

Short-Term Disability Plan Feasibility Study

**A Report From The Church Pension Fund
For The Episcopal Church**

October 2016

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Overview

General Convention Resolution B016 “instructs The Church Pension Fund to study the feasibility of a mandatory, short-term disability (STD) plan for all lay employees of the Episcopal Church” and “to report its findings and recommendations in this matter to the Executive Council of the Episcopal Church no later than the final regularly scheduled meeting of the Executive Council in 2016.” The first step of this study was to identify patterns and attitudes toward STD coverage; the second step was to estimate the cost of providing coverage to those who do not have it; and the final step was to share our findings and suggestions about mandating STD coverage with Executive Council.

STD Coverage Background

According to recent statistics, nearly one-third of Americans entering the work force today will become disabled before they retire¹. Short-term disability coverage provides financial relief to individuals by replacing a portion of an employee's salary when they are out of work due to a qualified illness or injury. Typically, pregnancy is covered as a disability.

For many, having STD coverage is a key component of financial security. For others, not having coverage can result in financial hardship because we know 65% of all adults in the United States lack sufficient savings to cover expenses in such an emergency. Short-term disability coverage also protects employers by covering a portion of the salary cost when an employee is disabled.

The Church Pension Group (CPG) offers Episcopal employers the opportunity to purchase STD coverage for lay employees from Liberty Mutual Insurance. The Liberty Mutual plan provides 70% income replacement up to a maximum of \$1,000 per week. Because this insurance is fully underwritten by Liberty Mutual, it does not represent a financial risk to the Church Pension Fund.

The Liberty Mutual offering was designed to be similar to The Church Pension Fund Short-Term Disability Plan (Clergy STD Plan). Coverage under that plan is automatically provided to clergy as a result of their participation in the Clergy Pension Plan.

Summary of Current STD Offerings

Plan Provision	Clergy STD Plan	Liberty Mutual Plan
Benefit Level	70% income replacement	70% income replacement
Weekly Maximum Benefit	\$1,000	\$1,000
Elimination Period ²	30 Days	30 Days
Coverage Period	52 Weeks	48 Weeks

At present, 437 employers offer lay employees STD coverage through CPG, and additional employers offer coverage through other means. As summarized in this report, we conducted a study to better estimate how many congregations offer STD coverage to lay employees, to understand general awareness of and feelings about STD coverage among those who do not offer it, and to prepare a recommendation to Executive Council regarding the feasibility of mandating STD coverage for lay employees.

¹ U.S. Social Security Administration, *The Facts about Social Security's Disability Program*, June 2016. www.ssa.gov/disabilityfacts/materials/pdf/factsheet.pdf

² The length of time between the beginning of an injury or illness and when benefit payments start to be paid. It is also known as a deductible period or waiting period.

Identifying Patterns and Attitudes Toward STD Coverage

According to our records, there are 1,800 Episcopal congregations with at least one eligible lay employee³. Of the 1,800 congregations we identified, only 314 of them offer all eligible lay employees an STD benefit with Liberty Mutual through CPG. Another 123 congregations offer some, but not all, lay employees an STD benefit through us. The remaining 1,363 congregations do not offer an STD benefit through CPG.

CPG surveyed the 1,486 congregations that either do not have an STD policy through CPG or do not cover the majority of their employees with the STD contract they purchased through us.

The survey had three goals:

1. Understanding whether any STD coverage is made available to benefit-eligible lay employees
2. Understanding eligibility criteria for STD coverage where offered
3. Understanding perceived obstacles to offering STD coverage

Main Survey Findings

- 40% of congregations surveyed offer some type of coverage for STD
 - ~ 20% provide STD insurance through another provider (other than with Liberty Mutual through CPG)
 - ~ Another 20% continue to pay employees during disability
- Combining survey responses and known participants in STD coverage obtained through CPG, it is estimated that 50% of congregations with benefit-eligible employees offer some form of STD coverage
- 75% of congregations that offer some form of STD coverage use hours worked to determine eligibility
 - ~ These congregations were evenly divided into those using 20, 30, or 40 hours as an eligibility trigger, which means a significant number of employees who work 20 – 30 hours are not covered
- 20% of congregations determine eligibility by job title or position
- 60% of congregations that offer STD did not know the percentage of salary replaced or the duration of the benefit

³ An employee is considered eligible if she/he is scheduled to work more than 1,000 hours per year.

Reasons for Not Offering STD Coverage

For those congregations that do not offer STD coverage of any type, survey respondents were asked to provide a rationale:

- 65% pointed to cost
- 7.5% did not perceive a need
- 27.5% selected “Other”
 - ~ A significant number in the “Other” category indicated that they had not thought about it

Would They Consider Offering STD?

Respondents were further asked to determine whether there might be a price level that would make STD coverage attractive to non-participants.

- 30% thought any coverage would be too expensive.
- 35% would be willing to pay a premium of \$15 – \$35 per employee per month.
- 35% would be willing to pay a premium of only \$5 – \$15 per employee per month.

Estimating the Cost to Provide Coverage to Those Who Do Not Have It

The estimated cost of providing standard STD coverage to lay employees is approximately \$15 per employee per month. Common STD coverage provides 60% – 70% pay replacement for up to 52 weeks. Assuming 5,000 lay employees, the aggregate annual cost to insure all employees would be approximately \$900,000 to \$1 million. Since approximately 50% of the population currently has STD coverage, the net increase would be \$450,000 to \$500,000 per year.

It is important to note that STD coverage typically represents a small fraction of an employer's net benefit cost. Based on 2016-projected cost, congregations on average spend approximately \$12,400 per year per employee for medical, dental, and retirement benefits⁴. Adding STD coverage would increase a congregation's benefit cost by approximately 1.5%.

⁴ Benefit costs reflect Anthem 90/70 Medical PPO single rate, and Cigna Basic Dental single rate subsidized at 80%, and 9% DC contribution match on an average salary of \$35,000.

Conclusion

While we identified gaps in STD coverage and in general product awareness, we did not find significant support for mandating STD coverage for lay employees. In fact, concerns about cost suggest that a mandate might not be well received by many, at least absent further education and knowledge.

We believe the lack of awareness and knowledge about the STD product can be addressed through various channels. CPG's Integrated Benefits, Account Management and Sales (IBAMS) team does ongoing outreach with benefits administrators around the Church. In addition, CPG's Education & Wellness conferences may present opportunities to educate individuals about the benefits of STD coverage. CPG also has communications capabilities that can be used to support the Church's commitment to increase STD coverage for lay employees. We would welcome the opportunity to support the Church's efforts to increase STD coverage for lay employees through education and outreach.