



By  
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**G**rowth in the group long-term disability market has been flat for some time, even though this important benefit is relatively affordable compared to other employee plans. There may be an opportunity, however, to boost premiums by expanding this benefit to a large additional market.

Consider your 401(k) plan: What happens to your future retirement income if you are disabled now and can't make individual contributions or receive the employer match?

the average 401(k) contribution level historically has been less than \$5,000 annually per employee including the employer match, according to the 2005 Department of Labor Form 5500 Annual Report summary. It follows that the cost (and exposure) of providing disability insurance to the average plan participant should also be low.

The market potential, however, is high. Again, citing the 2005 Department of Labor summary, there were 436,207 401(k) plans involving 54.6 million people with total participant and employer contributions of \$208.8 billion. Assuming an average LTD rate of .03% to .05% of 2005 contributions

generates an additional \$630 million to \$1 billion of group LTD premiums. This number doesn't include the additional volume represented by non-profit 403(b) plans.

Another feature: The risk of anti-selection is low. Under a 401(k) plan, adverse selection is mitigated by the limits on the maximum deferral (\$22,000 in 2009). Additionally, the discrimination testing already required of the plan administrator limits the opportunity for over-insurance.

Another plus for underwriters is that pension service providers already have extensive demographic information on DC plan participants, which is a boost when determining pricing, valuation, exposure levels and claim incidence rates.

The risk of retirement savings shortfall in the event of an extended disability is both very real and insurable, and the IRS has authorized the concept. Underwriting a disability benefit inside a 401(k) or 403(b) plan is not substantially different from basic group disability. Given the potential size of this market, this may be an opportunity whose time has come. **BR**

# Untapped Market For Group Disability

Adding LTD insurance to defined-contribution pension plans can cut the risk of retirement savings shortfalls.

The defined contribution pension market is well-established and has a significant insurable interest. While DC plans are now common compared to more traditional defined-benefit pensions, few people recognize the need for a disability replacement feature within these plans. In traditional defined-benefit plans, for example, the disabled employee continues to accrue benefits while out of work. This is not the case with 401(k) or 403(b) plans.

Designing a 401(k) contribution replacement benefit is not an unusual concept. After all, when was the last time your company sold a group life plan without waiver of premium? Not only that, but the IRS already has issued a number of private letter rulings allowing employers to offer a disability income feature inside a 401(k) plan.

The cost of a traditional group LTD benefit is low, in the range of 40 to 50 cents per month per \$100 of covered payroll. Further,

**The IRS has issued a number of rulings allowing employers to offer disability income features inside a 401(k) plan.**

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