

# Employer-sponsored long-term disability insurance

*Long-term disability insurance provides income for disabled workers until retirement or a specified age; however, payments usually are offset by Social Security and other sources of disability income*

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Long-term disability insurance provides income to workers whose earnings are interrupted by lengthy periods of disability. Benefits usually are payable until retirement, a specific age, or recovery from disability. However, benefits do not usually begin until short-term disability payments (sick leave or sickness and accident insurance) cease. Long-term disability plans thus provide a bridge between short-term disability benefits and retirement income.

Long-term disability insurance is not the only source of extended income replacement for disabled workers. State workers' compensation programs provide benefits to workers disabled through occupational injuries or sicknesses. Similarly, most employees are covered by the disability insurance portion of Social Security, which provides income to workers and their families for both occupational and nonoccupational disabilities.

In addition, private pension plans commonly provide for disability retirement benefits.<sup>1</sup> Under plans with *immediate* disability benefits, payments to eligible workers start at the time the injury or sickness occurs. Plans with *deferred* benefits, however, postpone payments until the normal or early retirement age specified in the pension plan. Under deferred plans, employees who qualify for long-term disability payments usually continue to earn credits for service in their pension plans until the formal retirement date is reached. At that time, the disability payments cease and pension payments begin.

Long-term disability plans are almost always coordinated

with these other sources of long-term disability income. This article describes the provisions of the plans and how coordination is achieved.

## Development of the plans

In the 1950's, long-term disability benefits were generally available only to middle and upper income employees on salary. Also, restrictive length-of-service eligibility requirements, such as 5 years, were imposed.<sup>2</sup> But in the 1960's and 1970's, a variety of factors led to extending the benefits to lower income and hourly wage workers.

Growing concern about the adequacy of State workers' compensation benefits prompted unions to seek additional protection through collective bargaining. The extension of Social Security to include disability benefits in 1956 was another factor influencing management to cover hourly wage earners. Adoption of Social Security benefits heightened interest in the disability plans and reduced employers' costs for this benefit when provision was made for offsetting government payments.<sup>3</sup>

In 1984, more than 22 million persons had long-term disability income protection. Of this number, 17.3 million were under group insurance policies and 5.5 million had individual policies.<sup>4</sup> This compares with a total of 3 million persons covered in 1963, and demonstrates the rapid spread of such benefits in the last 20 years. Disability insurance policies are generally purchased from life insurance companies, but some are written by property and liability insurance companies or by health insurers. These plans, however, are rarely self-insured by the employers.

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## Employee benefits survey

This analysis is based on information from the 1985 Bureau of Labor Statistics' survey of employee benefit plans in medium and large establishments.<sup>5</sup> Data on 522 long-term disability plans were tabulated separately for full-time employees in three occupational groups: professional-administrative, technical-clerical, and production. The first two groups are jointly labelled white-collar workers, in contrast with production or blue-collar workers.

According to the survey, long-term disability insurance, wholly or partially financed by the employer, was available to 48 percent of the full-time workers. This was a 20-percent increase since 1980, when the survey became fully operational.<sup>6</sup> The expansion of disability benefit coverage to technical-clerical and production workers is as follows:

Occupational group	Percent of employee coverage		Percent change
	1980	1985	
All employees	40	48	20.0
Professional-administrative	62	64	3.2
Technical-clerical	50	61	22.0
Production	27	32	18.5

## Eligibility requirements

Before benefits are payable, disabled employees must satisfy the eligibility requirements of their plan. Nearly 7 of 10 participants in 1985 were in plans that specified a minimum length of service before an employee was eligible. As table 1 shows, most participants were in plans with service requirements of 6 months or less, but one-quarter faced requirements of a year or more. This contrasts with life and health insurance plans, which rarely require more than 6 months of service.<sup>7</sup>

Disabled employees also may be required to fulfill waiting periods before benefits begin—typically 3 or 6 months. These initial months of disability, however, may be covered by employer-sponsored sick leave or sickness and accident insurance, or both, thereby eliminating gaps in income protection against nonoccupational disabilities. (State workers' compensation programs cover the first 6 to 12 months of an occupational disability.)

A third eligibility requirement stems from a plan's definition of total disability. During the first 12 to 24 months of sickness or injury, disability is usually defined as total if an employee is unable to perform his or her job. Afterwards, the definition of total disability becomes more restrictive, requiring that an employee be unable to engage in any gainful employment.

The initial definition of disability under private plans is less restrictive than the Social Security definition. Under the latter, a person must be unable to do any substantial, gainful work owing to a medical condition which has lasted, or is

**Table 1. Percent of full-time participants in long-term disability insurance plans, by occupational group and length-of-service requirements in medium and large firms, 1985**

Length-of-service requirement <sup>1</sup>	All participants	Professional and administrative	Technical and clerical	Production
Total	100	100	100	100
With service requirement	69	68	72	66
1 month	11	12	9	10
2 months	4	3	2	7
3 months	16	13	16	18
4-5 months	2	1	1	4
6 months	12	11	12	13
1 year	15	18	19	8
2 years	1	2	2	(2)
3 years	2	1	3	1
More than 3 years	6	7	7	4
Without service requirement	31	32	28	34

<sup>1</sup> Length-of-time employees must be on the job before they are covered by a plan that is at least partially employer-financed. There is frequently an administrative time lag between completion of requirement and the actual start of participation. If the lag was 1 month or more, it was included in the service requirement.

<sup>2</sup> Less than 0.5 percent

NOTE: Because of rounding, sums of individual items may not equal totals.

expected to last, at least 12 successive months. The condition must prevent a person from working not only in his or her usual job, but also in any other substantial, gainful work. A person's age, education, training, and work experience are considered when deciding whether he or she can work.

However, not all private plans require that employees be totally disabled. Some provide for partial disability benefits. Persons may be considered partially disabled (1) if they can perform at least one duty of their regular occupation on a part-time basis, or (2) if they are unable to perform regular duties but can perform duties of another occupation for which they are suited by training, education, or experience. Under this feature, a partially disabled person's benefit is commonly reduced by 50 percent of earnings from employment but the other 50 percent is retained to encourage such work. The employee's plan benefits continue as long as the new earnings are less than a specified percentage of predisability salary, for example, 80 percent. If the work is in another occupation, benefits continue as long as earnings are less than a somewhat lower proportion of predisability salary, say 70 percent.

## Benefit formulas

Long-term disability benefits are based on previous earnings for at least 95 percent of plan participants. Virtually all plans define these earnings as an employee's straight-time base pay as of the date of disability. Overtime, bonuses, shift differentials, or any other special forms of compensation are not included.

About three-fourths of all participants covered by the 1985 survey were in plans that provided benefits as a fixed percent of earnings (table 2). Of these participants, four-fifths were provided 50 or 60 percent of earnings in the event of disability. These plans express the disability benefit

as a fixed percent of predisability earnings, integrated with primary (individual worker) Social Security benefits<sup>8</sup> and payments from other government programs such as workers' compensation. Integrated formulas reduce disability payments by the amount of payments from the employee's primary Social Security (or Railroad Retirement Act) benefits and other income sources. For example, an integrated plan may provide a disability benefit of 60 percent of the employee's monthly pay up to a specified maximum amount, but the benefit will be reduced ("offset") by Social Security payments.

A tenth of the plan participants had dual percentage formulas. One benefit rate applied to earnings below a specified dollar level, and a higher rate was applied to the amount above that level—for example, 50 percent of the employee's monthly earnings up to \$2,500 and then 65 percent of the excess.

The remaining participants were in plans in which either a percent varying by service or length of disability was applied, or a scheduled dollar amount, almost always varying by earnings, was used. The latter accounted for slightly more than one-fourth of production worker participants, but was rare for the other two worker groups.

**Benefit offsets**

Benefit formulas in long-term disability plans seldom determine what is actually payable from the plan. The formula describes an overall "target" replacement rate which includes other types of benefit payments. Most of the participants in the plans (94 percent) were guaranteed a specified portion of earnings in coordination with other sources of disability income. In these plans, if the total of benefits exceeds the amount targeted by the formula, plan payments may be reduced to meet the target. When the sum of the benefits is less than the guaranteed amount, however, the remainder is paid from the employer-sponsored long-term

disability plan. The purpose of offset provisions is to provide an adequate level of replacement income, while avoiding duplicative or excessive benefits (many of which are already financed by the employer).

What are the other sources of income which may offset long-term disability payments? They depend on the type of plan. However, almost all of the plans in the 1985 Employee Benefits Survey reduced benefits if payments from one or more of the following programs were received: primary or family (dependents) Social Security, or some combination of the two; workers' compensation; State nonoccupational disability insurance; and the employers' pension plans.

Table 3 shows that 91 percent of all participants in long-term disability plans received payments integrated with primary Social Security benefits. Almost the same percentage of participants received payments coordinated with workers' compensation benefits. While plan provisions for 69 percent of participants specified offsets for State nonoccupational disability benefits, such offsets actually applied only to workers surveyed in the four States having such benefit plans.<sup>9</sup>

The proportion of participants in long-term disability plans requiring offsets for private pension or other employer-sponsored benefits was lower than that for Social Security benefits. The main reason for less frequent offsetting for private pensions is that 40 percent of pension plan participants would have disability pension benefits deferred to the normal retirement age—because the pension is deferred, there are no pension payments to offset.<sup>10</sup> Other employer-sponsored benefits, such as profit sharing, also were less frequently mentioned as offsets by long-term disability plans. In many cases, such offsetting benefits may actually not exist, but were included merely as a standard provision in plan documents.

As noted earlier, long-term disability plans are almost always integrated with Social Security benefits in some

**Table 2. Percent distribution of full-time participants in long-term disability insurance plans, by occupational group and method of determining payment, medium and large firms, 1985**

Method of payment determination	All participants			Professional and administrative			Technical and clerical			Production		
	Total	With maximum coverage provisions <sup>1</sup>	Without maximum coverage provisions	Total	With maximum coverage provisions <sup>1</sup>	Without maximum coverage provisions	Total	With maximum coverage provisions <sup>1</sup>	Without maximum coverage provisions	Total	With maximum coverage provisions <sup>1</sup>	Without maximum coverage provisions
All methods	100	68	32	100	69	31	100	75	25	100	61	39
Fixed percent of individual's earnings	74	58	16	81	60	21	80	65	16	59	48	11
Less than 50 percent	1	1	(2)	1	1	(2)	1	1	-	1	1	-
50 percent	22	18	4	20	13	7	20	18	2	26	23	3
55 percent	1	1	(2)	1	1	(2)	1	1	(2)	1	1	(2)
60 percent	38	29	10	47	35	12	44	34	10	24	17	7
65 or 67 percent	10	8	2	11	9	2	12	10	2	7	6	1
70 percent	2	1	1	2	2	1	3	2	1	1	1	(2)
Percent varies by individual's earnings	10	6	4	11	6	5	13	9	5	7	5	2
Percent varies by length of service	1	1	(2)	1	(2)	(2)	1	(2)	1	1	1	-
Scheduled dollar amount varies by individual's earnings	10	2	8	1	1	(2)	2	1	1	27	3	24
Other <sup>3</sup>	5	2	8	6	1	5	3	(2)	3	5	3	2

<sup>1</sup> Includes dollar maximums in plans that pay a percent of earnings, or ceilings on income during disability that limit the amount payable from the long-term disability plans plus other income, or a combination of both.

<sup>2</sup> Less than 0.5 percent.

<sup>3</sup> Includes flat dollar amounts and scheduled percent of earnings varying by length of disability.

NOTE: Because of rounding, sums of individual items may not equal totals. Dash indicates no employees in this category.

way. How it is done—with a disabled employee's primary or family Social Security, or some combination of the two—makes a substantial difference. The method of integration is usually related to the percentage of earnings to be replaced. For example, if the plan targets a lower percentage of earnings, such as 50 percent, it may integrate with only the primary Social Security benefit. With a higher target percentage of earnings, such as 70 or 75 percent, the plan would more likely integrate with all sources of benefits, including family Social Security benefits. Among the plans analyzed, slightly more than one-tenth of those targeting 50 percent of monthly earnings were integrated with family Social Security benefits, compared with one-third of the plans targeting at least 60 percent.

What is the impact of offsets on long-term disability benefit calculations? When an employee becomes totally disabled, he or she will be guaranteed a specified percentage of monthly earnings. For example, a plan may provide a target monthly benefit of 60 percent of earnings. Therefore, if an employee becomes totally disabled while earnings are \$1,667 per month (\$20,000 per year) and qualifies for primary Social Security disability benefits of \$640 per month,<sup>11</sup> the benefit would be calculated as follows:

Monthly earnings .....	\$1,667
Target long-term disability amount (60 percent of earnings) .....	1,000
Less offset for Social Security .....	- 640
Balance provided by long-term disability plan .....	\$ 360

Employers desiring to maintain goodwill with their disabled workers may establish a minimum monthly benefit from the plan, below which offsets no longer apply. Forty-

**Table 3. Percent of full-time participants in long-term disability insurance plans, by occupational group and offset provision, medium and large firms, 1985**

Offset provision	All participants	Professional and administrative	Technical and clerical	Production
Total .....	100	100	100	100
With offset <sup>1</sup> .....	94	95	94	94
Primary Social Security .....	91	91	91	91
Workers' compensation .....	89	88	88	91
State nonoccupational disability insurance .....	69	71	69	68
Private pensions .....	65	60	61	72
Other employer-sponsored benefits <sup>2</sup> .....	63	67	68	53
Rehabilitative employment income .....	42	44	42	39
Family Social Security .....	22	24	24	17
Railroad Retirement .....	6	8	6	5
Without offset .....	6	5	6	6

<sup>1</sup> The total is less than the sum of the individual items because many participants were in plans with multiple offsets.  
<sup>2</sup> Other employer-sponsored benefits include profit sharing, savings, and life insurance plans.

**Table 4. Percent of full-time participants in long-term disability insurance plans, by occupational group and duration of benefits, medium and large firms, 1985**

Duration of benefits	All participants	Professional and administrative	Technical and clerical	Production
Total .....	100	100	100	100
Until a specific age <sup>1</sup> .....	21	21	22	20
Under age 65 .....	(2)	(2)	(2)	-
Age 65 .....	18	18	19	18
Age 70 .....	3	3	3	3
Duration of benefit varies .....	73	72	73	74
By length of service .....	1	1	1	1
By age at time of disability <sup>3</sup> .....	72	71	72	73
Single reduction .....	34	31	31	41
Gradual reduction .....	38	40	40	33
Other <sup>4</sup> .....	6	6	5	5

<sup>1</sup> The age may be directly specified or may be the designated retirement age.  
<sup>2</sup> Less than 0.5 percent.  
<sup>3</sup> Under the Age Discrimination in Employment Act, age-based reductions in employee benefit plans are permissible when justified by significant cost considerations. The duration of benefits may be reduced gradually according to an age schedule or reduced once at a specified age.  
<sup>4</sup> Includes benefits lasting for life, for a specified number of months, or until some unspecified retirement age.

NOTE: Because of rounding, sums of individual items may not equal totals. Dash indicates no employees in this category.

five percent of participants were in plans with such provisions. The minimum level was expressed as a flat dollar amount, \$50 in 9 of 10 cases. Remaining minimums were stated as 10 or 15 percent of predisability income.

Other sources of income (such as Social Security or pensions) offset benefits of virtually all long-term disability plans on a dollar-for-dollar basis. One exception is income from rehabilitative employment.

Rehabilitative employment is designed to ultimately return the employee to the labor force and end the long-term disability benefit. To provide the disabled worker with a monetary incentive to return to work, rehabilitative employment income is either offset partially or not at all. For example, an employee may receive the disability benefits minus 70 percent of the income received from rehabilitative employment up to 24 months, when most plans tighten the definition of total disability. The offset most commonly ranges from 50 to 80 percent of an employee's rehabilitative income. These partial offsets, then, are similar to the partial disability benefits described earlier.

### Benefit duration

Table 4 shows that more than seven-tenths of the participants were in plans that varied the maximum duration of benefits according to the worker's age at the time of disability. More than half of this group would experience a gradual reduction in duration over time. The remainder of these participants (34 percent) were in plans in which an age-based reduction in duration occurs only at a single specific age.

The Age Discrimination in Employment Act (ADEA) amendments of 1978 had a considerable impact on benefit duration provisions of long-term disability insurance plans. As well as extending the mandatory retirement age from 65

to 70, the ADEA amendments and subsequent regulations also prohibited several benefit practices which discriminated against older workers.

The 1978 amendments prohibited denial of long-term disability coverage because of age for employees up to age 70. Therefore, employers could no longer use age 65 or lower as the point of noneligibility for the benefits. However, a full extension of coverage to older workers, more prone to disabling conditions, would have increased employer premiums to the point where it would be disadvantageous to hire older workers or provide insurance. For this reason, ADEA regulations permitted plans to vary the duration of benefits according to the age at which the disability occurred.

A U.S. Department of Labor Interpretive Bulletin includes examples of limits to the duration of long-term disability benefits that, when justified by cost, would not be considered discriminatory.<sup>12</sup> One such example, adopted by many plan sponsors, provides benefits up to age 65 for disabilities occurring at age 61 or earlier. Employees disabled after age 61 have their benefits continued according to the following schedule:

Age at time of disability	Maximum duration of benefits
61 or younger	To age 65
62	3½ years
63	3 years
64	2½ years
65	2 years
66	1¾ years
67	1½ years
68	1¼ years
69	1 year

In 1985, plans affecting 18 percent of participants did not extend benefits beyond age 65. In some companies, this cutoff was possible because deferred disability retirement benefits commenced at the pension plan's normal retirement age of 65.

As discussed earlier, a significant portion of long-term disability plans allows benefits to continue during periods of rehabilitative employment, usually up to 24 months. The rehabilitative provision is designed to encourage employees to return to work as soon as possible after recovery.

Three-tenths of the participants were in plans with special limitations on benefits for mental illness. In most of these cases, benefits were provided for a limited period unless the participant was institutionalized. For example, benefits normally continue until age 65; but benefits for mental disabilities last for only 24 months. After this time, benefits may continue if the employee is institutionalized. In a few cases, benefits were provided only if the participant was institutionalized, or benefits were provided for a limited period, regardless of institutionalization.

### Income ceilings and benefits

Plans with explicit ceilings (maximums) on long-term disability benefits covered 67 percent of the participants. These maximums are expressed in two forms: a maximum long-term disability payment prior to possible offsets for other income or a combined maximum payment from all sources of disability income. The plan payment is reduced by any income in excess of these limitations. As the following tabulation shows, maximum long-term disability payments are more commonly specified than are maximum payments from all sources:

Provision	Percent of participants
Total	100
With maximum provision	67
Maximum long-term disability payment only	35
Maximum disability income only	15
Both maximum long-term disability payment and maximum disability income	17
Without maximum provision	33

More than half (52 percent) of the participants were in plans with specific ceilings on monthly payments. As shown in table 5, the monthly maximums, which are stated in dollar terms, ranged from \$1,000 or less to more than \$7,500. Common maximums were \$3,000 and \$5,000.

Why are dollar maximums in the plans relatively high? The plans tend to cover comparatively higher paid, white-collar employees. When a plan maximum is set too low, inadequate benefits may result for higher paid employees. The amount of maximum monthly payments must be high enough in relation to earnings to sustain an employee through a period of disability, but must be low enough to encourage employees to return to work.

In group plans, the maximum monthly income benefit may be affected by the number of employees in the group or the total amount of long-term disability insurance written for the group, or both. Higher maximum limits can normally be written for larger groups because of the greater spread of risk.

**Table 5. Percent of full-time participants in long-term disability insurance plans, by occupational group and maximum benefit, medium and large firms, 1985**

Maximum benefit	All participants	Professional and administrative	Technical and clerical	Production
Total	100	100	100	100
With maximum monthly long-term disability payments	52	57	55	42
\$1,000 or less	2	2	3	3
\$1,001 - \$1,500	1	1	1	2
\$1,501 - \$2,000	3	4	3	3
\$2,001 - \$2,500	5	5	6	4
\$2,501 - \$3,000	13	14	13	12
\$3,001 - \$3,500	3	4	4	3
\$3,501 - \$4,000	4	4	3	3
\$4,001 - \$5,000	12	14	12	10
\$5,001 - \$7,500	3	5	3	1
\$7,501 or more	4	5	6	2
Without maximum monthly long-term disability payments	48	43	45	58

NOTE: Because of rounding, sums of individual items may not equal totals.

**Table 6. Percent of full-time participants in long-term disability insurance plans, by occupational group and disability income maximum, medium and large firms, 1985**

Disability income maximum	All participants	Professional and administrative	Technical and clerical	Production
Total	100	100	100	100
With maximum disability income provision	33	31	38	31
Fixed percent of individual's earnings	32	30	37	29
Less than 70 percent	2	2	3	1
70 percent	14	14	15	15
75 percent	9	6	11	10
80 percent	2	2	1	2
More than 80 percent	4	6	7	1
Percent varies by individual's earnings	1	1	1	2
Without maximum disability income provision	68	70	63	70

NOTE: Because of rounding, sums of individual items may not equal totals.

In 1985, 1 out of 3 participants had ceilings on the total disability income that they could receive under the guarantees of their plan. If total disability income exceeded the guarantee, the long-term disability benefit would be reduced by the excess amount. Caps on disability income were almost always expressed as a fixed percentage of predisability earnings, most commonly 70 or 75 percent of earnings (table 6). In just over half the cases in which disability income was capped, plans also had direct limits on long-term disability benefits.

The most common types of additional income included in calculating maximum disability income were family Social Security and rehabilitative employment income. In about one-half of the cases, rehabilitative income was included in the maximum on a dollar-for-dollar basis. Otherwise, only that portion of rehabilitative income not previously used in offsetting long-term disability payments was included.

In the earlier example of offset calculations, the plan was designed to guarantee the disabled worker 60 percent of predisability earnings when coordinated with primary Social Security benefits. To fulfill the guarantee, the plan provided monthly benefits of \$360 over the \$640 in primary Social Security payments. Adding the assumption that the disabled employee's spouse is receiving Social Security payments of \$320, and that the plan limits benefits to 70 percent of income from all sources, payments from the plan would be calculated as follows:

Gross long-term disability payment	\$360
Primary Social Security	640
Total	\$1,000
Family Social Security	320
Total disability income	1,320
Less 70 percent of predisability earnings ( $\$1,667 \times .7$ )	-1,167
Excess disability income	153
Gross long-term disability payment	\$360
Less excess disability income	-153
Net long-term disability payment	207

Because of the disability income limitation, plan benefits are reduced to \$207 a month.

Disability income maximums were the only limitations for 15 percent of the participants. Their plans often specified the following as other sources of disability income: private pensions, State nonoccupational disability insurance, workers's compensation, and primary Social Security. Although maximums may produce the same result as an offset for most disabled workers, plan payments were higher where caps were imposed. Maximums typically allow benefits of 70 to 75 percent of predisability earnings, while offset formulas usually allow 50 or 60 percent.

*Survivor benefits.* Survivor benefits were available in plans covering 14 percent of the long-term disability participants. If the injury or sickness of the participant resulted in death, a lump-sum payment, usually equal to 3 times the monthly long-term disability benefit, was commonly provided to the beneficiary.

*Employee contribution.* Twenty-one percent of the participants shared the cost of their employer-financed plans. Contributions were more common among white-collar (22 percent) than among blue-collar participants (16 percent). Table 7 shows that the largest group (32 percent) paid a monthly dollar amount per \$100 of covered earnings.<sup>13</sup> Another group (16 percent) of contributory plan participants paid a varied percentage of their earnings; a third group (4 percent) paid a flat percentage of earnings, usually less than 0.5 percent, up to the maximum earnings covered by the plan.

**Table 7. Percent of full-time participants in long-term disability insurance, by occupational group and provisions for employee contribution, medium and large firms, 1985**

Type and amount of contribution	All participants	Professional and administrative	Technical and clerical	Production
Percent of total in contributory plans	21	23	21	16
Total	100	100	100	100
Flat monthly amount	2	3	2	2
Monthly amount per \$100 of coverage	32	38	31	25
Less than 20 cents	3	5	3	1
20 - 39 cents	15	17	16	11
40 - 59 cents	9	10	10	5
50 - 79 cents	5	5	2	8
Amount varies by individual's earnings	3	5	2	(1)
Flat percent of individual's earnings	4	2	2	10
Less than 0.50 percent	4	2	1	10
0.50 - 0.75 percent	1	1	1	(1)
Percent varies by earnings	16	14	20	13
Composite rate <sup>2</sup>	19	15	19	24
Contribution not determinable	20	21	21	19

<sup>1</sup> Less than 0.5 percent.

<sup>2</sup> A composite rate is a set contribution covering more than one benefit area, for example, long-term disability insurance and health insurance. Cost data for individual plans cannot be determined.

NOTE: Because of rounding, sums of individual items may not equal totals.

*Benefits and inflation.* The buying power of plan benefits may be affected by inflation for two reasons. First, plans rarely contain a provision for cost-of-living increases during a disability. Second, because benefits are based on earnings when the disability commenced, there is no allowance for

lost opportunities for increased earnings. A standard provision of the plans, however, freezes the dollar amount of the offset from Social Security payments. Cost-of-living improvements from Social Security, therefore, do not diminish long-term disability plan payments. □

—FOOTNOTES—

<sup>1</sup> For a detailed discussion of disability retirement provisions, see Donald Bell and William Wiatrowski, "Disability benefits for employees in private pension plans," *Monthly Labor Review*, August 1982, pp. 36-40.

<sup>2</sup> Robert D. Eilers and Robert M. Crowe, *Group Insurance Handbook* (Homewood, IL, Richard D. Irwin, 1965), pp. 375-76.

<sup>3</sup> Alfonso Duarte, Jr., *Long-term Disability: A Report To Management*, Management Bulletin 91 (New York, American Management Association, 1966), p. 3.

<sup>4</sup> *Source Book of Health Insurance Data: 1986 Update* (Washington, DC, Health Insurance Association of America, 1986), p. 8.

<sup>5</sup> Industrial coverage of the survey includes mining; construction; manufacturing; transportation, communications, electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; and selected services. Major findings of the the 1985 survey are reported in *Employee Benefits in Medium and Large Firms, 1985*, Bulletin 2262 (Bureau of Labor Statistics, 1986). For information on the background and conduct of the survey, see Robert Frumkin and William Wiatrowski, "Bureau of Labor Statistics takes a new look at employee benefits," *Monthly Labor Review*, August 1982, pp. 41-45.

<sup>6</sup> The survey did not report the percentage of employees participating in group plans which they financed entirely themselves. These plans, however, can have a significant impact on later employer-financed disability retirement benefits. Under defined benefit pension plans, the duration of long-term disability benefits is often included in years of credited service, regardless of how the long-term disability plan is financed. The relationship between private pensions and long-term disability plans is discussed in Bell and Wiatrowski, "Disability benefits," pp. 36-40.

<sup>7</sup> *Employee Benefits in Medium and Large Firms, 1985*, pp. 23, 43, and 48.

<sup>8</sup> The primary Social Security benefit, often referred to as primary insurance amount, is the monthly amount payable to a retired worker who begins to receive benefits at age 65 or to a disabled worker who has never received a retirement benefit reduced for age. This amount, which is related to the worker's average monthly wage or average indexed monthly earn-

ings, is also the amount used as a base for computing all types of benefits (such as disability benefits) payable on the basis of one individual's earnings records. See *Social Security Bulletin, Annual Statistical Supplement, 1983* (U.S. Department of Health and Human Services, Social Security Administration, 1984) p. 264.

<sup>9</sup> These States are Rhode Island, New York, New Jersey, and California. The apparent discrepancy between the few States requiring nonoccupational disability benefits and the high incidence of offsets for such coverage result from the common use of standard long-term disability insurance policies written so as to apply regardless of exact geographic location.

<sup>10</sup> Bell and Wiatrowski, "Disability benefits," pp. 36-40.

<sup>11</sup> This Social Security benefit was derived from data supplied by the Social Security Administration. It was calculated for a hypothetical employee earning \$20,000 at the time of disability with 20 years of Social Security coverage as of January 1, 1985.

<sup>12</sup> "U.S. Department of Labor Interpretive Bulletin," 44 Fed. Reg. 30,658 (May 25, 1979) (codified as 29 CFR 860.120). The responsibility for enforcement of the Age Discrimination in Employment Act was transferred on July 1, 1979, to the Equal Employment Opportunity Commission. Previously issued interpretations of the Department of Labor remained in effect. (Further amendments in 1986 abolished mandatory retirement; regulations concerning long-term disability coverage after age 70 have not been issued yet.)

<sup>13</sup> Many of the plans calling for a contribution level varying by earnings did not require an employee contribution up to a specified earnings level. Frequently, employee contributions for coverage beyond that level equaled the full cost of the additional coverage. In these cases, the plan was considered contributory because employees were required to contribute in order to participate. If employee contributions were optional, the plan was considered noncontributory (wholly employer-financed) and only the basic coverage provisions were analyzed. Covered earnings refer to that portion of a worker's earnings which are fully or partially replaced by long-term disability benefits. For example, if a plan pays 60 percent of earnings up to \$3,000, covered earnings are \$5,000 (\$5,000 times 60 percent equals \$3,000).