

Individual Disability Income Insurance

One approach to the problem of providing income during an extended period of disability is to purchase individual disability insurance.

Factors to Consider in a Disability Policy

- **Definition of disability:** Are education, experience, and past earnings taken into account in determining whether the insured is qualified to resume work? Many policies provide for an initial "own occupation" definition of disability, for a specified period of time, after which a different definition of disability applies.¹
- **Partial or residual benefits:** Partial or residual disability benefits may be paid in some policies when the impairment allows the insured to perform only a portion of his or her duties. This provision may also pay benefits in the event the disability reduces the insured's income by a certain amount (e.g. 20% or more) from pre-disability levels.
- **Cost of living adjustments:** Is there a cost of living adjustment (COLA) which would increase benefit payments after a disability occurs?
- **Cancelability and renewability of policy:** Except for nonpayment of premiums, is the policy noncancelable or guaranteed renewable? Noncancelable generally means the insurer cannot cancel the policy, change the policy provisions or increase policy premiums after issue, as long as premiums are paid on a timely basis. Guaranteed renewable is similar, but allows the insurance company to increase the premium.
- **Waiting and elimination period:** Is the waiting or "elimination" period proper for the insured's circumstances? Commonly available periods may include 30, 60, 90, 180 and 360 days. Naturally, the longer the elimination period one selects, the lower his or her premium payments will be. However, a person's needs, cash reserves and income sources should be the deciding factors in selecting a proper elimination/waiting period.

¹ "Own occupation" generally means the insured's current occupation. The own occupation definition of disability may not be available for all occupations or professions.

- **Benefit period:** What benefit period should be selected? Since a long-term medical disability can be financially devastating, one should elect a long-term benefit where possible. Some companies offer lifetime benefit periods, but periods as short as 24 months to 60 months are also available.

Types of Disability Contracts

Several other specialized disability contracts are available to the businessperson:

- **Business overhead expense:** Covers expenses such as staff salaries, rent, telephone, utilities, malpractice insurance, and other expenses necessary to keep a business open.
- **Key person disability:** Reimburses the business for the loss of a key employee and allows funding of temporary replacement or training of a successor.
- **Disability buyout:** Provides income to fund a buy-sell agreement triggered by the total disability of a shareholder/business owner. Payouts may come in the form of a lump sum, monthly installments, or a combination of the two.

Caution: Highly-compensated employees should be aware of payment caps in many group long-term disability policies. While some programs will provide disability income payments at 60% of salary, many have a relatively low dollar limitation, such as \$3,000 per month.

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