

## **Lack of disability-insurance plan can be crippling to business-September 1988**

All of us run the risk of getting sick and losing time from work, but the risk of a serious disability is more prevalent than most people realize.

Serious disabilities not only occur at a greater rate than death among persons of working age, but they also are recurring by nature and can have a great economic impact on your business.

Statistically, the length of a disability lasting 90 days or more at age 30 averages about 4.7 years in duration, and at age 40 increases to 5.5 years in duration.

If total disability occurs at age 42 and continues for one year, the chances of it continuing for five additional years are greater than 45 percent. If the disability begins at age 42 and continues for two years, the chances it will continue for five more years rise to more than 56 percent.

As an employer, you have to start asking some serious questions: What will you do if one of your key employees becomes disabled? How much can you pay the disabled employee and for how long? When will you terminate that disabled employee? And, do you have a wage-continuation plan?

First, let's look at what would happen without any formal plan to continue the employee's wages.

According to the IRS, any such payments to a disabled employee are not considered a "necessary business expense" and are not tax-deductible by the business. In addition, if the disabled employee is a stockholder-employee, any such payments made during his or her disability may be considered "unreasonable compensation" and could be taxed as dividends.

Also consider the unexpected drain on business assets in paying the salary of an employee who no longer is producing anything.

Establishing a "qualified" wage-continuation plan or sick-pay plan is not as complicated or costly as you might think. The key item is that the plan must originate and be put into effect *before* any disability occurs.

The plan must be in writing. There are a number of insurance companies who have "boilerplate" forms that include a specimen resolution, written outline of plan provisions, a master policy and an annual review.

The plan must be communicated to all concerned parties. And the plan must be reasonable in relation to the services performed by the covered employees.

By definition, a wage-continuation plan is an accident or health plan established for the payment of amounts to employees in the event of personal injuries or sickness. Establishing such a plan doesn't necessarily require the purchase of any insurance, but doing so transfers the risk to the carrier and creates a fixed expense that can be budgeted.

To the employer, a wage-continuation plan has some general advantages:

- Benefits are paid directly to the employee. The premiums are deductible as an "ordinary and necessary" business expense.
  - It earns the good will of the employee and the employee's family by helping to protect income.
  - The plan may strengthen the employer's credit position, either directly or indirectly.
- And for the employee there are some obvious advantages:
- The plan removes a financial worry. The employee knows, in advance, the amount and duration of any benefits.
  - Funding the plan with an insurance company, and thus a contractual obligation, allows the

employee to feel a little more secure than if it were funded solely by the employer.

When it comes down to a matter of cost, especially for small employers, one option would be to use payroll deductions. Then the protection could be made available to employees even if the employer cannot afford to absorb the premium costs. The employees would be free to choose benefits and options according to their needs.

The only time and administrative expense to the employer involves the agreement to make payroll deductions and remit premiums to the insurance carrier.