

Graded Schedule of Benefits Long Term Disability

Show your clients how a graded Long Term Disability (LTD) schedule of benefits can be more effective for higher income plan members

Do your clients have employees with high salaries? If so, you can provide them with some helpful insight around the benefits of a graded Long Term Disability (LTD) schedule.

Share the advantage of graded LTD

At the best of times, insurance terms can add confusion, so here's a straightforward way to help your clients determine whether any of their plan members are vulnerable to what is known as the "all source maximum reduction."

STEP 1

Ask your clients to identify two important variables:

1. Which plan members earn salaries over \$60,000?
2. Is their LTD benefit taxable or non-taxable?

If you have clients with higher income employees and their LTD benefit is non-taxable, the graded LTD schedule offers increased value to their plan.

Note: If the employer contributes to the premium amount, the LTD benefit is taxable. If the plan member pays the entire premium amount, the LTD benefit is non-taxable.

STEP 2

Explain the difference between a standard (or "non-graded") and a graded LTD schedule. In a standard schedule, the amount of disability benefit is determined based on a percentage of monthly income, i.e., 66.67 per cent. Contract provisions ensure that the total benefit paid, including the all source maximum reduction (see shaded panel), does not exceed the income that the plan member would have received if he/she was actively at work. It's important to note that the amount of the all source maximum reduction grows as the plan member's income rises.

WHAT IS THE ALL SOURCE MAXIMUM?

The plan member's total monthly income while disabled cannot exceed:

- 85% of gross monthly earnings if benefit payments are taxable; or
- 85% of net monthly earnings if benefit payments are not taxable, as of the date the disability commenced.

If the plan member's total income exceeds 85%, the LTD benefit will be reduced accordingly by the following sources of income:

- amounts payable under the benefit;
- disability benefits payable under any other group insurance contract or any other legislation;
- parental benefits payable under any legislation; under this contract, maternity and paternity benefits, and benefits payable for family or parental reasons, are all considered parental benefits; and/or
- retirement income from the Canada or Quebec Pension Plan.

A graded LTD schedule adds another component to the disability benefit payment formula which calculates the all source maximum reduction more fairly for higher income employees. LTD premiums are based on a percentage of the plan member's salary before the all source maximum reduction is applied. Just as the name implies, a graded LTD schedule adds grades or "tiers" of coverage to the formula to make sure that employees with higher salaries do not have their LTD benefit negatively affected by the all source maximum reduction. For example, with a non-graded LTD schedule, a disabled employee with a salary of \$125,000 might have an all source maximum reduction of \$445 per month because of income from other sources, whereas the same employee under a graded LTD schedule would have no reduction (see sample Graded LTD Schedule below).

STEP 3

Explain the benefits of graded LTD to those clients who have higher income employees. Clients with higher income employees are interested in the bottom line just like anyone else. A graded LTD schedule helps to reduce or eliminate the impact of the all source maximum on employee benefits at the time of a claim. In addition, it helps to ensure that premiums for each employee more accurately reflect the cost of the benefit that would be paid in the event of a claim.

TO RECAP

A graded LTD schedule adds value to your clients' plans without adding premium. Advise your clients of the benefits of graded LTD in the following situation:

- The client has employees with salaries over \$60,000.
- Their current LTD benefit is non-taxable (i.e., the employee pays the entire premium for his/her LTD benefit).

Without graded LTD, employees with higher incomes may be negatively affected by the all source maximum reduction.

BELOW IS AN EXAMPLE OF HOW THE GRADED LTD SCHEDULE COULD HELP YOUR CLIENTS.

PLAN MEMBER EARNINGS (\$)			NON-GRADED LTD BENEFIT — 66.67% OF ALL EARNINGS (\$)				GRADED LTD BENEFIT — 66.67% OF FIRST \$2,500 OF EARNINGS, 45% THEREAFTER (\$)			
ANNUAL GROSS EARNING	ANNUAL TAXES	NET MONTHLY EARNINGS	BENEFIT (NO ASM APPLIED)	ALL SOURCE MAXIMUM (ASM)	BENEFIT PAYABLE	ASM REDUCTION	BENEFIT (NO ASM APPLIED)	ALL SOURCE MAXIMUM (ASM)	BENEFIT PAYABLE	ASM REDUCTION
60,000	11,065	4,078	3,334	3,466	3,334	0	2,792	3,466	2,792	0
70,000	14,180	4,652	3,889	3,954	3,889	0	3,167	3,954	3,167	0
80,000	17,295	5,225	4,445	4,442	4,442	3	3,542	4,442	3,542	0
90,000	20,378	5,802	5,000	4,932	4,932	69	3,917	4,932	3,917	0
100,000	23,949	6,338	5,556	5,387	5,387	169	4,292	5,387	4,292	0
125,000	33,239	7,647	6,945	6,500	6,500	445	5,229	6,500	5,229	0
150,000	42,849	8,929	8,334	7,590	7,590	744	6,167	7,590	6,167	0
175,000	52,889	10,176	9,723	8,649	8,649	1,073	7,104	8,649	7,104	0
200,000	62,929	11,423	11,112	9,709	9,709	1,403	8,042	9,709	8,042	0
250,000	83,009	13,916	13,890	11,828	11,828	2,061	9,917	11,828	9,917	0
300,000	103,089	16,409	16,668	13,948	13,948	2,720	11,792	13,948	11,792	0
400,000	143,249	21,396	22,223	18,186	18,186	4,037	15,542	18,186	15,542	0

Assumptions Used: Annual taxes based on 2011 combined Federal and Ontario tax rates and the single personal tax credit with a non-taxable plan