Insuring Your Income

The role of disability insurance in financial wellness

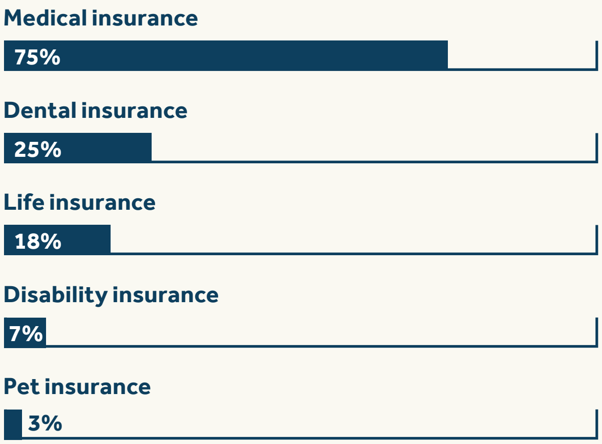
Guardian's 12th Annual Workplace Benefits Study

Introduction

Income is essential to a household's financial security and is closely linked to overall well-being. And, along with many things that are innately important to people — health, home, and family — income is worth protecting. For a variety of reasons that range from a lack of understanding to a lack of employer-subsidized availability, however, workers don't protect their income at the kind of rates they protect their medical health, oral health, or their end-of-life circumstances. By shedding light on some of the myths and misconceptions around disability insurance, workers and employers can work toward better protecting themselves and their workforce.

Most important benefits when evaluating job opportunities

Percentage of workers who put the following in their top three



As things stand, however, only 7% of workers put income protection — in the form of short-term disability (STD) or long-term disability (LTD) insurance — in the top three benefits that are most important to them when evaluating job opportunities. That's only slightly above the importance they place on pet insurance.

In 2023, roughly half (51%) of American workers own disability insurance, which provides income protection for individuals in the event they become sick or injured and are unable to work for an extended period. With the average LTD claim being 35 months — or almost three years — this period is longer than most people expect, and many aren't equipped for going without a paycheck for that long.[1] In fact, 30 percent of Americans report being unable to cover an unexpected bill of $400 without carrying a balance or borrowing from the bank or a friend.[2]

Income loss can have devastating long-term financial consequences as well; 78% of people who file for bankruptcy cite income loss as a contributing factor.[3]

Given the importance of protecting income, why does half of the working public fail to prioritize disability insurance?

Disability insurance: A misnomer?

Workers not only underestimate their chances of being out of work due to illness or injury, but they also lack awareness of what disability insurance is and what it does. Understandably, many are confused by the name, which suggests "insurance for the permanently disabled." They mistakenly assume that disability insurance isn't for them and are unaware that it provides income protection in the somewhat likely event they'll need to be out of work for an extended period, including for mental health leave.

People may also confuse disability insurance with different types of coverage — like accident insurance or workers' compensation. But accidents are only one cause of income loss due to short-term or long-term absence and aren't a major driver of disability claims.[4] In addition, illnesses and injuries that don't happen at work (like most) are not covered by workers' comp.[5]

Misperceptions about disability insurance and the chances of needing it contribute to millions of Americans being financially unprepared in the event of an income-disrupting injury, illness, or other condition. Unfortunately, this can have severe financial consequences. This report examines several myths about disability insurance, trends in ownership of the product, and its role in protecting a household's income and overall financial wellness.

At least 51 million working adults in the US don't have disability insurance.[7]

Four myths about disability insurance

Why workers underestimate their chances of experiencing an income-disrupting event

Myth 1: It won't happen to me

Many consumers underestimate their own chances of being out of work as the result of a serious injury or illness.

The mindset that "it can't happen to me" creates a false sense of security and lessens the perceived need for protection. Unfortunately, the chances of needing disability insurance are much greater than most consumers realize. In fact, Americans are five times more likely to become disabled than die in a given year, but they are more financially prepared for death than they are for a potential disability.[8]

One in 5 working Americans have been out of work for an extended period during the past 10 years due to a condition, injury, or illness.

People tend to believe that serious injuries or illnesses are most common among workers who are older, male, and work in hazardous professions like construction or mining. The notion that disabilities are more likely to occur among certain groups of people who are "not like me" reinforces the myth.

At 31%, pregnancy is the most common reason for short-term disability claims.

The truth is that people of all ages, demographics, and professions have roughly the same potential to experience an income-disrupting injury or illness. In fact, 25% of today's 20-year-olds can expect to be out of work for at least a year during their career because of a disabling condition.[9]

US adults who experienced a job leave of at least 30 days in the past 10 years due to a condition, injury, or illness

16%	15%	19%	9%
Female	Male	Millennial	Baby boomer

Myth 2: Disabilities happen at work

Many working adults believe that disabling accidents are generally job-related and, therefore, covered by workers' compensation or Social Security Disability Insurance (SSDI). However, only nine percent of all disabling accidents or illnesses occur at, or are related to, work — and therefore most disabilities are not covered by workers comp.[10] In addition, the set of qualifications to be approved for SSDI are much higher than many people realize, and many disabilities that are payable under a group disability insurance plan would not be approved for SSDI. Therefore, most disabilities are not covered by SSDI.

Myth 3: Disabilities are catastrophic

People make incorrect assumptions about what qualifies as a disability. They erroneously believe the term is more restrictive than it is, applying only to catastrophic conditions like paralysis from a car accident or a debilitating stroke. Many do not realize that disabilities are typically the result of less severe injuries and more common conditions such as pregnancy, back pain, depression, and digestive disorders.

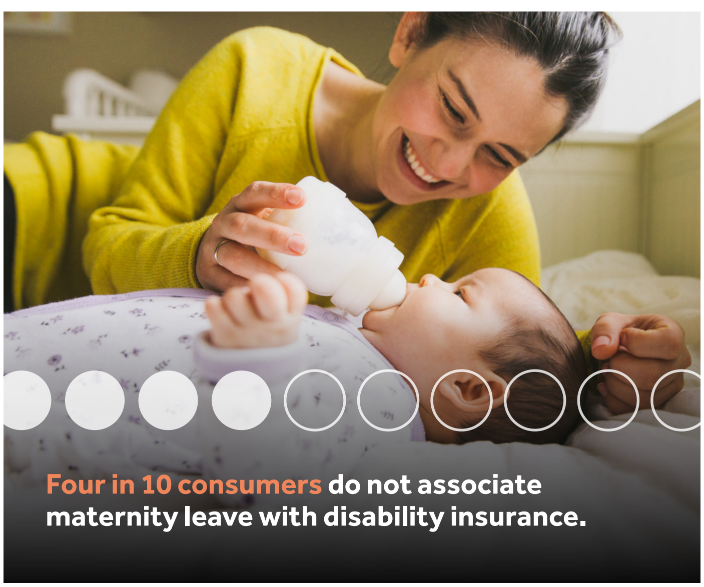
An analysis of Guardian disability claims data shows that mental health, which includes substance abuse, is one of the fastest growing categories of covered diagnoses in the past five years.

Mental health-related STD claims increased by 40% in the past five years.

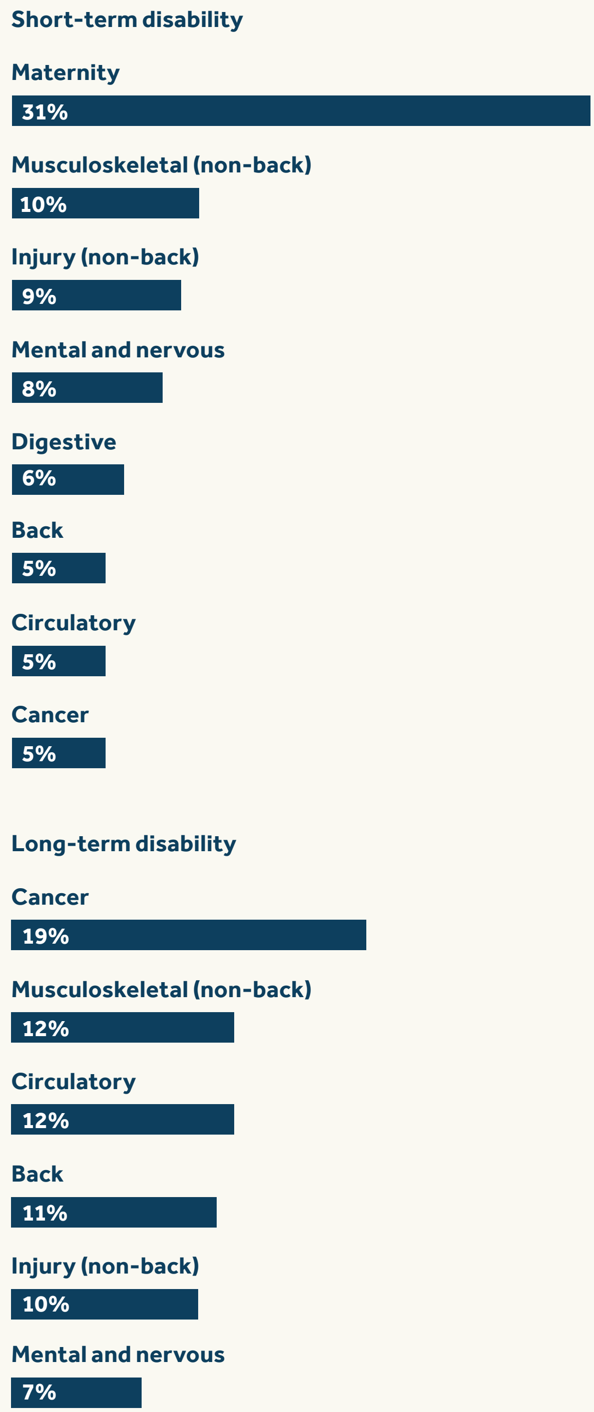
Myth 4: “Disability insurance” is only for the disabled

The term "disability insurance" is confusing to many consumers and arguably inaccurate. The name conjures up images of permanent, life-altering disabilities rather than less serious injuries and treatable illnesses.

Based on the name alone, it is unclear that disability insurance provides income replacement for several months or years for a wide array of conditions and medical events. For example, 4 in 10 consumers do not associate maternity leave with disability insurance, even though it is the leading cause of STD claims by a wide margin. Confusion caused by the name contributes to lower consumer interest and ownership relative to other forms of insurance.



Leading causes of disability claims*



* Guardian internal claims analysis; 2022 data

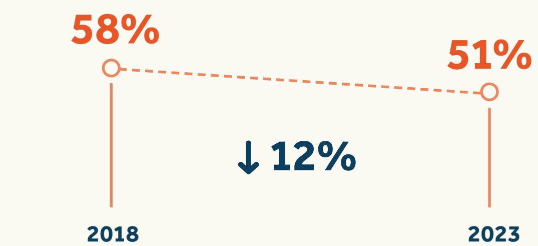
92% of adults are concerned about being financially prepared if a wage earner is out of work for an illness or injury.

But only 51% protect their income with disability insurance.

Disability insurance ownership is trending down

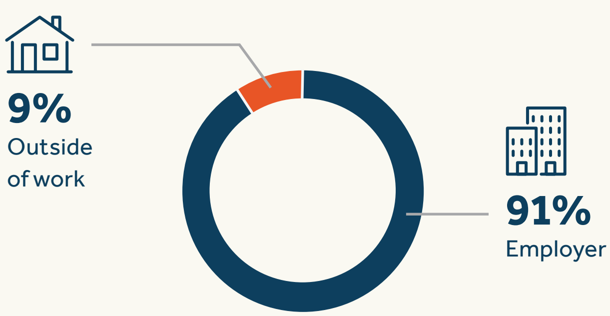
In 2023, 51% of working adults have disability insurance, down 12% from 2018 and 18% from a decade before in 2013. The decline leaves more households financially vulnerable. Overall, workers' disability insurance ownership is considerably lower than their ownership of other types of insurance, such as medical (94%), dental (82%), and life (71%).

Disability insurance ownership



Most adults who own disability insurance obtained the coverage through an employer-sponsored plan.

Where consumers obtain disability insurance



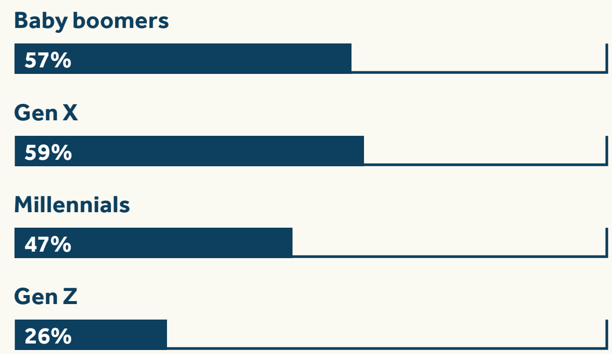
On average, 38% of employers pay the full cost of their workers' disability plans, 47% share the cost with workers, and 17% offer employee-pay-all or voluntary disability coverage.

More employers share the cost of disability benefits with their workers than did five years ago — 47% compared to 39% in 2018.

The likelihood of workers owning any disability insurance increases with age. Almost 6 in 10 baby boomers (57%) have coverage compared to just over 1 in 4 Generation Z employees (26%). An increase in the number of companies splitting disability insurance costs with their employees (47% from 39% in 2018) contributes to lower levels of coverage among millennials, who are less familiar with disability insurance and underestimate their chances of needing it. On Guardian's 2020 Benefits IQ Quiz, millennials had the lowest overall scores, specifically on questions pertaining to disability insurance.

Only a quarter of Gen Z employees own disability insurance

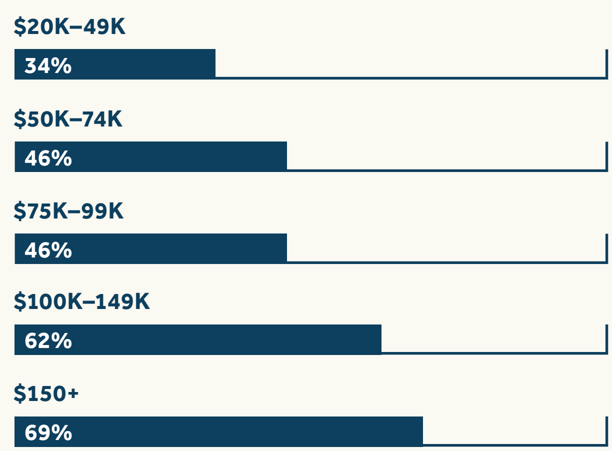
Percentage of workers by generation who own disability insurance



Workers with lower household incomes also have lower rates of disability insurance ownership. Those who earn less than $50,000 per year are less likely to have individual or employer-paid coverage, contributing to lower overall ownership levels.

Higher-income households are more likely to own disability insurance

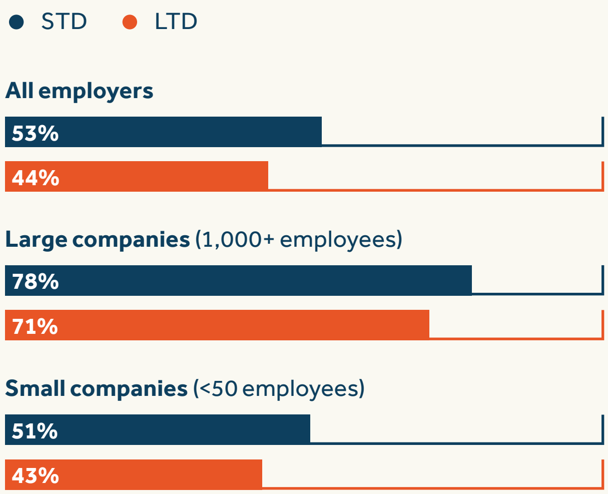
Percentage of workers by income who own disability insurance



Most small-business workers lack access to disability coverage through their employer, and pay a greater share of it when they do

The prevalence of employer-sponsored disability insurance among those who have coverage underscores the critical role that workplace benefits play in Americans' financial security. Yet access to disability benefits varies from employer to employer, with larger organizations much more likely to offer it than smaller firms.

Employers offering disability benefits



Given that 46% of private-sector employees are employed by small businesses, this leaves many US workers without access to disability insurance through their employer.[12] Considering that most workers without employer-sponsored disability coverage don't purchase it on their own, this means most workers who work at small businesses lack disability coverage altogether.

Larger companies are also more likely to pay 100% of the disability insurance premium, making the benefit more accessible to their employees. This is especially important since 1 in 3 workers cite the cost of coverage as a barrier to acquiring disability insurance.

Who pays for disability insurance?

Percentage of employers paying 100% of the cost

43%
Large companies (1,000+ employees)

38%
Small companies (<50 employees)

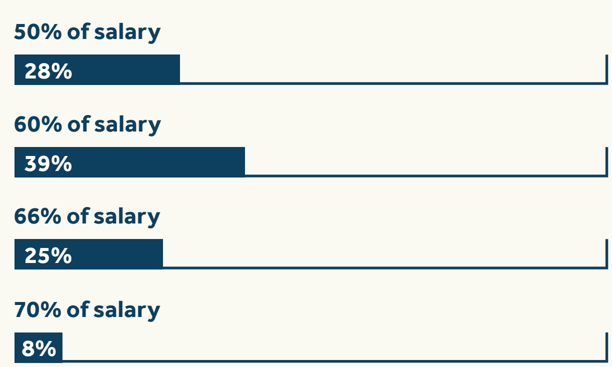
However, some employers are decreasing their contributions to disability insurance plans, making workers responsible for a greater share — or even 100% — of the cost.

Nearly 1 in 5 employers (17%) plan to decrease their contribution to disability coverage or eliminate contributions altogether, making disability benefits 100% employee-paid.

A majority of disability benefits plans cover at least 60% of an employee's salary. The larger the employer, the more likely the plan replaces at least two-thirds of salary. Notably, most plans exclude non-salary compensation, such as bonuses, and the benefits are generally taxable to the worker. When these details are not well communicated, plan member satisfaction with the benefit declines sharply.

How much income is replaced?

Percentage of employers offering each coverage level[13]



Three in 10 US households experienced a disability leave in the past decade, and most felt financially unprepared for it

On average, 30% of US households have had a main wage earner experience at least one event or condition that caused them to miss work for 30 days or more sometime in the past 10 years. Almost a third of those disability leaves were for maternity, with the rest being injuries, illnesses, or other serious conditions.

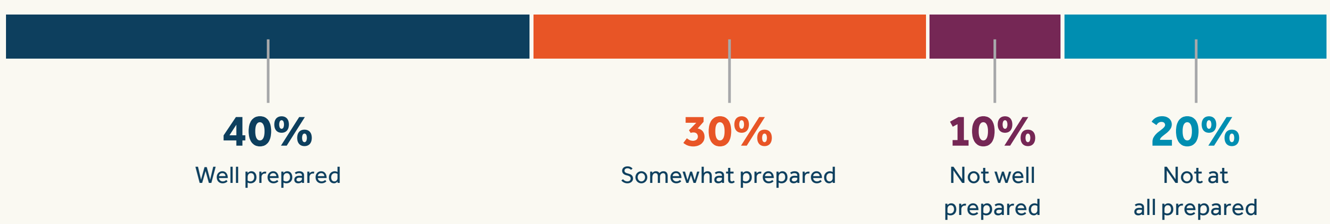
Just 40% of workers who experienced a disability leave in the past 10 years feel they were well prepared financially prior to the leave of absence. Naturally, disability leaves that were unexpected and related to a serious injury or accident are the most disruptive; workers were less financially prepared for those leaves than for maternity leaves, for example.

One in 5 households say they were "not at all prepared" financially for a disability leave.[14]

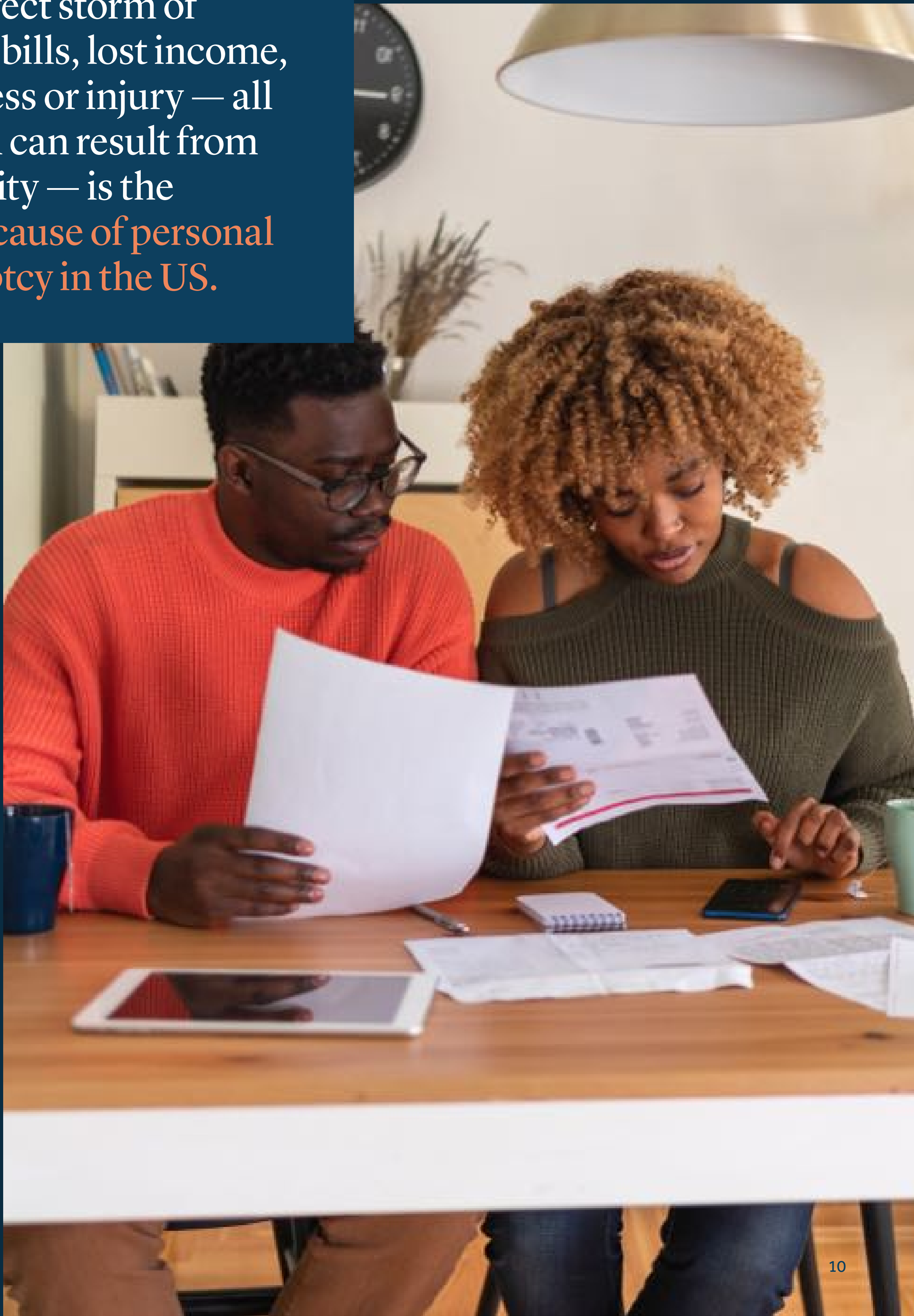
Only about half of households continued to receive a paycheck following their most recent disability leave — typically from an employer-paid disability plan.

Not surprisingly, workers with no disability insurance at the time of the leave and those with an annual household income of less than $50,000 are the most likely to say their household was not at all financially prepared for them to miss work for an extended period (42% and 27%, respectively).

Financial preparedness for most recent disability leave[15]



The perfect storm of medical bills, lost income, and illness or injury — all of which can result from a disability — is the leading cause of personal bankruptcy in the US.

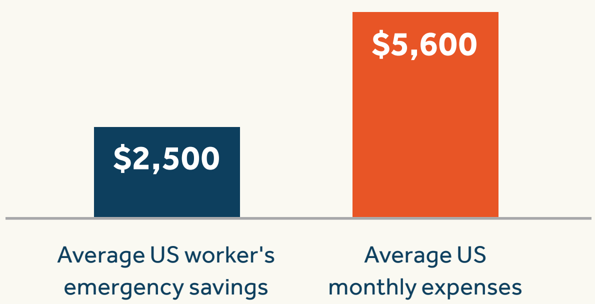


A minority of working adults have enough emergency savings to cover a single month of expenses

The current challenging economic environment and inflation contribute to great financial stress for Americans. As a result, more than 4 in 10 working adults (41%) report living paycheck to paycheck. This means a plurality of Americans are unprepared to go without a paycheck for even a single pay period, let alone longer, which is typically the case while out of work due to injury or illness.

Living paycheck to paycheck also means that workers are saving little money for emergencies, such as an unexpected, unpaid leaves of absence or disability. On average, full-time working adults have about $2,500 in emergency savings, which disappears quickly given that the US median monthly cost for housing, food, and transportation is roughly $5,600.

The gap between emergency savings and monthly expenses[16]

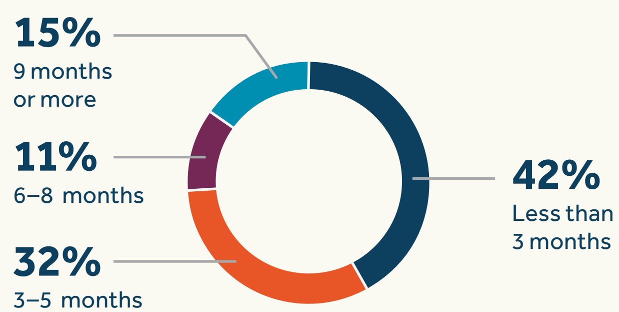


Nearly 6 in 10 workers who take a disability leave are out for three months or more.

Since disability leaves are typically measured in months versus weeks, many workers go through their emergency savings quickly and feel the harsh reality of being without their regular income in less than a month.

Length of time out of work[17]

Among adults who experienced a disability leave



Nearly half of all workers who experienced a disability leave in the past 10 years did not have disability insurance and received no paycheck while out of work.

Even when income stops or is reduced, workers still have financial responsibilities. Without a paycheck, roughly half of those who experience a disability are forced to withdraw money from savings, investment, or retirement accounts to help pay bills — and almost a quarter need to borrow from friends or family.

Ways that workers pay bills when on a disability leave without disability insurance[18]

49%
Withdrew money from savings, investment, or retirement accounts

24%
Borrowed money from friends or family

The financial effects of a disability leave can be devastating and have a long-term impact

Depending on the nature of a worker's condition, a disability leave can be a difficult time. Worrying about the loss of income while trying to focus on recovery adds further stress to what may already be a challenging situation.

Unfortunately, roughly half of individuals who have taken a disability leave report they had trouble paying bills and meeting the financial demands of running their household. Consequently, a majority of working adults who experienced a disability feel that it had a major or devastating impact on their household's finances.

Financial impact of most recent disability leave[19]

Percentage of all workers who agree

Fifty-five percent of workers report that disability leave had a negative impact on their household's finances.[20]

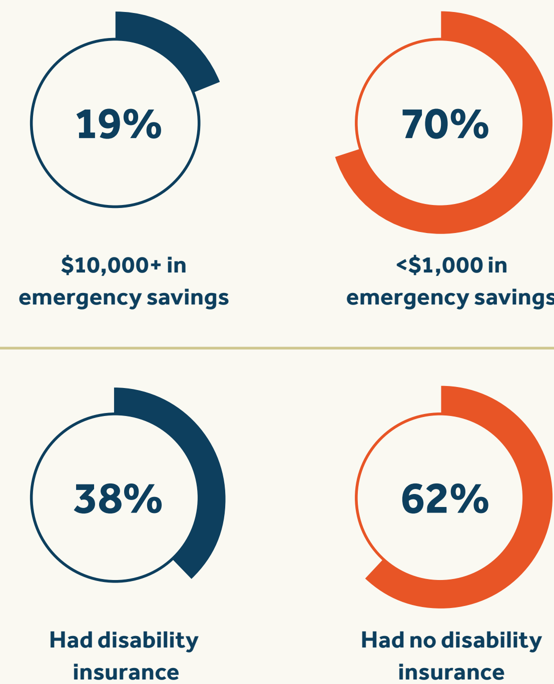
As expected, workers who struggled financially during and after a disability leave report lower financial wellness and are more likely to feel that the experience had a major or devastating effect on their household.

Not having disability insurance generally makes the financial blow of a disability leave even worse.

Workers who lacked disability coverage at the time of their leave are nearly 50% more likely to say their leave had a major or devastating financial impact on their household.

Most recent disability leave had a major or devastating financial impact[21]

Percentage of all workers who agree



Of course, the longer someone is out of work, the greater the financial impact. Among workers who were out of work for at least six years due to a disability, more than 7 in 10 say the experience had a major or devastating effect on their finances.

Longer leaves = Greater financial strain[22]

Percentage of all workers who felt a "major" or "devastating" financial impact

43%

Leave of less than three months

72%

Leave of at least six years

One year of disability leave could wipe out up to 10 years of savings.[23]

Disability insurance helps mitigate the negative short- and long-term effects of a leave

It can take months to years for a household's finances to fully recover from an income-disrupting disability. Two-thirds of workers who experienced a disability leave feel their financial situation has not yet fully recovered — and 61% of those whose leave occurred at least six years ago still feel their finances have not fully recovered.

The long road to financial recovery[24]

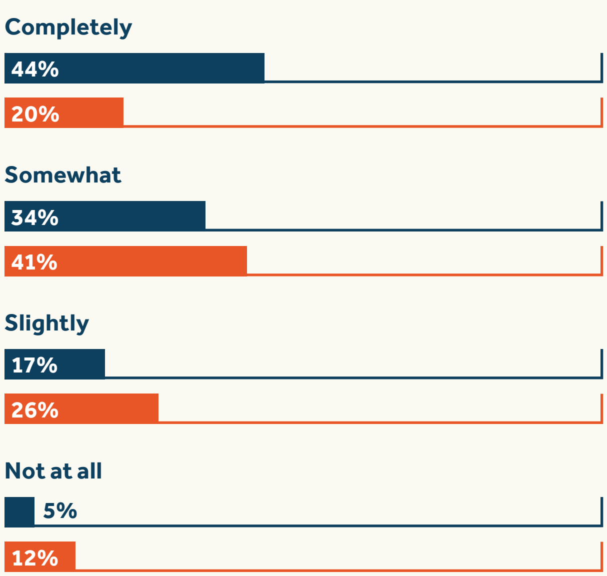
66% of workers feel they have not completely recovered financially from their most recent disability leave

Households without disability insurance at the time of their leave had an even longer road to financial recovery. Roughly 8 in 10 report that they have not fully recovered from the financial impact of their leave, and 12% have not recovered at all.

Extent of financial recovery[25]

How much those with and without disability insurance feel they have recovered

- With disability insurance
- Without disability insurance



Those with disability insurance are better able to offset the negative financial impact of a disability.[26]

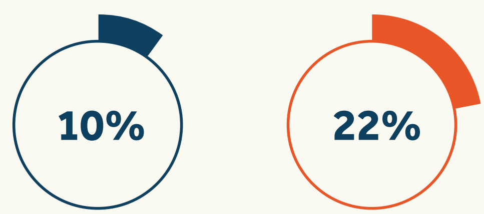
Without disability insurance, workers who must take a leave of absence often experience a negative impact to their savings, expenses, and credit scores. They are even less optimistic about their financial wellness compared to those who had disability insurance at the time of their leave.

No insurance = Lower financial wellness[27]

Percentage with fair/poor financial wellness

- With disability insurance
- Without disability insurance

Percentage who feel very financially stressed



The social impact of a disability leave also can be more negative among those who do not have disability insurance. These workers tend to experience a greater strain on their personal relationships and reduced social interaction.

Workers without disability insurance are 11% more likely to experience strain on their relationships and reduced social interaction than workers with disability insurance.[28]

Individuals with disability insurance often don't understand their coverage or the process of obtaining benefits

Owning disability insurance undeniably lessens the financial impact of an income-disrupting injury or illness. However, even those with coverage lack critical knowledge about how it works. For instance, 1 in 5 workers are surprised to learn that their employer-sponsored disability plans typically replace only a portion of their salary — not 100%, which often results in an income shortfall.

Biggest surprises about disability insurance[29]

Percentage surprised by the following factors

24%
I received a lower percentage of my salary than expected

20%
I did not receive a full salary

15%
Bonus/ commission was not addressed in payments

Higher wage earners are more likely to have income that includes bonuses, commissions, and other compensation structures that are frequently excluded from employer-sponsored disability plans. This can lead to significant income gaps. Among high-income earners, roughly one-third were surprised to learn that their employer's group disability plan paid less than their total compensation (compared to 18% of lower-income earners).

Greater coverage gaps for higher-income earners[30]

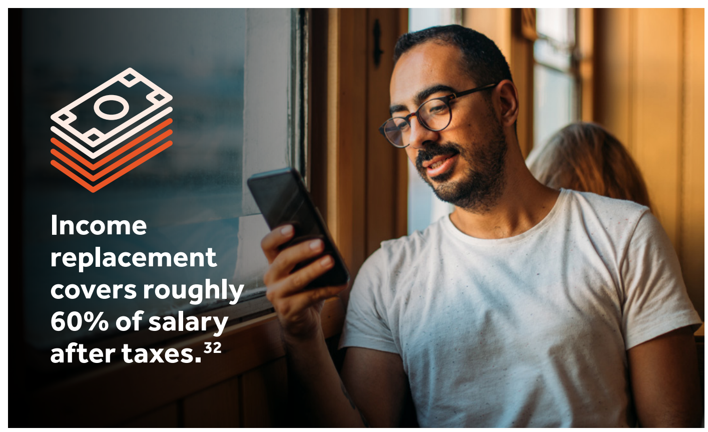
Percentage surprised to receive less compensation than expected

18%
Lower household income (<$50K)

32%
Higher household income ($75K+)

Only 3 in 10 employer-sponsored disability plans cover non-salary compensation, such as bonuses and commissions.[31]

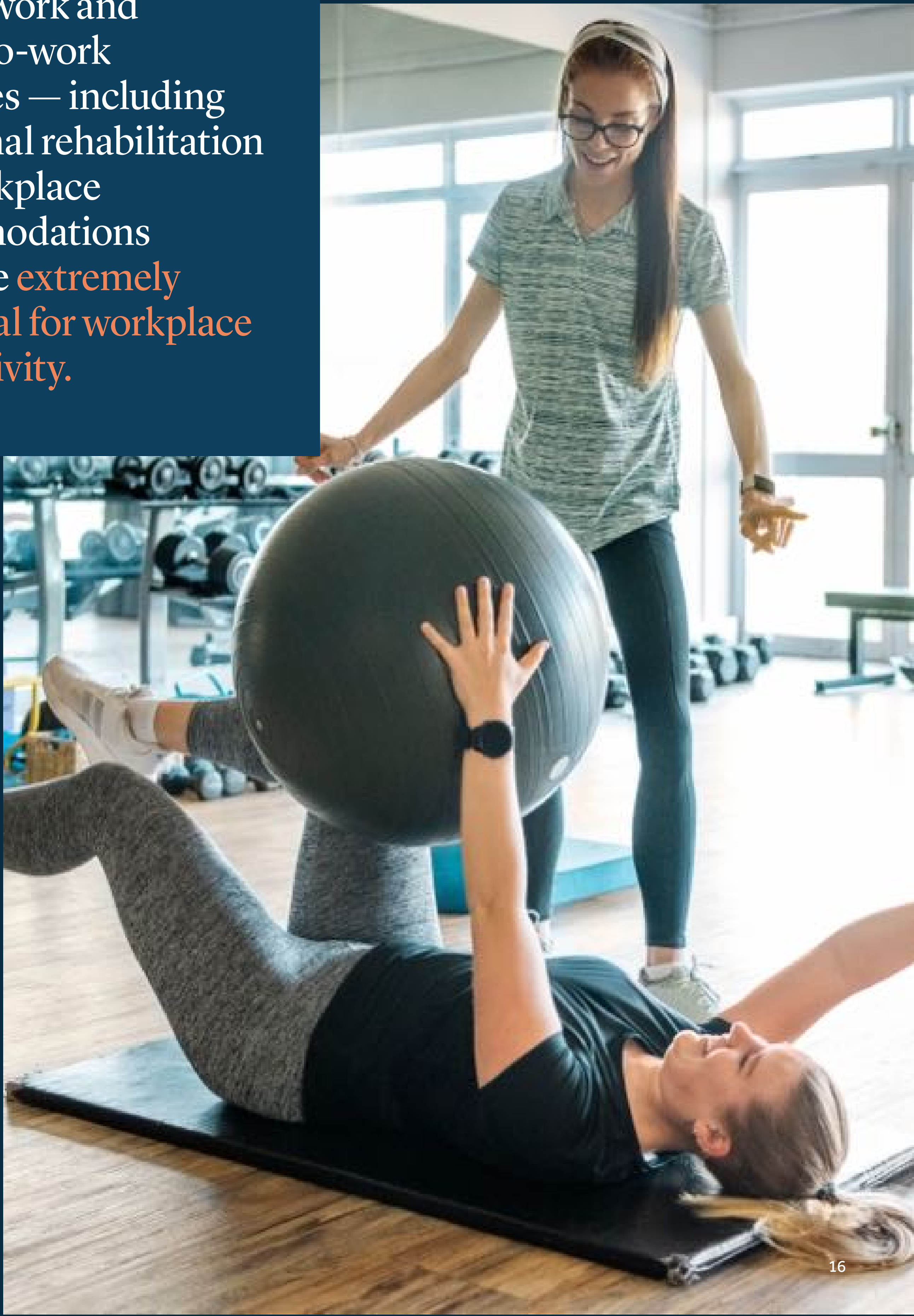
Most workers also don't know the tax implications of disability benefit payments. Six in 10 workers do not understand that taxes can further decrease their benefit payments if disability premiums are paid by their employer with pre-tax dollars. This further reduces benefits payments unless the employee can elect post-tax premiums.



Many workers are also caught off guard by the amount of time it can take to obtain the necessary information from their doctors to submit their disability claim. Roughly 20% of workers say they were surprised by how involved they needed to be in obtaining required medical information, which further increased stress during an already trying time.

One in 5 workers underestimate their role in obtaining medical information from their doctors in order to submit their disability claim.[33]

Stay-at-work and return-to-work strategies — including vocational rehabilitation and workplace accommodations — can be extremely beneficial for workplace productivity.



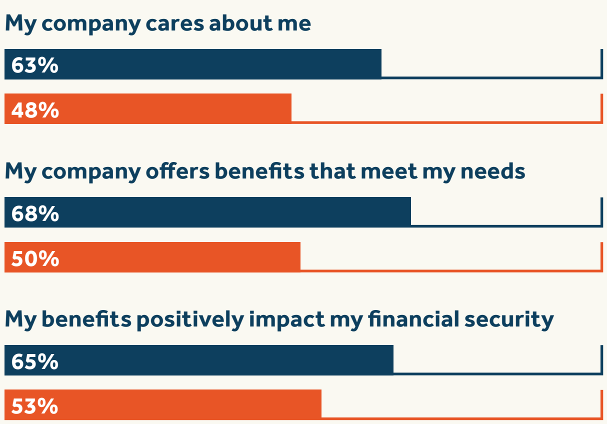
A positive disability leave experience can favorably impact a worker's attitude toward their employer

Workers' understanding and appreciation of their employer-sponsored disability insurance plan is much greater after they have used it. The value of income continuation — and the accompanying peace of mind — becomes clearer following an extended leave. Workers who have direct experience with disability insurance are more likely to feel that their company cares about them by offering benefits that improve their financial wellness.

Being there when it counts[34]

Percentage who strongly agree with each statement

- Used disability benefits
- Have not used disability benefits



For many workers who have used their disability insurance benefits, positive attitudes toward their employer translate to increased loyalty. Workers who experienced a disability leave and received insurance payments are nearly 40% more likely to want to stay with their current employer for 10 or more years compared to those who experienced a disability leave without insurance.

Disability benefits contribute to loyalty[35]

Percentage who prefer to stay with employer for 10+ years

43%
Have used disability benefits

29%
Have not used disability benefits

Employees in a return-to-work program come back to work 1.4 times — or 3 to 4 weeks — sooner than injured employees who did not participate in a program.[36]

Following a disability leave, workers may feel anxious about returning to work. Return-to-work (RTW) programs are important in helping workers deal with this anxiety and prepare to transition back to the workplace. The most popular accommodations include modified work schedules, job restructuring, and new/modified equipment.

Helping employees return to work[37]

Percentage who used RTW accommodations

Modified work schedule
28%

Job restructuring
19%

Acquiring/modifying equipment (e.g., desks)
11%

An effective RTW program can have a significant impact on the overall disability leave experience. Among workers who felt well supported in returning to their job, 70% believe that their company cares about them compared to about 50% on average — and 20% who had a negative experience. Research also shows that a positive RTW experience has a favorable impact on employee morale and retention,[38] which is especially important in today's tight labor market.

Preventing the income shortfall — and reducing risk for Americans and their families with disability insurance

Disability insurance has a handful of myths and misconceptions working against it, from the "not-me" mindset creating a false sense of security to confusion around its central purpose as income protection to a drop in employers covering its full cost — or offering it at all as part of their group benefits package. These factors have contributed to a coverage gap that is trending in the wrong direction and that keeps individuals and their families at risk for lost income in the event of an illness, injury, or long-term condition.

An educated employee is a protected employee

- The role of disability insurance as income replacement may not always be well understood. Employees can benefit from education around what disability insurance really does — protect income — and how it differs from workers compensation, Social Security, and medical and accident insurance.
- When workers are aware of the actual likelihood of experiencing an income-disrupting illness, injury, or condition, they are better equipped to understand the benefits of disability insurance.

Clear communication around disability insurance is key

- Complex, jargon-filled language can be alienating and keep people from obtaining the coverage they need. Individuals respond well to consumer-friendly language that clearly illustrates the benefits of disability coverage.
- Stories go a long way. Sharing testimonials and lessons learned from people who successfully benefited from their disability coverage can be an impactful way to demonstrate the need and value of income protection.
- Consumers — especially millennial and Gen Z workers — show an appetite for improved access to digital channels and mobile applications.
- Personalized communications are preferred, with tailored messaging by age, gender, life stage, or income.

Employer-based disability insurance is most effective when it's connected to other benefits and resources supporting return-to-work

- Employers should periodically review disability insurance plan design and coverage adequacy given changing workforce demographics and needs.
- Workers benefit from having access to the right resources at the right time, so an integrated health management process that includes other benefits like EAPs and vocational rehabilitation can produce better return-to-work results.
- It's important that employees receiving disability benefits understand their responsibilities and the requirements of the claim submission process, and employers can help set clear expectations about obtaining benefits.

Appendix

Methodology and sample characteristics

The Guardian 12th Annual Workplace Benefits Study was fielded in January and February of 2023 and consisted of two online surveys: one among benefits decision-makers (employers) and another among working Americans (employees), allowing us to explore benefits issues from both perspectives. Survey data collection and tabulation were managed for Guardian by Zeldis Research, an independent market research firm located in Ewing, New Jersey.

Employer survey

Employer results are based on a national online survey of 2,000 employee benefits decision-makers. Respondents include business executives, business owners, human resources professionals, and financial management professionals. The survey covers all industries and is nationally representative of US businesses with at least five full-time employees. For the purposes of this report, small businesses were defined as having fewer than 1,000 employees.

Data shown in this report have been weighted to reflect the actual proportion of US businesses by company size, based on data from the US Census Bureau. The margin of error at the 95% confidence level is +/- 2.2%.

Employee survey

Employee results are based on a survey conducted among 2,000 employees age 22 or older who work full time or part time for a company with at least five employees. The survey sample is nationally representative of US workers at companies of at least five employees.

Data shown in this report have been collected in a way to reflect the actual proportion of US workers by gender, region, race, ethnicity, education level, household income, age, and employer size, based on data from the Bureau of Labor Statistics and the Census Bureau. The margin of error is +/- 2.1% at the 95% confidence level.

Guardian's Workforce Well-Being Index™ (WWBI) measures consumer attitudes in three core areas: financial wellness, physical wellness, and emotional wellness, and ranks them on a 10-point scale.

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