Executive Benefits - Does Your Benefit Package Cover the WORST

In our jobs we are all replaceable; however, to our families we are not. Every family I know of is relying on at least one income coming into a household to support the family. In many cases, that income is substantial - however, the backstop protecting it from the WORST, is not.

Below is a story about a case I came across a few years ago, the Partners of the firm had no idea what was actually in their Life and Disability package. As usual, the situation below is hypothetical, but based on experience.

> Smith, Brown & Johnson, PC is a law firm in the Metro DC Area. James Smith is the patriarch of the organization, the kind of leader who knows all 125 of his employees by name and can recall their spouses' and children's names at company events with no problem. In 2015 James' Executive Assistant for the last 20 years, Ginny, was diagnosed with terminal cancer. Ginny was 66. James got personally involved in the claim process for Ginny's disability coverage and her eventual death claim about a year after her diagnosis.
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> What James, age 60, discovered as he worked with his HR Director surprised him. Ginny's life insurance benefit was supposed to be 2X her $80,000 annual salary, however, it was reduced because of her age by 50%. Also her 60% of income payment for LTD was to only be paid for a limited time because of her age.
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> When James looked closely at the contracts for these benefits as well he noted that if one of his 10 Partners were to attempt to claim for LTD they would not receive 60% of their $300,000 salary and bonus (on average), they would receive only $7,500 due to the limits on the benefits. This is only 30% of their salary and bonus per month. This benefit would also be taxable for them.
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> If one of his fellow Partners were to pass away, their 2XSalary Life Insurance would not include their bonus (for any employee) and it would be capped at $300,000. James became more shocked the further he peeled back the layers of what he thought was fair coverage for all his employees.

Most of the solutions to the glaring issues that James is discovering are simple and readily available from carriers in today's market.

- benefit reduction schedules that start at 65 or 70 are commonplace with many carriers
- Including Bonus income as part of the definition of income in their plan should be a given
- The firm can increase the limits on disability or life coverage by increasing the Guaranteed Issue Amount or creating a limit over that Guaranteed Issue and having those who need to submit basic Evidence of Insurability
- The Firm can create a multiple classes of benefits on the plan. Administration, Managers, and Partners for example could all have different limits that coincide more closely with 60% of or 2X their income depending on whether the benefit was Disability or Life Insurance. The Disability coverage could also be paid on a post tax basis by Partners from their Partnership Income.
- The Firm can also create a Carve Out Coverage for the Partners allowing each Partner to have their own personally owned policy for Disability.

It is common for me to hear employers I work with talk about how much they care for their people. I know care-packages show up at hospitals and homes when their employees are ill. However, what the family of their employee needs most in a crisis is the security that what they have as backstop for the WORST is enough to sustain what the WORST really is.