CRC BENEFITS

Disability Income and Wage Inflation: Closing the Coverage Gap

WHY DISABILITY INCOME COVERAGE DESERVES A FRESH LOOK

Employee benefits are meant to provide security during life's unexpected moments, but disability income protection has struggled to keep pace. Rising wages, particularly in professional industries and high-cost metro markets, are exposing cracks in traditional long-term disability (LTD) plans. Employees may assume they are fully covered, only to learn too late that their benefits fall well short of their earnings.

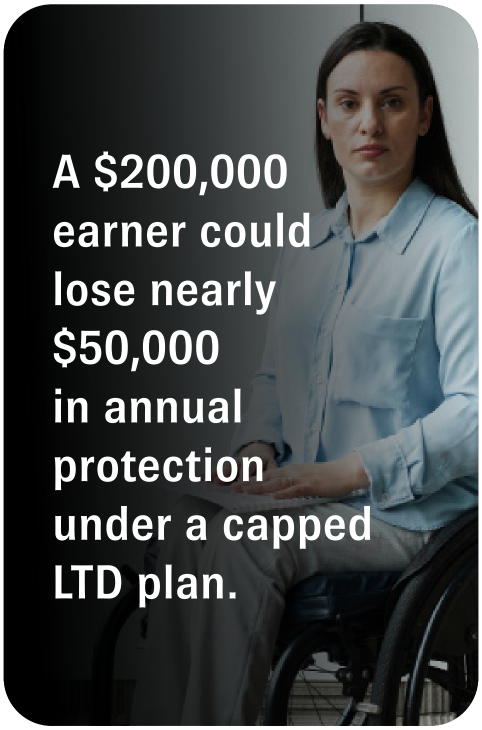
This represents a critical inflection point for brokers. Underinsured incomes not only create financial hardship for employees but also weaken the overall value of an employer's benefits program. Recognizing and addressing these gaps provides brokers with a chance to deliver real value by protecting employees, enhancing employer retention, and standing out in a competitive benefits environment.

UNDERSTANDING THE BASICS

Before diving into today's challenges, let's revisit how disability income protection is designed:

- **LTD (Long-Term Disability):**
  Generally replaces 60% of pre-disability earnings, subject to a monthly cap, often $6,000. Benefits typically last to retirement age if the employee remains disabled.
- **IDI (Individual Disability Insurance):**
  Supplemental coverage layered on top of LTD. Sometimes referred to as Executive Disability or Guaranteed Standard Issue, these policies are designed to protect higher incomes.
- **Group Plan Limitations:**
  LTD benefits are intended to replace only a portion of income. However, the monthly maximum benefit is a fixed number, meaning higher earners may see far less than 60% of their income replaced once they hit the cap unless actively marketed and updated to protect key employees.

On paper, these structures make sense. In practice, they increasingly fail to keep pace with today's wage environment.



THE MATH BEHIND THE GAP

Here's the challenge. Consider a professional earning $200,000 annually. On a standard LTD plan covering 60% of income, that employee would expect $120,000 per year in benefits, or $10,000 per month.

But if the plan caps coverage at $6,000 per month, the actual replacement falls $4,000 short every month. That adds up to nearly $50,000 annually in lost income protection.

This isn't a fringe scenario either. In industries like technology, law, engineering, architecture, or healthcare, six-figure salaries are common, even among small employers. The more wages rise, the wider the gap becomes.

And the stakes are high. An unexpected disability is one of the most common financial risks employees face. Studies have shown that more than one in four of today's 20-year-olds will experience a disabling event before reaching retirement age.[1] Without adequate income protection, even short-term disruptions can erode savings and long-term stability.

Today's LTD caps were set a decade ago, yet wages have surged 15% in just three years.

WAGE INFLATION AND ITS RIPPLE EFFECTS

So why is the coverage gap expanding? In a word: inflation.

The COVID-19 pandemic reshaped the labor market, and wages rose sharply as employers competed for talent. From 2020 to 2023, U.S. private-sector wages grew by more than 15% overall. Certain industries, such as healthcare and professional services, saw even higher growth as demand for skilled labor surged.[2]

While overall inflation cooled in 2024, the upward pressure on wages has not reversed. Employers in high-cost-of-living markets must continue offering competitive salaries to attract and retain employees. The Bureau of Labor Statistics reported that real average hourly earnings grew at an annualized rate of 4.2% in early 2025, still outpacing adjustments made in many benefit structures.[3]

According to national data, median wages in metropolitan areas such as San Francisco, New York, Boston, and Seattle exceed $100,000, with San Francisco averaging closer to $110,000.[4] This means half the workforce in those markets would already exceed the threshold where a $6,000 monthly LTD cap leaves them underinsured.

In high-cost markets like San Francisco and New York, half of workers already outpace traditional LTD coverage.

Importantly, these caps were set more than a decade ago, when far fewer workers exceeded the thresholds. In today's wage environment, what once worked is no longer sufficient.

WHY SMALL BUSINESSES FEEL IT MOST

You might assume that only large corporations with high executive salaries face this issue. In reality, small businesses are often the hardest hit.

Group LTD underwriting guidelines tend to tighten as group size shrinks. Employers with fewer than 50 employees, and especially those with fewer than 10, face stricter benefit caps. These are precisely the types of clients most brokers serve in the GA and ASD space.

Think of the five-person dental practice down the street, a boutique law firm, or a growing engineering startup. These businesses often employ highly compensated professionals, but their LTD options remain capped at outdated benefit levels. For these employers, the underinsured income problem is not the exception, it's the rule.

HOW THE MARKET IS RESPONDING

Some insurers have started to modernize their underwriting to reflect current wage realities, allowing for higher maximum monthly benefits in the small group market. Supplemental products such as IDI are also gaining traction as a way to close the gap.

Others, however, have been slow to adapt. They continue applying caps that were designed 10 or 15 years ago, without accounting for regional salary differences or accelerated wage inflation. The result is an uneven marketplace where employers and brokers need to be especially vigilant.

Without proactive planning, employees in San Francisco may be left with the same maximum benefit as those in smaller, lower-cost markets, despite dramatically different salary levels.

WHY THIS CREATES OPPORTUNITY FOR BROKERS

Disability income protection may not always get the same attention as medical or dental coverage, but that's precisely why it offers a competitive edge. By raising awareness of coverage gaps and offering strategies to address them, brokers can:

- Enhance client retention by bringing forward solutions that go beyond the basics.
- Strengthen employer value propositions by protecting key employees whose income is most at risk.
- Differentiate themselves from competitors who may be slow to spot the issue.

FOUR STRATEGIES TO STRENGTHEN COVERAGE:

- **Leverage IDI/Executive Disability**

  Offer supplemental policies that layer on top of group LTD. IDI provides higher earners with the protection they expect, often with group pricing advantages.

- **Educate Employers on the Math**

  Show how capped benefits translate into real shortfalls. Using salary-based examples makes the impact tangible for decision-makers.

- **Position Disability Coverage as a Retention Tool**

  High-value employees want benefits that safeguard their financial security. Offering supplemental disability coverage demonstrates a commitment to employee well-being.

- **Advocate for Modernized Plan Designs**

  Where possible, push carriers to update underwriting or explore alternative products that expand maximum benefits.

LOOKING AHEAD

Wages will likely continue to rise, even if inflation cools. Benefits cannot afford to stand still. As long as traditional LTD plans remain tied to outdated benefit caps, underinsured income will persist as a growing challenge. Employers who ignore the issue risk leaving their most valuable employees financially exposed. Brokers who proactively address it, on the other hand, can deliver a consultative edge that strengthens both client relationships and revenue opportunities.

For small businesses, outdated disability caps are the rule, not the exception.

BOTTOM LINE

Disability income protection has not kept pace with today's wage environment. For too many employees, LTD plans cap out before covering the majority of their income. That disconnect creates risk for employees and opportunity for brokers.

By pairing LTD with supplemental solutions, educating employers on wage-driven gaps, and advocating for modernized coverage, brokers can help clients build stronger, more resilient benefits programs.

Want to explore how disability income solutions can strengthen your client strategies? Connect with your CRC Benefits team today.

CONTRIBUTORS

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END NOTES

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