

Chapter 3. Long-term Disability

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Long-term Disability

Long-term disability benefits provide income replacement for employees who become disabled and unable to work for an extended period of time. Long-term disability is a non-work related or work-related condition that prevents the employee from performing the full duties of the job for an extended period of time. A work-related disability is the result of an occupational illness or injury that occurs on the job and the cause is determined to be work-related under the Virginia Workers' Compensation Act. Long-term disability benefits begin at the expiration of the maximum period of short-term disability of 125 work days.

While on long-term disability, employees continue to accrue service as a VRS-covered member.

Long-term disability is in effect when the employee:

- Is not working at all; or
- Is working at the employer earning less than 80% of the pre-disability income.

LONG-TERM DISABILITY INTRODUCTION PACKET

Reed Group sends a long-term disability introduction packet to the employee when it appears likely the disability will continue. The packet includes a letter encouraging the employee to use Allsup, the free Social Security assistance provider. The packet also includes forms that Reed Group uses to transition the employee into long-term disability status and should be returned to Reed Group or the employer, as instructed. The documents include:

- Long-term disability Repayment Agreement;
- Authorization for Release of Medical Information;
- VLDP Outside Earned Income Reporting;
- W-4; and
- Request for Health Insurance Credit.

INCOME REPLACEMENT

During long-term disability, Reed Group provides income replacement of 60 percent of the pre-disability income, including any salary increases received while on short-term disability.

Example: An employee's pre-disability income was \$5,500 per month. Her long-term disability benefit would be \$5,500 times 60%, or \$3,300 per month.

Income replacement is 80 percent for a catastrophic condition. See the Disability Conditions section for more information.

If the employee's workers' compensation claim is approved, it becomes the primary benefit. The employee will receive $66 \frac{2}{3}$ of his average weekly salary at the time of the disability, within limits established by the Workers' Compensation Act. The VLDP benefit is offset by the workers' compensation benefit.

CONTRIBUTIONS

An employee receives service credit during the period of long-term disability, based on the pre-disability income.

During periods of long-term disability, the employee and employer no longer make contributions. However, if the employee is totally and permanently disabled and qualifies for Social Security Disability Insurance (SSDI), the employer must continue to make the mandatory 1 percent employer contribution to the Hybrid 401(a) plan.

EMPLOYMENT STATUS

Creditable service is earned during periods of long-term disability and counts towards the five years required for vesting and towards VRS service retirement. Service cannot be purchased during periods of long-term disability.

During the first 24 months of disability, an employee is considered to be in long-term disability status when he is not able to perform all of the essential functions of the original position on a full-time basis. After 24 months of disability, an employee is deemed disabled if he meets at least one of the following conditions:

- Unable to perform the essential functions of any job for which he is qualified; or
- Earns 80 percent or less of his creditable compensation.

SOCIAL SECURITY DISABILITY BENEFITS

An employee who is going into long-term disability is required to apply for SSDI benefits, if Reed Group advises it.

Reed Group provides Social Security filing assistance through Allsup at no cost to the member. If the member does not use this service, his VLDP long-

term disability benefit will be reduced by an estimated Social Security benefit amount during the Social Security application process.

WORKERS' COMPENSATION

Work-related long-term disability benefits are coordinated through VLDP and workers' compensation.

Workers' compensation is the primary benefit. VLDP benefits are secondary and are offset by payments received under workers' compensation. VLDP supplemental payments will not exceed 60 percent of the employee's pre-disability income (80 percent if catastrophic), adjusted for any wages and salary from employment.

An employee cannot take service retirement until all workers' compensation benefits have been paid and offset.

See the Workers' Compensation Adjustments section to determine how the VLDP payment is offset.

TAXES

The benefits paid under non-work related long-term disability are fully taxable. Benefits for work-related long-term disability are not taxable.

DISABILITY CONDITIONS

If it is determined that the disability is catastrophic, the 60 percent income replacement level may be increased to 80 percent for the duration of the disability. Reed Group will consult with the employee's licensed treating healthcare professional and determine if the employee's condition is catastrophic and when the 80 percent disability payments begin.

A disability is determined to be catastrophic if an employee requires substantial supervision to protect the employee from threats to health and

safety as a result of severe cognitive impairment or is unable to perform at least two of the six activities of daily living (ADL). These activities are:

- Bathing;
- Dressing;
- Eating (ability to feed oneself);
- Controlling the bladder or bowel;
- Toileting (ability to get on and off the toilet and a reasonable level of personal hygiene); and
- Transferring (getting in or out of bed or chairs).

If the employee's condition improves so he no longer meets the criteria for catastrophic disability, but is still on long-term disability, the income replacement returns to 60 percent of the pre-disability income.

Successive Periods of Long-term Disability Due to the Same Condition

If the licensed treating healthcare professional releases the employee to return to work full-time, full-duty and he becomes disabled again from the same or similar condition within 180 consecutive calendar days, the disability is considered to be a continuation of the prior disability. The employee goes on long-term disability with no waiting period.

If the employee is released to work full-time, full-duty from the licensed treating healthcare professional, but becomes disabled again from the same or similar condition after 180 consecutive calendar days, the subsequent period will be considered a new claim. The employee must initiate a new claim with Reed Group and satisfy the seven-calendar day elimination period.

ADJUSTMENTS TO DISABILITY BENEFITS

Long-term disability benefits are adjusted by any benefits payable as a result of the same disability. The employee cannot receive more than one hundred percent of his pre-disability income.

Long-term disability benefit payments will be reduced by the amount of income from the following sources:

- Wages and salary received from employment. Wages and salary include income reported on W-2 forms and income from self-employment;
- Disability payments from the Social Security Administration or other similar government program benefits that the employee or his family is entitled to as a result of the qualifying disability;
- Benefits paid under any other governmental disability program, including local government disability benefits, or federal civil service benefits that are paid for the same disabling condition;
- Benefits payable from any other employer-sponsored group insurance contract for the purpose of providing income replacement for the same disabling condition (does not include any disability insurance purchased directly by the employees); and
- Benefits paid under any compulsory benefits law, such as workers' compensation or unemployment compensation.

Note: Cost-of-living increases received in payments from sources listed above will not be considered in the offset of the VLDP benefit.

Disability benefit payments are offset by any amount from any of the above payment sources, whether or not the employee receives the payments. This includes cases where the employee is denied benefits and fails to appeal the denial. However, any benefits that are denied on an appeal that was requested by Reed Group will not reduce the employee's disability payment.

Benefits under some of the programs listed above that have been applied for, but not yet approved, will not reduce the employee's disability benefit until the approval has been obtained and the benefits from the other program begin. If the benefits from other programs are made retroactively, appropriate adjustments will be made to collect the overpayment.

Earned Income Adjustments

Benefits are adjusted by any salary and wages from employment during the first twelve months the employee receives disability benefits, based on the income level the employee receives under VLDP.

Example: The employee's pre-disability income is \$5,500 per month. He is working 50 percent of his normal hours, earning \$2,750 per month.

\$5,500 (pre-disability income) x 60% = \$3,300 (disability benefit)
 \$2,750 (earned wages and salary from employment) x 60% = \$1,650
 \$3,300 - \$1,650 = \$1,650 (adjusted long-term disability benefits)

The earned income of \$2,750 added to the adjusted long-term disability benefit of \$1,650 gives the employee \$4,400 of income from the combined sources.

After the first twelve months, benefits are adjusted by 70 percent of wages and salary from employment.

Example: The employee's pre-disability income is \$5,500 per month. He is working 50 percent of his normal hours, earning \$2,750 per month.

\$5,500 (pre-disability income) x 60% = \$3,300 (disability benefit)
 \$2,750 (earned wages and salary from employment) x 70% = \$1,925
 \$3,300 - \$1,925 = \$1,375 (adjusted long-term disability benefits)

The earned income of \$2,750 added to the adjusted long-term disability benefit of \$1,375 gives the employee \$4,125 of income from the combined sources.

Benefit Overpayments

Employees are responsible for reporting any additional income to Reed Group using the Other Income Reporting Form (for long-term disability) included in the VLDP introductory packet. Employees who are overpaid are required to repay any overpayment to Reed Group. Reed Group may also choose to collect interest on the overpayment amount.

The employee may also be responsible for repayment of payments due to:

- Falsification of statements;
- Falsification of any record knowingly made by or on behalf of the employee; or
- The employee's failure to make any report of change in disability status.

This recovery may be made in one of the following ways:

- As an offset of future VLDP payments due to the employee;
- By payment from an employee's refund;
- By payment from an employee's life insurance benefit;
- By offset to the employee's retirement benefit; or
- By action of law against the employee.

Reed Group sends the employee a letter including a calculation of the overpayment. Unless the overpayment is returned to Reed Group, the employee's benefits are applied to the overpayment until it has been paid. Reed Group may recover the overpayment through increments taken from future benefit payments or the employee may pay the amount in full.

Workers' Compensation Adjustments

If the disability is work-related and the employee is receiving a workers' compensation benefit, the workers' compensation benefit is paid first. Lump-sum settlements under workers' compensation are prorated over the period during which the employee receives the VLDP disability benefit. Payments made under the Workers' Compensation Act for permanent partial disabilities and medical, legal or rehabilitation expenses are not included in determining the prorated amount.

Example: An employee receives \$600 a week under workers' compensation. He accepts a lump sum settlement amount of \$12,000, which includes a payment of \$6,000 to cover both medical and legal expenses. Subtracting the medical and legal expenses from the \$12,000 yields a net lump sum payment of \$6,000. This net lump sum of \$6,000 is divided by the \$600 per week payment he would have received if he had not accepted the settlement ($\$6,000 \div \$600 = 10$ weeks).

The VLDP supplemental benefit would apply as though the weekly workers' compensation benefit was being paid for a period of 10 weeks. After the 10 weeks, the full VLDP benefit would be paid at the appropriate income replacement level.

9-, 10- AND 11-MONTH EMPLOYEES

If the employee transitions into long-term disability before the end of the contract period, he remains on long-term disability benefits the same as any other employee as long as the disability continues to be certified for benefits. Reed Group will continue to work with the employee upon return to work, if feasible, but the return will not be to the employee's pre-disability position if there was a non-renewal of the contract.

MISCELLANEOUS

Holiday Pay While on Disability

For an employee on long-term disability who is earning less than 80% of his pre-disability income, he'll receive 60 percent or 80 percent (depending on the employee's benefit income level as of the holiday) for the hours he does not work on the holiday, provided the disability absence is authorized.

END OF LONG-TERM DISABILITY

Long-term disability benefits end when the employee:

- Is able to perform the full duties of the pre-disability job without any restrictions during the first 24 months of disability;
- Is able to perform the regular duties of any job for which he is reasonable qualified after 24 months of disability or earns 80 percent or more of the pre-disability income;
- Takes a refund of the VRS contributions and interest from the defined benefit component of the Hybrid Retirement Plan¹;
- Is no longer medically eligible;
- Resigns from employment;
- Is terminated from employment for cause;
- Does not cooperate or comply with the requirements of VLDP;
- Begins to receive a VRS service retirement benefit; or
- Dies.

¹ See the VRS Employer Manual, Chapter 7, Refunds.

Note: An employee is not allowed to take service retirement while receiving workers' compensation benefits.

Employees who fail to comply with the VLDP requirements during long-term disability periods, such as return-to-work arrangements or vocational rehabilitation, may have benefits reduced to at least 50 percent and cease entirely. The employee may also be subject to disciplinary action, up to and including termination from the program and from employment.

If the employee dies during long-term disability, his survivor may be eligible for death in service benefits. The survivor should contact your human resource office for more information about death-in-service survivor benefits.

RETURN TO WORK

The employee will continue to receive the VLDP disability benefit while working under a return to work program and making less than 80 percent of his pre-disability income. However, the VLDP benefit will be adjusted by any income earned while in the program.

On-site Medical and Vocational Rehabilitation

Reed Group may require an employee to participate in a rehabilitation plan while receiving long-term disability benefits. The goal is to assist the employee with rehabilitation and a safe return to gainful employment. When an employee goes on long-term disability, it may not be possible to return to the same job because the previous position may no longer be available.

The plan may be either:

- A medical plan prescribed by the licensed treating healthcare professional; or
- A vocational rehabilitation plan or return to work plan coordinated by Reed Group or a rehabilitation services provider.

The plan must be consistent with the licensed treating healthcare professional's recommendations regarding the employee's ability to return to work.

The following will be taken into consideration when the vocational case manager assists the employee with writing and implementing his own formal vocational rehabilitation plan:

- Physical/mental capabilities;
- Educational background;
- Work history;
- Transferable skills;
- Pre-disability wages and salary;
- Interests; and
- Aptitudes.

If the employee does not comply with vocational rehabilitation services, his long-term disability benefits may be reduced by at least 50 percent or stopped. In addition, the employee may be subject to termination from the program.

RESPONSIBILITIES

Each of the following key parties work to make the disability process as easy as possible and return the employee to work, as soon as he is medically able.

Employee

Throughout the period of long-term disability, an employee must comply with any medical or vocational rehabilitation requirements that Reed Group has established, reporting to Reed Group any outside income received, and communicating with his supervisor. The employee:

- Signs and returns information sent by Reed Group;
- Completes the Health Insurance Form to continue coverage, if applicable;

- Complies with return to work initiatives;
- Complies with assigned vocational rehab and/or other rehab services.

Employer

Employers are responsible for helping employees during the transition from short-term disability to long-term disability. The employer:

- Pays the employee for any annual, compensatory or overtime leave (dependent upon employer's leave program);
- Communicates benefit information to the employee;
- Communicates that the job is or is not being held;
- Provides the Health Insurance form to the employee, if applicable;
- Discontinues paying short-term disability benefits; and
- Discontinues reporting the employee to VRS.

Licensed Treating Healthcare Professional

The employee's licensed treating healthcare professional plays an important role in helping the employee return to work. The licensed treating healthcare professional:

- Receives a copy of the medical release form;
- Provides medical information to Reed Group;
- Participates in planning for the employee's rehabilitation; and
- Works with Reed Group, employer and employee with return to work.

Reed Group

Reed Group, the third party administrator for VLDP, serves as the coordinator of the long-term disability process. Reed Group:

- Mails long-term disability packet to employee;
- Obtains medical information;
- Approves or denies claim;
- Pays employee directly for long-term disability benefits and the health insurance credit, if applicable; and
- Reports employee to VRS.