

Understanding Disability Insurance

The statistics are frightening. During our lifetimes, we're more likely to become disabled than to die. Yet most of us plan for the likelihood of death by purchasing life insurance, but not for the probability of becoming disabled. Ask yourself, if you were unable to work, how long could you survive financially without an income? Do you have substantial savings, investments, home equity, or understanding relatives? Maybe. But for those who don't, *disability insurance could be the means of financial survival.*

Protecting **Your Future**

Disability insurance (DI), sometimes referred to as **income protection**, is exactly that—protecting your ability to earn a living. If you become sick or hurt and unable to work, you'll receive payments (based on your particular policy) from your insurance company, which will help you continue paying living expenses such as rent, mortgage, car payments, food, insurance, utilities, medical expenses, and more. You could also have additional medical costs associated with your disability that medical insurance won't cover. Suffering a disability is devastating enough physically and emotionally. Don't add financial devastation to an already stressful situation. Anyone who relies on their ability to work to earn a living should purchase disability insurance.

DI Terminology

Policy benefits can vary, so it's important to understand what your options are. Read your intended policy carefully and don't be afraid to ask your agent questions. Agents want you to make an informed decision. Remember that benefits vary according to each company so ask specifically about what is offered.

Here are some terms you'll want to familiarize yourself with:

- **Benefit amount** is the portion of your salary covered by your particular policy. Generally, you'll find coverage available for between 45% and 75% of your salary, with some restrictions in place for salaries over \$100,000.
- **Benefit period** is the length of time you will receive payments from your insurance company and will vary based on your policy. Generally, you can choose from six months, one, two, five and 10 years, or to age 65.
- **Elimination period**, or waiting period, is the amount of time between the beginning of the disability and the date you qualify to begin receiving benefits. Generally you can choose from 30, 60, 90 or 180 days. Under some conditions, longer elimination periods may be available.
- **Own occupation**, or "own occ," is a feature built into the definition of total disability. The ability to perform specific activities related to your occupation is an important consideration. Ask what the definition of total disability is for the policy you are considering.

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- **Guaranteed renewable** policies mean the policyowner has the right to renew the policy through a certain age (generally age 65) by paying the premiums on time. The insurer cannot cancel the policy or change the policy benefits during the guaranteed renewable period. However, the insurer does retain the right to change premiums in a given rating class if it does so for all policyowners in the class.
- **Noncancelable** policies mean the policyowner has the right to renew the policy each year, usually until age 65. During the noncancelable period, the insurer cannot cancel the policy or change the policy benefits. Further, the premiums cannot be increased.
- **Riders** are additional benefits that you can purchase with your policy. The following are some examples:
 - A **Guaranteed Insurability Option** allows you to purchase additional disability insurance without proof of medical insurability if your income increases beyond what is currently covered by your insurance.
 - A **Surrender Value Rider** returns all premiums paid, minus any benefits paid over the life of the policy at age 65. This option offers you a win-win situation— protection if you need it, and money back if not.
 - The **Activities of Daily Living Rider** pays an additional benefit for catastrophic disabilities. With this rider along with the base policy benefits, you can replace up to 100% of your income.

Other **Disability Coverage**

Some other types of coverage are available to those who qualify for benefits.

Group disability is available from some employers. This is a great benefit for employees, but generally does not convert, or converts to a smaller percentage of coverage when you change jobs. In addition, benefits received under these plans may be limited and may be taxable to you if the employer is paying the premium. An individual policy will move with you throughout your career. Typically, purchasing an individual plan can supplement a group plan. Check with your Human Resources Department to see if your company offers group benefits and if so, for how long and how much.

Social Security benefits are available if you have worked in jobs covered by Social Security and meet Social Security's definition of disability. Benefits are based on several factors such as the age you became disabled, the amount of work credits you have and your earnings. The caveat is that it's very difficult to qualify for Social Security benefits. Even if you do qualify, the amount you receive may not be enough to cover your living expenses. To find out more about Social Security benefits go to the website at www.ssa.gov.

Worker's compensation is another form of disability benefit. Most employers are required to provide coverage. However, worker's compensation only pays if you are hurt on the job.

How Much Coverage?

You can determine your level of coverage by adding all of your personal monthly expenses together. Remember, disability insurance only covers a percentage of your salary, therefore it's a good idea to insure yourself for the maximum allowed. The price of disability insurance is generally about 2% to 3% of your income. Any benefits you receive are tax-free if you pay premiums with after-tax dollars.