

Unum - SSDI - COLA and Overpayments by Linda Nee

I apologize in advance if this subject becomes a bit technical. However, over the last several months several questions have been raised regarding the repayment of SSDI overpayments when the policy pays a COLA (Cost of Living Increase).

Cost of living increases are not to be confused with “indexing” since they are two separate policy provisions. “Indexing” is always associated with the calculation of partial earnings when insured return to work in some capacity. If you haven’t returned to work part-time “indexing” provisions won’t pertain to you.

COLAs are different policy provisions from indexing and pay additional percentage benefits based on the “net benefit” defined as gross monthly benefit minus all offsets. ERISA group COLAs are compounded as well. Claimants are eligible to receive COLA payments after the first anniversary of paid benefits.

Let’s take a look at an example. Suppose your gross monthly benefit is \$2,500 per month, but you were also awarded \$1,500 in SSDI benefits which are offsets from your monthly benefit. Your policy also has a five year COLA provision of 4%. After the first year of paid benefits the calculation of your monthly benefit would be as follow:

Gross benefit	\$2,500
Less SSDI offset	<u>\$1,500</u>
Net Benefit	$(\$1,000 + (\$1,000 \times 4\%)) = \$1,040$

An easier mathematical way of looking at this is: $\$1,000 \times 1.04 = \$1,040$

The next year the calculation would be: $\$1,000(1.04)(1.04) = \$1,081.60$

The third year and so on: $\$1,000(1.04)(1.04)(1.04) = \$1,124.86$

The problem with SSDI, COLA and overpayment comes into play when claimants sign Payment Option Forms selecting to receive 100% unreduced benefits while SSA is evaluating applications for benefits.

While waiting, Unum pays claimants unreduced benefits + COLA (based on a gross benefit of \$2,500 because as yet there are no offsets).

Once SSA approves SSDI, Unum must then go back and recalculate “what it should have paid” using “net benefits” for COLA calculations. This always results in claimants having to repay amounts greater than what they received from SSA for back pay.

The solution, of course, is for claimants with COLA in their group policies to opt for estimated reductions for SSDI on the Payment Option Form. Not many people choose this option because they need the extra money.

In the end, however, claimants will be asked to repay Unum an overpayment greater than what they received from SSDI. The reason? Unum's COLAs are always calculated from "net benefits", not gross benefits. Therefore, if you opt for unreduced benefits while SSA is evaluating your claim, any COLA paid will be based on "gross benefit" since there is no offset.

Please note Individual Disability Income COLAs are calculated much differently and usually are NOT compounded. Each month the COLA percentage is applied against the benefit indicated as the "scheduled amount."