

# Severance Agreement Disability Insurance

*When the termination of an employee places a benefits liability on the employer*



Fulfilling promised benefits when there is:

- Change of Control
- Downsizing
- Golden Parachutes

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Providing Unique Options For The  
Consequences Of A Disabling  
Accident or Illness



## SEVERANCE AGREEMENT DISABILITY INSURANCE

An interesting problem develops when the termination of an employee involves a severance package and part of that package is the requirement to continue certain benefits for a set period of time. The toughest of these promises is the replacement of the Group Long Term Disability plan. Many LTD plans do not have a portability provision and those that do are usually limited to very modest amounts of benefits, less than what is called for in the severance agreement. Once the severed employee comes off the payroll, he or she is no longer covered under a LTD plan.



HR Departments panic when they realize they can no longer keep the terminated employee on the group LTD plan and unfortunately, securing an individual plan is not usually an available option since the person is now currently unemployed.

## FROM THE COMPANY'S PERSPECTIVE

The severance agreement usually stipulates that there is to be continuation of the employee's benefits. The LTD plan is not segregated and in the event the severed employee was to become disabled, the funding of the disability benefits becomes the employer's liability. Not only must the employer show this on the books as a liability, but the employer must also finance it through cash flow, unless insurance can be secured to remove that risk from the employer.

## FROM THE TERMINATED EMPLOYEE'S PERSPECTIVE

When an individual becomes unemployed, the need for disability insurance not only continues to be important, but arguably becomes even more important. Consider the consequences of suffering a disability during a period of unemployment. If he or she cannot recover, finding a new job will be impossible. If recovery is not 100% and leaves some residual issues, the chances of securing employment with a pre-existing condition or a physical limitation is generally reduced.



## SOLUTION

Our carriers can provide a solution to securing disability insurance during periods of unemployment. Additionally, if the severance agreement creates an unexpected liability for the firm, this plan of insurance will assist with relieving this burden. This type of insurance will guarantee that the disability insurance plan in the severance package is upheld.

Severance Agreement Disability Insurance will keep the terminated employee and his family financially safe in the event of a disability, as well as keep the company from any major financial loss as a result.

### Take The Case Of...

Mr. L, age 57, an executive of a bank, had in place a severance agreement in the event of a “change in control”. Finding his job to be redundant, the new management terminated Mr. L. Under the severance agreement, the continuation of certain benefits included that of the group LTD plan. When HR contacted the group carrier to arrange for this change, they advised that they would not be able to provide continuing disability coverage due to the fact that Mr. L was no longer employed. The HR department then reached out to the individual markets and was advised that they too could not help since Mr. L was currently unemployed.

A Severance Disability Plan took care of the problem.

## COMMON USES

An example: A terminated employee age 45 that would be eligible for a disability benefit of \$10,000 per month until age 65 would create a potential liability of \$2,400,000 for the employer. A Severance Disability Insurance Plan can relieve 100% of this liability.