JOHNSTONE'S JOURNAL is published monthly, and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies, and use as a payroll stuffer.

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Long Term Disability

Basic Monthly Earnings and Non-Evidence Maximums

Long-term Disability (LTD)

Fulfilling personal and financial goals depends on one main thing: the ability to earn an income. Although it is not something that most people like to think about, imagine how life would change in the event of a major disability. Where would the money come from to cover everyday necessities like a mortgage, food, clothing, or a child's education? How would you assist a long-term employee who can no longer work because of an injury or illness?. A disability should not disable anyone's financial stability.

LTD provides employees with a monthly income while they are disabled due to an injury or illness and are unable to work. Monthly benefit payments begin after a predetermined waiting period and may continue to age 65. It is common for plans to begin after 120 days (coordinating with Employment Insurance or short term disability plans). The monthly benefit is typically based on a percentage of the employee's basic monthly earnings as defined in the contract.

Basic Monthly Earnings (BME)

The monthly benefit an employee receives from a group LTD plan is a percentage of reported pre-disability earnings from the employer. This is referred to as the basic monthly earnings (BME) and is specific to each contract. It is important that the BME is carefully defined in the contract as it needs to encompass the whole workforce. Most LTD contracts define BME as regular monthly salary, but it could include commission or other forms of income. If the BME includes a variable component, such as commission, employers should report the average over a set period (e.g. 12 or 24 months, depending on the contract).

Bonuses, dividends, overtime or other forms of income are not usually included in this definition, but most contracts can be customized to meet an employer's specific needs.

Non-evidence Maximums (NEMs)

The non-evidence maximum (NEM) is the amount of coverage an employee is eligible for without having to provide evidence of good health. The NEM is specific to each contract and is set by the insurer based on a number of factors, primarily, the size of the employer. For very small employers, the NEM may be set at zero, and therefore all amounts of coverage must be approved by the insurer.

Communicate to Your Employees

As a plan administrator, Johnstone's alerts employers when an employee is eligible to apply for additional coverage. When a new employee applies for coverage, we calculate the LTD benefit based on reported earnings and notify the employer if a benefit is over the NEM. To qualify for coverage above the NEM, the employee must complete an evidence of insurability form. For existing employees, this process occurs annually and whenever we are notified of a salary increase that results in a benefit over the NEM.

It is important that employers inform employees and document this notification. Employees can choose not to apply, but to remove any liability, they should be reminded at least annually.

Conclusion

When coverage is approved, employers are notified and premiums adjusted accordingly. Depending on the cost-sharing arrangements with your employees (see August 2012 Journal), you should inform employees of the additional premium or tax implications. If employees are declined, their coverage will remain at the NEM. They can reapply for coverage annually or if the reason for the decline has changed.

It is critical that employers communicate with their employees both when they become eligible for coverage over the NEMs and when an application is approved or declined. If you have questions about any aspect of LTD plans, please call us.