Vital Signs: Shielding Your Savings From the Body's Vulnerability

Will your employer-sponsored or individual disability insurance do the job?

By Kristen Gerencher
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SAN FRANCISCO -- As a financial planner, Valerie Greene knew that disability insurance was an essential part of a worker's portfolio, so she bought a policy for herself at the age of 30.

A year later, despite being a nonsmoking, regular gym-goer with no known risk factors, she suffered a massive stroke. "I was paralyzed and had to relearn how to walk and talk," said Greene, now 42, of Winter Park, Fla.

After seven years of therapy, she still has trouble with numbers and is unable to return to her original occupation. "I have challenges with math to this moment," she said. "I would not be a good financial planner. I wouldn't hire me!"

Her disability insurance covered part of her $50,000 annual income loss for six years, after which time she settled the continuing claim by taking a lump sum from her insurer, she said. Greene has parlayed her recovery experience into a new career as an author and speaker. Though she had to downsize into a condo from a two-story house, she's glad she had the foresight to cover about 35% of her predisability income, an amount she now says is not enough. "I wish I would've purchased 60."

Health insurance still typically covers the bulk of treatment costs if you get sick or injured, despite higher cost-sharing and stingier benefits in the last few years. But if the ailment drags on and renders you unable to return to work, household bills keep piling up even if your paychecks don't.

Disability insurance is designed to pick up where health coverage leaves off by replacing income if you become disabled. It can mean the difference between keeping up on mortgage payments or losing your house, and acts as a buffer that keeps your credit score and standard of living from going into freefall after a misfortune.

But consumers need to be aware of limitations and caveats that can shrink their take-home replacement pay.

Many people still don't have private disability coverage, which is often provided by employers. About 39% of private-sector workers had access to short-term disability and 30% had access to long-term policies in 2006, with the portion actually participating only slightly lower, according to the Bureau of Labor Statistics.

Still, 56% of adults said they wouldn't be able to pay their bills if they became disabled and couldn't work for a year or longer, according to a report last month from the National Association of Insurance Commissioners.

"When you're young, fun and making a ton, that's when you sit down and insure your most important asset, which is your earning potential," said Frank N. Darras, an attorney who represents individuals with private disability-insurance claims in Claremont, Calif.

"We have a greater chance between 20 and 55 of becoming disabled than we do of dying," he said. "It happens, and it happens more frequently than people realize."

Adapting to demographics

Employers choose the kind of benefit they want from insurers, including such provisions as waiting times before coverage starts, said Mary Clarke Guenther, a spokeswoman for Unum in Chattanooga, Tenn.

It's typically not a big business expense. In 2005, employers paid an annual $228 per worker for long-term group disability policies and $192 for group short-term policies, she said. The top reason workers tap Unum's short-term disability is pregnancy while the most common reason for long-term leave is cancer.

As Americans live and work longer, thanks to advances in medical technology, they're going out on disability more frequently but returning to work faster, said Craig Guiffre, vice president of group life and disability for the Guardian in New York.

Insurers and employers are trying to respond to changing demographics, he said. "Because of the trend of having people work longer, we're seeing policies now that will go to age 70."

Payout rates are slightly lower these days, Guiffre said. Long-term disability policies used to replace two-thirds of members' predisability income whereas now it's more common to see a 60% rate, he said. Short-term policies often cover 80% to 90% of income instead of 100%.

While some workers may get a rude awakening if they don't understand their coverage limits, it's the ones who don't have a policy at all who have the most to lose, Guenther said. "People underestimate the likelihood they will need this coverage and overestimate their ability to make ends meet with their current financial situation."

Here are seven tips for avoiding negative surprises and maximizing your coverage:

- Check the duration of benefits and look to see how job tenure affects it. If you've been on the job for a short time, coverage may extend only a month or two.

- Examine the insurer's definition of disability. It may change after two years, which could force you to take a drastically different job, said Ray Bourhis, an attorney, author of "Insult to Injury" and creator of InsuranceConsumers.com. "Some say [they'll cover] your own occupation for two years and any occupation after two years," he said. "The problem with that is it throws open the floodgates for the insurance company to say that you ought to do all kinds of things." Darras agreed. "Most employer policies only protect you in your own occupation for 24 months. An individual policy will protect you to age 65." What to do? "Make sure that you get occupation-specific coverage for at least five years and, if you can afford it, to age 65," Darras said.

- If you have group insurance, don't forget to calculate the tax bite. Employer-paid disability benefits are treated as taxable income if the premiums are paid with pretax dollars, which reduces the payout. Individual policies purchased with after-tax dollars are not.

- Check to see if the plan offers a 401(k) or pension contribution. "There are disability programs, both group and individual, that offer a supplementary benefit that continues to make those contributions to a 401(k) plan or pension," said Guiffre, of the Guardian.

- Understand the differences between group insurance and individual policies, and consider buying an individual policy as a supplement to your job-based one. Individual policies are portable and typically protect you in your occupation longer, Darras said. "There are very few consumer rights and remedies with employer-sponsored disability," he said. People with a grievance have to go through an administrative appeal before going to federal court, where plaintiffs have to meet a criminal standard of proving beyond a reasonable doubt that the insurer was wrong, Darras said. They can't collect punitive damages, attorneys' fees or damages to take care of out-of-pocket losses borne by repossession, lost equity or stained credit. Problems with individual policies, on the other hand, can lead to a jury trial with witnesses. Finally, employer-sponsored plans usually offset dollar for dollar any payments you receive from workers compensation, Social Security and third-party recoveries. "Assume you're injured on the way to work and collect $100,000 in a personal injury settlement," Darras said. "Before you got a nickel of your long-term disability benefit, your insurance company would get a credit for $100,000 from the personal injury settlement."

- Make sure the period of disability for mental and emotional disability is equal to that for physical disability. "People who have clinical depression and serious problems are every bit disabled as people with physical injuries," Bourhis said.

- If you're young, consider a future increase option on an individual disability policy. By investing in this at age 35 when you're healthy, you can ensure a higher replacement rate if you earn more money when you're 40 and are in poorer health, Darras said.

For more information, visit DisabilityCanHappen.org from the nonprofit Council for Disability Awareness. Visit the site.
End of Story

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