

▶ **WHY DISABILITY INCOME PROTECTION
SHOULD BE PART OF YOUR
FINANCIAL WELLNESS TOOLKIT**



Americans across the socioeconomic spectrum face numerous barriers to financial wellness, affecting everything from the quality of their child care to planning for retirement. In addition, most have inadequate levels of savings, making it difficult if not impossible to cover financial emergencies—whether that means a \$400 car repair or a \$1,500 medical bill.

Prepared or not, most Americans are at least aware that they should attempt to save for emergencies and retirement. Most, however, overlook taking the right steps to protect against one of the greatest threats to their overall financial security: being unable to earn a paycheck as a result of a short- or long-term disability. The cruel irony of this is that evidence shows that those who are financially stressed are at an increased risk of experiencing a disability.

To better understand the state of financial wellness in our country, Prudential conducted an extensive study of the financial health of a cross-section of the U.S. population. The company’s [2018 Financial Wellness Census](#) reveals that roughly half of Americans struggle to meet daily living expenses and save for long-term goals. Not surprisingly, the data also shows that those who identify as financially unwell often experience high levels

of stress—potentially setting the stage for disabling events that have farther-reaching impacts on employees and their employers than most realize.

Finally, those who experience time away from work due to a short-term disability (STD) are at greater risk of losing even more productivity because the transition back to work is more challenging than anticipated, and not all institutions have the right infrastructure and programs in place to help smooth the return.

Disability income protection helps create and protect financial wellness

Maintaining protection against a loss of income due to disability is critical to achieving financial wellness, as it helps protect workers and their families from the risk of long-term financial damage when they are unable to work as the result of a disability. Many workers mistakenly assume that a disabling illness or injury will be covered by Workers’ Compensation or Social Security Disability Insurance (SSDI). In reality, Workers’ Compensation and SSDI do not cover most challenges workers are likely to face. Additionally, there are stringent eligibility requirements for SSDI and an average processing time of more than 2 years.

	Day 1	Month 6	Month 12	Month 36+
	Short Term Disability Insurance		Long Term Disability Insurance	
			Social Security Disability Insurance	
Eligibility	Benefits generally begin within 7 to 14 days of the onset of disability		Benefits generally begin 3-6 months after onset of disability	
			<ul style="list-style-type: none"> ▶ Most restrictive eligibility requirements; 12 months of continuous disability as defined by Social Security Administration required to apply ▶ Benefit approval process could extend more than 2 years 	
Duration	3–6 months		2+ years; potentially up to normal Social Security retirement age	
			Potentially up to normal Social Security retirement age, at which point any continuing SSDI benefits would convert to Social Security Retirement benefits	
Income	Typically, 60% of pre-disability earnings		Typically, 60% of pre-disability earnings	
			Varies according to average lifetime earnings; in 2018, the average monthly benefit was \$1,192	

How employers can help

A 2016 survey by the International Foundation of Employee Benefit plans revealed that 78 percent of employers offer STD benefits to their employees, helping them through temporary financial challenges so that they may focus fully on recovery. Sixty-three percent offer long-term disability (LTD) benefits to their employees.¹ Despite the availability of this benefit, as of 2017, only 38 percent of all workers in private industry were participating in STD income insurance; 33 percent were participating in LTD income insurance², and **over 50 million U.S. workers don't have disability income insurance.**³

Employers can use their significant influence to encourage employees to adopt behaviors that can lead to better financial outcomes. During enrollment season, employees tend to focus on medical plans, life insurance options, and determining their 401(k) contributions—disability is the most often overlooked part of the benefits package. Therefore, employers need to devote extra effort to communicating the criticality of preserving an income stream in the event of a disability. This must include grounding employees in the reality of what it means to be disabled and the likelihood of incurring a disability, since some of the most common triggers of disability claims include pregnancy, debilitating pain from musculoskeletal disorders, digestive disorders, and mental health issues including depression and anxiety.⁴

In addition to financial wellness education, employers can make it easier for workers to help protect their paychecks through the use of auto-enrollment—a move that has helped [increase savings rates](#) among 401(k) participants where this practice is in place. At the end of 2018, the U.S. Department of Labor issued [guidance](#) on the use of automatic enrollment for welfare benefit plans subject to ERISA, such as disability and life insurance. This gives employers yet another opportunity to help employees protect the source of their assets and avoid financial hardship due to a disabling event.

Further implications for employers and employees

Along with the potential for personal harm, an individual's failure to protect themselves from income interruption due to disability can significantly impact their employer's bottom line. According to the Centers for Disease Control and Prevention (CDC), **productivity losses from missed work cost employers \$225.8 billion, or \$1,685 per employee, each year.**⁵ It is therefore equally important for

Five ways employers can help overcome psychological barriers to RTW⁶

1. Keep a connection with employees while they are out of work.
2. Communicate openly regarding the ability to return to work in a capacity that best suits them.
3. Be flexible and create a safe work environment.
4. Maintain accurate expectations for both of you by communicating the value of returning to work at less than 100%.
5. Avoid expecting less than the employee is capable of, to reduce feelings of inadequacy or stigma related to disability. Employers should have a clear understanding of restrictions and limitations to ensure a healthy and incremental return to work.

employers to identify and remove barriers that may prevent employees from returning to work after a disability.

Many employers assume that an employee who has experienced a disability will naturally and automatically return to work as soon as they have recovered. Prudential's 2016 research, [Exploring the Psychology Behind Return to Work](#), indicates that this is a faulty assumption.

Significant effort has been made to bridge the physical barriers that prevent individuals from returning to work, but disability is as much a psychological event as it is a physical one. Engaging a provider that offers comprehensive return to work (RTW) services is a key way for employers to help employees overcome the disability mindset that could prevent them from ever going back to work.

One cannot underestimate the positive effect that resuming the role of a valued company contributor can create. It can also help employees regain a sense of control over their lives, which may have substantially diminished during the period of disability. A properly implemented RTW program helps employees shift their focus away from the experience of being disabled and back to rejoining their workplace community, regaining much-needed income, and getting back on a path to financial wellness.

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¹ 2016 Employee Benefits Survey, International Foundation of Employee Benefit Plans.

<https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/get-disability-benefits-on-employees-radar.aspx>

² U.S. Bureau of Labor Statistics Insurance benefits: Access, participation, and take-up rates, civilian workers, March 2018.

<https://www.bls.gov/ncs/ebs/benefits/2018/ownership/civilian/table16a.pdf>

³ Council for Disability Awareness. <https://disabilitycanhappen.org/disability-statistic>. Accessed January 28, 2019.

⁴ Integrated Benefits Institute, Health and Productivity Benchmarking 2016 (released November 2017), Short-Term Disability, All Employers, Condition-Specific Results; and Integrated Benefits Institute, Health and Productivity Benchmarking 2016 (released November 2017), Long-Term Disability, All Employers, Condition-Specific Results.

⁵ Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Workplace Health Promotion, 2016.

<https://www.cdc.gov/chronicdisease/resources/publications/aag/workplace-health.htm>

⁶ Prudential Financial, Inc., Exploring the Psychology Behind Return to Work, 2018.

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