

Disability Insurance

In today's society, individuals purchase all types of insurance. This includes coverage on automobiles, homes, life, jewelry, and loans. One type of insurance that is often overlooked is one of the most important. This is disability insurance. A disabled individual is one who substantially is unable to perform the *material* duties of his or her job and is receiving care from a physician who is appropriate for the condition causing the disability.

While the definition of disability appears to be clear, there are various degrees of disability that could adversely affect the benefits due to the individual. For example, an accountant who loses the loss of his or her right arm could be considered ***totally disabled, partially disabled, or not disabled*** under a disability insurance policy. The accountant could foreseeably teach accounting at a University and, therefore, may not collect benefits under his or her policy. Individuals who develop complications due to a transplant or cosmetic surgery may not be covered under their disability policy. If an individual has two disability policies, which takes precedence?

Due to the numerous possibilities, the following areas should be researched (as a minimum) before any disability policy is purchased.

- What is the insurance company's definition of disability?
- If a person becomes disabled, is there an option to go to your own physician or must you go to a physician chosen by the insurance company?

- What is the time period an individual must be disabled in order to receive benefits? What will the company pay or not pay?
- Will the insurance company pay the cost of services incurred in connection with a vocational rehabilitation program?
- Can the insurance company cancel the disability insurance policy?

While the definition of disability appears to be clear, there are various degrees of disability that could adversely affect the benefits due to the individual.

- Can you increase your disability benefits due to the passage of time or cost of living adjustment (COLA) changes?
- Are there limitations on the amount of money a person may receive in benefits? When will the company pay or not pay?
- Are there special discounts based on occupation?

- Are the premiums the same for monthly, semi-annual, or annual payments?
- Is the treatment for two or more disabilities from the same cause or related cause limited?
- **MOST IMPORTANT** does the policy provide benefits to age 65?

Recently, our firm had two insurance companies present disability insurance plans to our employees. I was surprised to find the coverage was dramatically different for premiums that were approximately the same. For example, one company provided coverage for two years and would start paying benefits in 30 days. The second company provided coverage to age 65, with payments starting after 90 days of the disability.

The dramatic differences between the coverages above was due to one being a "group plan" vs an "individual plan." Under a group plan, the insurance company must extend insurance coverage to all employees of a company and cannot discriminate against any individual. The company must insure both high and low-risk candidates. Therefore, the benefits may not be the most appealing. Under the individual plan, premiums are based on the employee's age and health. If you are in good health, your premium is lower.

Because of the complexities of disability insurance, I recommend the questions above be addressed as a minimum, along with any other concerns you may have. Disability insurance is not purchased each year; therefore, caution should be used for the initial purchase of this insurance.

*Cecil D. Maynard, CPA, MPA, CFE
Partner/Audit Director*