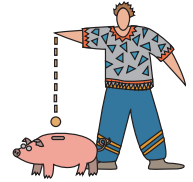


Disability Insurance Basics

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Disability Income Insurance and How it Works

The probability of being disabled is much higher than the probability of dying. A 22-year-old male is nearly 8 times more likely to be disabled for 3 or more months than he is to die. Between the ages of 35 and 65, one has a 25% chance of being disabled for 1 year or more and a 5% chance of being disabled permanently.

All these chances are much greater than the chance of death. Yet many people who would not dream of going without life insurance, do not understand the importance of having disability income insurance. There are several types of disability income insurance and options for providers.

Annually renewable disability income insurance policies (ARDIs) work a little like term life insurance. They are generally more affordable than fixed-price policies, and the annual premium increases when you renew-but you renew annually.

Through disability insurance, people with high incomes can generally find policies that will replace 30-60% of their income should they become disabled. Middle-income people might find coverage for replacement of 60-80% of their total income. It is generally not possible to find 100% replacement insurance.

Disability insurance is available from many sources:

- Employer or other group plans
- Federal government (social security, VA, Black Lung, Temporary Assistance for Needy Families)
- State government (Worker's Compensation, some Vocational Rehabilitation programs)
- Auto insurance
- Credit insurance
- Personal Investment Income

When shopping for disability income insurance, it helps to be familiar with the following potential provisions or features that are common to disability policies:

- **Elimination or waiting period** - this is the period of time you must wait after you become disabled to actually start getting benefits. This is often up to six months.
- **Benefit period** - this is the length of time you can receive benefits. This can range from a few months to an entire lifetime. Of course, premiums will be affected by the benefit period.
- **Residual clause** - you get a proportionally reduced benefit for a partial disability.
- **Social Security rider** - you get extra coverage if you cannot qualify for Social Security disability benefits.
- **Cost-of-living adjustment clause** - an option to keep your benefit increasing at the same rate of inflation (you'll pay a higher premium for it).
- **Noncancellable** - if your policy is noncancellable, it cannot be cancelled and the company cannot change the monthly benefit or raise the premium.
- **Definition of disability** - are you found to be disabled if you cannot perform your previous job or any job at all? This is a key provision if you do not want to be forced to take any job you can find so the company can avoid paying benefits.
- **Limit of liability** - the total amount that the policy can pay to the disabled for the life of the policy.

As with all other types of insurance, it is important to shop around for disability income insurance. Your employer might be a good place to start. If your employer offers disability insurance, it is often less expensive than other options but may not provide all the coverage you need.

For informational brochures on a variety of insurance topics, see <http://www.insurance.state.mo.us/consumer/info/publicn.htm>.

Sources:

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Israelsen, C. & Weagley, R. *Personal and Family Finance Workbook*, 3rd ed., 2002, Kendall/Hunt Publishing Co., Dubuque, Iowa.

Kobliner, B. *Get a Financial Life: personal finance in your twenties and thirties*, A Fireside Book, New York, NY, 2000.

If you'd like to learn more about this and other personal finance topics, the University of Missouri offers 'Personal & Family Finance' a correspondence course, through the Center for Distance and Independent Study (800-609-3727). Information about this course is available at <http://cdis.missouri.edu/CourseInfo/DetailCourseInfo.asp?1985>.