



**Individual Disability Insurance (IDI):**  
Who needs it, who buys it, how to offer it



## **Individual Disability Insurance (IDI): Who needs it, who buys it, how to offer it**

- 01** On shaky ground: The need for disability coverage
- 02** Closing the gap: How IDI protects highly compensated employees
- 03** IDI today: How businesses are offering IDI
- 05** The benefits of Unum IDI

# On shaky ground: The need for disability coverage

On the surface, the picture looks rosy. In the U.S., unemployment's down, the stock market is up, and housing prices have rebounded from the last big recession.<sup>1</sup>

Look a little deeper, though, and you'll see a different picture — one in which the American worker is still on fairly shaky ground. Despite the gains made in the past eight years, many working families in the U.S. — lower and higher income alike — may not be financially prepared should an unexpected event occur.

This is worrying in many respects, but particularly so in the context of disability. When a household's breadwinner can't earn a paycheck, it may be difficult for a family to keep up with everyday expenses.

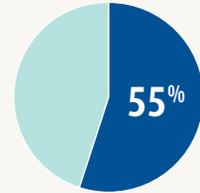
Unfortunately, suffering a disabling injury or illness is more common than many people think.



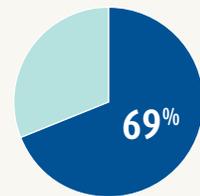
25% of U.S. workers aged 20-50 will become disabled before age 67<sup>5</sup>

This means that a portion of the workforce may not be fully prepared for the expenses that come with a disability.

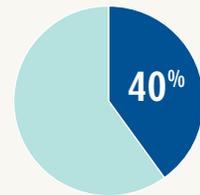
That's why disability insurance is so important. This coverage can pay employees a percentage of their pre-disability income in the event of a covered disability. The money can be used to help pay the mortgage, health care bills and other expenses.



Americans who say they just break even or spend more than they make each month<sup>2</sup>



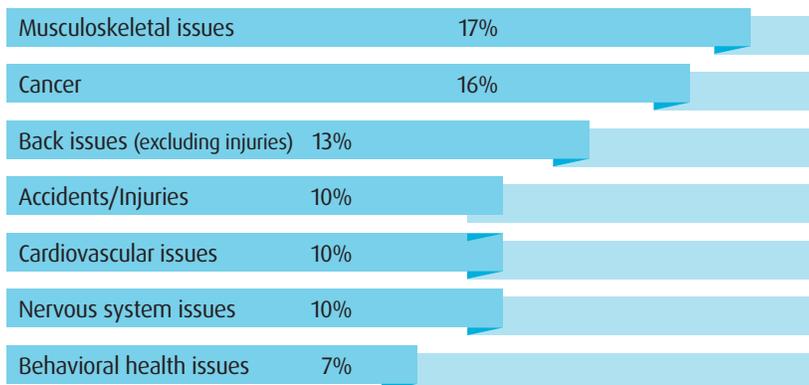
Americans who have less than \$1,000 in savings<sup>3</sup>



American workers earning more than \$100,000 who say they live paycheck to paycheck<sup>4</sup>

## LEADING CAUSES OF DISABILITY CLAIMS

Percent of claims



Unum internal data, 2015. Shows percent of individual disability claims first paid by Unum in 2015.

Employees recognize the value of disability coverage and they want employers to offer it at work. According to research we did with the Consumer Federation of America:<sup>6</sup>

- 90% of workers said they thought all employers should offer disability insurance.
- 88% of long term disability benefit recipients said the coverage helped them maintain a healthy emotional outlook while they were disabled.
- 50% of long term disability benefit recipients said the coverage prevented them from missing housing payments or other bills, or having to move out of their homes.

## Closing the gap: How IDI protects highly compensated employees

Basic group long term disability insurance (LTD) can be valuable for the disabled employee. It typically pays 60% of the employee's former compensation, up to a specified maximum benefit amount and time period during which the employee can receive benefits if disabled. It can pay until retirement age if the employee is too disabled to return to work.

For many workers, however — especially more highly paid professionals — basic LTD falls short. For these workers, supplemental Individual Disability Insurance (IDI) can help their disability benefits get closer to their former take-home pay.

### HERE'S HOW:

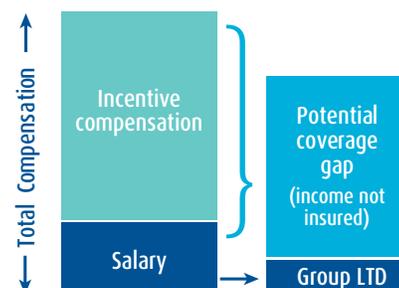
- **Increased income replacement.** Basic LTD policies often cap benefits well below what a highly compensated professional may actually earn. A typical policy covers 60% of base salary, with a benefit maximum of \$5,000 per month. With this coverage, anyone earning over \$100,000 per year will see a large gap between their pre- and post-disability income. And if the LTD is employer-paid, the benefits are taxable, bringing that maximum payment down to around \$3,600 per month after tax.<sup>8</sup> Many IDI policies insure a greater portion of income — often 75% or more — to help bridge this income gap.
- **Coverage beyond base salary.** For many high earners, a large portion of their total compensation comes in the form of bonuses, commissions or other incentive pay. Since basic group LTD normally replaces none of this income, these employees face a large income gap if they become disabled and can't work. But IDI replaces a portion of total compensation, so employees receive benefits that come closer to their actual pre-disability income.

### WHEN EMPLOYEES CAN'T WORK, BUSINESSES LOSE, TOO.



270 million days of production time lost in 2014 due to off-the-job injuries

Cost: **\$340 billion**<sup>7</sup>



# 78%

of employers say that their group LTD plans do not include coverage for bonuses or commissions<sup>9</sup>

# IDI today: How businesses are offering IDI

A review of our employer-sponsored, multi-life inforce IDI business provides a snapshot of the industries that offer IDI to their highly compensated employees, and the features they choose most often.

With this information, you can examine your own benefits offerings to help make sure you remain competitive in the race to recruit and retain the best employees for your business.

PERCENT OF TOTAL IDI INFORCE CASES		
Unum internal data, 2016.		
<b>FUNDING</b> <i>Unum IDI is typically paid for by the employer</i>	<b>COVERED COMPENSATION</b> <i>Unum IDI covers total compensation</i>	<b>INCOME REPLACEMENT PERCENTAGE</b> <i>Most IDI policies cover more than 60% of income</i>
Employer-paid ..... <b>74%</b> Employee-paid ..... <b>17%</b> Shared funding ..... <b>8%</b>	Base salary only ..... <b>41%<sup>†</sup></b> Incentive pay only..... <b>0%</b> Total compensation .... <b>57%</b> N/A ..... <b>2%</b>	<60% ..... <b>4%</b> 60-66% ..... <b>43%</b> 67-74% ..... <b>10%</b> 75%+ ..... <b>43%</b>
	<small><sup>†</sup>Includes employees who do not earn incentive pay.</small>	

## Industry breakdown

Our inforce business spans a wide variety of businesses, in a wide variety of industries.

### TRADITIONAL IDI CLIENTS

Employers in financial services, health care, manufacturing and law represent the greatest share of our IDI business, for these reasons:

- These industries have a high proportion of highly compensated employees with costly lifestyles to protect.
- Commissions and incentive pay constitute a significant portion of their income.
- Group LTD often provides inadequate coverage.
- Organizational structure allows for executive and management group carve-outs — the most common IDI offering.
- Employees in these industries see value in having portable coverage that they own.
- Executives in the health care and legal markets, especially, understand the importance of disability coverage.

TOP IDI INDUSTRIES	
	<b>1</b> Financial services
	<b>2</b> Health care
	<b>3</b> Manufacturing
	<b>4</b> Law

Unum internal data, 2016. Based on percent of total IDI inforce cases.

## EMERGING INDUSTRIES

Business services, computers/technology, consulting and pharmaceuticals are new and emerging industries in our inforce block. We believe these industries are becoming more interested in IDI for these reasons:

- Incentive compensation is becoming more prevalent in these industries.
- Companies in these industries are looking for ways to recruit and retain top talent.
- Our enrollment innovations are attractive to these fast-paced workplaces.
- These are growing industries in the marketplace overall.

## FUNDING BY INDUSTRY

Our clients choose funding models that work best for their businesses and employees. Many employers choose to fund IDI themselves. However, employee-paid and shared-funding plans are also common, especially for larger customers.

### PERCENT OF TOTAL IDI INFORCE CASES

	Employer-paid	Employee-paid	Shared funding
Advertising	83%	10%	7%
Agriculture	88%	8%	4%
Law	68%	16%	16%
Business services	72%	17%	10%
Computers/Technology	69%	26%	4%
Construction	91%	6%	3%
Consulting	81%	15%	4%
Education	74%	20%	6%
Engineering/Architecture	64%	28%	8%
Financial services	68%	24%	8%
Health care	67%	19%	13%
Manufacturing	84%	10%	6%
Pharmaceuticals	74%	16%	10%
Real estate	83%	17%	0%
Retail/Wholesale	83%	14%	3%
Transportation/Utilities	73%	17%	10%
Other	82%	15%	3%

Unum internal data, 2016.

### EMERGING IDI INDUSTRIES

 **1** Computers/technology

 **2** Pharmaceuticals

 **3** Consulting

 **4** Business services

Unum internal data, 2015. Based on new cases within the industry over total number of inforce cases within that same industry.

## OTHER INDUSTRIES

We also have IDI customers in several other large industries.

### PERCENT OF TOTAL IDI INFORCE CASES

Advertising	1%
Agriculture	1%
Construction	3%
Education	2%
Engineering/Architecture	3%
Real estate	2%
Retail/Wholesale	6%
Transportation/Utilities	3%
Other	7%

Unum internal data, 2016.

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  - 9 SHRM, "2013 Employer Perspectives on Disability Benefits" (2013). The most recent source of its kind.
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