



Disability: Group Benefits Policy and Practice

Rapid Response Survey

Survey date: February 2020
No. of participants: 278

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Many organizations provide disability benefits to support employees with financial security during a period of disability and subsequent recovery. Employers want to ensure they are supporting their employees in times of need with plans that are sustainable and cost effective.

This Aon survey asked Canadian employers about the disability benefits they are offering to their employees and how those benefits are funded and administered. It also focused a lens on which benefits are provided to disabled employees and for how long. The decision to continue or cease benefits is fraught with consequences if not approached carefully, yet only about half of those surveyed have adopted a formal policy that would clearly communicate their approach and mitigate risk in the event of conflict.

The incidence and duration of disability claims are on the rise and related costs are increasing. Mental well-being claims are having a particularly notable impact. Effective disability management practices, policies, and operating guidelines compliment a competitive program that is valued by employees and supports organizational health and wellness goals.

Income Replacement: plan types and prevalence (n=278)

Short-term disability 49%

Plan administered by an insurer who underwrites the plan in return for premiums.

Salary continuance 45%

Employer agrees to maintain an employee's pay, in full or in part, while the person is absent for a few days or weeks.

Weekly indemnity 17%

Formal plan administered by the employer out of current funds or from a special fund established for this purpose.

Long-term disability 95%

Income protection for an employee who is totally disabled for an indefinite period.

**Participants were asked to respond to this question using standardized income-replacement program definitions.*

Employee Group Differentiation

Strategy	Short-term (n=219)	Long-term (n=272)
Employer provides benefit that differs by employee group	54%	49%
Employer provides same benefit to all employees	46%	51%

The reasons for applying one strategy versus the other are tied to factors such as workforce composition, hours worked, collective agreements, or other factors that help to differentiate programs in the market and promote perceived value

Short-term Income Replacement

How are short-term benefits administered?

Among 129 employers who provide income replacement under a short-term plan, 60% pay the benefit indirectly through a 3rd party, and a third of those (67%) sponsor fully insured plans. The remaining 40% issue the benefit through regular payroll, though just under half of that subset (45%) have claims adjudicated by a 3rd party.

Are organizations considering Employment Insurance Premium Reduction opportunities?

An employer with a registered private disability plan providing benefits equal to or greater than Employment Insurance (EI) sickness benefits may be entitled to an EI premium rate reduction. Seventy-eight per cent of the 221 organizations responding to this question are taking advantage of this opportunity; nearly a quarter are not. An employer sponsored short-term income plan can be cost effective, especially when it triggers budget offsets in other areas. The follow-on benefits of employee engagement, workforce health, and recruitment clout make short-term income replacement worthy of a second look.

Health and dental cost-sharing during periods of disability (n=276)

Contributions are required, and disabled members contribute at the same dollar amount as active employees

45%

Contributions are required for active employees, but are waived for members on disability

22%

Contributions are required, and disabled members contribute at a different dollar amount than active employees

5%

Cost sharing is not required for either active employees and disabled employees

28%

**applies to both short- and long-term plans*

Long-term Income Replacement

Plan funding arrangements (n=262)

Fully insured	84%
Administrative Services Only (ASO)	8%
Refund Accounted	6%
Other	1%

13%

extend LTD coverage to age 65+ workers

Older workers (n=276)

Many workers choose to remain in the workforce past traditional retirement age. Providing long-term income replacement for these workers may be cost-prohibitive for many employers. Among the 13% who do extend the benefit, only about a quarter continue the benefit indefinitely to retirement, with most setting cutoffs that do not extend past age 70.

9%

provide options to supplement LTD for high-income earners

High income earners (n=270)

There can be a significant gap between a maximum long-term replacement benefit and the typical earnings of high-income employees. Few of those surveyed currently offer benefits to bridge this gap (9%). Among those who do, the benefit is typically restricted to key executives or those earning above an established salary threshold.

Cessation of Benefits for Disabled Employees

When do benefits cease?	Extended Health (n=228)	Dental (n=224)	Life (n=222)	AD&D (n=223)
When the employment contract with the employee is formally terminated (Note that the disabled member may or may not still be receiving disability income replacement benefits)	45%	49%	45%	45%
When the disabled employee retires	23%	26%	32%	28%
At the end of the “own occupation” period under the LTD	13%	12%	9%	10%
When the claim transitions to LTD	11%	5%	7%	9%
When the disabled employee becomes eligible for CPP/QPP retirement benefits	6%	5%	6%	6%
As soon as the claim is approved	2%	2%	1%	3%

Establishing a Policy

Employers often view disability from the perspective of managing absence through a continuum that considers prevention, treatment, and a successful transition back to work. The direction an employer takes at each stage is influenced by employment standards, human rights law, collective agreements, employment contracts, insurance arrangements, and their benefits philosophy. Added vigilance is required in situations where a return to work is not possible. Prolonged disability affects the employment relationship and its attributes in many ways. Employers may need to make difficult decisions about whether benefits continue or cease for permanently disabled employees, and indeed, about the employment relationship itself. The entire situation must be considered, including all documentation and undertakings that may apply. An employer’s approach should be guided by a clear policy that is applied evenly to the employees who fall within its boundaries.

52%
have a policy to address benefits during periods of disability

There is value in a formal disability policy (n = 275)

When employees become injured or disabled, a Human Resource policy sets framework from which employees are accommodated during their period of recovery until they can return to work. Under circumstances where an employee does not fully recover from a disability, a policy, subject to applicable laws, can establish whether benefits continue, which benefits continue, and for how long. A clear and complete disability policy will mitigate risk should a complaint ever be litigated.