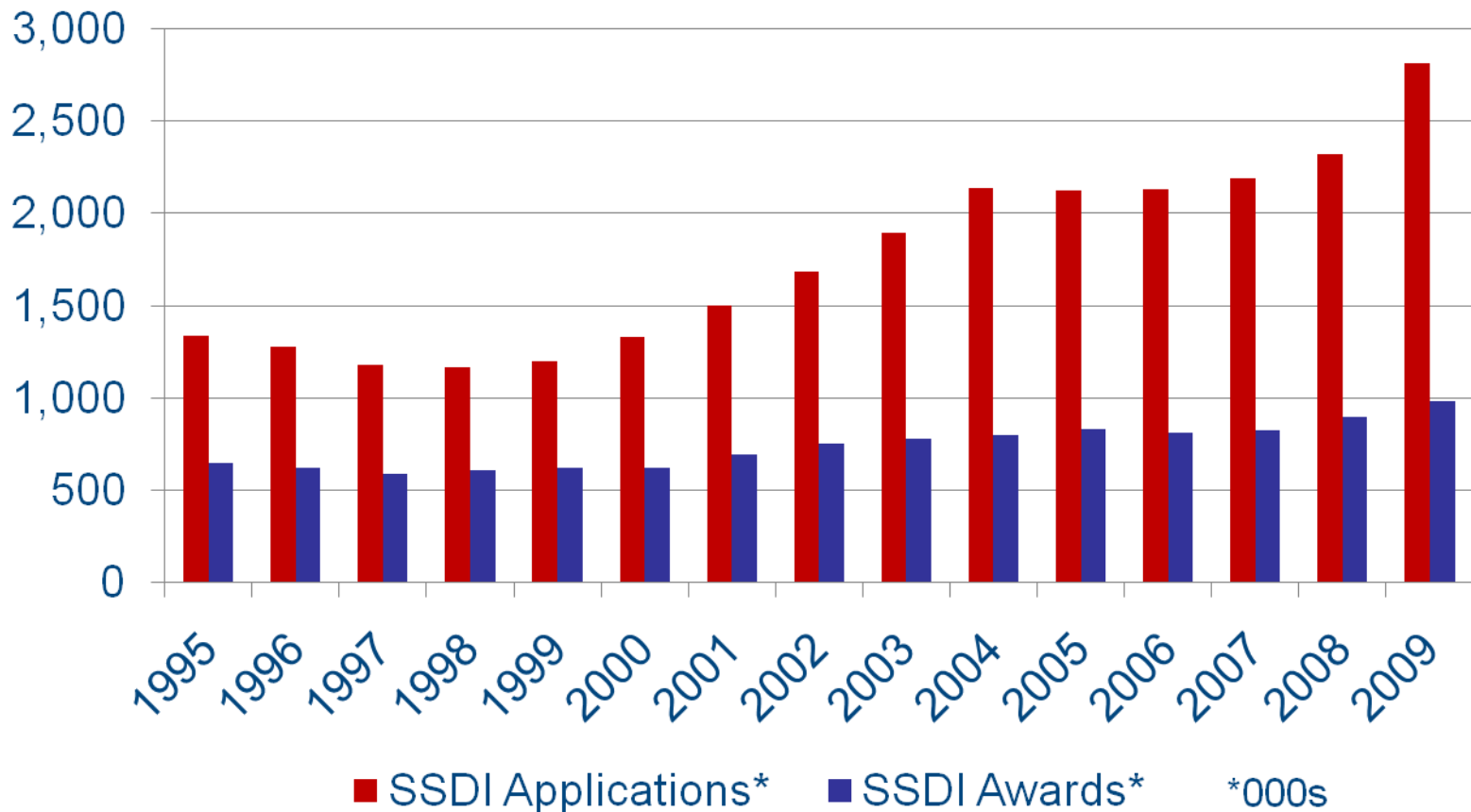
Percent of SSDI Claim Applications Approved
1995-2009



Source: www.socialsecurity.gov

Number of SSDI Claim Applications and Approvals – 1995-2009

SSDI Claim Applications increased 21% to 2.8 Million and Approvals increased 10% to 986,000 – Despite the Reduced Approval Rate



Source: www.socialsecurity.gov

Odds of Employee Disability

Average Age	Number of people in group					
	1	2	3	4	5	6
25	58%	82%	92%	97%	99%	99%
30	54%	79%	90%	96%	98%	99%
35	50%	75%	88%	94%	97%	98%
40	45%	70%	84%	91%	95%	97%
45	40%	64%	78%	87%	92%	95%
50	33%	55%	70%	80%	86%	91%
55	25%	43%	57%	68%	70%	82%
60	14%	26%	37%	46%	53%	60%

Source: 1985 Commissioner's Individual Disability A table



Disruption For Your Business

- Could you continue to pay a disabled employee's salary from your business?
- How long could you afford to pay a salary?
- Would the payments you pay be deductible to your business?



What Happens if You Continue to Pay a Disabled Employee's Salary Without a Program in Place?



IRS Definition of Employee

The IRS states that wages paid to a disabled employee may not be deductible as a business expense unless they are paid under a salary continuation program. Without a program in place, any payments made are not deductible by the business and are fully taxable to the employee.



Landmark Court Case: Estate of E. W. Chism and Chism Ice Cream Company

- Business owner becomes disabled
- Continues to receive salary
- Court ruling requires back taxes, penalties and interest, because a program to continue salary is not in place



What Can You Do?



Establish a Salary Continuation Program

A salary continuation program, also known as a qualified sick pay, wage continuation or Section 105 program, is a formal agreement that allows a business to continue paying a salary to an employee who becomes disabled.



How The Program Works

The program, in writing, must state:

- The class of employees to be covered
- The amount of payments the disabled employee will be paid
- The length of time the disabled employee will receive checks



Requirements of a Salary Continuation Program

- In order to gain tax advantages, the program must:
 - Be established prior to a disability
 - Be supported by a written agreement
 - Be communicated to all covered employees
 - Show intent to fulfill a promise of benefits



Guidelines for Installing a Program

- **Adopt a written program.** The program should state who is covered, how much to pay, when payments begin, and how long payments continue.
- **Have the program approved by the Board of Directors.** A resolution authorizing the program must be approved by the board of directors and recorded in the company minutes.
- **Make a formal announcement.** ERISA requires that certain information be furnished to each participant.
- **Place maximum limits on benefits.** This will help demonstrate an intention to provide benefits for “employees” rather than for stockholders.



Guidelines for Installing a Program

- **Avoid discrimination favoring stockholders**, both in the provisions of the program and in its actual operation. The program should spell out the class of employees covered.
- **Gear benefits to compensation and services provided.** This should help pass the “reasonable compensation” test and is another way to show that the benefits are for employees.
- **Any form of business entity may establish a program. However, since sole proprietors, partners, members of LLCs and owners with greater than 2% interest in S-Corporations are not considered employees (IRC Section 1372) they cannot participate in the program. They can, however, establish a program for their employees.**



What Are Your Options For Funding The Program?

- Self-fund
- Fund with Disability Income Insurance



Self-funding and FASB 112

The FASB 112 Accounting Rule makes a company become an insurance company by requiring the company to carry the present value of future claims as a liability on the balance sheet if they choose to self-fund a salary continuation program.



Implications of FASB 112

- Companies with self-funded disability programs must set aside all the money upfront
- This requirement can significantly reduce profits while increasing liabilities



Advantages of Insuring a Salary Continuation Program

- Gives employer control over participants, level of benefits and cost to the business
- Assures favorable tax treatment of employer contributions
- Secures benefits when using disability income insurance



3 Tax Shelters of an Insured Salary Continuation Program

- Premiums paid are deductible as a fringe benefit expense (IRC Section 162(a)).
- Employer premiums are not included in employee's taxable income. (IRC Section 106).
- A special tax credit may be available for employees that are permanently and totally disabled (IRC Section 22(b)).



Advantages for You and Your Business

- Helps attract and retain quality employees
- Reinforces positive employer-employee relationships
- Manages a known risk on a sound basis without an unexpected drain on profits
- Uses the business checkbook on a tax-favored basis



A Funding Solution –Disability Income Insurance

- Shifts the financial burden from your business to the insurer
- Benefits are clearly defined in the agreement and the disability income insurance policy
- Non-cancelable coverage – guaranteed premiums
- A discount is available when 3 or more individuals purchase a policy



False Sense of Security

- **Group LTD: Partial Solution**
- **How much will it actually pay?**
- **When will it pay?**
- **Who decides that you are disabled?**
- **What are the other limitations?**



NACHC Example

- Waiting Period: 90 Day Waiting Period
- Benefit Period: Age 65
- Coverage: 60% of Salary up to \$5,000 per month
- All Benefits are Taxable
- Benefits offset dollar-for-dollar by Social Security & Workers' Compensation

Filling In The Gaps

Annual Income + Bonus:	\$200,000
Net Monthly Income (pre-disability): <i>(assuming 25% tax rate)</i>	\$12,500
Gross Monthly Group LTD Benefit: <i>(Group LTD:60% of Salary up to \$5,000)</i>	\$5,000
Net Monthly Group LTD Benefit: <i>(assuming 25% tax rate)</i>	\$3,750
Monthly Supplemental DI Benefit:	\$ 6,000
Total Long Term Disability Benefit:	\$ 9,750

**The Group LTD and Supplemental DI Benefit
Protect 72% of Your Net Monthly Income**



Take It With You

- **Coverage is Non-Cancellable**
 - *Premiums are guaranteed not to increase before age 65*
- **Much More Comprehensive Coverage**
- **You Design It**
- **Policy and Discount Are Fully Portable.**



NACHC Member Program 2+1= 20%

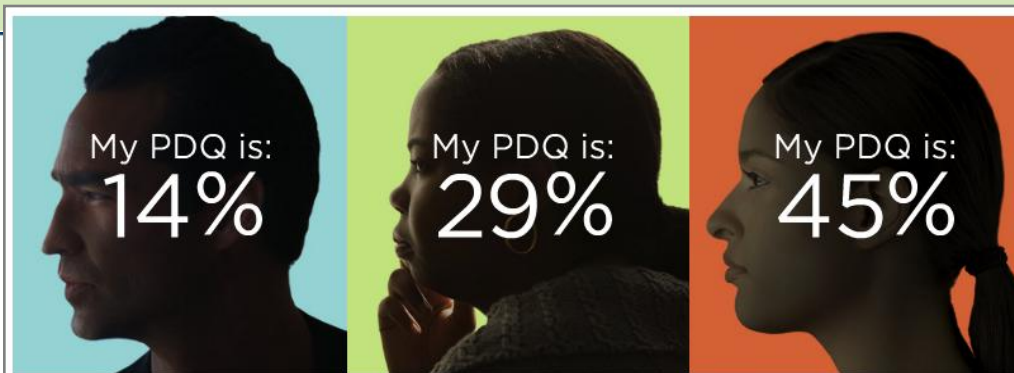
- **3 or more Lives**
- **20% Discount off of Uni-Sex Rates**
- **No Blood or Urine for amounts \$5,000*.**

***Up to Age 50**

Guaranteed Standard Issue

- **No Medical or Financial Underwriting**
- **Carve Out Employer Paid: 10 Lives**
- **Carve Out Voluntary: 30% of 100 Lives**

The PDQ Estimator



WHAT'S YOUR PDQ? FIND OUT NOW.

Everyone should know their chances of not being able to earn an income. That's what your Personal Disability Quotient (PDQ) calculates—your own chance of being injured or becoming ill that could force you to miss work for an extended period of time.

Why is this number so important? Think about it. Your ability to earn an income is your most valuable asset. It's what enables you to fund almost everything else that's important to you . . . your home, your family's lifestyle, your children's education, your retirement.

Calculate your own PDQ now—and learn what's really at stake. Then let us offer you some tips on what you can do to prevent disability from taking a financial toll on your family.

CALCULATE MY PDQ ►



Want more information and advice on protecting yourself from disability? Click here to visit the [Council for Disability Awareness](http://www.councilfordisabilityawareness.org).

The PDQ Estimator is a tool that helps you **Engage, Educate and Empower** your employee's

Educate: Use the PDQ estimator to raise awareness of the risk...



Here are your chances of being injured or becoming ill and unable to work before you retire for ...

3 months or longer **15%**

Chances that the disability would last 5 years or longer **43%**

Average length of a disability claim for someone like you **86** months

< BACK

NOW, FIND OUT HOW MUCH IS AT RISK >

The CDA PDQ Calculator® uses a variety of actuarial data and assumptions to determine the estimated odds of disability. The Council for Disability Awareness makes no representation to the accuracy of the estimated odds.



Want more information and advice on protecting yourself from disability? Click here to visit the [Council for Disability Awareness](#).

PDQ
Results Page

Educate: Use the EIQ estimator to show how much is at risk



My PDQ is:
43%

My EIQ is:
\$2,575,000

How can I
protect my
ability to earn
\$2,575,000

HERE'S THE NUMBER SO MUCH DEPENDS ON. 1 2 3

Your EIQ is:

\$2,575,000

This gives you an idea of the income you're depending on—and why it's so important for you to take steps to minimize your chances of disability impacting your income.

< BACK

NEXT, PLAN AND PREVENT ▶

PRINT YOUR RESULTS ▶

Note: this tool provides an estimated calculation of your future earnings potential based on your current income and your projected retirement age. It assumes an average annual income increase of 3 percent.



Want more information and advice on protecting yourself from disability? Click here to visit the [Council for Disability Awareness](http://www.councilfordisabilityawareness.org).

EIQ
Results Page



Contact Information

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- 401(k), Pensions
- Medical (fully insured and self-funded)
 - Dental & Vision
 - Life and Disability
- HR consulting & compliance reviews
 - including employee handbooks

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