



DISABILITY INCOME PROTECTION
FOR EXECUTIVES



Much of your company's success depends on the talents of your key executives. But keeping the people who keep you in business is easier said than done. Regardless of the economy, higher pay is not the only answer. It is **competitive benefits** that can make all the difference.





A comprehensive and competitive benefits program should help your high caliber executives answer a resounding “yes” to these critical questions:

- **Am I saving enough for retirement?**
- **Do I have enough liability protection to protect my significant net worth if I am sued?**
- **Are my assets protected if I have a sudden catastrophic illness?**

And, especially important, but often overlooked ...

- *Have I sufficiently protected my income while I am still working?*

The challenge is finding innovative ways to provide a benefits program that is as cost-effective as it is competitive. *A combination of group long-term disability (LTD) and individual disability insurance (DI) can be a vital part of the solution.*

The Income Replacement Gap

How many of your talented executives would have to spend their retirement, personal or other savings if they lost their income due to an illness or injury?

The typical stand-alone group LTD plan usually limits the amount of income protection available to some top executives. While most of your rank-and-file employees can achieve full income replacement with these plans, they often leave your company's top earners with only 30 percent to 50 percent of their income protected.

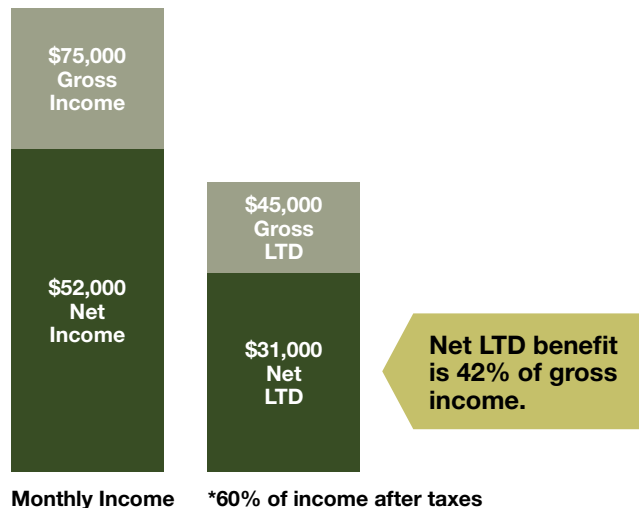
Many executives do not know this income replacement gap exists until it is too late.

Typical group LTD shortfalls affecting the highly compensated include:

Shortfall #1: The 60% Illusion

The taxability of an employer-paid LTD benefit causes the take-home benefit amount to be less than the expected amount of income protection perceived by the employee.

The 60% Illusion



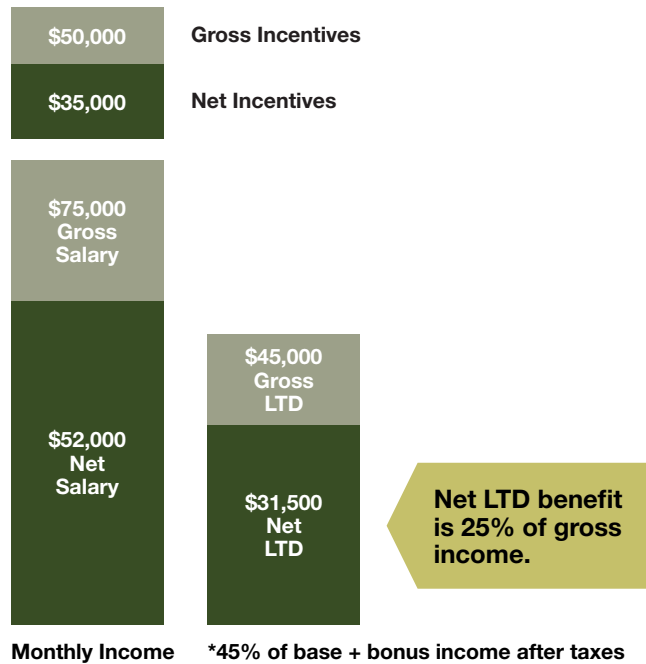
*Assuming LTD benefit = 60% of base salary to a maximum monthly benefit of \$10,000 and a 30% tax bracket for federal, state and FICA

For illustrative purposes only

Shortfall #2: Salary Only

The definition of earnings within a group LTD plan usually excludes bonuses, which means that all of a key employee's income may not be protected.

"Salary Only" Definition of Earnings



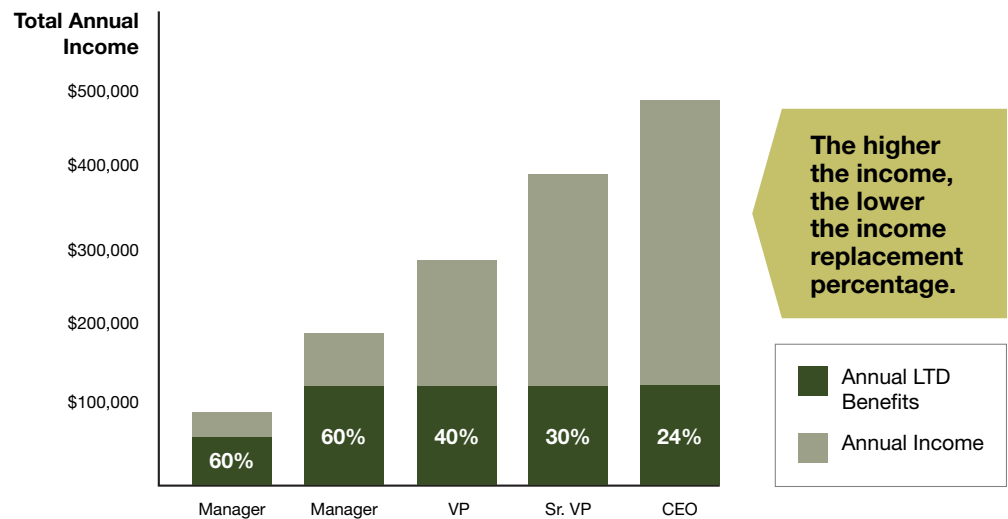
*Assuming LTD benefit = 60% of base salary to a maximum monthly benefit of \$10,000 and a 30% tax bracket for federal, state and FICA

For illustrative purposes only

Shortfall #3: Reverse Discrimination

The maximum group LTD benefit in the plan puts a cap on some highly compensated executives, causing them to have less income protected than rank-and-file employees.

Reverse Discrimination of Highly Compensated Executives



Assuming LTD benefit = 60% of base salary to a maximum monthly benefit of \$10,000 and a 30% tax bracket for federal, state and FICA

For illustrative purposes only

Bridging the Gap by Combining Group and Individual Coverage

Although there are many ways to solve the income replacement gap with group LTD – grossing up the LTD premium so the executive benefit is tax free, including bonuses into the earnings definition of an LTD plan or increasing the maximum monthly benefit cap of the LTD plan – *they increase the rate of the entire plan.*

When group LTD and individual DI coverage are combined, however, LTD can be more than just a group policy. It can be a well-thought-out plan design that delivers a big benefit to your big earners while keeping your costs in check.

For example, group LTD plans are experienced-rated. If a highly compensated executive is on claim, this can have a significant impact on the group plan rates. Individual DI can help transfer the risk to a non-cancellable, fixed rate with level premiums. And that’s just the tip of a combined plan’s many advantages.

Disability Income Replacement: Problem

PROBLEM

Title	Base Salary	Bonuses	Total Annual Salary	Total Monthly Salary	Group LTD*	Individual DI	% Salary Replaced
CEO	\$200,000	\$150,000	\$350,000	\$29,167	\$10,000	\$0	34%
Sr. VP	\$175,000	\$100,000	\$275,000	\$22,917	\$8,750	\$0	38%
VP	\$100,000	\$75,000	\$175,000	\$14,583	\$5,000	\$0	34%
Manager	\$75,000	\$50,000	\$125,000	\$10,417	\$3,750	\$0	36%
Manager	\$50,000	\$25,000	\$75,000	\$6,250	\$2,500	\$0	40%

*60% of base salary to a maximum of \$10,000 monthly benefit

Disability Income Replacement: Solution

SOLUTION

Title	Base Salary	Bonuses	Total Annual Salary	Total Monthly Salary	Group LTD*	With Individual DI	Total Monthly Benefit	% Salary Replaced
CEO	\$200,000	\$150,000	\$350,000	\$29,167	\$10,000	\$11,875	\$21,875	75%
Sr. VP	\$175,000	\$100,000	\$275,000	\$22,917	\$8,750	\$8,425	\$17,175	75%
VP	\$100,000	\$75,000	\$175,000	\$14,583	\$5,000	\$6,000	\$11,000	75%
Manager	\$75,000	\$50,000	\$125,000	\$10,417	\$3,750	\$4,100	\$7,850	75%
Manager	\$50,000	\$25,000	\$75,000	\$6,250	\$2,500	\$2,200	\$4,700	75%

*60% of base salary to a maximum of \$10,000 monthly benefit



Combined Plan Advantages

Benefits to the executive:

- The plan design provides maximum income replacement ratios.
- DI rates are permanent to age 65.
- DI policies can be offered as guaranteed standard issue, meaning no medical exams.
- Premium discounts are portable if the executive leaves the employer.
- With an employee-paid plan, an executive can receive a tax-free individual DI benefit.

Benefits to the employer:

- Packaged pricing discounts are available with many group LTD carriers when individual DI is added.
- Competitive bidding is high with group LTD carriers when the maximum benefit is not increased.
- LTD rate volatility is reduced with spread of risk to a combination of group LTD and individual DI.

Establishing a Combined Plan

By combining group and individual disability coverage, you are providing a unique income protection program that can help recruit and retain talent — *if* they fully understand the benefit's value and the benefit is implemented effectively.

To successfully establish an income protection program, an employer must:

1. Determine the eligible group of executives to be included in the program.
2. Decide who will pay for the program:
 - a. Employer pay
 - b. Voluntary
 - c. Some other combination
3. Commit to an effective communication strategy (preferably not during an open enrollment).

Sample Implementation Timeline

Date	Action Step	Description
MM/DD/YY	Account setup	<ul style="list-style-type: none"> • Determine enrollment dates and common effective date of coverage for employees • Determine enrollment process (group or individual meetings) • Determine communication plan (can include letters, e-mail, payroll stuffers, posters and table tents) • Obtain final census information • Determine when kits and applications are needed
MM/DD/YY	Pre-enrollment communication	<ul style="list-style-type: none"> • Set meeting dates and times • Begin employee communications (detailing dates for enrollment period and benefits of purchasing individual disability insurance)
MM/DD/YY-MM/DD/YY	Enrollment meetings	<ul style="list-style-type: none"> • Hold individual or group meetings • Distribution of personalized proposals • Follow-up calls made by your advisor
MM/DD/YY-MM/DD/YY	Policy delivery	<ul style="list-style-type: none"> • Approved policies delivered to employees by your advisor • Policy payment information sent to you or employees (depending on who is paying the premiums)



We are ready to help you incorporate disability solutions into your comprehensive benefits offerings. Show your top talent you value their contributions.

Call us today.



NATIONAL FINANCIAL PARTNERS

Thomas E. Bonhag, CFP, CLU, ChFC, CAP®
Certified Financial Planner
NFP National Madison
340 Madison Avenue
21st Floor
New York, NY 10173
212.878.1689
tbonhag@nationalmadison.com
www.nationalmadison.com

Thomas E. Bonhag offers securities and investment advisory services through AXA Advisors, LLC (NY, NY 212-314-4600), member FINRA/SIPC, and offers annuity and insurance products through AXA Network Insurance Agency, LLC and its affiliates.