

# Salary Continuation Disability Insurance

*High Limits for the Top  
Income Earners of the Firm*



A formal salary continuation plan helps employers avoid key tax issues, and proper funding of a plan with insurance avoids a potential major liability for the firm.



**PETERSEN**  
International Underwriters  
*Lloyd's Coverholder*



## **SALARY CONTINUATION HIGH LIMIT DISABILITY INSURANCE**

A formal salary continuation plan states that in the event an employee becomes disabled and can no longer work, the company will continue paying his or her salary for a specific period of time. A salary continuation plan makes a great deal of sense because without one in place any payments made to a disabled employee may be deemed a dividend from the company, creating a significant tax consequence.

Helping the disabled employee provide for his or her family is a nice gesture on the part of an employer, however, for the company it can be financially tough since they are paying an employee who is no longer contributing to the success of the firm. Removing this financial burden can be done by purchasing disability insurance. However, if an employee's income exceeds the income replacement limits of the traditional disability insurers, this will place an unrealized liability on the books of the company. Petersen International Underwriters' Salary Continuation High Limit Disability Insurance Plan is designed to solve this problem. This insurance protects the disabled employee by insuring he or she will receive their promised income in addition to protecting the company from taking a significant financial loss.

### Take The Case Of...

Mr. B owned a very successful manufacturing firm. He has a salary continuation plan in place that provides 60% of income to be paid during the first 12 months of disability for all Class II employees. But the Class I employees have been promised 100% of their income to be paid for up to 24 months if they were to become disabled. Mr. B and 3 other highly compensated executives of the firm fall into this class. The group LTD plan the firm has provides a 60% replacement of income up to a maximum of \$10,000 per month, which works fine for the Class II employees, but leaves the firm significantly short on the funding for any of the Class I employees. The shortfall of benefit funding from the LTD plan would be \$15,000 - \$35,000 per month which would have to be paid from the firm's own funds.