

Don't overlook disability insurance



By **Brent Hunsberger, The Oregonian**

on September 22, 2012 at 8:00 AM, updated September 23, 2012 at 9:34 AM

If you drive, Oregon law requires you to have auto insurance.

If you mortgage your home, your lender often requires homeowner's insurance.

If you get a job, who requires you to insure your income?

No one but yourself. Yet if you come down with a disabling injury or illness, and your family relies on that income, you probably should.

You have less of a chance of using your homeowner's insurance policy than you do of becoming disabled. The **Social Security** Administration says 3 in 10 workers who are currently age 20 will come down with a disability before they retire.

I'm not trying to sell you insurance here. Just sense. Open-enrollment season is approaching for many workers with benefit plans, and long-term **disability insurance** is an often overlooked and misunderstood offering.

It can be vitally important to business owners, self-employed people and single parents.

"Consumers usually don't realize that their largest asset, and their ability to maintain all their other assets, is their ability to maintain a paycheck," said Mark Desiderio of Ryan Insurance Strategy Consultants in Colorado.

But there are significant differences -- some would say flaws -- between group insurance offered by your employer and individual insurance bought through a broker. Here's what you need to know about both.

You probably underestimate your risks. Just look at the **results of this poll**. According to an industry survey, 8 out of 10 consumers believe that "a disability could happen to anyone at any time." Yet when asked about their own chances of becoming disabled, they rate it at about 1 in 100.

You now know the actual odds are much higher.

And the average long-term disability claim lasts 2.5 years. Just for a moment, ponder losing your income for that long. Then consider the odds again.

The basics. Most policies pay between 50 and 65 percent of your normal income until you can return to work or reach normal retirement age (66 or 67).

Why no more than two-thirds of your income before disability? "You don't want to over-insure somebody because there's no incentive to go back to work," said Steve Brady, a second vice president of Portland-based The Standard, one of the nation's largest disability insurers.

Group policies cost less. Premiums might range between \$25 and \$40 a month. Individual policy premiums can be up to three times higher, Brady said. Group policies don't require medical-record reviews or physicals, as most individual policies do.

Workers' comp won't cut it. Its benefits are low. It usually pays out only for a few years. And it pays only for on-the-job injuries.

More than 90 percent of long-term disabilities aren't linked to work, according to the insurance industry trade group Council for Disability Awareness. The most common causes: muscle and joint disorders, back problems, cancer, pregnancy complications, strokes and neurological diseases.

Getting Social Security disability is tough. More than half of all claims are rejected, agency records show. Applicants must show their disability will last more than a year. And the benefits are lower. The average monthly amount for 8.7 million disabled workers is \$1,111.

Group benefits might be taxed. If your employer pays premiums, your benefits will be taxed. So your 60 percent income-replacement benefit will be less than that. And many policies reduce their payouts if you qualify for Social Security or workers' comp.

Individual policies can be layered on top of a group policy to replace that income, Brady said.

Know when "any occupation" definition kicks in. Most group plans cover you for two years until you can return to your "own occupation." But after two years, you might be forced back to work in "any occupation" or any "gainful occupation." Individual policies probably don't have such a trigger, Desiderio said, and "gainful occupation" is less desirable than "any occupation."

Know how the policy defines earnings. Are you in sales? Some group policies don't include a bonus or commission in their definition of income, so they won't cover them, experts say. Those that do usually mention "W-2 earnings," Desiderio said.

Know if it's portable. Not all group policies allow for this. And when they do, given that you never revealed your medical history, insurers often assume you're uninsurable and jack up the rates, Desiderio said.

Know if it covers partial disability. "Some group plans require total disability before they pay for partial ones," Brady said. "That's huge." It can mean people whose disease progressed slowly -- such as those with multiple sclerosis, diabetes or cancer -- don't get benefits even when they can't work full time, Brady said. Such limiting language will often appear under the policy's definitions for a waiting or elimination period, he said.

Individual policies have more bells and whistles. Some offer accident riders that pay out if you get hit biking or walking to work. "We sell a ton of those," said Andy Pibal, an insurance broker at Pibal Insurance Brokers of Oregon.

The Standard's newer Protector Platinum policy for individuals offers a benefit called compassion care, which pays out while you take time off to care for an ailing immediate family member.

You can even insure retirement contributions, usually up to 20 percent of their original amount, Desiderio said. That can be important for business owners.

Business-overhead disability plans will pay a monthly benefit to cover, say, 50 percent of business expenses so they doesn't come out of the pocket of a disabled owner or self-employed worker who can't work.

Watch out for exclusions. Insurers are dealing with the crunch that lower interest rates are putting on their investment portfolios by excluding certain illnesses. If you have a history of anxiety or depression, and you're getting an individual policy with medical underwriting, those are likely to be excluded from your coverage, Desiderio said.

How do you check all this out? For individual policies, talk to an insurance broker who sells more than one insurer's plans. For employees, your human resources department should have a copy of the group policy.

"It's not the easiest to read," Desiderio warns. At least ask for the benefit summary. "The benefit highlight sheets usually give all that vital information," he said.