

About Disability Insurance

Individual disability insurance is truly a basic concept. It is an insurance product designed to replace anywhere from 45-60% of your gross income on a tax-free basis should a sickness or illness prevent you from earning an income in your occupation.

Every disability insurance policy from every insurance company is very different; this is not a product to simply shop for the most competitive rate. To buy the cheapest disability insurance policy on the market is to throw money away. The odds of getting paid a monthly benefit under a cheap contract may be significantly lower than receiving benefits from a quality contract.

The goal of this article is to provide you with a resource to make an educated decision on your own. It will provide you with information regarding the major features of a disability insurance policy so that you may better understand how to read a disability insurance policy.

All of the information on these pages is geared toward white collar occupations. Individual disability insurance for blue-collar occupations is attainable through most carriers; however there are some carriers and contracts that specialize in providing coverage to blue-collar occupations not discussed in detail here.

Definition of Total Disability

Here you will learn how a disability insurance policy pays your claim. Every disability insurance plan has a definition of total disability in the policy. You should always know the exact language of this definition before you own anything. There are three basic types:

1. Own-Occupation Disability Insurance

The most comprehensive definition of total disability available in the market!

This type of policy will have a definition that says because of a covered sickness or accident you have:

The inability to perform the material and substantial duties of your regular occupation, the insurance company will consider your occupation to be the occupation you are engaged in at the time you become disabled, they will pay the claim even if you are engaged in some other capacity in a different occupation.

Many people will choose to fight their disabilities. They will refuse to sit at home and collect a monthly disability check. Instead, as long as they are not severely disabled, most people choose to go back to work in some capacity to give themselves a sense of self worth, or just to go do something everyday.

Own-occupation disability insurance is the only plan that does not penalize somebody for going back to work in a different occupation while on a claim. Under this type of plan, the bottom line is - if because of a sickness or injury you can not perform in your occupation, you will be considered totally disabled, even if you choose to do something else.

2. Income Replacement Insurance

This has become the most common type of disability coverage in the industry today. This type of contract contains a definition of disability that is referred to as **Modified Own/Regular Occupation**.

Most insurance carriers that have stopped offering own-occupation disability insurance, or only offer it as a rider to select occupations, have moved to this type of income replacement insurance. You will find the first part of the total disability definition is very similar to an own-occupation definition, but it is with the second part that the major change occurs. A typical income replacement definition will look something like this:

Because of sickness or injury you are unable to perform the material and substantial duties of your occupation, and are not engaged in any other occupation.

As you can see there is a major difference between an income replacement (Modified Own/Regular Occupation) and an own-occupation definition of total disability.

The income replacement definition will impact your benefits during a claim if you make the decision to go back to work, or earn another source of gainful income while on a claim. Most people, if given the choice, would go back to some work if possible. Under this plan if somebody wants to go back to work in some capacity, the insurance company will offset your monthly benefit check. This is why every Disability Contract should be purchased with a Residual Rider if available. This Rider is discussed later.

3. Gainful Occupation Coverage

This definition of total disability is very common in an employer sponsored Group Long Term Disability insurance policy, or with property and casualty insurance companies that decided to release a disability insurance policy. It is quite simply the least secure definition available and should be - at the very least - supplemented with a quality contract if you hold a Group LTD Contract with this definition. A typical definition will look like this:

Because of sickness or injury you are unable to perform the material and substantial duties or your occupation, or any occupation for which you are deemed reasonably qualified by education, training, or experience.

Could somebody be forced to go flip burgers at McDonalds under this definition of total disability? Probably not, but it does leave it open for litigation and interpretation. You should be buying disability insurance so that you do not have to worry about your income if you can't do the material and substantial duties of your occupation. Going with this type of disability insurance policy is an inexperienced decision, and should be examined with an eye toward an own-occupation plan. Many people who simply shop for the best disability insurance rate end up with this type of coverage.

Note: This does not hold true for those in the Blue-Collar Market. For one, an Own Occupation Definition will never be found for those in these occupations and it is never a good idea to go with nothing because you cannot get the very best! Secondly, most Gainful Employment Contracts contain a Regular Occupation Definition for the first two years and then move to any occupation. Sometimes you can even purchase a rider that will extend the Regular Occupation Definition out to 5 years. So do not be discouraged without doing your research. There are plenty of excellent options out there.

Renewability of Disability Insurance

The first aspect of any disability insurance policy one needs to understand is the renewability feature. There are three basic types of renewability on the market today.

1. Non-Cancellable and Guaranteed Renewable

This is the strongest possibility as far as renewability goes. It guarantees that after you place a policy in-force that there will be no changes to your premium schedule, your monthly benefits, or your policy benefits. The disability insurance company cannot change a thing unless you want them to. Many people do not have a guarantee that their income will never go down again!

With a Non-Cancellable policy, even if your income goes down later in life and you become totally disabled in the future, the company will pay you the total disability benefit you originally placed in-force with them. Under a Non-Cancellable policy even if you changed jobs from being a white collar, low-risk occupation to a professional weight lifter, the company could not change your benefits for the worse. Quite simply, there is no reason to go with an individual disability insurance policy that is not Non-Cancellable and Guaranteed Renewable.

The important part to remember is when it comes to the Guaranteed Renewable part of this contract that it allows you to continue your coverage on a year-to-year basis if you choose to work beyond the retirement age of 65.

2. Guaranteed Renewable

This type of renewability feature is a step down from Non-Cancellable and Guaranteed Renewable. The basis behind the definition says that an insurance company will probably not change anything about the policy, **but they can !**

They can change the premium by state, policy year, or occupational class with approval from the state.

The thing to be aware of with this type of contract is that your Insurance Commissioner is responsible for your well-being, not the Insurance Companies. There hasn't been a time when a state has allowed for such a rate change to occur but the possibility does exist. Thus, if you can purchase a Non-Cancellable and Guaranteed Renewable product then do it!

3. Conditionally Renewable

The worst option of the three, a conditionally renewable policy offers you as a consumer virtually no guarantees for your disability insurance policy. Different companies have different conditions for you to renew your insurance every year, but the only guarantee you can get is that the conditions may very well be hard to meet at the worst possible time. **Stay away from these policies!!!**

Residual Disability Insurance

A significant percentage of all disability insurance claims either start or end in a residual claim. The basis of a residual claim is that a person is still actively engaged in their occupation, but because of a sickness or injury is:

- **Suffering a loss of time and duties and/or**
- **Suffering a loss of income of at least 20%**

As you can see there are two major types of a residual claim. One is based on a loss of income only, and one is based upon a loss of time and duties. Residual disability provision, which is based on loss of income, is better. The bottom line to residual claims should be that the insurance company will continue to pay until income is back up to what it was before the disability. Under a loss of time and duties claim they generally stop paying a residual claim once you are back to work full time.

Some carriers will move you to a recovery benefit once you are back to work full time under the time and duties claims, but this is usually only for a specified period of time; any where from 6 months to 3 years.

A residual disability provision based on income is like having an unlimited recovery benefit, and protects a person from a claim like the following:

Let's assume this person is in sales, or a small business owner. Assuming they are totally disabled for a period of six months to a year, does anybody think that when they come back to work their income will jump up to what it was before they were disabled? The answer is likely to be no. They may have to come back to work for longer hours, and work even harder to get back the clients they lost while they were away, and get new business in the hopper. Then maybe, several months later, they could hope to increase their income towards the previous level. The bottom line is that people may be residually disabled for a much longer period of time than they are totally disabled.

Recurrent Disability

A recurrent disability is exactly as it sounds. You are disabled once, recover, then have a recurrent disability. You will find that most contracts have a recurrent disability provision built in. The average provision will say something like this:

"For a recurrent disability, within six months, from the same or related cause, the insurance company will waive the elimination period."

The recurrent disability insurance provision is designed to make sure that a person does not have to go through more than one elimination period within a certain period of time.

It is important for you to know that the 6-month, same or related cause definition is the generic definition. This period is found in most contracts but you may find longer ones out there. A recurrent disability provision is more important than one might think. Many times people will simply think of this as a miscellaneous feature that is not as important as some of the other features like Non-Cancellable, and Own-Occupation.

Once something goes wrong with the human body to cause a disability, this tends to set off a chain reaction of events. Condition Y will cause the human body to develop condition X over the next few years.

Elimination Period

The elimination period is a fairly easy choice to make. The elimination period is the period of time between the onset of a disability, and the time you are eligible for benefits. It is best thought of as a deductible period for you policy.

For an individual disability insurance policy the industry has made the most attractive offer a 90-day elimination period. They will charge you with an extremely high rate if you choose to go with a shorter elimination period of 30, or 60 days. They will give you a price break if you can go longer than 90 days. Most options past 90 days are 180, 365, and 720-day elimination periods. It is important that you understand once the elimination period has been satisfied; you receive actual benefit checks at the end of the month. In reality a 90-day elimination period means you are four months away from getting any claims dollars on a disability insurance claim.

There is only one thing to watch out for

There are some policies on the marketplace that require an elimination period be satisfied with a total disability only, or with consecutive days of disability. Never own a contract that does not allow an elimination period to be satisfied with either a residual, or a total disability. Also make sure they have an accumulation period so that you can finish your elimination period in the shortest amount of time.

Benefit Period

The first thing to go over is to define a benefit period. Try to explain what it is, and even more importantly, what it is not.

A benefit period is the period of time you are eligible to collect benefits while on a disability insurance claim. If a sickness or injury occurs that prevents you from performing the material and substantial duties of your occupation, the elimination period begins.

Once the elimination period has been satisfied, monthly benefit checks will begin to come in at the end of the month. The maximum amount of months that these checks can possibly come in is your benefit period. Your benefits stop when you return to work in your occupation, or depending on the contract to another occupation for gainful employment.

The most popular choice for a disability insurance policy is **To Age 65**. Almost 90% of policies are put in-force with this benefit period. The bottom line is if you are permanently disabled your last benefit check is on your 65th birthday. Obviously the lifetime benefit period will be more expensive, but often it is not much more expensive than the to age 65 policy. For those of you looking to save premium dollars on your disability insurance, a five year benefit period will cover the average length of disability which is about 3.2 years

Possible Benefit Periods		
Lifetime		Benefits
To	age	70
To	age	67
To	age	65
5		years
2 years		

(1985 CIDTA).

A two-year benefit period is not recommended unless you already have another policy that has a two year elimination period or you just can not afford to pay for anything else.

Remember, something is better than nothing!

Presumptive Disability

The definition of presumptive disability varies among contracts. Some contracts do not even have a presumptive disability insurance provision. The basic idea of presumptive disability is to protect against drastic disabilities that occur suddenly. They generally protect you against the loss of hearing, sight, speech, or the use of any two limbs.

This provision is built into most contracts. The main differences are in the definition language, specifically in the words, Total, Permanent, and Irrecoverable. A total loss of sight, speech, hearing, or the use of any two limbs is a lot different from an irrecoverable or permanent loss.

Total losses protect you from temporary loss of site, speech, hearing, and broken limbs. An irrecoverable loss is just that, the disability must be permanent. All contracts that have a presumptive disability provision pay first day benefits for these losses.

Optional Riders for Your Policy

There are many different names for basically three important optional riders you can choose on a disability insurance policy. The major riders you can choose from are:

1. Cost of Living Adjustment

Often referred to as a COLA rider, this rider only kicks in if you actually go on a disability insurance claim, and then only if the disability lasts for more than one year. Depending on the percentage option you elected when you took out the policy, it will increase your monthly benefit every year while you are on a claim along with the CPI up to the maximum you elected. It is quite often the most expensive rider available on a disability insurance policy.

This option is not recommend to people over the age of 42. It is designed to protect you against inflation. After age 42 you are not as much at risk for inflation as you were in your younger years. It is recommended your save your money here unless you are younger, and must have this option because a permanent disability would devastate you.

2. Future Increase Option

This is an optional rider offered by most carriers to protect your future earnings. Without this rider, or an automatic increase rider, there is no way to protect your future earnings. A disability insurance policy by itself only protects the amount of income that one makes at the time they take out the policy. It does not grow automatically unless you have this, or an automatic increase rider. This rider locks in/guarantees your insurability for a certain period of time (normally to age 55). So as you increase in age, and increase your income level, you can increase your monthly benefit regardless of any health changes.

Usually the only thing you need to provide when increasing your monthly benefit is a copy of the most recent tax return to prove your new income level. But the most important thing this rider protects is all the money you may make in the future. The worst thing that could happen to you is to take out a small disability insurance early on in life, with no future increase option. Then ten years down the road there is a change in your health history that prevents you from getting any more disability insurance.

3. Automatic Increase Rider

This is a simple rider that serves a simple purpose. It increases your total monthly benefit each year for about five years. Your premium will go up with this rider each year because you are buying more disability insurance coverage. Generally they give you about a 25% increase in coverage over five years.

The idea is to have your coverage increase with inflation over time without you having to pay attention to it. In terms of recommending this rider, it is simply a choice for you to make. If you want your coverage to increase, then get it.

Policy Exclusions

There is some fine print in many disability insurance policies that some agents will not address with you. Every disability insurance policy does not have the exact same fine print; so again, it is vital that you read through a specimen disability insurance policy before purchasing a plan.

2-Year Max for Mental & Nervous, Drug & Alcohol

This is the most common limitation within a disability insurance policy. Not every company has this limitation within the policy; there are companies that put NO limitation on claims caused by drugs, or mental and nervous disabilities.

Exclusion for payment of claims if caused during a crime

One piece of advice for consumers is to pay attention to this aspect of a disability insurance proposal during a sale. Many disability insurance carriers that have a 2-year limitation do not emphasize this on the proposal.

You may see a tiny notation that says, "2 Yr. M&N". This means the two-year limitation for mental, nervous, drugs, and alcohol is on that policy. As stated above, not every disability insurance company has this limitation. While it is quite common, it is recommended you to seek out coverage that does not contain this limitation.