



## Financial Security—Understanding the Gap in Long Term Disability Coverage

It's natural to think, "Oh that will never happen to me." According to industry statistics almost one-third of Americans entering the work force today will become disabled before they retire.<sup>1</sup>

Are you prepared?

Most employers offer a form of group long term disability (GLTD) insurance as part of their health and welfare benefits package. The plans are typically designed for rank and file employees but can leave coverage gaps for highly compensated skilled professionals. The following summary of the three most common gaps should help you understand if you are adequately protected.

### **The definition of "covered compensation" may not include all aspects of your compensation.**

Some plans will define compensation as salary but not cover incentive compensation like bonuses, commissions or stock based compensation.

### **Maximum monthly benefits may be less than your total compensation.**

For example, a plan offering a 60% income replacement ratio with a maximum monthly benefit of \$5000/month will cover up to \$100,000 of annual income. For those that earn above this monthly limit, the coverage may not be enough to sustain the disabled employee and their family.

### **Your benefits are taxable if your premiums are paid by your employer.**

The IRS will collect on the front or back end of a disability policy. If the premiums are initially paid by your employer with pre-tax dollars for you, then the benefits will be taxable. A 60% income replacement ratio designed to replace after tax income can end up as a 33% after tax replacement ratio. A supplemental policy paid with after tax dollars can fill the gap. Some employers will fund the policy with a gross up in pay to create the after tax premium and eliminate the issue.

Unfortunately, these unexpected terms of GLTD often leave highly compensated employees shocked and disappointed by their insurance coverage when disability strikes. A supplemental policy can fill the gap and provide the necessary protection. In a corporate sponsored plan, significant underwriting concessions like guarantee issue and list bill discounts provide high quality coverage that can fill the void.

Contact us to review your existing plans to make sure that you have the coverage you need.

1. Social Security Administration Fact Sheet, March 18, 2011

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