

Disability Income Insurance: Protecting Your Most Valuable Asset

Have you ever asked yourself how you would manage if you were to suffer a severe accident or illness that left you unable to work? How would you pay your bills and cover your daily expenses? The likelihood of such an event may be greater than you think. According to the Insurance Information Institute (III, 2007), an individual between the ages of 40 and 65, has a greater chance of missing at least three months of work due to an accident or illness than of suffering an untimely death. To compound the problem, the recovery period may run as high as a lengthy two and a half years.

To be prepared for such a situation, it is important to plan ahead. A smart approach to help protect you is to purchase an **individual disability income insurance policy**. However, there are a few considerations to keep in mind when choosing this coverage:

- **Definition of Disability.** Carefully review your policy's definition of disability. Some policies cover you if you are unable to work in the occupation in which you were employed or for which you were trained, or if you can no longer earn as much as you once did in that field. In contrast, other policies may offer coverage only if you are unable to work in *any* occupation. This distinction can make a big difference if you become disabled.
- **Residual Benefits or Partial Disability Coverage.** Under certain specified circumstances, if you become disabled and are only able to earn a portion of your previous income, residual benefits or partial disability coverage pays a portion of your benefits.
- **Guaranteed Renewable.** With this feature, the insurer cannot refuse to renew your policy or change any terms except for premium cost, as long as you continue to pay your premiums on time.
- **Guaranteed Insurability.** This provision allows you to increase your monthly benefit, even if you experience health changes that would otherwise prevent you from obtaining additional disability coverage.
- **Cost of Living Adjustment (COLA).** This feature helps protect your benefits against the effects of inflation during a long-term disability.

The Outlook without Protection

If you don't have a disability income policy, there are alternatives, although they all have shortcomings. For instance, you could self-insure. However, even if you save 10% of your salary each year, one year of disability could easily wipe out many years of savings. Or perhaps, your employer provides disability income insurance. Unfortunately, employer-sponsored plans are often limited in scope and duration, and coverage is not portable upon termination of employment (except in certain executive disability policies). Workers compensation may be an option in some cases; however, it only covers injuries suffered on the job. Eligibility and benefits vary by state.

To qualify for Social Security disability benefits, you must be severely disabled and, even then, you will have to wait at least six months for payments to begin. Social Security disability was not intended to be an individual's sole source of disability income, thus benefits are often less than what you might need to cover your regular living expenses.

A debilitating illness or injury that cuts off or reduces your primary source of income can be a financially devastating experience—one from which it can be difficult to recover. Disability income insurance can play an important role in your overall financial program.