How can I insure against loss of income?

If you were disabled and unable to work as a result of an accident or illness, what would you and your family do for income? Disability income insurance, which complements health insurance, can replace lost income. Forty-three percent of all people age 40 will have a long-term (lasting 90 days or more) disability event by age 65. There are three basic ways to replace income:

1. Employer-Paid Disability Insurance

This is required in most states. Most employers provide some short-term sick leave. Many larger employers provide long-term disability coverage as well, typically with benefits of up to 60 percent of salary lasting from five years to age 65, and in some cases extended for life.

2. Social Security Disability Benefits

This can be paid to workers whose disability is expected to last at least 12 months and is so severe that no gainful employment can be performed.

3. Individual Disability Income Insurance Policies

Other limited replacement income is available for workers under some circumstances from workers compensation (if the injury or illness is job-related), auto insurance (if disability results from an auto accident) and the Department of Veterans Affairs.

For most workers, even those with some employer-paid coverage, an individual disability income policy is the best way to ensure adequate income in the event of disability. When you buy a private disability income policy, you can expect to replace from 50% to 70% of income. Insurers won’t replace all your income because they want you to have an incentive to return to work. However, when you pay the premiums yourself, disability benefits are not taxed. (Benefits from employer-paid policies are subject to income tax.)
What Are the Types of Disability Insurance?

There are two types of disability policies: Short-Term Disability (STD) and Long-Term Disability (LTD):

1. STD policies have a waiting period of 0 to 14 days with a maximum benefit period of no longer than two years.

2. LTD policies have a waiting period of several weeks to several months with a maximum benefit period ranging from a few years to the rest of your life.

Disability policies have two different protection features that are important to understand.

1. **Non-cancelable** means the policy cannot be canceled by the insurance company, except for nonpayment of premiums. This gives you the right to renew the policy every year without an increase in the premium or a reduction in benefits.

2. **Guaranteed renewable** gives you the right to renew the policy with the same benefits and not have the policy canceled by the company. However, your insurer has the right to increase your premiums as long as it does so for all other policyholders in the same rating class as you.

In addition to the traditional disability policies, there are several options you should consider when purchasing a policy:

- **Additional Purchase Options:** Your insurance company gives you the right to buy additional insurance at a later time.

- **Coordination of Benefits:** The amount of benefits you receive from your insurance company is dependent on other benefits you receive because of your disability. Your policy specifies a target amount you will receive from all the policies combined, so this policy will make up the difference not paid by other policies.

- **Cost of Living Adjustment (COLA):** The COLA increases your disability benefits over time based on the increased cost of living measured by the Consumer Price Index. You will pay a higher premium if you select the COLA.

- **Residual or Partial Disability Rider:** This provision allows you to return to work part-time, collect part of your salary and receive a partial disability payment if you are still partially disabled.

- **Return of Premium:** This provision requires the insurance company to refund part of your premium if no claims are made for a specific period of time declared in the policy.

- **Waiver of Premium Provision:** This clause means that you do not have to pay premiums or the policy after you’re disabled for 90 days.

For assistance with your personal insurance needs, contact:

**Adrienne Peixotto**
**Director of Private Client Group**

Direct  415-223-5543
Cell  415-250-2222

Adriannep@proinsurance.com