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## **The Right Disability Coverage**

**Employer-paid short and long-term disability plans offer few legal safeguards, limited monthly benefits, and are generally taxable.**

### WHY INDIVIDUAL POLICIES MAKE SENSE

Individually applied for and paid disability policies are yours to keep when you change jobs.

Individual policies do not contain off-set provisions that reduce your monthly benefits like short- and long-term group plans.

Your monthly benefit checks are not taxed since you're paying the annual premium.

Individual policies generally are not subject to ERISA, and therefore offer greater consumer safeguards if your claim is unfairly delayed or denied.

If you must sue to collect your benefits, your insurer can be held liable for punitive damages, emotional distress damages, and other consequential damages if, for instance, you lose your home as a result of the delay or denial.

You'll be entitled to a trial by jury and attorney fees that were spent or incurred in collecting the contract benefits.

### SHOPPING FOR A POLICY

You should always apply through and purchase your individual disability policy from a licensed and appointed insurance agent -- not a broker. Agents provide the highest level of consumer safeguards. Agents who sell disability offer all the major insurance company products.

Trap: If you purchase a policy from a broker, you're responsible for any errors that appear on your application that may have been taken down erroneously. Mistakes or errors made by an agent are the responsibility of the insurance company. If you are unsure of your salesperson's status, check with your state Department of Insurance and request a list of the disability companies that have appointed him.

### GREAT POLICY ESSENTIALS

Here are what I consider to be the best disability insurance policy features, in order of their importance to consumers. Choose as many as you can afford by comparing different features, advantages, benefits, and the financial standing of the insurance companies.

Own-occupation coverage guarantees benefit payments if you are unable to perform the substantial and material duties of your job when you become disabled.

Example: If a heart surgeon with own-occupation coverage developed a hand tremor and could no longer safely operate but could work as a general practitioner, she would be considered totally disabled and would

receive full monthly, tax-free benefits while working as a general practitioner.

Most carriers limit own-occupation coverage to age 65. Some offer only two or five years of own-occupation coverage, then the definition shifts to any occupation for which you are trained, educated, or suited.

Trap: Any occupation coverage is cheaper, but it won't pay if you can work at any other job.

Example: If the same heart surgeon could teach in medical school, she would not be considered disabled or entitled to her benefits under any-occupation coverage.

Tip: Shop around for own-occupation coverage that pays for the longest period of time that you can afford.

Non-cancellable-guaranteed-renewable coverage means your insurance company cannot cancel, increase your premium, or change its contract language as long as you pay your premiums on time -- even if the insurer no longer does business in your state.

Trap: Some carriers offer guaranteed renewable products, but their premiums can be adjusted to reflect the number of claims on file. Be sure to avoid this coverage!

Waiver of premium rider requires the insurer to waive your premium payments for your disability insurance while you are disabled.

Waiting period of no more than 120 days (90 days is better) for benefits to begin after you become totally or partially disabled.

Remember, benefits won't accrue until after the waiting period expires. With a 90 day waiting period, your first check won't arrive for 4 ½ months after your disability begins. The longer the waiting period, the cheaper the coverage, but you'll need to put more money aside in case of a disabling injury or illness.

Lifetime benefits provide monthly payments for as long as you are alive and totally disabled. This valuable rider can add 20 percent to the premiums cost of your policy. But most insurers don't like to offer it.

Second best: Benefits that last until age 65 if you are unable to work at your own occupation.

Avoid income loss or new replacement loss policies that limit benefits to two years and require policyholders to do work that the insurance company says you're able to do or provide no benefits at all.

Coverage for mental and nervous disorders beyond 24 months is very desirable but nearly impossible to find.

Trap: If your back pain is causing your depression, be careful to document it that way. If you're claiming chronic fatigue or chronic pain, be sure your doctor is clear when he describes the physical problems that are causing your secondary depression. Complaints of depression are a red flag and most insurers stop all benefits after 24 months.

Cost of living adjustments guarantee your monthly disability benefits will be adjusted annually to keep up with inflation. This option costs more but it's worth it.

UNDERWRITING

Medical underwriting -- or investigating -- has gotten tougher over the last five years with blood, urine, and HIV testing. Before you sit down with a licensed and appointed agent, ask her to send you the medical portion of the application so you can accurately provide all yes answers with the proper diagnosis, dates of treatment, and duration of any sickness or injury you are disclosing. Be sure you have your doctor's name, address and telephone numbers.

Tip: If you have had extensive or adverse health problems, ask your agent to submit a trial application to several insurance companies before you formally apply for coverage. This way, you'll know in advance whether or not you'll be covered.

Reason: By submitting a trial application, you can avoid having to respond yes to the question, Have you ever been declined insurance coverage before? If the insurance company indicates it won't issue coverage to you, wait several years then resubmit a trial application until you can find coverage.

Tip: Ask your agent whether you need to fast for 12 hours before you have blood drawn. Many insurance companies rate or charge a higher premium if your blood work comes back abnormal. Sometimes just eating a small meal before your blood is drawn can adversely affect your blood results and cause higher premiums.

## BOTTOM LINE

Negotiate for more monthly disability dollars when you apply for coverage by providing signed and accurate tax returns.

Don't try to save money on your annual premiums by accepting a partial or residual benefit option. These riders sound great: They will pay part of your benefits if you can perform one but not all of the duties of your occupation.

Problem: Residual riders are used by insurers to avoid responsibility and payment of total disability benefits for which you paid. If you have such an option, the insurer will work hard to find one or more duties that you can perform. That means you will receive only a prorated part of your benefits rather than the full amount.

Better: Purchase a straight total disability policy without any residual option or rider. Make sure you document all of the substantial and material duties you're unable to perform at work as well as the physical and mental restrictions that prevent you from returning to your occupation.

## OTHER INDIVIDUAL DISABILITY POLICIES TO CONSIDER

Mortgage disability insurance. This policy will cover your monthly mortgage if you are unable to perform your occupation. It's available through your lender or from any reputable licensed and appointed insurance agent.

Trap: Most mortgage disability coverage provides own-occupation coverage for just 24 months, then shifts to any-occupation for which you are trained, educated, or suited.

Tip: Negotiate for own-occupation coverage for the life of your home loan.

Credit card disability. May be purchased from most major credit card companies. This type of policy will pay your monthly minimum balance on your credit cards if you are disabled. You will be protected for 18 months in your own-occupation, then the definition shifts to any-occupation.

Life insurance waiver of premium for disability. Optional coverage you can purchase when you buy term,

universal, or whole life insurance. This rider will pay your monthly life insurance premium if you're totally disabled from your own-occupation during the first 12 or 24 months of disability, then the definition switches to any-occupation.

#### Basic guidelines

Shop around. Compare each insurance company's features, advantages, and benefits against competitors.

Always purchase your coverage from a licensed and appointed agent rather than an insurance broker.

Provide accurate medical records and tax returns.

Negotiate for more monthly disabled dollars by always selecting the longest own-occupation coverage you can afford.