

GROUP LTD COVERAGE..... DEFICIENCIES/SHORT-COMINGS

1. **Taxation of benefits**... Benefits are TAXABLE when premium is employer paid, creating a situation whereby only a maximum of 40% of income is retained (with 60% of income covered) AFTER taxes (see #2-3-8 below for other possible reductions).
2. **Benefit amount**... usually 60% of income will be covered as mentioned above and that is NOT guaranteed, since income can have fluctuated prior to the time of a claim. Caps (maximum coverage) are usually \$5—10k/ month, depending on the policy's specifications. See 20 below.
3. **Offsets**... Benefit amount can be REDUCED by other income sources e.g., social security, workman's compensation etc., thus further reducing the 60% coverage (40%net... see 1-2 above).
4. **Portability**...employee doesn't get a policy, only a certificate, which usually is NOT portable.
5. **Plan administration**...time consuming (only applies to group LTD, not association plans)
6. **Option choices**...may be limited (usually; no COLA/Residual, FIO etc.)
7. **Definition of total disability (*own-occupation*)**... may NOT allow benefits to be paid to 65, rather only for 2-5 years, and then another definition takes over, which is much more restrictive.

8. **Bonus**...normally NOT covered, again creating a coverage amount shortfall (see 1-2-3 above)

9. **Contractual wording**... protects the carrier more than the insured (definitions, rate increases etc.).

10. **Rates**... NOT guaranteed, can be increased unilaterally.

11. **Renewability**... NOT guaranteed, coverage can be cancelled anytime by carrier, also coverage normally terminates at 65, just when it is needed the most.

12. **Claims**... due to the coverage possibly being governed by ERISA, acts of bad faith by the carrier, may not be discouraged and as a result, under ERISA, claimant can NOT sue for punitive damages, therefore, a claim can possibly drag on longer than if it were an Individual DI policy.

13. **Timing of Claims**... can only be submitted while working and while coverage is in force.

13. **Pre—existing conditions**... may create an unanticipated problem at claim time.

14 . **Contract wording**... can be changed by the carrier ANYTIME, to be less favorable to the insured (see 9 above)

15. **Mental nervous claims** will be paid ONLY for two years (see 9 above); unfortunately, it is the law in California

14. **Recovery Benefit**...none (see 6 above)

15. **COLA conversion**... none (see 6 above)
16. **Presumptive disability**...none (see 6 above)
17. **Caps** may create a “*reverse discrimination*” issue (see 1,2,3,8 above)! When there is a \$5k cap, the highly compensated employee (HCE) who makes more than \$100k/year will get less than the 60% as does everyone else! Example, when a HCE makes \$200k, then they are only getting 30% of their income covered.
18. **Sickness** when *Manifested* (better) vs. *Contracted* wording (see 6above)
19. **Elimination period**... must be continuous vs. “stop/go” (better)
20. **Residual benefit**, if available, will have a restrictive calculation

NOTE:Please bear in mind, while rare, there are always exceptions to some of the 23 deficiencies listed above, e.g. number 8 etc. and in all cases the current master policy will govern.