



Chapter 18 Disability Income

Disability Income

- Protects against “economic” death
- Individual or Group
- Can purchase sickness & accident coverage or accident coverage only; can not purchase sickness only protection
- Individual policies are expressed as a flat dollar amount; ex. \$5000 per month
- Group policies are expressed as a per centage of income; ex. 60% of earnings

Occupational Coverage

- Pays for job related and non-job related injuries

Non-Occupational Coverage

- Pays non-job related injuries only
- Workers’ comp pays for on the job injuries
- Cheaper premium

Disability Defined – insured chooses at inception of the policy

- **Any Occupation** – unable to perform any occupation that insured is reasonably suited by education, training, etc
- **Own Occupation** – unable to work at one’s “own” occupation. More expensive. Difficult to qualify for this definition. Definition may change to “any” occupation after receiving benefits for two years.

Presumptive Disability – automatically qualifies for benefits if:

- Blind
- Deaf
- Loss of speech
- Loss of two or more limbs
- Lump sum payout

Partial Disability – able to perform full time duties; two different ways policies handle this. Will be stated in the policy.

1. **Flat Amount method** –
 - a. must first have been totally disabled and receiving benefits
 - b. will receive 50% of the benefit (50% of what they were receiving)
2. **Residual Amount Benefit** –
 - a. Not required to first be totally disabled
 - b. Whatever per centage of income is lost, policy pays that SAME per centage of the benefit; ex. insured loses 70% of earning, receives 70% of the total benefit
 - c. No benefits if loss of income below a certain per centage, 20-30%
 - d. Must be under the care of a physician

Cause of the disability defined – defined at inception

1. **Accidental bodily injury/results** – only the accident needs to be accidental; the event leading up to the accident can be intentional; ex: jumping off a ladder or a bridge, policy will pay
2. **Accidental means** – requires the event leading up to the accident to be accidental. Ex. falling off a ladder, policy will pay; jumping, the policy will not pay...Very bad to have this. On the exam!

Probationary Period

- Begins the effective date of the policy
- Applies to sickness only; no benefits paid if sick during this time period
- Accidents ARE covered during this period
- Duration of 15 - 30 days
- Designed to exclude pre-existing conditions
- Protects company against adverse selection

Elimination Periods

- Chosen at the inception of the policy
- Begins the day of the disability
- Controls the premium; a “time” deductible; the longer the period, the smaller the premium
- No payments during this period of disability
- Helps eliminate claims for short-term disabilities
- Always applies to sickness; may or may not apply to accidents

Benefit Period

- Individual Short term: 6 months to two years
- Individual Long Term: 5, 10 20, 30 years or to retirement age

Delayed Disability

- 30, 60, 90, days after an accident

Recurrent Disability

- A disability the insured had, then recovered, then became disable again.
- Generally six (6) months
- If back at work for six months or less, categorized as same disability (recurrent) and picks up where it left off. No new elimination period.
- Back at work for longer than six months, new disability. New elimination period. Benefit period starts all over.

Non-Disabling Injury

- Pays if insured suffers an injury that does not disable her.
- Pays a small per centage of the benefit
- To help offset cost of the medical care.
- Insured may use this small amount for any reason

Riders – an additional cost

Waiver of Premium

- Pays the premium on the policy should insured become disabled
- Has an elimination period 3 - 6 months; insured pays the premium during this period. Afterwards, the company returns those premiums and begins paying the premiums for as long as the insured remains disabled.
- Rider drops off at age 65

Cost of Living Rider - COLA Rider

- Tied to Consumer Price Index (CPI)
- Each anniversary the benefit is adjusted to reflect cost of inflation
- Policy has a trigger before the benefit increases, perhaps 3 or 4 %

Guaranteed Insurability Rider

- Allows the insured to purchase additional amounts of coverage at future times in the future regardless of health
- Subject to an earnings test; Must prove earnings have increased
- Must exercise before age 65

Payments

- Payments must be paid to insured at **least MONTHLY**; not annually, semi-annually, or quarterly