

DISABILITY INCOME INSURANCE

Disability Insurance, also called DI or disability income insurance, is a form of insurance that insures an individual's earned income against the risk that a disability will make working and income earning impossible. It includes paid sick leave, short-term disability benefits, and long-term disability benefits.

MAJOR FEATURES

DEFINITION OF DISABILITY

This is the most important feature to be considered when purchasing a policy, as it determines under what circumstances the insured will qualify to receive benefits.

- Any occupation – This is the strictest definition in use. The insured is unable to perform the duties pertaining to *any* gainful occupation.
- Modified any occupation – The insured is unable to engage in any occupation for which they are reasonably suited by education, training, experience, etc.
- Own occupation – The most liberal definition. The insured is considered totally disabled if he or she is unable to engage in the principal duties of his or her own occupation.

The harshest definition is used by Social Security and makes it very difficult for anyone to qualify for disability benefits. The main requirement you must meet in order to be eligible for Social Security Disability Insurance (SSDI) is that you are unable to work for at least twelve months. This is looked as an inability to perform any "substantial gainful activity." Because of this, individuals should be cautioned against relying on Social Security for their disability protection.

ELIMINATION PERIOD

Sometimes called the waiting period, this is the period of time after the disability occurs and before benefit payments begin. It acts like a deductible, as the insured must cover any expenses on their own before benefits begin. Elimination periods of 30, 60, 90, 180, and 365 days are generally available, and longer periods entail lower premium payments.

PROBATION PERIOD

This should not be confused with a policy's elimination, or waiting, period. The probation period is the amount of time during which the individual policy must be in force before the insured is covered for specified perils or illnesses.

MAXIMUM BENEFITS

Insurance companies limit their losses in two ways:

- Maximum benefit period – Some policies may have benefit periods limited to specified number of years, over a lifetime, or until the insured's Social Security full retirement age.
- Maximum monthly benefit payment - It is rare for any policy to pay the full amount of the beneficiary's regular salary. Generally, it will pay a specified percentage, such as 70%, or a fixed amount, regardless of one's compensation.



BENEFIT PERIOD

A benefit period is the period of time an individual is eligible to collect benefits while on a disability insurance claim. Once the elimination period has been satisfied, benefit payments begin. The maximum amount of time one can receive these payments is the benefit period. Benefits stop when an individual is able to return to work depending on the definition of disability used.

- Short Term – Coverage usually starts anywhere from one to 14 days after an individual suffers a condition that leaves them unable to work. Benefits usually last three to six months, but some policies can provide coverage up to two years.
- Long Term – Coverage begins after an elimination period, and benefits are then paid for a specified period. Benefit periods include two years, five years, up to age 66, up to age 67, and for an individual's lifetime. The most common benefit period is to age 66, as this is when Social Security benefits begin.

RENEWAL PROVISIONS

The renewal provision is one of the most important aspects of a disability insurance policy. This tells the insured how long they can expect coverage to continue, assuming premiums are paid as due.

- Noncancelable – This guarantees the same coverage year after year. Not only can the insured renew the policy for the full term specified, but the company cannot change the premium from what is stated.
- Guaranteed renewable – The insured has the right to renew the policy for the full term specified. However, the company can change the premium amount if they change it for the entire policy class.
- Conditionally renewable - The insurer can add extra conditions or restrictions anytime or even increase premiums.

INFLATION PROTECTION

Inflation protection comes in the form of a rider, often referred to as a Cost of Living Adjustment (COLA) rider. The policy's benefits will increase while you are on a claim in accordance with the Consumer Price Index (CPI). Many insurers restrict the increase to a maximum percentage per year, and a company may also put an upper limit to the maximum benefit paid.

TAXATION OF BENEFITS

Disability insurance benefits are generally taxed in one of two ways, depending on how the premiums were paid. Benefits on individual policies, not part of a group plan and paid for by an individual, are usually not taxed, as premiums were paid with after-tax dollars. Benefit payments from group policies, where premiums have been paid by the employer, are generally taxable to the employee. If premium payments are paid partly by the employer and partly by the employee, then benefits will be taxable in relation to the percentage of premiums paid by the employer.

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