

# filling the executive benefits gap

Employee benefits are commonly designed to meet the needs of the general employee population.

Executives earning \$300,000 annually typically receive the same benefits as an employee earning \$30,000 per year. While well intended, this approach has the unintended effect of exposing

a company's executive group and their families—those who break the threshold of group plan benefit maximums—to protection gaps that put them financially at risk in the event

of a disability, serious illness or sudden death. The results of such unforeseen life events can be devastating. For example, serious

## QUICK LOOK

- ➔ Serious illnesses were cited as the cause for 46.2 percent of all personal bankruptcies, even though most had health insurance.
- ➔ Most generally accepted benchmarks recommend enough life insurance coverage to replace seven to 10 times one's salary.
- ➔ Because access to supplemental disability income and long-term care insurance can be offered on a voluntary basis, the organization incurs no significant investment.

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illnesses were cited as the cause for 46.2 percent of all personal bankruptcies, even though most had health insurance, according to Harvard University's February 2005 "Study on Personal Bankruptcies."

One way for companies to address this gap is to offer access to "executive protection"—insurance that helps executives shield themselves from potential exposure. For example, individual disability-income insurance, long-term care insurance and executive group life insurance each can plug a gap in an executive's protection plan. Each also has an impact on retirement by helping preserve personal and employer-matched retirement savings and—in the case of executive group life and long-term care insurance—providing mechanisms for additional tax advantages.

## Enhancing the executive protection suite can be a smart and cost-effective way for a company to communicate its appreciation for its top talent.

Enhancing the executive protection suite can be a smart and cost-effective way for a company to communicate its appreciation for its top talent. In addition to demonstrating commitment to high-level executives, this strategy has another advantage: through innovative design, companies can make available executive group life insurance, discounted, supplemental disability-income insurance and long-term care insurance with little or no impact to the company's bottom line.

To understand how companies can help insure their executives' lives, livelihoods and nest eggs, it helps to look at each area of protection and the exposure it creates for executives.

- **Life insurance:** Executives rely on their employers' benefits programs for nearly half of their life insurance protection and retirement savings needs, according to LIMRA's 2006

article, "The Value of Executive Benefits to Corporate Executives." Most generally accepted benchmarks recommend enough life insurance coverage to replace seven to 10 times one's salary (for income-replacement and wealth-transfer needs), as reported by *USA Today*, Oct. 9, 2006. The typical group life-insurance plan, with its capped coverage levels, does not provide executives with a sufficient amount of life insurance, given their salaries, to meet that benchmark.

- **Disability insurance:** Group long-term disability insurance typically covers about 60 percent of an executive's base salary—but often times not the bonuses and commissions that make up a significant portion of many executives' income. These group plans also typically have a cap on the maximum monthly benefit. And, as long as the company

makes the premium payments, the benefits are taxable. As a result, an executive relying solely on his/her employer's group disability plan would face significant income shortfalls in the event of disability.

- **Long-term care insurance:**

Long-term care services, needed when daily activities such as eating, bathing and dressing cannot be performed without help, can be very expensive. The average daily rate for a private room in a nursing home in 2006 was \$206, or \$75,190 annually. The average for a semi-private room was \$183, or \$66,795 annually, according to the September 2006 MetLife Mature Market Institute survey "The MetLife Market Survey of Nursing Home and Home Care

Costs." Home care is less expensive, but still adds up. Bringing a full-time aide into one's home averages \$3,040 a month and \$36,480 a year, MetLife reports. The potential need for long-term care and its substantial erosion of retirement savings has many executives worried about the future of their hard-earned nest eggs.

### Additional Features

Besides offering executives peace of mind, these benefits provide additional features that appeal to executives' exceptional needs. For example, an executive group life insurance solution (which provides substantially higher issue amounts than typical employee group life) has a cash accumulation feature that enables executives to save in a tax-protected way, which is particularly valuable to professionals who have

maximized their contributions to their 401(k) plans but still seek tax-efficient ways to prepare for retirement. Another example: Massachusetts Mutual Life Insurance Company's (MassMutual) disability-income insurance gives


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policyholders an extensive assistance program that many executives may feel provides an additional level of anonymity over using their own employer-provided assistance programs. And many long-term care insurance products include care-coordinator services to provide access to a valuable network of reputable caregivers.

As noted above, all of these advantages can be made available by human resources at little to no cost. Because access to supplemental disability income and long-term care insurance can be offered on a voluntary basis, the organization incurs no significant investment. And through smart design, the company can provide access to executive group life insurance, with its dynamic features, without any substantial increase in its current group life-insurance costs.

While the limited cost of these new additions is appealing, so, too, is the

ease of application and administration. Most HR organizations simply do not have the personnel or time to undertake these activities. Moreover, many companies have satellite offices or multiple locations, often many miles apart, making accurate, easy and efficient access extremely important and more difficult. Fortunately, some of the best providers of these benefits will automate the application process, making self-service possible for the busy executive. A small handful of leading providers have sophisticated Web sites that enable the executive to explore specific choices, model potential outcomes and take self-paced tutorials that provide a greater

understanding and appreciation of the benefit. Demands on the HR organization are minimal. 

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