

Disability Income Insurance: Typical Policy Features

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At RDM, we help you coordinate what is often multiple financial goals (wealth accumulation, retirement income, legacy planning, etc.) through a maze of tax, legal and investment possibilities. It is critical to understand, develop and implement effective, long-term strategies that align with your objectives and prepare you for the future.





Disability Income Insurance: Typical Policy Features

Although there is no such thing as a standard disability policy, you're likely to see most of the following terms, conditions, and benefits included and explained in most individual disability contracts.

Definition of disability

Although no single definition of disability exists, all policies define disability either according to how an illness or injury affects an individual's ability to do his or her job or any other job (total disability) or according to how an illness or injury affects an individual's ability to earn income (residual disability). Some policies combine both definitions. One type of disability may be covered in the base contract, and the other type may be added on as an optional benefit known as a rider. Many wording variations exist that take many different situations into account, but the following examples illustrate common wording found in disability insurance contracts:

- A total disability definition that covers your ability to do your own job (own occupation coverage) might read, in part: "the inability to perform any and every duty of your own occupation," or "the inability to perform the material and substantial duties of your own occupation."
- A total disability definition that covers your ability to do any job (any occupation coverage) might read, in part: "the inability to perform the duties of any occupation."
- A residual disability definition that covers a loss of earnings might read, in part: "As a result of injury or sickness, you have experienced a loss of earnings equal to at least X percent of your predisability earnings."
- A residual disability definition that covers loss of earnings and loss of ability to work might read: "As a result of injury or sickness, you are able to perform some or all of the duties of your occupation but for less than full time, and you have experienced a loss of earnings equal to at least X percent of your predisability earnings."

Some disabilities automatically classify you as totally disabled. These disabilities, known as presumptive disabilities, include loss of two limbs; total, permanent blindness; and loss of speech and hearing.

Benefit period

The length of time you receive benefits once you become disabled depends on the benefit period that you choose when you purchase a disability policy. Common benefit periods are two years, five years, or up to age 65. Some policies even offer lifetime benefits. Disability policies are classified as short term or long term, depending on the length of benefit period that they offer. Short-term policies may pay benefits for as few as 13 weeks or as long as 104 weeks. Any policy that pays benefits for longer than 104 weeks (two years) is considered long term. In general, the longer benefit period you choose, the higher the premium you pay.

Waiting period

When you become disabled, you have to wait a certain number of days before you begin receiving benefits from your disability policy. This waiting period, known as the elimination period, varies widely. The length of this period affects the amount of premium you pay for disability insurance. The longer the waiting period you choose, the lower your premium. However, most people choose the waiting period based not only on cost but also on how long they could live off their savings or other income without receiving disability benefits.

Monthly benefit amount

To ensure that you have an incentive to return to work after a period of disability, disability insurance pays you only a portion of your normal earnings. In general, you will receive a disability benefit equal to 50 to 70 percent of your normal earnings, subject to a monthly maximum. Your benefit will be determined when you apply for your disability policy. The insurance company will consider your current earned and unearned income and other disability coverage you might have, including benefits from a group policy, Social Security, and other government-sponsored insurance. This will determine the maximum benefit coverage you may purchase. You can, of course, purchase less.

Renewability provisions

Most disability policies are classified according to their renewability provisions. The most common type of policy is the guaranteed renewable policy. According to the provisions of this policy, the insurer guarantees to renew the disability contract but does not guarantee the premium. The premium may be increased on the stated anniversary date (with prior notification) and only if the premium is increased for an entire underwriting class. Another type of policy issued is the noncancelable and guaranteed renewable policy. This policy guarantees not only that the disability contract will be renewed but also that the premium won't be



increased. This provision, which is more expensive, is becoming less common and is often available only to applicants at the lowest risk for disability.

Waiver of premium

Most policies include this in their base coverage, although some may offer it as a rider. This provision says that if you become disabled, the insurance company will pay your insurance premium for you, and your policy will remain in force until your disability period ends. You wouldn't resume your premium payments until that time.

Incontestability clause

To provide you with peace of mind that unimportant misstatements made on the application for insurance will not later be used to deny a claim, most states require insurance companies to insert an incontestability clause in their contracts. This clause generally says that after the policy has been in force for two years during your lifetime, the company cannot contest any statements made on the application.

Exclusions and limitations

Certain causes of illness or accident may not be covered under the disability policy. Some common exclusions are injuries caused by aircraft (except to passengers on scheduled airline flights), war or acts of war, suicide attempts, and normal pregnancy. In addition, if you have a pre-existing medical condition, your disability policy may exclude that condition from coverage, either forever or for a specified period of time.

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