

# SIMPLIFYING THE COMPLICATIONS OF DISABILITY INSURANCE

Many people may not think their most valuable asset is their ability to work. However, if illness or injury were to keep you from earning a living, how would you pay your bills? According to the [U.S. Social Security Administration](#), more than one in four of today's 20 year-olds will become disabled before reaching retirement age. The Rhode Island Insurance Division offers these tips when considering individual long-term disability insurance options.

## Disability Insurance

Disability insurance is not the same as workers' compensation. Disability insurance is a type of insurance that provides income if a worker is unable to perform their job duties and earn money due to a disability. Research by the U.S. Department of Education and the National Institute on Disability, Independent Living, and Rehabilitation Research shows that the most common causes of long-term disability are heart disease, back injury and cancer, followed by anxiety and depression.

There are two types of disability insurance: short-term and long-term. Short-term will typically replace a portion of the policyholder's salary for three to six months. Long-term will generally begin six months after the disability and can last years or even until retirement age.

## Figuring Out How Much Long-Term Coverage You Need

When considering long-term disability policy options, here are several definitions you need to understand and benefits you should carefully compare to determine the best coverage for you.



## Comparing Disability Policies

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**Definition of Disability** - The definition will vary from policy to policy. Some may pay benefits if you are unable to perform the duties of your occupation, while others may require that your disability keep you from any gainful employment for which you are qualified.

- **Extent of Disability** - Some policies may require you be totally disabled before paying benefits, while others may pay a partial amount, or for a limited time, if your injury restricts you from performing only part of your job – often called "partially disabled."
- **Disabilities Covered** - The list of covered accidents or illnesses considered disabilities under the policy will vary. Some policies will only cover disability arising from accident and not illness.
- **Residual Benefit(s)** - This coverage fills the gap in income if you are partially disabled, resulting in reduced income. This may be included in your policy or can be added as a rider.
- **Amount of Benefits** - A typical disability policy benefit is approximately 60% of earned income pre-disability. Benefits are based on your income at the time the policy was purchased. The percentage benefit can be affected by other sources of support, such as Social Security disability payments, employer long-term disability insurance, etc.
- **Waiting/Elimination Period** - A 30-day waiting period is common. Policies with longer waiting periods generally have lower premiums.
- **Length of Coverage** - You will generally have an option of benefit terms ranging from one year to retirement age. Choosing a shorter time period will likely make the premium lower, but it may also mean that benefits could run out while you are still disabled.
- **Inflation Protection** - Not all policies will take inflation into consideration. A cost-of-living adjustment (COLA) may be an option for an additional premium. Also, because your benefit payment will not increase automatically as your income rises, it may be possible to purchase additional coverage to keep up with raises or promotions.

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- **Waiver of Premium** - This waiver exempts you from paying premiums after you've been disabled until your disability ends. It is typically included in a policy.
- **Renewability** - Most long-term disability policies come with one of two renewability provisions: non-cancellable policies will continue at the same price and coverage as long as you pay your premiums on time; guaranteed renewable means the policy will be renewed automatically, but the premium may increase.
- **Conditionally/Optionally Renewable** - For both options, the policy can be cancelled for a group of individuals in a common underwriting "class," or by geographic location or for other reasons stated in the policy.
- **Tax Considerations** - In general, if you have an individual disability policy, payments received from the policy are income tax-free. If the payments come from a group policy for which an employer pays some or all of the premiums, a portion of the benefit may be taxable.



## Social Security Benefits

Social Security pays [disability benefits](#) to people who cannot work because of a medical condition that is expected to last at least one year or is terminal, and for individuals who meet two earnings tests. After applying, it can take several months to process the application.

## Finding Individual Long-Term Disability Coverage

Any individual can pursue long-term disability coverage with the help of an insurance agent or by working directly with an insurance company. If the long-term disability coverage your employer offers as part of your benefits package is not enough to cover your needs, there are options for purchasing additional individual coverage. Ask your employer if there is an option to increase coverage through the group policy. You will generally be responsible for the full cost of the increased coverage, but you may not have to go through an underwriting process. However, the coverage is not likely transferable to another job. If transferability is important or there is not a long-term disability option at your place of employment, check with professional organizations in your field. This type of coverage can be less expensive than an individual policy..

## More Information

Protect your investment. Call the Rhode Island Insurance Division to confirm that the agent and company you have selected are licensed.

In addition, Temporary Disability Insurance (TDI) is an unemployment benefit available to Rhode Island workers who are temporarily disabled or injured. Find out more by visiting the Rhode Island Department of Labor and Training (DLT)'s [website](#).



Rhode Island Insurance Division  
1511 Pontiac Avenue, Bldg. 69-2, Cranston, RI 02920  
Phone: (401) 462-9520 | Web: [www.dbr.ri.gov](http://www.dbr.ri.gov)  
Email: [dbr.insurance@dbr.ri.gov](mailto:dbr.insurance@dbr.ri.gov)  
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