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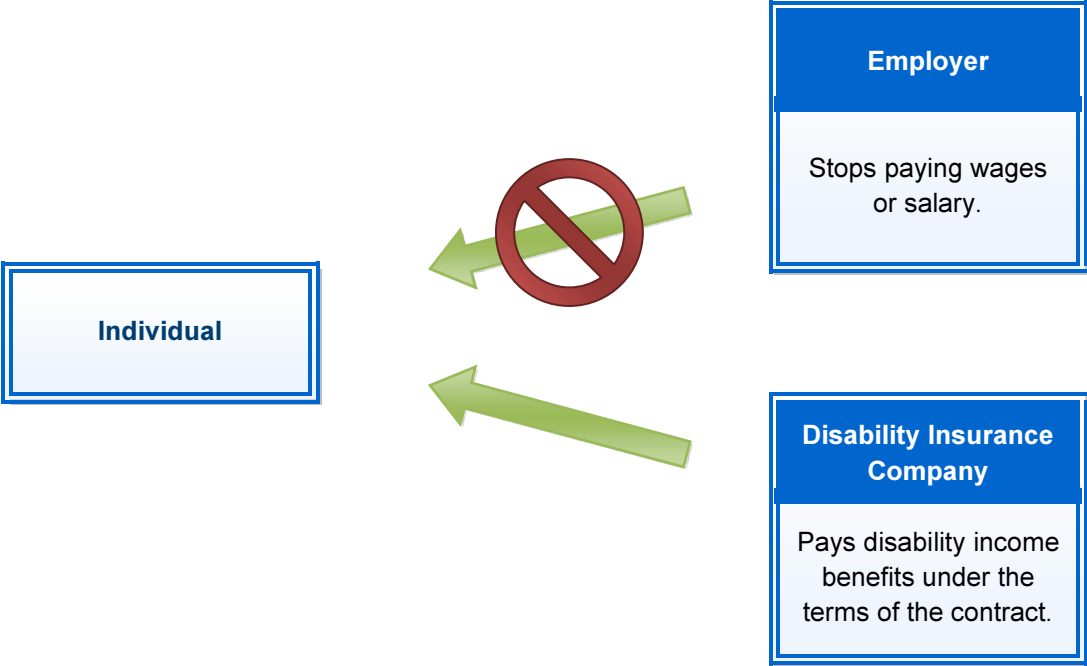
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How Individual Disability Income Insurance Works



DISABILITY OCCURS



Individual Disability Income Insurance

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



What to Look for in a Disability Insurance 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”¹ definition of disability, for a specified period of time, after which a different definition of disability applies.
- **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 adjustment:** 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 that the insurance company 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.
- **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.

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.

Individual Disability Income Insurance

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% or 66% of salary, many have a relatively low dollar limitation, such as \$3,000 per month.

The Impact of Disability

While most Americans insure their lives and physical possessions such as their homes, cars, etc., many overlook the need to protect their most valuable asset – the ability to earn an income.

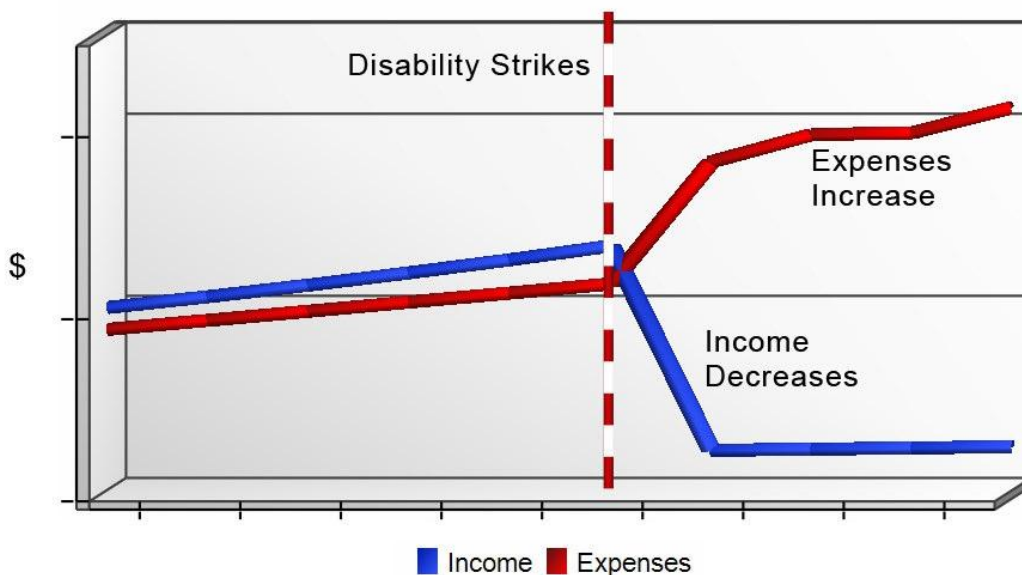
How likely is it that someone will become disabled? The table below, developed using data collected by the federal government, shows the number of working-age Americans who have a disability that affects their daily lives.

Individuals with Disabilities by Age¹

Age Range	No Disability	With a Disability
5-15 Years	94%	6%
16-20 Years	93%	7%
21-64 Years	87%	13%
65-74 Years	70%	30%
75 Years and over	47%	53%

Income Down, Expenses Up

The graph below illustrates the problem typically faced by an individual who becomes disabled for an extended period of time – income decreases while expenses increase.



¹ Source: U.S. Census Bureau, 2005-2007 American Community Survey, 3-year estimates. Table B18002, sex by age by disability status for the civilian noninstitutionalized population 5 years and over, male and female.

The Individual Need for Disability Insurance

Many people believe that their biggest asset is their home. For most of us, our biggest asset is the ability to work and earn an income. Not being able to work – due to a job loss or a disability having taken away the ability to work – is often financially devastating.

Everyone who works for a living is very familiar with what can happen if they are fired. On the other hand, the possibility of becoming seriously disabled is a risk few seem to think much about. How likely is it that you will become disabled? According to one study, 30% of all Americans between the ages of 35 and 65 suffered a disability lasting at least 90 days.¹ The risk of disability is real. The question is, “What to do about it?”

Don't Count on Social Security

A few individuals do manage to qualify for disability benefits from Social Security. However, the Social Security definition of “disability” is so strict that over 60% of initial claims are rejected.² Obviously, something else beyond Social Security is needed.

Group Disability Insurance

Many employers will provide – or make available – disability insurance on a group basis. However, even those who are covered by a group policy can still be at substantial risk. Employer-sponsored disability policies seldom provide you with more than 60 % of your monthly salary. Many policies set a monthly maximum benefit that may be far less than what some people earn. Income taxes can also be an issue; if the employer is paying the full cost of the coverage, disability benefits are fully taxable.³

Individual Disability Income Insurance

For many, the real solution to the disability problem is individual disability income insurance. Although individual policies may cost you more, as long as you pay the premiums the benefits are not taxable. Plus, an individual policy allows you to tailor its terms to fit your own needs. Factors to consider when shopping for an individual disability policy include:

- **Company strength:** You need to know if the company is financially sound.
- **Definition of disability:** Look for a policy that defines disability in the broadest terms possible. Some policies will permit you to work in a different occupation and still collect disability benefits.
- **Elimination period:** How long must you wait before disability payments begin?
- **Benefit period:** How long will you need coverage? Both short-term and long-term disability benefits are available.
- **Inflation protection:** Try to find a policy that adjusts benefits for inflation.

¹ Based upon the 1985 Commissioners' Individual Disability Table.

² General Accounting Office, Social Security Administration: More Effort Needed to Assess Consistency of Disability Decisions (Washington, D.C.: GPO, 2004), 7.

³ This discussion concerns federal income tax law only. State or local law may vary.