



Corporate Exposure: Short-Term Disability Insurance

Harry P. Mirijanian

We have recently identified several organizations that have not satisfied their state's requirement they maintain short-term disability insurance policies on their employees. Currently, five states (California, Hawaii, New Jersey, New York, and Rhode Island) and Puerto Rico currently require the employer to maintain some sort of short-term disability insurance on behalf of their employees. Although each state identifies this coverage by a different term or acronym, the philosophical coverage and entitlements are similar. In addition, legislation is pending in several other states that would introduce similar insurance requirements.

The purpose of short-term disability insurance is to provide a monetary benefit to the employee injured or disabled "off the job." The duration of short-term benefits can range from 26

to 52 weeks per year (after satisfying a seven-day waiting period). The employer is permitted to charge the employee for a portion of the premium, but employee payments are usually fixed to a nominal amount. Many organizations, in fact, do not even bother to collect the premium offsets.

Costs Can Vary Greatly

Because the benefits are fixed and stipulated by law, there is no variation by state in the coverage from carrier to carrier. The only difference between carriers is in the premium and payment methods. Usually, premiums are paid quarterly three months in arrears (e.g., premiums for January through March are paid in April). We encourage clients to shop for this coverage annually. The cost differential from carrier to carrier has, in many cases, exceeded 50 or even 60 percent. Unfortunately, since the premiums for short-term disability are far less than for other standard lines of insurance, it is often not marketed competitively each year.

We have also noted significant rate deviations for those purchasing long-term disability plans. Long-term plans (LTDs) can vary substantially from client to client with a variety of benefit options. Some have no waiting periods, while others coordinate these policies with their short-term disability plans and with other federally mandated programs such as Social Security. By the end of last year, LTD premiums were still quite soft and insurance companies are still competing heavily against one another to maintain market share. One reason for the competitiveness is the aggressive nature in which claims are now administered. LTD carriers have long recognized the fraud abuses in the LTD arena and have instituted several claim control features. In fact, many workers' compensation companies are only now beginning to employ similar practices as fraud in the workers' comp

system has increased. Many new symptoms that have recently emerged have affected LTD claim potentials. Chronic fatigue syndrome and depression have been responsible for many more claims during the 1990s.

Economic Factors

Another factor that has an impact on both short- and long-term disability claims is the state's economy. As the economic base deteriorates in some states, a corresponding increase in claims has been measured.

The careful design of the company's LTD benefits plan and the integration of control features will naturally affect an organization's costs. There is no requirement for companies to provide LTD benefits, although many do simply as an inducement to attract qualified employees and to assist the workforce in time of need.

In previous columns we have emphasized the need to thoroughly investigate all claims (workers' comp, automobile, products, etc.), and to have an early intervention process available that will provide the individual with necessary services and maintain the appropriate goal of returning the individual to a productive position in life. This strategy is even more important when discussing short- and long-term disability insurance claims. Perhaps hypothesizing operating your business as if it had no insurance in force to help offset your financial and administrative burdens would aid your management in realizing the value of prudent claims management.

For a free short-term disability premium comparison, call our office at 914-365-2444.

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