



Defining ‘Disability’

Understanding the components that make up a definition of disability

Many short-term disability contracts use “own job” to help identify the type of work a disabled employee is able to perform.

Long-term disability contracts generally use “own (or “regular”) occ,” “any occ” or a combination of both.

What does disability mean? A dictionary would generally define it as a condition which prevents an individual from pursuing an activity because of physical or mental impairment. But in the insurance industry, a one-size-fits-all definition cannot encompass all of the different factors that determine whether an individual is disabled according to the provisions of a group disability policy.

Insurers necessarily have a range of definitions that vary according to the policy type (short-term vs. long-term) and the scope, severity and duration of an individual’s condition. Understanding the components that are used in a definition of disability can be helpful when discussing coverage with your benefits broker, provider and employees.

Key components

To collect disability insurance, a covered employee must be considered disabled according to the terms of the group disability insurance policy. And while all policies differ to some extent, most carrier contracts include the following components: medical, occupational, earnings test, elimination period and test change.

Let’s look at each of these in more detail.

Medical

The medical component requires that an individual have a covered injury or sickness that prevents them from performing the occupational requirements included in the policy.

Occupational

The occupational component requires that an individual be limited in his or her ability to perform a type of work in order to be considered disabled. Most group disability policies describe the type of work that an insured can perform as own job, own (or “regular”) occupation, or any occupation:

- **Own job:** This refers to an individual’s ability to perform their own previously held job with the employer. “Own job” is sometimes used in short-term disability policies but rarely, if ever, used in long-term disability policies.

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- **Own occupation:** (“own occ”) This refers to an individual’s ability to perform their own previously held occupation. In this case, the term “occupation” typically involves the person’s duties as performed in the national marketplace, not the specific job they were previously performing at their employer. This is sometimes referred to as “regular occupation” in short and long-term disability policies.
- **Any occupation:** (“any occ”) This refers to an individual’s ability to perform any occupation that is appropriate based on their education, training or experience. This term is usually only found in long-term disability policies.

Another point that must be considered when looking at the occupational component is the degree of disability. Most group disability carriers use the following concepts to describe an individual’s limitation in his or her ability to perform a specified type of work (own job, own—or regular—occ, or any occ):

- **Total disability:** The insured is unable to perform the essential duties of a specified type of work.
- **Partial disability:** Following a period of total disability, the insured is able to perform some, but not all, of the essential duties of a specified type of work.
- **Residual disability:** The insured can perform some, but not all, of the essential duties of a specified type of work. While similar to partial disability, residual disability differs in that a period of total disability is not a prerequisite to begin receiving benefits.

Essential duties are often identified as those that:

- Are substantial, material and not incidental.
- Are fundamental or inherent to the occupation.
- Cannot reasonably be omitted or changed.

Earnings test

Many group disability policies include an **earnings test** component. The earnings test is generally applied to partial or residual definitions of disability and allows the individual to return to work at some capacity in order to earn some level of income. The earnings test is important because once an individual can earn a certain percentage of their pre-disability income, he or she is no longer considered disabled.

The earnings test varies by policy, but many carriers require a loss of at least 20% of pre-disability earnings. That means an individual must not be earning more than 80% of their pre-disability income. Some policies require a greater loss of pre-disability income, such as 40% (e.g., a 60% earnings test), and some long-term disability policies include different earnings tests during different portions of the definition of disability.

Elimination period

The **elimination period** is the amount of time covered individuals must satisfy the medical, occupational and earnings test components before disability income benefits are payable. In other words, through the entire elimination period, the insured must have a medical condition that limits his or her ability to perform a specific type of work, and must suffer a specified loss of income as a result.

At the end of the elimination period, if it is determined that an insured has satisfied the medical, occupational and earnings test components, the insured will be considered disabled under the group disability policy.

The elimination period typically lasts seven to 14 days for short-term disability (STD) policies, and 90 to 180 days for long-term disability (LTD) policies.

The ‘test change’ factor

Most short-term disability plans include a definition of disability that remains the same for the entire benefit duration. LTD plans, however, provide benefits for an extended duration, so it is common for an LTD definition of disability to change and become more restrictive after a certain period of time.

For example, many group long-term disability insurance policies contain a **test change** period that is 24 months after the date benefits begin. For a residual disability policy, during the elimination period and the first 24 months of benefit payments, the insured may need to demonstrate that he or she is unable to perform at least some of the essential duties of his or her own occupation (own occ) in order to be considered disabled. But after the first 24 months of benefit payments, the insured may need to demonstrate that he or she cannot perform at least some of the essential duties of any occupation (any occ) to be considered disabled.

The earnings test could also become more restrictive following the test change period. As an example, for the elimination period and first 24 months of LTD benefit payments, an insured may need to demonstrate that he or she is unable to earn more than 80% of pre-disability income to be considered disabled. But following the first 24 months of LTD benefit payments, the insured may need to demonstrate that he or she is unable to earn more than 60% of pre-disability income to be considered disabled.

The test change period can result in a termination of benefits, as many people are qualified to perform the duties of other occupations that would enable them to earn an income that is greater than the earnings test included in the definition of disability.

What to watch for

While the above definitions are valuable to understand, it is important to pay close attention to the specific terms within each carrier contract. The medical, occupational, earnings test, elimination period and test change components can differ from policy to policy.

It's also important to note any exclusions or limitations that could reduce or eliminate benefit payments. For example, there may be restrictions on the duration of benefits provided for specific disabilities related to drug and alcohol abuse. Be sure to carefully review your contract and have a clear comprehension of the terms, definitions and qualifications for disabling conditions.

Disabilities can be challenging for both the insured and the employer. Knowing the ins and outs of your group disability income insurance policy will help ensure that all parties are focused on the important task of recovery.

For more information on the definition of disability, talk with your group benefits representative.



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