HOW TO BUY DISABILITY INSURANCE LIKE A PRO

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By now you know that you should have disability insurance, right? It's the only type of insurance that will replace your lost income if you are laid up for any length of time. If your income were to cease because of an inability to work, how long would your savings keep your economic ship afloat?

Keep in mind that the longer your disability continues, the more likely you will experience extraordinary and/or unexpected expenses related to your disability. You may even have to pay your own medical premiums just when your savings are stretched to the limit. You may need modifications to your home, extra hired help, equipment not covered by insurance and so forth. And let's not forget the impact on your retirement savings. If you are not earning you cannot make contributions, which means that your firm will not be making matching contributions either.

Past statistics indicated that nearly 30 percent of American workers will have at least one disability of at least 90 days or more sometime during their career. Since 2000, however, the number of disabled workers in America has increased by 35 percent according to 2007 Social Security Administration data.

Think you're too young to worry about it? In 1970 the average age of a disabled worker was 52 years. In 2000 it had fallen to 49 years. And the downward age trend continues. If you're still not convinced, you're not alone. More than 80 percent of workers said they believe their chances of becoming disabled are far lower than actual statistics report, according to the 2007 Disability Awareness Survey released by the Council for Disability Awareness.

During the same period of time that the number of disabilities has increased, the financial health of many American workers has declined. Workers are not only spending their earnings, but are also dipping deeper into their savings and going into debt at record levels to make ends meet, or live a more upscale lifestyle. That translates to a financial problem should a long term disability occur. Given this set of facts, it's not surprising that disability causes nearly half of all mortgage foreclosures in the U.S., compared to only 3 percent of foreclosures being caused by death.

There are two kinds of disability insurance that immediately come to mind. The first is short term disability (STD) insurance, and the other is long term disability (LTD) insurance. STD policies normally have an elimination waiting period of between 0 to 14 days, with a maximum benefit period of no longer than two years. LTD policies have an elimination waiting period of between several weeks to several months, with a maximum benefit period which can range from a few years to as long as the rest of your life. Having STD insurance is a luxury. For some employers it can offer a powerful and cost-effective employee benefit. That's assuming one "does the math" correctly to compare the cost of sick days against the cost of STD insurance. But for attorneys purchasing their own insurance, STD is usually not cost effective. The premium quickly eclipses the actual funds required to be set aside to adequately cover short-term lost income. It is the LTD which is essential.

I get a steady number of hot line calls seeking information about insurance. It's prompted me to provide this information, which will enable you to know what differentiates one policy from another, and buy disability insurance like a pro. You shouldn't blindly trust your agent to pick your "best" option. Although most agents represent numerous carriers, they are never totally impartial. Plus, their idea of the proper balance between risk management and premium may not jive with yours. It is in your best interest to know what to look for, and do your own due diligence by asking the right questions. Only then can you be sure you are getting the best "bang for the buck" to financially weather a disability without disrupting your lifestyle or retirement plans.

The most important thing to ask about first is the actual ***definition of disability***. Substantial and gainful work activity involves the performance of significant physical or mental duties that are productive in nature, and compensated at a rate of at least $700 per month. The degree to which an impairment limits an individual's ability to perform basic work activities is essential in determining the severity of the disability. Basic work activities include: sitting, standing, walking, lifting, carrying, handling, reaching, pushing, pulling, climbing, stooping, seeing, hearing, speaking, understanding, carrying out simple instructions, using judgment, responding appropriately in a work setting, and dealing with changes in work routine. These definitions will apply to anyone under consideration for LTD benefits. However, whether the definition of ability to perform meaningful work is applied to ***any*** gainful employment, or specifically to ***your own*** occupation as an attorney, makes a world of difference.

Policies that pay disability payments only if you are unable to perform ***any*** job suitable to your educational experience will fall far short of your expectations. You can be forced to accept other employment which your training and experience qualifies you for, as long as it approaches some percentage of your prior earnings, even if you cannot return to the practice of law. A policy which defines disability in terms of your ***own occupation*** cannot force you to take a teaching position, for example. Some policies will only protect your ***own occupation*** for a limited duration of a few years. Others will protect your ***own occupation*** for the entire benefit period. Policies which protect your ***own occupation*** are the most desirable, but are more expensive.

Also, some LTD policies cover disability from either accidental injury or illness, while others cover only accident. Despite the savings of an accident-only policy, you at least have some chance of covering lost income from other insurance policies (auto, workers compensation, or liability) for a disabling accident. Not so for a disabling illness. So be sure to buy a policy which covers *both* causes of disability.

Another important definition is that of ***earnings***. Since your disability benefit will be computed as a percentage of your earnings, it is important to understand exactly how earnings are defined. Some policies will exclude bonuses, profit sharing, and current year salary increases when determining earnings. Some policies index off the immediate past W-2 income. Again, though, depending on how some of your earnings are categorized, they may not reflect in the correct “box” on your W-2. Some policies define income based on the sum of the most recent 12 months of earnings. Again, that which is included as earnings can vary widely in the definition. Keep in mind that this language can often be negotiated and customized to best optimize your potential benefit.

Your ***benefit period*** defines the amount of time you will receive monthly benefits during your life. Normally you want a policy which will pay benefits until at least age 65, at which point Social Security kicks in. However, social security will likely be far less “generous” a benefit. So if you are buying a policy when you are young, take a look at the cost of buying lifetime benefits, since the difference will be relatively inexpensive, and it will be worth it in the event of a permanent disability.

A policy offering a ***recurring disability benefit*** will allow you to make an unsuccessful attempt to return to work for some defined period of time without having to satisfy another elimination waiting period before benefits will resume.

It's not uncommon for highly motivated individuals to prematurely return to work, only to find out in short order that they have not adequately recovered. Without this benefit in your contract, however, you will wind up being penalized for that attempt by having to satisfy another benefit elimination waiting period.

Look for cost-of-living increase (***COLA***) clauses. You want to make sure your policy keeps pace with inflation. Especially since you may not call upon it for a long time. Most policies have some type of ***COLA*** clause, so if all else is equal, take a look at the methodology defined to determine the amount of the ***COLA***.

Also take a look to determine if there are any ***benefit integration*** clauses. When these apply your benefits can be reduced by payments from other policies or social security. For example, you want your policy to pay the shortfall if you qualify for social security disability (SSD), as SSD will most likely fall below what your policy benefit pays. Your policy will probably *require* you to file for SSD. Most do.

If you have an *individual* LTD policy in place *before* you become covered by a *group* LTD policy, in the absence of a specific integration clause in the individual policy, the individual policy will pay full benefits without regard or reduction for any benefits under the group plan. On the other hand, group plans almost always include integration language. So group policy coverage which is in effect *before* an individual policy will normally integrate benefits, and consequently your total benefit amount will be reduced to account for benefit payments from the individual plan. So make sure you take a look at integration of benefit provisions.

As a side note, if you are about to change positions and will receive group LTD insurance at your new firm, be sure to check for any integration clause before the policy goes into effect. You may decide to quickly purchase and put in force an individual policy first, so you can maximize your total benefit payments in the event of a disability.

You also want to be sure that your policy will pay ***residual*** or ***partial disability*** benefits. This is an important differentiator in policies. It allows you to return to work on a partial basis before the elimination period has been fully satisfied, and yet still receive partial benefits at the end of the elimination waiting period. In some instances of disability, one may never be able to return to full-time employment. And as an attorney, you will want to return to work as quickly as you are able, even if you can't accommodate a full-time schedule. But even if you *want* to refrain from work, based on the definition of disability in your policy you may be considered *able* to return to employment on a part-time basis before the elimination period has tolled. Without a ***residual*** or ***partial disability*** benefit, a return to work on *any* basis before your elimination period has been satisfied will cause a denial of benefits, no matter how long you are unable to work full-time. With the ***residual*** or ***partial disability*** benefit, you will earn partial disability payments starting at the completion of the elimination waiting period, and for the duration of your benefit period, even if you are never able to return to work full-time. Believe me, that partial benefit will be an important help in making up for the reduction in your income.

If you are buying a group LTD policy for your office, ask about ***conversion privileges***, sometimes also referred to as ***portability***. Usually the increase in premium is 1% or less to afford your covered employees with the guaranteed right and ability to convert to an individual policy or take their group coverage with them should their employment cease for any reason. The potential savings on your part must be weighed against the prospect of a former employee leaving, or becoming unemployed if your firm downsizes or folds, and then being medically uninsurable for individual coverage.

I'll admit this is a personal peeve, as I got "caught" in this trap. As long as I remain uncovered by a group policy – the exact scenario which calls for individual disability insurance – I will be unable to purchase LTD insurance. Why? Because only group policies covering a minimum number of employees offer a waiver of medical underwriting approval. The insurer must take the good with the bad; the high risk with the low risk. Individual policies have medical underwriting approval requirements. And because of the high potential payout, the denials of coverage are frequent. [The same conversion considerations should apply to any group life insurance policy; but I digress.]

Take a look at the proposed policy to see whether it is ***noncancelable*** or ***guaranteed renewable***. ***Noncancelable*** means that the policy can't be canceled by the insurance company except for nonpayment of premiums. It gives you the right to renew the policy every year without an increase in premium or reduction in benefits. ***Guaranteed renewable*** gives you the right to renew with the same benefits, and cannot be cancelled except for nonpayment of premium. However, the insurer has the right to increase your premiums as long as it does so for all other policyholders in the same rating class as you.

Be sure to check the financial stability of the insurer. You want to make sure they will be around to pay benefits when it's time to put in your claim. Also, ask for references, and check at least a few to determine how promptly and easily the insurer processes claims. You don't want a company which puts you through the ringer with constant medical examinations and paperwork just to obtain and keep the benefits coming.

I have more resources available if you need additional assistance. This article certainly doesn't cover every single aspect of purchasing LTD insurance. But I guarantee with this in hand, you won't make any big mistakes.