

Introduction to disability income insurance

This is the first in a series of three-articles covering long-term disability income insurance. In this article, we will discuss some initial considerations in determining whether an individual disability income insurance policy may be appropriate for you.

Everyone who works and earns a living probably needs disability insurance. If you suddenly became disabled and were unable to work, could you still meet your financial obligations? Could you get by without having to use savings or borrow from relatives? If not, you'll want to make sure that you have adequate disability insurance coverage that is designed to pay your expenses while you are disabled and cannot work.

Because you have to meet a strict definition of disability to qualify for benefits from government programs (e.g., Social Security), you shouldn't rely on them as your only sources of income if you became disabled.

Instead, find out if you have group disability insurance through your employer. It may be paid for by the company, or you may pay part of the premium. If disability coverage is not available at work or if you are self-employed, you should consider purchasing an individual policy from a private insurer. Most policies pay between 50 and 70 percent of your gross income and can last anywhere from a couple of months to age 65.

LONG-TERM VS. SHORT-TERM DISABILITY INCOME INSURANCE

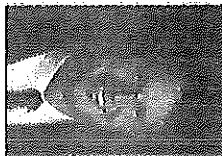
It's hard to imagine becoming disabled, and harder still to imagine a disability lasting longer than a few weeks. But serious disabilities can last years or even a lifetime. That's why you should pay attention to whether a disability income insurance policy offers long-term or short-term disability benefits, and understand the difference between the two.

How do long-term and short-term disability policies differ?

By definition, long-term and short-term disability policies have different purposes. Short-term disability income insurance is designed to pay you benefits sooner and for a shorter period of time than long-term disability income insurance.

Under the terms of your disability income insurance policy, you'll have to wait for a certain period of time after you become disabled before you can begin receiving benefits. Some policies (typically short-term policies) even offer two waiting periods—a shorter one for accidents, a longer one for sickness. Waiting periods under short-term policies generally range from 0 to 14 days, depending on the terms of the policy. Waiting periods under long-term policies are longer, ranging from 30 to 720 days, although a 90-day waiting period is most common.

If you suffer a disability, you'll receive benefits until you recover or reach a certain maximum. By definition, short-term disability policies may pay benefits for up to two years, although many policies pay benefits for only three months, six months, or one year. But long-term disability policies pay benefits for a far longer period—for a few years, up to age 65, or even for a lifetime.



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Should I buy long-term or short-term disability income insurance?

If you can't afford to purchase both, it generally makes more sense to purchase long-term disability coverage. Most disabilities last only a short time, and you may be able to financially survive a short-term disability, even without insurance. However, a long-term disability can seriously threaten your finances if you do not have insurance.

Consider these factors as well:

- The other kinds of protection you have: If you suffer a disability, you may be eligible for benefits from a government-sponsored disability insurance

program such as Social Security or workers' compensation (if your disability was work related). Your employer may also provide coverage, although employers offer short-term coverage more frequently than long-term coverage. Don't buy a policy that duplicates coverage you already have elsewhere.

- The type of coverage you can afford to buy: Short-term coverage is typically less expensive than long-term coverage because benefits are paid for a shorter period of time.