

Income Protection: Are Your Executives Fully Covered For Disability?

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One of the ways organizations invest in attracting and retaining top executive talent is through comprehensive compensation packages. But many companies overlook a critical gap in their executive benefits strategy: adequate income protection through disability coverage. While standard group long-term disability coverage may appear sufficient on paper, it often falls short of providing true lifestyle protection for high-earning executives.

Understanding the Basics: Short-Term vs. Long-Term Disability

Most organizations offer short-term and long-term disability coverage as part of their standard benefits package. Short-term disability typically covers the first 90 to 180 days of disability. While it may not provide maximum coverage, executives can often manage this period through savings or company-provided salary continuation.

The real concern lies with long-term disability coverage, which kicks in after the short-term disability period ends. Long-term disability is more than income replacement—it's about lifestyle protection. When an executive faces an extended period of disability, how can they and their family maintain their established standard of living?

The Hidden Coverage Gap

Many executives assume they're adequately protected through their company's group long-term disability plan, but this assumption deserves closer scrutiny. [Standard coverage](#) typically replaces 60% of salary up to a monthly maximum benefit cap, and this cap is where the coverage gap starts to emerge.

Consider this scenario: If your long-term disability plan caps monthly benefits at \$10,000, an executive earning \$300,000 annually faces a significant shortfall. While they might expect to receive \$15,000 monthly (60% of their salary), they're actually limited to \$10,000—creating a \$60,000 annual gap in protection.

With the average long-term disability claim lasting almost [35 months](#)—nearly three years—this gap represents a potential \$175,000 shortfall in expected income that could significantly affect an executive's financial obligations and lifestyle.

Organizations must also consider whether their benefit cap applies to total W-2 earnings or base salary alone. Tax implications add another layer of complexity, as the treatment of disability benefits can impact take-home amounts depending on how premiums are funded. Also, compensation components such as bonuses, commissions and equity may fall entirely outside the scope of coverage, creating an even wider protection gap for executives with diverse compensation structures.

Strategic Solutions for Comprehensive Coverage

Organizations seeking to address these coverage gaps should implement a holistic approach with a foundation of regular benefits benchmarking. Companies should conduct annual analyses of their spread of risk to examine how many executives earn above the long-term disability threshold. This gap analysis should factor in total compensation, including salary, bonuses, commissions and equity compensation.

Individual disability insurance (IDI) and high-limit disability policies can effectively bridge the coverage gap. These supplemental options provide several distinct advantages over standard group coverage. They can encompass total compensation rather than base salary alone and offer portability, allowing

executives to maintain coverage even if they change employers. These policies often feature more flexible definitions of disability and can be customized with additional features tailored to executive needs.

Even with IDI in place, some executives may still face coverage gaps. Additional solutions that provide complete income protection are available, and organizations should work with experienced benefits consultants to design a comprehensive strategy. This might include executive carve-out plans, guaranteed standard issue programs or excess disability coverage, depending on the executive team's needs.

Taking Action

Organizations should start by thoroughly reviewing current group long-term disability coverage limits and analyzing their executive population's total compensation structure to identify potential gaps. This assessment enables informed decisions about supplemental coverage options.

Regular education about available protection options is crucial, as many executives may not understand their current coverage limitations until they need to file a claim. Companies must look beyond standard group coverage to ensure leaders can maintain their lifestyle if the unexpected occurs.

A proactive approach to this often-overlooked aspect of executive benefits protects key talent and enhances the organization's ability to attract and retain top executives. Making disability insurance strategy an integral part of executive benefits planning demonstrates a commitment to leadership protection while strengthening the company's position as an employer of choice.

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