Risk Management

DISABILITY INSURANCE

Disability Insurance

Disability is something that always happens to the other guy. I have no trouble with that thought —it shows a good healthy optimistic attitude. In fact, if one seriously believed he was fated to be one of the disabled it would be hard to function. Everything we do has some element of danger about it. If we thought we were the one destined for permanent injury it would be hard to force ourselves to fly in an airplane, go on a freeway, turn on our furnaces, use power tools and a multitude of other activities.. We would naturally want to *avoid the risk* of disability, but it cannot be done while we still live a normal productive 21st century life. We must be content to only *reduce the risk* of disability by prudent living. We can, however, transfer to insurance companies the monetary risk that may be connected with a disability. In this section we will explore the ways we can use insurance to minimize disability caused income losses.

WHAT IS A DISABILITY

There are three definitions of a disability commonly recognized by insurers.

The *own occupation* definition states that a person is considered for coverage purposes when he is no longer able to engage in the duties pertaining to the occupation for which he was trained and at which he was previously employed. This is the most lenient definition from the insured's viewpoint. Smile if your policy uses this definition!

The *any occupation* definition is stricter and makes it harder to qualify for benefits. A person must be unable to engage in any gainful occupation whatsoever. This is the definition used to qualify persons for social security disability benefits as well as being found in some private policies.

The *"split definition"* is, not surprisingly, a combination of the other two. Usually the *own occupation* definition is applied to the situation for a period of time and then the *any occupation* definition is used.

KINDS OF INSURERS

This government, through Workman's Compensation and Social Security, is the largest insurer of disabled workers. A few states, including California and New York, also have non-occupational disability benefits which provide benefits for relatively short periods of time.

Group insurance is another source of disability coverage often provided by employers for their employees.

Individual policies are available for those who are not members of a group or to supplement other coverage. Disability provisions are frequently found in pension and retirement plans and as part of other insurance policies as in auto, homeowners, hospital and life insurance. Read your policies carefully to determine the existence and extent of any disability coverage you may have missed. The worksheet at the end of this chapter will give you a clear picture of your coverage from combined sources.

WHEN DO BENEFITS BEGIN AND END

The time that occurs between the injury accident or onset of illness and the actual initiation of benefits is referred to as the elimination period. The *elimination period* for social security benefits is five months. For other coverage the time can carry from as little as seven days for illness and immediate benefit for accident, to a one-year elimination period for both accident and illness! The shorter the elimination period, of course, the higher the cost. Longer elimination periods result in savings on premiums.

Benefits can last anywhere from six moths to the insured's lifetime for accident-caused disabilities or to age sixty-five for disability due to illness. That's when pension and government benefits take up the slack.

COMMON PROVISIONS

Even though we think of disability occurring mainly as a result of accidents, coverage should definitely include disability due to illness as well. A policy covering accidents only is too restrictive and even though it costs less it does not provide adequate coverage.

Some policies have provisions requiring that the disabled person be confined to the indoors during the benefit period. These are often called "prison clauses" and should be avoided. It could be psychologically defeating to know your benefits would be in jeopardy if you left your house!

Coordination-of-benefits provisions are found in most group disability policies. Benefits are usually reduced by the amount of benefits payable under government disability policies and, but not because of, benefits payable under individual disability income insurance.

There is usually a minimum period of employment required before a person qualifies for coverage under an employer sponsored disability plan.

Most group plans cover non-job related injuries as well as disabilities contracted on the job. This is commonly referred to as *24 hour coverage*.

Sometimes provision is made for payment of partial benefits for partial disability.

Provisions for guaranteed insurability, waiver of premium and double indemnity type clauses are found in many disability policies but since they are more commonly associated with life insurance they will be discussed in Chapter Seven.

WHO IS ELIGIBLE FOR COVERAGE

Obviously any consumer who purchases a policy or is insured by his employer or through membership in a group, can obtain coverage. Government insurance is almost automatic. If you are injured in the workplace you are covered by workman's compensation. Disabilities (*any occupation* type) are automatically covered by Social Security wherever they take place. A person may also be eligible for benefits because of his relationship to the disabled party; i.e. because he is a spouse or dependent.

MONTHLY BENEFITS

Social security disability benefits are computed on a formula involving the disabled person's former salary and number of dependents he has and their ages. There is a maximum amount of coverage allowed per family. These benefits are tax-free from the federal government.

Group plans pay benefits determined by computing a percentage of the insured's base salary up to predetermined maximums. For example, 60% of salary up to $2,000/month.

Individual policies can be purchased in any amount the consumer can afford within certain limitations set by the particular company. Insurers have *issue limits* which determine the maximum amount of monthly coverage they are allowed to write on a person. "Participation limits" are restrictions on the amount of coverage on any one individual that a company, according to its rules, is allowed to participate in writing along with other insurers. Naturally the limits for participation with other companies is larger than the issue limit would be. For example, an insurer might have an issue limit of $2,000./month and a participation limit of $3,500/month.

HYPOTHETICAL MR. PAINE

Another visit to Mr. Paine may prove useful at this point.

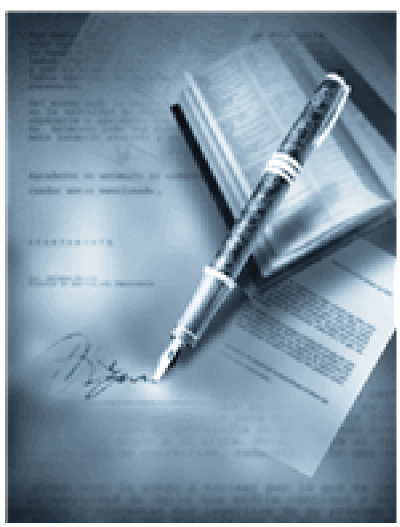
HYPOTHETICAL

Mr. Paine has been employed as a professional soccer player at a base salary of $48,000/year for the past two years. One night when coming home form a party, he was involved in an automobile accident which left him paralyzed for life from the waist down. He had dropped out of law school, not for academic deficiencies, but because his soccer skills were in great demand and he could not resist the temptation to cash in on his extraordinary talent. His disability coverage as a member of the soccer team was as follows: He was eligible to receive benefits under the plan after 18 months employment: the maximum benefit is life for accident-caused disabilities and to age 65 for illness; the elimination period is three months for accident and six months for illness; the coverage is *24 hour* (occupational as well as non-occupational); the definition of disability is *split*, first five years *own occupation*, remainder *any occupation*; the benefits to be paid are to be based on 50% of covered employee's salary up to a maximum of $2,500/month.

An analysis of his benefits follows: Mr. Paine has met the 18-month eligibility provision because he has been with the team for two years. Since his injury was the result of accident, his benefits could conceivably continue for the rest of his life under this plan depending on the outcome of other determinations. He would have to wait three months until benefit payments would begin under this policy (elimination period) and benefits would not be retroactive to the date of the accident. Since the coverage is *24 hour* it is irrelevant that the injury was not work-related but rather occurred coming home from a social engagement. Under the *split* definition used in this policy Mr. Paine would be eligible for benefits if he cannot engage in his *own occupation* for five years. He would therefore receive those benefits for that period of time. Under the *any occupation* definition, to be applied after the five year period is terminated, it is likely that Mr. Paine will be declared ineligible for benefits. There are many occupations which do not require the use of legs and for which Mr. Paine would probably find himself qualified. Among those is the practice of law for which Mr. Paine was partially trained. According to this policy, during his five years of likely eligibility Mr. Paine should receive 50% of his base salary or $2,000/month. ($48,000/year 12 = $4,000/month, 50% of which is $2,000).

Because group plans coordinate benefits it is likely the insurance company would have those payments cut in half due to approximately a $1,000/month benefit Mr. Paine would be receiving from social security disability coverage.

SUMMARY



It is wise to look at disability coverage in the light of your insurance package. You may find you are covered under multiple sources such as workman's compensation, a group plan, individual supplemental and perhaps auto or liability policies your own or a third party's . You must check the coordination of benefit provisions along with the various elimination periods. Analyze your policies carefully to determine the definition of disability used in each case, the perils covered, the extent of the benefit period and the amount of benefit dollars available to you as compared with your normal and hoped for standard of living. If you find your present anticipated benefits would be inadequate but you don't want to add to your premium costs, consider setting dollars aside to invest in an emergency fund.

If you diligently fill out the worksheet at the end of this chapter you may be pleasantly surprised by unveiled coverage you didn't suspect you had.

Consult the recommended reading list if you have more questions and of course your own individual insurance agent, who, by the way, should find it a delight to discuss insurance with a client who knows the terminology, the questions that need asking and is able to understand a direct answer rather than depending on the old reassuring platitudes like: " Don't worry. I'll take care of everything." For some of you that was possibly the extent of your former communication with your insurance professional. How does it feel to be in control?

Recommended Reading

How to Stay Ahead Financially., by Phillip Gordis

Jobs for the Disabled, by Sar Levitan & Robert Taggart

The Rights of Physically Handicapped People, by Kent Hull

The Source Book for the Disabled, by Gloria Hale

Web Sites

Resources www.NOD.org

Advancing www.NCSD.org

Access to Jobs

www.ccienterprises.org