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INSURANCE *Tips*

Free help with your insurance questions or complaints

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If illness or injury were to keep you from earning a living, how would you pay your bills? According to the Social Security Administration, more than one in four of today's 20-year-olds will become disabled before reaching retirement age. Yet, the U.S. Census Bureau finds that only 31 percent of U.S. private-industry workers have long-term disability insurance.

About disability insurance

Disability insurance is not the same as workers' compensation. In the case of disability insurance, the injury or illness does not have to be the result of a workplace incident. In fact, research by the U.S. Department of Education and the National Institute on Disability and Rehabilitation shows that the most common causes of long-term disability are heart disease, back injury, and cancer, followed by anxiety and depression.

Types of disability insurance

Short-term disability insurance will typically replace a portion of the policyholder's salary for three to six months following the disability.

Long-term disability insurance will generally begin six months after the disability and can last a few years or even until retirement age.

How much long-term coverage to buy

To determine this, add up your monthly expenses, such as rent/mortgage, food, transportation, etc., and compare them with income from any existing disability coverage, plus any income from other sources, such as personal savings. Keep in mind that a disability can also bring with it increased or additional expenses such as health care costs, assistance with daily activities, even home modifications. Here's a tool from the National Association of Insurance Commissioners that can help: http://www.insureuonline.org/consumer_alert_figuring_your_disability_needs.pdf.

Comparing disability policies

Here are several definitions and benefits you should carefully compare to determine the best coverage for your future needs:

- ▶ Definition of Disability - The definition of disability will vary from policy to policy. Some may pay benefits if you are unable to perform the duties of your occupation, while others may require that your disability keeps you from performing the tasks of **any** gainful employment.
- ▶ Extent of disability. Some policies require you to be totally disabled before benefits are paid, while others may pay a limited amount or for a limited time if your disability prevents you from performing only part of your job – often called partially disabled.
- ▶ Residual benefits. This coverage fills in a gap in income if you are partially disabled and your income is reduced because you cannot perform all the responsibilities of your job. This may be included in your policy or can be added as a rider.

- ▶ **Amount of benefits.** A typical disability policy benefit is 60 percent of earned income pre-disability, although policies vary. Benefits are generally based on your income at the time the policy is purchased. The benefit can be reduced by other sources of income or other sources of disability payments, such as Social Security disability payments, employer long-term disability insurance, etc.
- ▶ **Waiting period.** Generally, you choose how long you will wait to receive benefits after the onset of disability. Policies with longer waiting periods generally have lower premiums. It is common to have to wait up to 30 days or more after this period to receive your first benefit payment.
- ▶ **Length of coverage.** You generally choose a benefit period ranging from one year to retirement age. Choosing a shorter benefit period likely will make a premium lower, but also means that benefits could run out while you are still disabled.
- ▶ **Inflation protection.** Not all policies will take inflation into account when calculating your benefit payout. A cost-of-living adjustment (COLA) may be an option for an additional premium. This rider can increase benefit payouts by a specific percentage, generally between 4 percent and 10 percent, each year. Also, since your benefit payment will not increase automatically as your income rises, it may be possible to purchase additional coverage to keep up with annual raises or promotions.
- ▶ **Waiver of premium.** This waiver exempts you from paying premiums after you've been disabled for a certain length of time until your disability ends. This provision may be included in the policy or as a rider.
- ▶ **Renewability.** Most long-term disability policies come with one of two renewability provisions:
 - Non-cancelable policies will continue at the same price and coverage as long as you pay your premiums on time.
 - Guaranteed renewable means the policy will be renewed automatically, but the premium may increase.

Conditionally renewable or optionally renewable may also be terms you'll see in a policy. For both of these options, the policy can be canceled for a group of individuals in a common underwriting "class," by geographic location, or for other reasons stated in the policy. Generally, the insurance company sends notification prior to a policy renewal date if the policy will be canceled for one of these reasons.

Tax considerations. In general, if you have an individual disability policy, payments received from the policy are income-tax-free. If the payments come from a group policy that an employer pays some or all of the premiums on, a portion of the benefit may be taxable. Check with a tax adviser.

Social Security Benefits

Social Security pays disability benefits to people who cannot work because of a medical condition that is expected to last at least one year or is terminal, and for individuals who meet two earnings tests. After applying, it can take several months to process the application and your application may not be approved.

Finding disability coverage

- ▶ **Employer:** First, if you have coverage through work but feel you need additional coverage, ask if there is an option to increase coverage through the group policy. You will generally be responsible for the full cost of the increased coverage, but may not have to go through an underwriting process. However, the coverage is not likely transferable to another job.
- ▶ **Through an agent/company:** Any individual can pursue disability coverage with the help of an agent or directly with many companies.

More Information

Before you write a check or sign paperwork for a policy, call the Oregon Insurance Division to confirm the agent and company you have selected are licensed. Consumer advocates can also answer general questions about short- and long-term disability insurance.