

Disability Income Insurance

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Overview

What is your biggest asset? Some people may think it is their house or car, but for most people, their biggest asset is their ability to earn an income.

Here is an example. Assume that you are 30 years old and earn \$30,000 per year at your job. If you also assume that your earnings will increase at 3 percent per year, and you plan to retire at age 65, you will earn \$1,898,278 in your working career. Obviously, being able to work is a large asset.

Now assume that you become injured and you are unable to work. Your income will drop and your expenses will rise, which means you will go into debt.

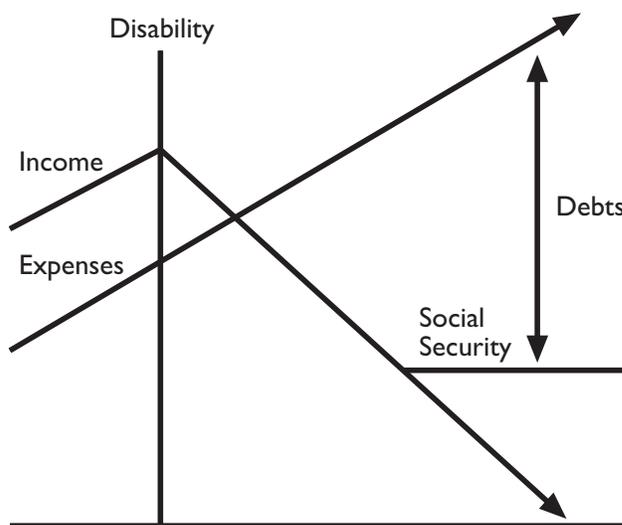
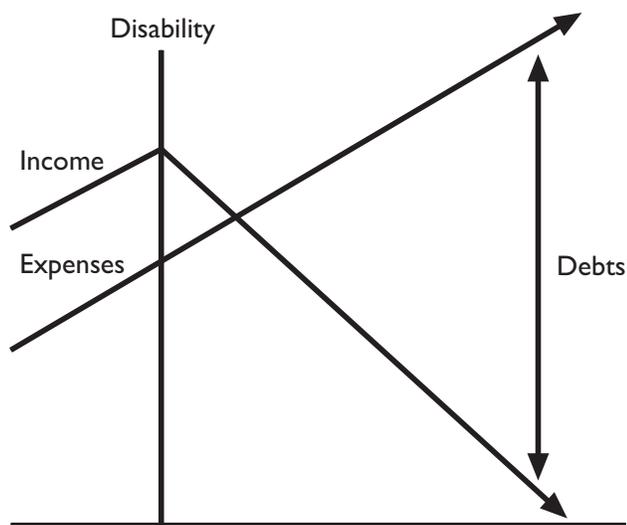
This may be a pretty scary thought, but there are ways to protect your income if you become injured. One way is with disability income insurance.

The purpose of disability income insurance is to partially replace your income if you are unable to work because of sickness or an accident.

Types of Disability Insurance

The government provides some disability coverage, known as social insurance programs. These include:

- **Workers' compensation programs** – This is insurance that employers are required to have on their employees. It covers workers who get sick or injured while on-the-job. However, if you are not injured while working, this program will not apply. Check out the federal Office of Workers' Compensation Programs website at http://www.dol.gov/esa/owcp_org.htm or the Virginia Workers' Compensation Commission website at <http://www.vwc.state.va.us/>.
- **Social Security disability** – pays benefits to you and certain members of your family if you are “insured,” providing you have worked long enough and paid Social Security taxes. Check out the Social Security Online “Disability Programs, Benefits for People with Disabilities,” website at <http://www.ssa.gov/disability/>.



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Important Things to Know

Social Security has a very strict definition of disability. It will pay no benefits for a partial or a short-term disability. Social Security will consider you disabled if:

- You cannot do the work you did before and it is decided that you cannot adjust to other work because of a medical condition. In addition, your disability must last or be expected to last for at least a year or result in your death.

To qualify for Social Security disability benefits, you must have worked long enough and recently enough while paying into Social Security. You can earn up to a maximum of four work credits per year. Generally you need 20 credits earned in the past ten years, ending with the year you become disabled.

Also be aware that if you do receive benefits under Workers' Compensation, your Social Security Benefits will be reduced.

Because of the difficulty in qualifying for Social Security disability benefits, it is wise to use other methods to protect yourself from the risk of a disability.

Employer Provided Benefits

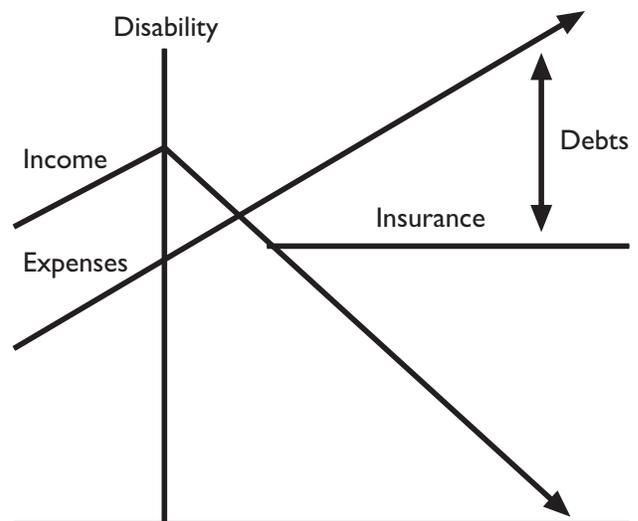
You may have employer-provided benefits; however, not all employers offer these plans. Check with your company's human resources department to see if you are covered by any of these plans, which include:

- **Sick leave plans** – these plans allow you to take time off from work when you are ill. Sometimes, employers will still pay you for a certain period of time while you are on sick leave.
- **Short-term disability income insurance plans** – these employer-provided benefits may pay you all or some of your current income if you are unable to work for a short time, usually from 180 days to two years.
- **Long-term disability income insurance plans** – these employer-provided benefits may provide you with a portion of your current income if you are unable to work for a longer period of time than a short-term policy will cover. These benefits may vary. Plans may cover you for two years or possibly until you are age 65.

Individual Disability Income Insurance

It may be possible that your employer does not offer any disability protection plans, and due to the nature of your injury, you may not qualify for any of the social insurance programs. If this is the case, or your current employer-provided protection will not provide you with enough income to meet your family's needs, you may want to talk to an insurance agent about an individual disability income insurance policy.

An individual disability policy is the best way to protect your income from the risk of a disability. An individual policy will usually only allow you to insure 50 percent to 70 percent of your income. There is a limit because insurers do not want you to make more money when you are disabled than when you are working. If you did, there wouldn't be much incentive to return to work when you are able.



While individual policies may cost you more in premiums when you pay the premiums yourself, disability benefits are not taxed. (Benefits from employer-paid policies are subject to income tax.) You may also keep your individual disability policy as you move from job to job. You will need to check with your human resources department to see if your employer-paid policy can be converted to an individual policy if you change jobs.

Most disability insurance companies will offer short-term and long-term individual disability policies. Think about how long you will need benefits if you are disabled. Many people believe that having both short and long-term protection is important to their financial security.

Here are some things to keep in mind when shopping for an individual disability policy.

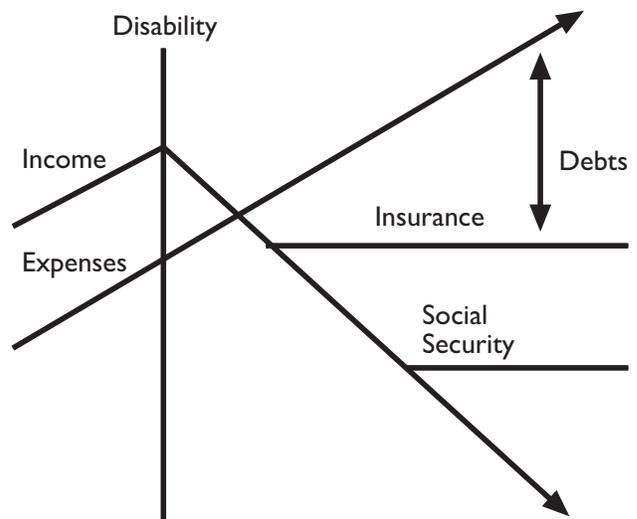
- **Premiums** – You will need to make premium payments for an individual policy. These premiums will be based on your age, the definition of disability, and the insurance company’s “class” for your job. Classes that the insurance company thinks may lead to a higher risk of disability may have higher premiums.
- **Definition of Disability** – A policy with an “own-occupation” definition of disability will pay benefits if you are unable to work at your current job. Some insurance companies sell policies that use an “any-occupation” definition of disability. This means that you will receive benefits if you are unable to work at any job. Social Security uses the any occupation definition of disability.

Many individual policies will use a “dual definition” of disability. The policy may use an own-occupation definition for the short-term, then the definition changes to any-occupation. However, you may be able to choose (to some degree) how long your policy pays under the own-occupation definition. The longer the own-occupation definition is covered under your policy, the higher the required premiums.

- **Elimination Period** – Like employer-provided plans, individual policies generally have an elimination period (or waiting period) before benefit payments begin. Elimination periods for short-term disability policies may be zero to 90 days, whereas elimination periods for long-term disability policies may be six months to over a year. If you choose a long elimination period, then there is a higher chance that you will be able to recover and return to work before any benefits are paid by the insurance company. Because of this fact, premium payments will be less if you choose a longer elimination period.

As an example, suppose that your employer provides you with a short-term disability policy that will pay benefits for six months, but it does not provide you with any long-term coverage. Further assume that you have decided that you need to buy an individual disability policy to protect your income until age 65. Because you have short-term coverage with your employer for six months, then you may decide to use a six-month elimination period on your long-term individual policy instead of a 60-day or 90-day elimination period to lower your premiums.

- **The ability to keep the coverage** – Guaranteed renewable policies guarantee that you will be able to renew your policy to some stated age, such as age 65. With these policies, you have the right to keep the policy as long as you keep paying the premiums. Premiums may be increased on a “class” basis, but not on an individual basis.
- **Cost-of-Living Riders** – A policy with this feature will allow your disability benefits to increase to keep pace with inflation; however, the feature may also cost more in premiums.
- **Increased Predisability Benefits** – This feature of an individual disability policy will give you the right to buy additional coverage at specified dates in the future. This option may work well if you expect to be promoted or earn a higher income in the future. This option may also be a good idea if you need a higher benefit than you are able to afford when you first buy your policy but think you will be able to afford the coverage you need in the future.
- **Social Security Rider** – Because Social Security has such a strict definition of disability, you can add a Social Security rider to your individual disability policy. If you qualify for Social Security, the amount you receive from Social Security will be deducted from what you receive from the insurance company. This will lower your premium. However, you will still be able to collect from your own policy if you meet the definition of disability for your individual policy, but not Social Security.



- **Policy Exclusions** – Some types of disability are not covered by individual policies. Normally, disabilities that are the result of war or military service are not covered. Some policies exclude pregnancy and disabilities caused by travel in an aircraft.

Talk to your insurance agent about other policy features and benefits. Be sure to ask how each feature changes your premium payment. Work with your insurance agent to find a disability policy that provides you with enough protection, and that you can afford.

You can find additional information on disability insurance at the following websites:

- Life and Health Foundation – <http://www.life-line.org/>
- Insurance Information Institute – <http://www.iii.org/>
- America’s Health Insurance Plans – <http://www.ahip.org>. Type “Guide to Disability Income Insurance” in the search box.
- U.S. Department of Veterans Affairs – <http://www.va.gov/>

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