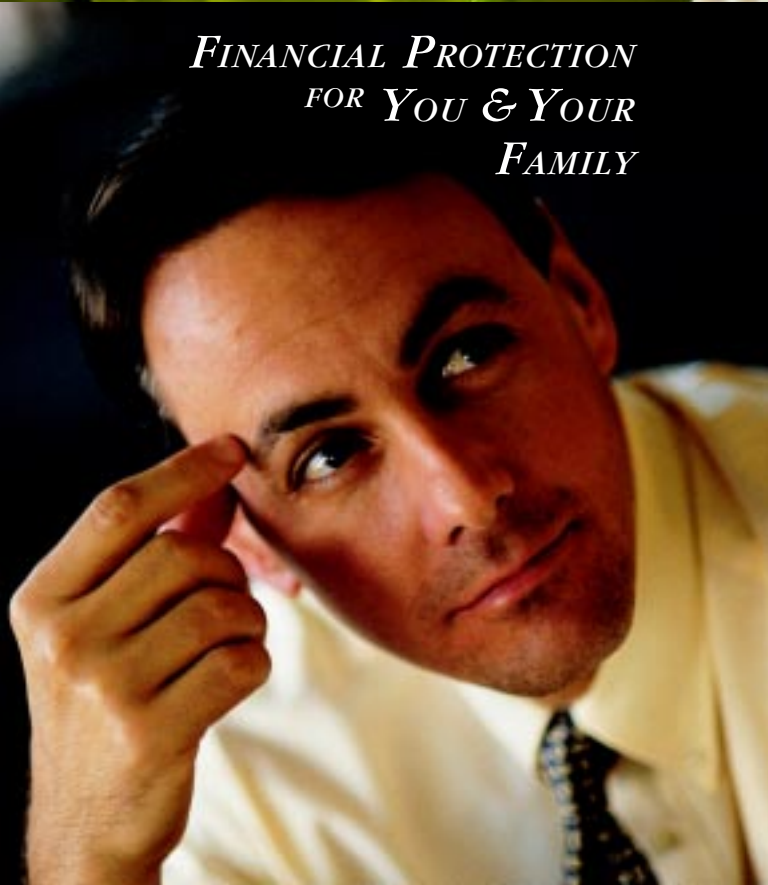




## **Long-Term Disability Income Insurance**



*FINANCIAL PROTECTION  
FOR YOU & YOUR  
FAMILY*

A serious illness or injury can harm more than your health—it can have an impact on your ability to work and meet your family’s living expenses.

Long-term disability income insurance helps you pay living expenses while you are unable to work.

It offers paycheck protection—providing cash directly to you for spending on mortgage payments or rent, groceries, utility bills, car payments, or whatever else you choose. A policy also can pay for training or other assistance you may need to return to work.

With disability income insurance, you can avoid depleting the savings you may have accumulated for your children's education or your retirement.

This guide outlines the features and costs of individual disability income insurance and offers tips and a checklist on buying the policy right for you.



## **Getting Started— Determining Your Resources**

Before purchasing an individual long-term disability income insurance policy, evaluate the benefits you may already be eligible to receive from your employer, the government, or other programs.

### **Employee Benefits**

Disability benefits from your employer may include workers' compensation insurance for work-related injuries. For short-term illness, your employer may provide sick leave, short-term disability insurance, or both. For a longer illness, lasting six months or more, your employer may provide group long-term disability income insurance.

Sick leave and short-term disability coverage from your employer can range from a few days to as much as a year, depending on your company's benefits and your length of employment.

Group long-term disability coverage through employers replaces part of your salary if you are disabled and unable to work. A typical policy replaces at least half of your salary up to a specific maximum benefit, such as \$5,000

per month. Long-term benefits begin when short-term disability benefits stop. Benefits from group long-term disability policies generally continue until either age 65 or your retirement age under Social Security, or until you are able to return to work. In some policies, benefits may also be available for a period of time after you return to work.

### **Social Security Benefits**

Social Security provides long-term disability benefits based on your salary and the number of years you have worked and contributed to the Social Security system. However, Social Security replaces only a limited portion of your salary, and the qualifications to receive benefits are very strict. To be eligible for Social Security disability benefits, *all* of these conditions must be met:

- You have been disabled for five full calendar months.
- Your disability is expected to last at least 12 months or end in death.
- You are unable to be gainfully employed at any occupation, not just your occupation at the time your disability began.

### **Other Resources**

Other programs besides Social Security aid those who have become disabled. You may qualify for:

- Workers' compensation for work-related injuries or illnesses, required in all states.
- Special disability programs for veterans injured in war, federal and state government workers, railroad employees, or miners who develop black lung disease.
- State vocational rehabilitation programs.
- Automobile insurance benefits for a disability resulting from an auto accident.
- Temporary disability programs available in California, New York, New Jersey, Rhode Island, Hawaii, and Puerto Rico.

Long-term disability income insurance provides financial protection if you become disabled. It helps pay current bills so that savings accumulated for your children's education or your retirement can remain intact.

Knowing your eligibility for disability benefits from your employer, the government, or other programs is an important first step before deciding whether to purchase disability income

coverage. Also take into account other sources of income that may be available to you: a spouse's income, short-term emergency savings, investment income, or help from your family.

If the total of these benefits is insufficient to pay your living expenses if you become disabled, or a disability would affect your long-term savings plan, consider buying an individual disability income insurance policy.

## Examining Policies

### Features of Disability Income Insurance

Not all individual disability income insurance policies are alike. Consider these features when comparing policies:

Some policies pay benefits if you are unable to perform the duties of any occupation for which you are reasonably qualified by training, experience, and education. Other policies pay benefits if you are unable to perform the major duties of your own occupation. Many policies combine these features, providing “own occupation” coverage for an initial period, such as one or two years, and “any occupation” coverage after that. Some policies also pay benefits if you become ill or injured and are

unable to earn a specified amount, such as 80 percent or less, of your income.

The amount of income you would receive when disabled varies by policy. However, benefits from all sources are usually limited to 70–80 percent of your monthly salary. Policies that pay 50–60 percent of salary are most common. Most policies do not replace commission or bonus income.

If you purchase your own policy, your disability benefits typically are not subject to income taxes. Benefits are taxed, however, if your employer pays for the disability insurance coverage.

Policies have either level premiums (intended to stay constant over the life of the policy) or premiums that increase as you age. If you plan to keep your policy in force long-term, a level premium policy may be appropriate. If you are uncertain about how long you will need the insurance, a policy with premiums that increase with age may be the better choice.

Policies have different waiting periods (called elimination periods) before you begin receiving benefits. You can lower the premiums you pay by waiting 90 days, six months, or even longer before starting to receive benefits.

If you go back to work after recovering from a disability and suffer a relapse within a specific period of time, such as six months, most policies do not impose a second waiting period.

The length of time that benefits can be received varies by policy. Some individual policies pay benefits for a specified period of time, such as two or five years, while others pay benefits until age 65 or your retirement age under Social Security.

Some policies require total disability before payment begins, while other policies cover partial disability.

Some policies pay “residual” benefits. These benefits make up for any loss of income if you are still able to work but your disability keeps you from performing all of your normal responsibilities.

Under some policies, the insurer pays for job training or other assistance you may need to return to work, such as modifications to your work environment.

Some policies offer cost-of-living adjustments in the amount paid to the insured as an optional benefit.

Most individual policies are either noncancellable or guaranteed renewable.

With a noncancellable policy, premiums can never be increased. Under a guaranteed renewable policy, premiums cannot be raised based on an individual’s circumstances, but they can be increased for an entire class of policyholders. A guaranteed renewable policy may define how a class is determined—for example, all policyholders in a state who own the same type of policy might constitute one class. Ask about the circumstances under which premiums can be raised and how classes are defined.

Most companies review an individual’s medical and financial history and consider any other disability coverage that person has before issuing a policy. Based on this information, an insurer may offer limited or modified coverage.

## Factors Influencing Cost

A number of factors determine the cost of an individual disability income policy, including:

**Age** Younger persons pay less per year for a policy than those who are older and more likely to become disabled.

**Benefit amount** Policies that replace more of an individual's salary are more expensive.

A policy that replaces 80 percent of your salary costs more than one that replaces only 60 percent of your salary.

**Benefit period** The shorter the benefit period, the less expensive the policy. For example, a policy with a two-year benefit period costs less than a policy that pays benefits to age 65, or the retirement age specified under Social Security.

**Current health status** Your health status determines whether you are eligible for standard rates or rates that are higher. A policy also may exclude from coverage any health conditions that exist before the policy is issued.

**Definition of disability** A policy that pays benefits if you are unable to perform the duties of your *own* occupation is more expensive than a policy that pays benefits if you are unable to perform the duties of *any* job for which you are reasonably qualified.

**Discounts** Many companies offer discounts for policies issued at the same time on more than one person, as well as when an employer (or association) collects the premiums for individual policies from employees and pays the insurer.

**Extent of disability** A policy that pays benefits only if the policyholder is totally and permanently disabled costs less than a policy that also pays benefits for a partial or temporary disability.

**Gender** Women usually pay more than men for an individual policy because claim costs are higher for women than men. Under a group policy, however, men and women typically pay the same rate.

**Optional benefits** For an extra premium, some policies offer additional benefits, such as cost-of-living increases or the option to purchase higher benefits in the future.

**Smoker/tobacco use** Most companies either give a discount to non-tobacco users or add a surcharge to the premium for tobacco use.

**Type of job** Expect to pay more for a policy that covers a high-risk occupation compared to a low-risk line of work.

A black and white photograph of a man in a dark suit, white shirt, and patterned tie. He is looking down at an open document he is holding in his hands. The background is a plain, light color.

## Tips on Buying Disability Insurance

### Tips on Purchasing

Examine how the policy defines a disability. Some policies pay benefits if you are unable to complete the duties of *any* occupation for which you are reasonably qualified by training, experience, and education. Others pay benefits if you are unable to perform the major duties of your *own* occupation. Some policies also pay benefits if you become ill or injured and are unable to earn a specified percentage of your income.

Ask for outlines of coverage so you can compare the features of several policies. Make sure you fully understand any policy you are considering—a policy that does not provide the protection you need is not a good buy. Features to look for in a policy include:

- Definition of disability (*own* occupation or *any* occupation; earnings test)
- Benefit amount
- Elimination period (waiting period before benefits begin)
- Length of benefit period
- Benefits for partial disability
- Replacement of lost income
- Return-to-work programs
- Recurrent disability (relapse provision)
- Cost-of-living adjustments or the right to purchase additional coverage



- Mental health/substance abuse provisions
- Noncancellable or guaranteed renewable
- Exclusions or other coverage limitations

Check that the company and agent are licensed

in your state. If you have concerns, contact your state insurance department. An online resource for contact information is [www.naic.org](http://www.naic.org), the Web site for the National Association of Insurance Commissioners (NAIC), an organization of insurance regulators from each state.

Look for a company that is reputable and financially strong. Several services rate the financial strength of companies, and rating information can be obtained from your agent and public or business libraries.

Rating agencies include:

- A.M. Best Company, [www.ambest.com](http://www.ambest.com) or (908) 439-2200.
- Standard & Poor's Insurance Rating Services, [www.insure.com/ratings](http://www.insure.com/ratings).
- Duff & Phelps Inc., [www.insure.com/ratings](http://www.insure.com/ratings).
- Moody's Investor Services, [www.moodys.com](http://www.moodys.com) or (212) 553-0377.

Ratings are free from these Web sites, but a charge may be assessed for ratings obtained by phone.

Fill out your application accurately. Always answer questions about your medical history and health completely and truthfully. If you are dishonest, the company may later be able to cancel your coverage.

Read your policy carefully to make sure it offers the coverage you need. For instance, some policies pay benefits only if you are disabled due to an accident, not an illness.

Always check the date that the insurance becomes effective.

When you purchase a policy, make your check payable to the insurance company, not the agent, and get a receipt.

After purchasing an insurance policy, you may have a "free-look" period (usually 10 days after you receive the policy) when you can change your mind. During that time, review your policy. If you decide not to keep it, the company will cancel the policy and give you a full refund.

If you have a complaint about your insurance agent or company, contact the customer service division of your insurance company. If you are still dissatisfied, contact your state insurance department.





## Pick a Policy Right for You

If you are in the market for long-term disability income insurance, [shop around](#) to compare costs. Disability income insurance is sold individually through insurance agents, or through group policies which may be available from your employer or professional organizations. Before purchasing long-term disability income insurance, find out if you have coverage through your employer. Some employers pay a percentage of your salary—generally 50 to 60 percent—if you become disabled and can't work for six months or more. Also consider other sources of income, such as your spouse's income, and whether the sum would be enough to pay your family's bills. If so, you may not need individual long-term disability income insurance.

An individual policy provides protection for as long as you continue to pay the premium. Group coverage lasts only as long as you are employed or a member of the group.

If disability income insurance is the protection you need, shop around and compare policy features before making a purchase.

Decide which features are most important to you—the cost of the policy will vary with the features you select.



Policy  
Comparison  
**Checklist** for  
— Long-Term  
Disability  
Income  
Insurance

### Checklist

Use this checklist to compare features of the policies you are considering.

Company name \_\_\_\_\_

Telephone \_\_\_\_\_

#### Definition of Disability

How does this policy define disability?

Can you receive benefits if you are unable to perform the major duties of your *own* occupation, but could still complete the duties of another line of work?

\_\_\_ Yes \_\_\_ No

How long can benefits be collected under this definition? \_\_\_\_

Do you have to be unable to complete the duties of *any* occupation for which you are reasonably qualified by training, experience, and education before you receive benefits?

\_\_\_ Yes \_\_\_ No

How long can benefits be collected under this definition? \_\_\_\_

Will the policy pay benefits if you are unable to earn a specified percentage of your salary?

\_\_\_ Yes \_\_\_ No

What is the percentage? \_\_\_\_

Must you meet two or more of the definitions, for specific periods of time, before you collect benefits?

\_\_\_ Yes \_\_\_ No

### **Benefit Amount**

Is the benefit from this policy a percentage of your regular income or a flat amount?

\_\_\_ Percentage of income at \_\_\_ percent

\_\_\_ Flat amount of \$ \_\_\_ per \_\_\_

(Policies that pay a flat benefit amount each month are common.)

### **Elimination Period**

Although some policies pay benefits immediately after the insured suffers a disability, most policies have a waiting, or elimination, period. Elimination periods can last six months or longer. The shorter the elimination period, the more costly the policy.

Considering all the resources you may have—such as a spouse’s income, emergency savings, unused sick leave, and vacation—how long can you wait before your benefits begin?

Less than one month \_\_\_

Three to six months \_\_\_

Longer than six months \_\_\_

How long is the elimination period in this policy? \_\_\_

### **Length of Benefit Period**

Policies generally pay benefits until retirement age for most disabilities, but shorter benefit periods are available at lower cost.

How long does this policy pay benefits? \_\_\_

### **Benefits for Partial Disability**

Some policies provide benefits when you have a partial disability that keeps you from doing part of your job or working full time.

Does this policy provide benefits for partial disability?

Yes \_\_\_ No \_\_\_

### **Replacing Lost Income**

Some policies provide a benefit to make up for your loss in income if you must take a lower-paying job because of your disability.

Does this policy provide benefits if your disability results in reduced income?

Yes \_\_\_ No \_\_\_

### **Return-to-Work**

Some policies have return-to-work or rehabilitation provisions that enable the insurer to pay for training, modifications to your work environment, or other services that assist you in returning to work.

Does this policy have a return-to-work or rehabilitation provision? \_\_\_\_\_  
(If a return-to-work policy provision is not listed, ask for the insurer's practice in this area.)

### **Recurrent Disability**

Most policies don't require you to wait before receiving benefits if you go back to work after recovering from a disability and have a relapse within a specified period, such as six months.

Does this policy require you to wait through an elimination period to receive benefits in the case of a recurrent disability?

Yes \_\_\_\_\_ No \_\_\_\_\_

### **Cost-of-Living Adjustments**

A cost-of-living adjustment benefit provides for periodic increases in the amount paid to the insured, usually corresponding to increases in the cost of living.

Does the policy provide this benefit? \_\_\_\_\_

### **Mental Health/Substance Abuse**

Policies usually pay benefits for a maximum of two years in the case of disabilities resulting from mental health problems or substance abuse. However, these limits usually don't apply when substance abuse or mental health problems require institutionalization.

How long does this policy pay benefits for disabilities resulting from mental health problems or substance abuse? \_\_\_\_\_

### **Noncancellable and Guaranteed Renewable**

Two types of individual policies are most common: noncancellable and guaranteed renewable. Both types can usually be renewed until age 65, and neither can be canceled by the insurer as long as the premiums are paid. Under a noncancellable policy, premiums can never be increased. With a guaranteed renewable policy, premiums cannot be raised based on an individual's circumstances, but they can be increased for an entire class of policyholders.

Is this policy noncancellable? \_\_\_\_\_

Or guaranteed renewable? \_\_\_\_\_

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