

Disability Income Insurance: Some Features Say It All

Prospective insurance buyers are often confused about disability income insurance because the features and benefits vary widely from one policy to another. Essentially, there are a few key elements that could make a big difference when you make your choice. If you are in the market for disability income insurance, here are some of the things you should consider:

Definition of "Total Disability." Does the policy define total disability as a condition during which you cannot perform the main or substantial duties of your "own occupation" or "any occupation"? A policy that refers to your "own occupation" generally pays benefits if you cannot return to work in your own field. A policy that refers to "any occupation" generally would pay benefits only if you were unable to perform any job, either your own, a lower paying job, or a job in a new occupation.

Duration of Benefits. Even if you have to choose a smaller benefit amount to keep the premiums affordable, look for coverage that protects you until age 65. Note: There are policies available that offer benefits only for a limited period, for example, a maximum of two or five years, and the nature of your occupation may affect the duration of coverage.

Amount of Coverage. Most plans set a limit on the percentage of income you can insure—usually 50% to 60% of your total gross earnings. If you have an employer-provided plan that offers only limited group coverage, you may consider buying supplemental, individual disability income coverage.

Elimination Period. The waiting or "elimination" period is the amount of time you must wait before disability benefits can start. Remember, shorter waiting periods involve higher premiums and vice versa. In addition, the waiting period is determined when a policy is issued, not when disability commences.

Taxation of Benefits. Benefits may be tax free if you pay the premiums using after-tax dollars. Benefits under most employer-provided plans are taxable because they are usually paid with pre-tax dollars (although it may be wise to verify this with your tax professional).

Partial or "Residual" Coverage. After a serious disability, many people are able to return to work only on a part-time basis. Partial or "residual" benefits allow you to receive partial disability benefits, as well as your part-time income, until you fully recover. Without this feature, your benefits may stop as soon as you return to work.

Portable Coverage. Policies that allow you to carry your coverage from one job to another have an obvious advantage. Coverage from a professional association could be one such example of portable coverage that is not tied to your place of employment, not to mention any individual disability income policy that you might buy on your own.

Of course, prior to shopping for a policy that best suits you, it is important to determine the right amount of coverage you need in light of what coverage you may or may not already have. Therefore, make it a point to review your insurance coverage and needs on a regular basis in order to ensure you are adequately protected.

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