

A Guide to Protecting Your Income with  
**Disability Insurance**



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## What is this guide?

There are a variety of insurance products available that replace a person's income if they are not able to work due to an illness or injury. With so many options, each with their own features, jargon, and limitations, insurance can be very confusing. This guide is here to simplify the most common features, and to help working Americans decide what might be right for them.

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## About the Council for Disability Awareness

The Council for Disability Awareness is a nonprofit organization dedicated to educating Americans about the risk and financial impact of disability, and the importance of having a financial plan.

*While this guide covers many of the fundamental aspects of disability insurance and will help you understand the different options, it is not a substitute for talking with your HR/benefits manager or financial advisor. They can help you make a smart decision on your unique disability insurance needs, and how you can best protect your income. The Council for Disability Awareness is not licensed to provide specific financial advice.*



## 1. What is disability insurance?

Disability insurance replaces a portion of a person's income if they are unable to work due to illness or injury.

## 2. Who needs disability insurance?

Anyone who depends on their earned income for financial security.

## 3. What types of insurance will protect my income?

There are a variety of insurance products that will replace your income if you can't work due to illness or injury. Disability insurance covers a greater variety of conditions than the other options, and is the main focus of this guide. This guide does not cover Critical Illness, Cancer, or Accident Insurance in detail, due to the amount of variety in the marketplace. If you are considering obtaining one of these products, many of the same principles will apply.

The following chart provides a brief overview of the differences and similarities between each of these insurance options.

Disability Insurance	This is the broadest type of coverage. It covers many conditions that fall under a general definition of disability and prevent people from working. The policy will pay ongoing benefits for a defined period of time, or until you reach retirement.
Critical Illness Insurance	This type of coverage is more limited in that it does not provide any benefit for injuries and accidents. The policy will list the different illnesses that are covered. Policies generally provide a lump sum, not ongoing payments.
Cancer Insurance	This coverage is even more limited. It only covers disability resulting from cancer. Policies either provide a lump sum or ongoing payments.
Accident Insurance	This coverage is limited to disabilities that are caused by accidents. Policies generally provide a lump sum, not ongoing payments.



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## 4. What types of disability insurance are there?

Particularly in employer-sponsored disability insurance, there is often a distinction between short-term and long-term disability. They are offered as separate benefits, but are often (but not always) coordinated to provide continuing coverage, with short term disability benefits kicking in first and then being replaced by long term disability benefits for long term illnesses or injuries.

### A. Short-Term Disability (STD)

Generally begins paying benefits after one or two weeks, and can continue for three to twelve months, or until long-term disability (LTD) benefits begin.

### B. Long-Term Disability (LTD)

The most common LTD plans begin paying benefits after 90 days, and continue until the employee reaches retirement age. The waiting period can be longer or shorter, and plans often stop paying benefits at two, five, or ten years.

The distinction is less common with individual disability insurance. Most individual disability insurance plans are more geared towards long-term disability coverage.

## 5. What are the different ways to obtain coverage?

The most common options are:

- Employer-paid disability insurance
- Employer-paid disability insurance with optional additional coverage paid for by the employee (“buy-up”)
- Disability insurance offered as an employee benefit but fully paid for by the employee (sometimes called “voluntary”)
- Disability insurance offered to association members
- Individual Disability Insurance purchased outside the workplace through a financial advisor or insurance agent/broker

## 6. Which of these choices is right for me?

Your options will be dictated partly by whether your employer offers disability benefits. If they provide employer paid coverage, there’s unlikely to be a reason not to sign up, and you may be automatically enrolled. Even if your employer offers coverage but you have to



pay the premiums yourself, it's likely to be more affordable than individually purchased coverage, and may also have less extensive underwriting requirements.

It's important to make sure you understand what is—and is not—afforded by your employer-sponsored plan. You may find that you need more coverage in order to fully protect your standard of living.

If you don't have coverage at work, or if you determine that your employer plan does not fully meet your needs, you may want to purchase an individual policy. This comes with additional benefits—you'll be able to keep your policy if you leave your job for any reason, and you'll have more control over what options are included in the plan. But Individual Disability Insurance is generally more expensive and subject to medical underwriting.

One final consideration—if your employer pays the premiums, it's important to note: Should you experience a disability, you will be subject to income taxes. If you pay the premiums yourself, generally your benefits would be tax-free.

In general, only you and your trusted financial advisor can decide what type of coverage, or what combination of multiple policies, is the best for your situation.

## 7. How much will it cost?

The cost depends largely on the type of insurance. If you have employer-sponsored insurance, it is likely to cost much less than an individual policy.

A traditional employer-sponsored plan is likely to cost \$250 to \$400 per year—although the employer may pick up some or all of this cost. For employee-paid “voluntary” plans, the cost is higher, but not as high as for an individual disability insurance policy.

Individual disability insurance tends to have the most variety of options, which affect the price, but in general cost 1% to 3% of the person's salary.

### The main factors affecting the cost of disability insurance are:

Your Age	Premiums are generally lower the younger you are. As we age, our risk of health problems increases.
Your Health History	The more medical problems you've had in the past, the more potential causes of a future disability claim. You may pay higher premiums, find it harder to buy insurance, or even be denied a policy, although there are options for hard-to-insure individuals.



Your Job	If your profession carries a higher risk of injury, or is more physically demanding, you will generally pay higher premiums.
Your Income	The higher your current income, the higher the amount of money you would expect to receive in benefits, which means your policy will be more expensive.
Plan Options	Choosing more generous benefits will increase premiums. We'll explain the options in the next section.

## 8. What are the most important options?

There are many different options that affect the cost and the benefits. The most important options to consider are:

### A. Monthly Benefit

A good starting point is the amount of money you'd receive in benefits every month. You will likely not be able to replace all of your income—your insurer will want to maintain your incentive to return to work. Most policies range from 40 to 70 percent of your income. If you're evaluating employer-sponsored coverage, know that it is common for employers to pay for a core amount—e.g. 50 percent—and offer employees the chance to “buy up” to a higher percentage. If you're looking at individual insurance, you may be able to keep it more affordable by reducing the monthly benefit.

If your job includes the option of earning commissions and bonuses, these are generally excluded from employer-sponsored coverage, but you might be able to include them in your individual policy.

### B. Elimination Period

This dictates how long you must wait before your insurance will begin to pay benefits. With short-term disability, this might be as low as a week or two. With long-term disability, it's more likely to be 90 days or more. A longer elimination period will reduce the cost, but then you'll have to make sure you can afford to cover your expenses for that amount of time if something happens.

### C. Maximum Benefit Period

This specifies how long your payments could last. Options for long-term disability are generally two, five, or ten years, or until you reach retirement age. The longer the maximum benefit period, the higher the cost, but the more



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protected you'll be against anything life can throw at you.

#### D. Renewability

If you're buying individual disability insurance, it is very important to look for insurance that you can keep as long as you want. Make sure your insurance is at least guaranteed renewable. This means that the insurer cannot cancel the coverage as long as you pay your premiums on time. They might be able to raise the rates, but only for an entire class of people, not for an individual, and they must obtain approval from your state's insurance regulators in order to do it. Even more robust, but less common in recent years, is non-cancelable—where neither the coverage nor the price can be changed as long as you pay premiums on time.

#### E. Definition of Disability

Every policy will have a “definition of disability” that dictates a very important consideration: Does your illness or injury prevent you from working?

***Own-Occupation (own-occ):*** Pays benefits if you can't do the job you had at the time you became disabled.

***Any-Occupation (any-occ):*** Pays benefits if you can't do any job for which your education and experience are appropriate.

Many variants exist, but are generally based on one of these concepts, or a combination of the two. A “modified own-occ” policy will be “own-occ” for a defined period, but will eventually switch to “any-occ”. The idea behind this is to give you time to adjust and find a suitable new career path.

#### F. Scope for future increase

Your financial need may quickly increase in the future. It's helpful to have options to increase your coverage without starting from scratch. Look for “future increase option” and “cost of living adjustment”—but know that these are likely to increase the cost of the policy.

### 10. What should I do next?

If you haven't already, the first step is to find out what options are available to you at work. You'll need to find out from your HR/benefits manager what is available and how to sign up. If you don't have any options at work, or if those options are not enough to meet your needs, you'll need to speak to a financial advisor or insurance agent about individual disability insurance. If you're a member of a professional organization, you may also check if disability insurance is offered as a member benefit.



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