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- » Start A Business
- » Sell My Business
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- » Sales & Customer Service
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- » Staffing & Workplace Issues
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Should I Offer Disability Insurance for My Employees?

If you want to attract and retain top-tier employees—but can't afford top-tier salaries—disability insurance could help you compete.

If you're unable to work due to injury or illness, disability insurance replaces a portion of your lost income so you can continue to pay your bills.

Here's what you need to know before you decide to offer it.

Short-Term vs. Long-Term

There are two types of coverage: short-term disability (STD) and long-term disability (LTD). Typically, the cost of both is between 0.25 and 0.5 percent of total compensation—regardless of your company's size. "If you can afford 0.5 to 1 percent of compensation, you can offer both," says Jim Edholm, president of Business Benefits Insurance, a group insurance brokerage based in Andover, Mass.

Other rules of thumb, according to Edholm:

- STD benefits typically have a seven-day waiting period—called an "elimination period"—covering 60 percent of the employee's salary and last 13 to 26 weeks. The elimination period means it's still important to offer paid sick days.
- LTD benefits typically have a 90- or 180-day elimination period, cover 60 percent of the employee's salary and last for as little as two years or as long as retirement age.
- All policies impose a ceiling on benefits: For STD, it's typically \$1,000 a week; for LTD, it's usually \$6,000 a month.

RELATED: [Disability Insurance Options](#)

Should You Offer It?

Because the cost of disability insurance is virtually the same whether you have two employees or 200, the size of your staff shouldn't influence your decision to offer it.

"As a small business owner it can make great sense from an employee benefits and employee retention standpoint," says Certified Financial Planner™ Joel Ohman, founder of the website InsuranceProviders.com.

If you can't afford to offer both STD and LTD, Edholm recommends looking at the composition of your staff. If you have female employees, your staff may prefer STD coverage, as STD policies typically pay up to eight weeks for maternity. If your staff is all or mostly male, on the other hand, LTD may be a better choice.

RELATED: [NFIB members have access to disability insurance programs](#)

What to Look for in a Policy

Pay special attention to how carriers define "disability." "The two most common definitions are 'own occupation' and 'any occupation,'" explains Ohman. "Own occupation" coverage is preferable because it provides benefits when employees are unable to perform their own job duties—even if they could get a job doing something else. "Any occupation" offers benefits only when employees are unable to work at any job.

"Read the fine print," adds Frank Darras, founding partner of DarrasLaw in Ontario, Calif. He says policies often exclude work-related injuries and mental/nervous disorders, and typically have offsets that delay payments for employees receiving other types of assistance, such as Social Security or workers' compensation.

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