
Don't Disrespect Your Disability Insurance

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Smart business owners take steps to guard against hurricanes, bankruptcy or tax audits. But how many proactively plan for their own potential disability? Considering the impact that an owner's short- or long-term disability can have on his business, it's an issue too important to ignore.

Not enough business owners, however, give disability insurance the attention it deserves, says David Woods, president of the Life and Health Insurance Foundation for Education, in Washington, D.C. "If you're thinking of this at all, congratulations — it puts you in the minority," he notes. Whether you're looking for a new policy or making sure your current coverage is sufficient, Woods and other experts suggest a few questions to ask:

Do you have occupation-specific coverage? Retailers should check the fine print to make sure their policy specifies disability payments if they can no longer run their store. Some policies only pay out if the business owner can't work anywhere, at any job, says Frank Darras, an attorney specializing in disability and long-term care with Shernoff, Bidart & Darras, LLP in Ontario, Calif. "Sometimes, if you can teach a business class at a community college, you're not covered," he notes.

Are you overestimating your savings reserve to save on premiums? Disability insurance has several different waiting periods — usually between 30 and 180 days — before they begin paying. The longer a policyholder can wait before starting a claim, the less expensive their premiums will be. However, Darras notes, make sure you really can cover your costs for 180 days before signing up for the longer waiting period. "Some people don't have four months of savings," he says. "Determine how long you can go without benefits." When calculating that number, be sure to include all costs, such as store rent, inventory costs, employee salaries, and all other expenses you'll be responsible for each month.

Will your benefit period cover permanent disability? As much as no one wants to think about disability in general, it's even harder to envision permanent disability, says Woods. But this type of worst-case scenario planning is useful in setting the longest benefit period possible. Putting a five-year benefit on a policy will cut premiums, Darras adds, but it's a risky gamble. Instead, consider coverage at least until age 65, when retirement savings can come into play.

Are partners and key employees also covered? If the business is a partnership, it's often advisable to make sure that all parties have similar disability coverage, notes Woods. "Typically, small businesses like retailers will execute a buy/sell agreement that would obligate one of the partners to buy the other out in the case of death or disability," he says. "That's a way to insure each other." Beyond taking care of the business in that way, having an extensive disability policy can help to make up for lost income for the disabled partner.

Also, consider the effect of losing a key manager for a matter of months or years, says Woods. A policy can extend coverage not just to the employee for income, but also to the business, while the owner looks for another manager (or holds the job in the case of short-term disability).

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