

Disability Insurance Basics

If an accident or illness were to interfere with your ability to earn an income, would this have a significant impact on your standard of living and the financial security of your family? If the answer to this question is yes, you might wish to consider implementing a disability insurance policy. According to the American Council of Life Insurers, one in seven American workers will have disabilities with durations of more than five years so this is, unfortunately, not an uncommon occurrence. As a matter of fact, until recently, the major cause for most home foreclosures in the United States was as a result of a disability. Also, don't let the word disability throw you. Many of us conjure up visions of crutches and wheelchairs when we hear that word. For the purposes of these policies, however, you are considered disabled if, as a result of either accident or illness, you are unable to engage in the substantial and material duties of your occupation. Thus, sometimes even stress can lead to a disability claim.

Think that you have all the bases covered if you have a group plan at work? You would do well to read the fine print. While some plans are quite good, most group plans provided by employers will typically cover about 60% of income. The payments are taxable and many times the benefits are capped and durations limited so it is important to carefully review the documents to understand what level of protection is actually being provided. Sometimes it is advisable to implement a private plan to supplement a group sponsored policy. The private plans will provide a higher level of income replacement and generally do so on a non-taxable basis.

For people who are self employed or not covered by group plans, individual plans are highly recommended. Business owners, especially, should consider opting out of workers comp and implementing an individual disability insurance policy because a well designed disability policy will provide much better benefits at a cost level typically lower than workers comp.