Personal Advantage
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By William M. Shernoff

Traps in Company-Provided Disability Insurance - and How to Protect Yourself

It's not unusual for people who receive life insurance at work to supplement their policy by buying additional coverage.

Yet relatively few bother to calculate whether the company's disability insurance will cover their financial needs if they are out of work for an extended period of time. They simply assume that the company's benefits are sufficient.

In fact, employer-sponsored disability insurance is very often woefully inadequate.

Many employers purchase the minimum amount of protection for employees, and most employees are unaware of how easy it is for insurers to wriggle out of paying them.

In most cases, a company's short-term disability policy will pay only 70% of your salary for between 13 and 26 weeks.

Long-term disability insurance usually begins after 26 weeks, paying only 60% of your salary-and then up to only $60,000 a year

Traps:

There may be a gap of as much as three months between the time short-term disability ends and long-term coverage begins.

Disability income is taxable unless you have purchased your own coverage, so you'd actually take home even less. The amount of additional coverage that you need depends on your monthly living expenses - and how much of your savings is available for such purposes.

Here's how to tell whether you need additional coverage, and what to look for when shopping for a supplemental insurance policy...

Estimate what your monthly expenses would be if you were unable to work for 90 days or longer. Once you've arrived at this figure, determine what your take-home benefit would be. If the monthly sum is too low to meet your needs, you should buy additional coverage to make up the difference.

Buying your own policy has two other advantages: You can take an individual or supplemental policy with you if you change jobs. The younger you are when you purchase the policy, the lower the fixed premium will be throughout the time you own it.

Before you buy - understand the plan's definition of disability. Most insurance contracts have more restrictive standards for defining disability than do most states. This is due to a loophole in the federal Employee Retirement Income Security Act (ERISA), which overrides state laws and prevents insurance companies from being sued in state courts for damages.

Although most states say you are legally disabled if you cannot perform the substantial tasks of your work with any regularity, many insurance policies define disability as the inability to perform any of your work-related tasks now or ever again.

Example: A paralyzed surgeon who is unable to operate on patients but can still read or dictate medical reports would be considered disabled by most states, but not by many insurers.

Beware of "offset" clauses. These allow the insurer to deduct from your monthly benefit any income you already receive from other sources, such as workers' compensation or Social Security. These deductions can cut your monthly insurance benefit in half.

Not all "lifetime" policies are the same. Many actually pay for only a certain period (usually one or two years) if you are disabled from your occupation. They will pay over a lifetime only if you can prove that you are disabled from working at any occupation. Many high-earning professionals have lost the lifetime benefits they thought they were entitled to because the insurer proved that they could perform a low-wage job.

Example: A bedridden executive could still work in telephone sales.
A lifetime policy offers little protection if your job or coverage is terminated due to a disability. According to many state laws, it is illegal for an employer or insurer to cut off a policyholder's benefits if he/she contracts a disease or suffers an accident. But this frequently happens to policyholders, anyway, because they have little legal recourse in these matters due to the ERISA loophole.

Example: There was a recent case in which an employer was permitted to dramatically reduce an employee's AIDS benefit after the employee discovered that he had the disease. As a result, most group coverage offered by an employer is illusory. If you lose your job due to disability, your employer can terminate your lifetime coverage after one year.

Look for a policy that does not tie coverage to the cause of a disability. Many policies will pay only if you are disabled by an accident, not a sickness. Some insurers have even been known to unjustly convert accident claims to sickness claims to avoid paying out.

Example: An insurer may say that injuries from an accidental fall were really caused by dizziness due to an underlying illness such as arthritis, sunstroke or high blood pressure.

Self-defense:

Buy a policy that considers you disabled if you can't do the important tasks of your own job. Until legislation closes the ERISA loophole, it is preferable to buy noncancelable, guaranteed-renewable disability insurance. You can do this on your own or through a professional or church group that offers such a policy.
Be prepared for disputes. Even with individual policies, it is not uncommon for disputes to occur between policyholders' doctors and insurers' doctors over the extent of a disability. Most insurers send disability cases to "independent" medical examiners for review. But these doctors are usually far from independent, since they receive a large volume of work from the insurer. While many review cases in good faith, they must work with the definition of disability supplied by the insurer, even if it is contrary to state law.

Solution: If your disability claim is denied, enlist the help of your physician. Also, get a truly independent second opinion and consider seeing an attorney.

Those who can't afford the premium for a new policy should save some money each month to be used in case they become disabled. Be sure to save enough to cover any gap between when short-term disability ends and long-term coverage begins.

At work, require your company's insurance agent to sign a written statement. It should say: "If you become disabled, even if your employer terminates you because of your disability, we will keep paying your claim for the period specified in the policy."

Don't forget to protect your home. Mortgage insurance policies are usually sold in such a way that policyholders believe that their mortgage payments will be made for life if they become disabled.

Trap: These policies are often limited in time, say for two years. If you have a 30-year mortgage and are permanently disabled, two years of mortgage payments won't prevent you from losing your home.

Solution: Make sure the insurance policy is for the life of the mortgage- or find a disability policy that pays a high enough benefit to meet your needs.