



# Demystifying Disability

## Nuts and bolts on partial benefits

The impact of illness or injury on a person's ability to work can range from no effect on productivity to complete inability to work. This wide scope creates the need for some flexibility in disability benefits.

### All or nothing ... or something

For the full benefit, insurers usually define disability at a point where the impact is significant i.e. for employees who need financial assistance because they have become totally unable to work.

Some of the claimants become productive again through rehabilitation, training, new technology, adaptations at the workplace, etc. In line with sound work rehabilitation practice, one should allow for a return to work transition period before the benefit stops.

When an employer and employee agree on return to work on a basis of reduced time or reduced tasks, the salary is usually adjusted to reflect the lower level of output. If this plan is based on remaining health problems that limit the employee's productivity, the insurer comes to the party by providing a top-up for the income earned.

### Doing the sums

When calculating such a partial benefit, the underlying principle is that the employee should be better off financially when working than on a disability income.

### Let's look at an example.

Salary before disability	R10 000 per month
75% disability income benefit	R7 500 per month
Adjusted salary on return to work	R6 000 per month

The partial benefit will be based on the income lost i.e. 75% of the old salary minus the new salary. In this case 75% of R4 000 is R3 000.

On returning to reduced work the claimant now receives a salary of R6 000 plus a partial benefit of R3 000 per month, giving a combined income of R9 000.

In practice the calculation is a bit more complex, especially if the employee has been disabled for a while. Given the effect of inflation, basing the partial benefit on the salary at disability will be unfavourable for a claimant. To get around this, the partial benefit is calculated as the full disability benefit less the benefit based on the new salary. Using the above example, the partial benefit would be R7 500 less 75% of R6 000 (R4 500), which also comes to R3 000.

The actuarial calculation may seem a bit more complex but allows for the necessary inflationary adjustments.

### One lump or a half?

This approach can also be applied to lump sum disability benefits. For example, the full benefit is typically paid when the employee has become permanently unable to work in the open labour market on the other hand the partial benefit is paid when the employee can no longer work at the same company.

This creates flexibility in the lump sum context and helps facilitate a career change between companies. To keep communication and calculations simple, the partial benefit in the case of lump sum benefits can be a set percentage of the full benefit, e.g. 50%.

### Conclusion

The partial benefit is an additional product feature, which requires a separate assessment and benefit calculation based on somewhat different information.

So, whether you choose monthly income or lump sum cover, always opt for some flexibility, as occupational disability is not an all or nothing situation.