

Disability Insurance 101

Protect Your Most Valuable Asset

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What is This Guide?

The Council for Disability Awareness is a nonprofit organization dedicated to educating Americans about the risk and financial affect of illness, injury, sickness, or accident, and the importance of having a financial plan.

There are a variety of insurance products available that replace a worker's income if they are not able to work due to an illness, injury, sickness, or accident. With so many types of policies to choose from, each with their own features, jargon, and limitations, insurance can be very confusing.

This guide is here to take the confusion away, and to help workers decide what might be right for them.

What's Covered in This Guide?

1. Who should buy disability insurance?
2. Income replacement insurance products
3. Types of disability insurance
4. Premiums
5. Plan options

While this guide covers many of the fundamental aspects of disability insurance and will help you understand why, how, and what of choosing the right policy, it should not be a substitute for talking with your HR/benefits manager or financial advisor to help you make a smart decision on your unique disability insurance needs and how you can best protect your income.

Who Should Buy Disability Insurance?

Anyone who depends on their earned income for financial security.

Income Replacement Insurance Products

There are a variety of types of insurance products that will replace my income if you can't work due to illness or injury.

Disability Insurance	Covers many conditions that fall under a general definition of disability. Several different types which we will cover later. Broadest type of coverage.
Critical Illness Insurance	Policy will list the different illnesses that are covered.
Cancer Insurance	Only covers disability resulting from cancer.
Accident Insurance	Only covers disabilities that are caused by accidents.

This guide does not cover critical illness, cancer, or accident insurance in great detail, due to the amount of variety in the marketplace. If you are considering one of these products, many of the same rules of thumb apply—what is covered, when do benefits start and end, and how much of your income is replaced.

The main focus of this guide is “disability insurance,” or the products that replace a portion of worker’s income if they can’t work due to illness or injury. There are a variety of different types. Generally speaking, a disability insurance policy will cover a greater variety of conditions than the other types listed above.

Types of Disability Insurance

There are several different types of disability insurance coverage:

A. Employer paid “group” coverage

1. Short Term Disability (STD)
2. Long Term Disability (LTD)

Employers often (but not always) offer both of these types of coverage, with short term disability benefits kicking in first and then being replaced by long term disability benefits for long term illnesses or injuries.

B. Employer-sponsored coverage paid for by the employee: Sometimes known as “worksite” or “voluntary” plans)

C. Individual Disability (ID) coverage: Purchased and paid for outside the workplace)

These are the primary options available for purchasing disability insurance, but there may be others available through association membership.

Which of these types of policies is best for me?

Your options will be dictated partly by whether your employer offers disability benefits. If they provide employer-paid coverage, there’s unlikely to be a reason not to sign up, and you may be automatically enrolled.

Even if your employer offers coverage but you have to pay the premiums yourself, it’s likely to be more affordable than individually purchased coverage, and may also have less extensive underwriting requirements.

If you don’t have coverage at work, or if you determine that your employer plan does not fully meet your needs, you may want to purchase an individual policy. This comes with additional benefits—you’ll be able to keep your policy if you leave your job for any reason, and you’ll have more control over what options are included in the plan. But an

individual policy is generally more expensive and will be subject to medical underwriting.

One final consideration: If your employer pays the premiums, it's important to note that your benefits, should you become disabled, will be subject to income taxes. If you pay the premiums yourself, generally your benefits would be tax free.

In general, only you and your trusted financial advisor can decide what type of coverage is the best for your situation.

Premiums

There are several factors which affect the cost of premiums:

- A. **Age:** Premiums are generally lower the younger you are
- B. **Health history:** The more medical problems you've had in the past, the more potential causes of a future disability claim. You may pay higher premiums, find it harder to buy insurance, or even be denied a policy.
- C. **Occupation:** If your job carries a higher risk of injury, or is more physically demanding, you will generally pay higher premiums than those with less dangerous or less physical jobs.
- D. **Current income:** The higher your current income, the higher the amount of money you would expect to receive in benefits, which means your policy will be more expensive.
- E. **Key plan options selected:** See the next section for the different plan options. Typically, opting for additional or more generous benefits will result in higher premiums.

Plan Options

There are five main factors you should look for when evaluating your plan:

- A. **When payments for a disability would begin (elimination period):** Most long term disability policies do not begin paying benefits immediately—the time you must wait for benefits to begin is known as the “elimination period” or “EP.” The most common elimination period lengths are 30 days, 90 days, or six months after a disability occurs.

Generally speaking, a longer elimination period will mean a lower premium, so it's best to get the longest elimination period you think you can survive without an income.

- B. How long payments would last (maximum benefit period):** Similarly, your policy will also specify the maximum length of time benefits can last. Typical options are two years, five years, 10 years, or until retirement. The longer the maximum benefit period, the higher the premium will be, but the better you'll be covered against life's eventualities.
- C. How much of your income would be replaced:** A disability insurance policy will typically not replace all of your income. Your insurer will want to maintain a financial incentive for you to return to work. Policies typically range from 40 percent to 65 percent of your pre-disability earnings at the time of purchase.

If you earn commissions and bonuses, these are normally not included.

It's also important to consider whether the policy has scope to increase benefits in the future, due to inflation or your income increasing. You can add a cost-of-living adjustment to a policy that increases by a specified percentage after each year of disability. While this option is often expensive, it can be vital to maintain your standard of living if you're out of work for a long period of time.

- D. What disabilities are covered (definition of disability):** Every policy will have a "definition of disability" that explains what must happen in order for you to qualify for benefits.

The critical piece of the puzzle is whether a disability stops you from working, and what type of work it stops you from doing.

Own occupation: A policy with an own occupation (own occ) definition will pay benefits if your disability stops you from doing the job you had at the time of disability.

Any occupation: A policy with an any occupation (any occ) definition will pay benefits if your disability prevents you from doing any work for which your education and experience are appropriate.

While many variants exist, they are generally based on one of these concepts or some combination of the two. For example, some policies are modified own occ—they pay benefits for a defined period under the own occ definition, but eventually switch to any occ.

Protect Your Income with Disability Insurance

Your ability to earn an income is your most valuable financial resource. After all, it's your income that makes your current lifestyle, your ability to take care of your family, and your future plans possible.

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