

Understanding Disability Insurance

Disability insurance is a type of insurance that provides income if a worker is unable to perform their job duties and earn money due to a disability.

There are two types of disability insurance, short-term and long-term

Short-term will typically replace a portion of the policyholder's salary for three to six months. Long-term will generally begin six months after the disability and can last years or even until retirement age.

Terms to Remember

Compare Disability Policies: When considering long-term disability policy options, there are several definitions you need to understand and benefits you should carefully compare to determine the best coverage for you.

Extent of Disability - Some policies may require you be totally disabled before paying benefits, while others may pay a partial amount, or for a limited time, if your injury restricts you from performing only part of your job – often called "partially disabled."

Disabilities Covered - The list of covered accidents or illnesses considered disabilities under the policy will vary. Some policies will only cover disability arising from accident and not illness.

Residual Benefit(s) - This coverage fills the gap in income if you are partially disabled, resulting in reduced income. This may be included in your policy or can be added as a rider.

Amount of Benefits - A typical disability policy benefit is approximately 60% of earned income pre-disability. Benefits are based on your income at the time the policy was purchased. The percentage benefit can be affected by other sources of support, such as Social Security disability payments, employer long-term disability insurance, etc.

Waiting/Elimination Period - A 30-day waiting period is common. Policies with longer waiting periods generally have lower premiums.

Length of Coverage - You will generally have an option of benefit terms ranging from one year to retirement age. Choosing a shorter time period will likely make the premium lower, but it may also mean that benefits could run out while you are still disabled.

Inflation Protection - Not all policies will take inflation into consideration. A cost-of-living adjustment (COLA) may be an option for an additional premium. Also, because your benefit payment will not increase automatically as your income rises, it may be possible to purchase additional coverage to keep up with raises or promotions.

Waiver of Premium - This waiver exempts you from paying premiums after you've been disabled until your disability ends. It is typically included in a policy.

Before you buy a long-term policy, figure out how much income you need in order to meet critical financial obligation. Know what's included in your policy. Short-term will typically replace a portion of the policyholder's salary for three to six months. Long-term will generally begin six months after the disability and can last years or even until retirement age. Disability policies vary by provider. Some may pay benefits if you are unable to perform the duties of your occupation, while others may require that your disability keep you from any gainful employment for which you are qualified.

