

21 Questions You Need To Ask About Disability Insurance

Disability Insurance is one of the most important types of insurance that an individual can own, yet it is also one of the least understood insurance products in the marketplace. It is critical that you understand how it works and what action steps you need to take.

Purpose Of This Report

The purpose of this report is to answer the most asked questions people have regarding disability insurance. What you learn in this report will help you craft a strategy and a program to make certain that your income is protected in the event of an illness or an accident. If you are a business owner, you will also learn how you can best protect your business in the event you suffer an illness or accident and are unable to work.

Please note that the purpose of this report is NOT to give you legal or accounting advice, nor is the purpose to give you advice about particular insurance policies. You should consult with your professional advisors for help with your particular situation.

1. Why do I need Disability Insurance?

You need Disability Insurance to protect your most valuable asset, your income. For most Americans, their income is indeed their most valuable asset. [Click here](#) to determine the amount of money you will make between your current age and the age you believe you will retire. Disability Insurance helps you protect that huge sum of money. If you suffer an illness or accident and cannot work, not only is your current lifestyle affected, but the ability to earn all the money you just calculated will also be impacted.

2. What are my chances of becoming disabled?

Your chances of becoming disabled are probably greater than you might think. [Click here](#) for the statistics. But consider this, there are no guarantees in life, good or bad. The problem with statistics is that when you become disabled, you are 100% of the statistic.

3. How Many People Own Disability Insurance?

According to the Council of Disability Awareness, there are 150 million people in the labor force in the United States. Only 50 million of them are covered under some form of a private disability insurance plan, be it under a group plan or an individual plan. So, not only do the majority of working Americans lack income protection, but many of the 50 million that do have insurance do not have all of their income protected.

4. Doesn't The Government Provide Disability Insurance?

Many people are confused regarding the types of insurance the state or federal government provides in the event of a disability. Worker's Compensation is provided on a state by state basis. Sometimes it is provided by the state itself, or sometimes a company will purchase this coverage for its employees from a private insurance company. It is important to keep in mind that Worker's Compensation only provides benefits in the event you suffer a work-related injury. It does not provide benefits for any type of illness, nor will it provide benefits for injuries suffered off the job. The result is that the overwhelming majority of circumstances that prevent people from working are not covered by Worker's Compensation.

Many people hold the belief that Social Security will provide for them in the event they are disabled. Social Security was designed to be the last resort for an individual and as such is very restrictive when it comes to qualifying for benefits. This is the exact language from The Social Security Website:

The definition of disability under Social Security is different from other programs. Social Security pays only for total disability. No benefits are payable for partial disability or for short-term disability.

"Disability" under Social Security is based on your inability to work. We consider you disabled under Social Security rules if:

- You cannot do work that you did before;
- We decide that you cannot adjust to other work because of your medical condition(s); and
- Your disability has lasted or is expected to last for at least one year or to result in death.

This is a strict definition of disability. Social Security program rules assume that working families have access to other resources to provide support during periods of short-term disabilities, including workers' compensation, insurance, savings and investments.

Also keep in mind that benefits under Social Security are limited in their amounts and for most people do not provide an adequate monthly benefit to maintain their current standard of living.

5. How much Disability Insurance can I get?

The amount of disability insurance you can buy is based upon your income. Most individuals can obtain a policy that would replace 60-70% of their monthly income. Every situation can have a slight variation, so it is critical that you consult with your agent or advisor to determine the exact amount you qualify for.

6. What type of disabilities are covered?

Almost any illness or accident that prevents you from working will be a covered disability. The two exceptions would be (1) injuries suffer during war or act of war and (2) any exclusion in your policy as a result of the underwriting process.

7. When would benefits start?

You get to choose how soon you want to start receiving benefits. Think in terms of a deductible on your automobile insurance policy. The lower the deductible, the higher the premium. With Disability Insurance, the sooner you want the payments to start (called an elimination period), the higher the premium. The most common choices you have in regards to when the benefits would begin are 30 days, 60 days, 90 days, 180 days, and 365 days. The overwhelming majority of people choose a 90 day elimination period because it is the most cost effect of all the elimination periods. In this case, you would have to be disabled for 90 days before you are eligible for benefits. You should discuss which elimination period is best for your situation with your agent or advisor.

8. How long would benefits last?

You get to choose how long you want to receive benefits if you are disabled. The most common benefit periods are 2 years, 5 years, Age 65, Age 67 and Lifetime (a limited number of companies offer this option). The overwhelming majority of people choose the Age 65 benefit period because they want to be protected to what they consider normal retirement age. It is important that you review each of the options with your agent or advisor.

9. How much does Disability Insurance cost?

There are many factors involved in determining the cost of your plan. Factors include, age, male/female, smoking status, occupation, how much benefit is purchased, when the benefits start, how long the benefits last and additional riders you may add to the policy to provide more comprehensive coverage.

The best advise we can give you is to talk with your agent or advisor so they can prepare the proper plan for you. At that time, they will be able to give you a range of what the coverage will cost.

10. Can the insurance company raise the premium on my policy?

Another great feature of most individual Disability Insurance policies is that the insurance company can never raise the premiums before age 65. These types of policies are referred to as “noncancellable” within the insurance industry. Most individual Disability Insurance policies that are sold are non-cancellable policies.

Another type of individual policy is referred to as a “guaranteed renewable” policy where the insurance company reserves the right to increase the premium in the future. But the only way the insurance company can increase the premiums is to petition the state Insurance Commissioner to raise rates for every person in a particular class of insureds within that state. The result is that it rarely, if ever, happens. Your agent or advisor can tell you which policy is right for you.

11. Can the insurance company cancel coverage?

One of the unique features of most individual Disability Insurance policies is that the insurance company cannot cancel the policy anytime before age 65. In fact, most allow you to continue the policy beyond age 65 if you are still working and your situation dictates that you still need the coverage.

12. Can I deduct the premiums?

As an individual, you cannot deduct the premiums for Disability Insurance. As a business owner, you can deduct the premiums if you are a C Corporation. As a business owner, you can deduct the premiums for a Business Overhead Expense policy, regardless of the type of business structure you have set up (i.e. Sole Proprietor, Partnership, S-Corporation, C Corporation or LLC).

13. How are benefits taxed?

If the premiums for your Disability Insurance policy are paid with after-tax dollars, your benefits will be received tax free. If the premiums for your Disability Insurance are paid with before-tax dollars (i.e. your company or employer pays the premium and deducts the premiums as a business expense), your benefits will be taxable.

14. What if I am disabled and then go back to work in another job?

If an illness or accident prevents you from working in the occupation you were doing at the time of disability, most individual policies will pay you benefits regardless of whether you are working in a new occupation or regardless of your earnings in this new occupation. The length of time these benefits would be paid depend on the definition of total disability within your contract. It is important that you work with your agent or advisor to understand how benefits within your policy would be paid if you did indeed return to work in another job or another occupation.

15. What if I am disabled and then go back to work on a part-time basis?

Most individual policies will pay a portion of the monthly benefit if you return to work on a part-time basis. The amount of the benefit you would received is based on the percentage of income you have lost as a result of only being able to work part-time. An example would be if you are only making 50% of your pre-disability income, then you would receive 50% of your monthly benefit.

16. How do I pay my bills at work if I am a business owner?

Business Overhead Expense (BOE) insurance will provide benefits so you can pay the bills that are required to keep your business open while you are unable to work. Think of it this way. With Disability Insurance, a check is sent to your house so you can pay all the bills at home. With BOE, a check is sent to your business so you can pay all the bills at work. Business Overhead Expense is really designed to buy you time. Time to either come back to work and run your business as usual or time to be able to sell your business. But since your business has remained opened, you will not have to conduct a “fire sale.” One of the additional benefits of BOE is that the premium is tax deductible, not matter what type of legal entity your business is.

17. How can I protect my business if a Key Employee becomes disabled?

Losing a key employee can be devastating to any business. Whether it results in lost revenue, or, expenses in finding and hiring a replacement, the cost to your business can be staggering. Key Person Disability Insurance will directly reimburse your business if one of your key employees becomes hurt or sick and cannot work. This benefit comes to you on a tax-free basis and you can use the money in any way you see fit.

18. What do I have to do to qualify for coverage?

To purchase an individual Disability Insurance policy, you have to go through an underwriting process. There are several factors that determine the exact information you need to provide the insurance company, but the basics are; completing an application (to include health history) and verifying your income. In certain cases you may be required to take an exam and/or provide financial documentation. Your agent or advisor can tell you exactly what will be required based on your particular situation.

19. Can I get Disability Insurance if I have a current health condition?

In order to qualify for individual coverage, you do need to go through an underwriting process. There are medical conditions that concern insurance carriers. Until the underwriting process is complete, there is no way of knowing exactly how a company might treat a pre-existing medical condition. One of the benefits of working with a Disability Insurance Specialist is that he/she can give you some idea of what the outcome might be based on their vast experience.

20. Can I work with any agent or advisor to obtain Disability Insurance?

Any agent who is licensed to sell life and health insurance in your state can work with you in this process. We think it is important to work with an agent or advisor who writes Disability Insurance on a consistent basis versus those that rarely write it. Think of it like a medical doctor. Your general practice physician can give you lots of basic advice, but they will often refer you to a specialist when they encounter a situation that is outside their day-to-day expertise. A question you may want to ask your agent or advisor is, “when it comes to Disability Insurance, would you consider yourself a specialist?” If the answer is no, he/she can always team up with a specialist so you can be certain you are being given the proper advice and recommendations.

21. What should be my next step?

Contact your agent or advisor to schedule a time to have a discussion regarding the need to protect your income. Make sure you and your family are properly protected in the event of an illness or accident. Nobody ever thinks they will become disabled, but Disability Insurance is there when bad things happen to good people.

Please note that this report is not designed to give legal or accounting advice. Nor is it designed to give advice on which policy is best for you. It is critical that you review the actual policy coverages. Coverages vary widely, so it is critical that you understand the benefits that would be paid. You should consult with your professional advisors to determine how any of these issues affect your personal situation.