



A CONSUMER'S GUIDE TO

# **DISABILITY INCOME INSURANCE**

# WHAT IS DISABILITY INCOME INSURANCE?

Disability income insurance provides benefits to replace lost income when an insured becomes unable to work because of illness and/or injury. Disability income insurance can be offered through a group policy, i.e., employer group or association group arrangements covering eligible employees or members, and may also be offered by means of individual policies issued directly to covered individuals. Disability income insurance benefits are generally based upon an insured's actual earnings received from their occupation and maximum benefits are generally limited to a percentage of their gross salary or wages.

## DEFINITION OF TOTAL DISABILITY

To qualify for benefits, an insured must meet the policy's definition of disability in order for the claim to be approved. Common disability terms, provisions and definitions are:

### Own Occupation

Generally, an "Own Occupation" disability definition provides benefits when an insured is unable to perform the regular and customary duties of their own occupation as a result of covered illness or injury. Short term disability income policies usually base benefits on an "own occupation" disability definition, and long term disability income policies usually base benefits on an "own occupation" definition during the first year or two of the initial disability period.

### Any Occupation

Under an "Any Occupation" definition, an insured is generally considered eligible for benefits only if the insured is disabled to the extent that he or she is unable to perform the duties of any occupation for which he/she is qualified according to his/her education, training and prior experience. Long term disability income policies usually base an insured's eligibility to receive continued benefits (after the first year or two) on an "any occupation" definition. For some, it is considerably more difficult to qualify for benefits when subjected to an "any occupation" definition instead of the more lenient "own occupation" definition.

### Presumptive Disabilities

"Presumptive Disabilities" are conditions stated in the policy contract that, when present, automatically render and presume the insured to be totally disabled and, therefore, eligible for benefits regardless of whether they continue working. These conditions may include the loss of two limbs or total loss of sight, hearing or speech.

## ELIMINATION OR WAITING PERIOD

The elimination period is a specified period of time, stated in the policy contract, following the beginning of disability during which benefits are not payable. A waiting period is similar to an elimination period; however, benefits are often retroactively paid to the beginning of the waiting period. The time period may vary from contract to contract and company to company. Generally, policies with longer elimination or waiting periods cost less than policies with shorter periods. Elimination or waiting periods may range from a few days to a year or longer.

## BENEFIT AMOUNT

The benefits provided by disability income insurance are not intended to replace 100 percent of the insured's pre-disability income. If income were fully replaced, there would be no financial incentive for an insured to return to work, which could result in higher claims costs and higher premium costs. However, we recommend that individuals attempt to purchase sufficient coverage to avoid incurring any substantial reduction in income and lifestyle should they become disabled.

## **Two methods typically used to determine the amount of disability benefits that will be paid are:**

### **Income Benefit Formula**

The income benefit formula typically expresses the amount of benefit to be paid to the insured as a percentage of pre-disability wages and may take into account other sources of income that the disabled insured receives such as social security or worker's compensation benefits. The percentage varies from policy to policy and may range from 50 to 75 percent. The policy may also state a specified maximum benefit.

### **Flat Amount**

The benefit amount may be an established dollar amount specified in the policy. This amount is determined when the policy is purchased. Typically the amount is paid regardless of other benefits received during the disability period.

## **BENEFIT PERIOD**

The benefit period is the length of time during which benefits will be paid. Disability income policies are described as either short-term or longterm depending on the length of the benefit period. Short term policies generally provide benefits from six months to two years, while long term policies may provide benefits for five to 10 years and may even provide benefits to age 65 or for life.

## **TERMS OF RENEWAL**

The terms of renewal stated in the policy contract outline the rights of the policyholder and the insurer to renew the policy, cancel the policy and/or adjust or modify premiums or benefits. It is important to keep in mind that under employer group plans and association group plans, the employer and/or association is generally the group policyholder and therefore policyholder renewal rights rests with the employer and association, and not with covered employees or members.

## **SUPPLEMENTAL OR OPTIONAL BENEFITS**



### **COST OF LIVING ADJUSTMENT (COLA) RIDER**

A COLA rider periodically increases the disability benefit amount that is being paid to a disabled insured. The increases are typically based on a percentage stated in the policy or tied to increases in the cost of living (measured by the Consumer Price Index).

### **FUTURE PURCHASE OPTION RIDER**

Future purchase options allow the insured to increase their benefits on future specified dates in accordance with increases in the insured's earnings. Purchase options are generally not available once the insured becomes disabled.

### **PARTIAL DISABILITY RIDER**

The partial disability rider pays an amount specified in the policy, often 50 percent of the full disability benefit amount, when the insured is able to return to work on a limited or part time basis.

### **RESIDUAL DISABILITY RIDER**

This rider provides a benefit if the insured can return to work full-time but income is not fully restored. The residual disability rider will provide a benefit when the insured has lost income as a result of disability. The amount payable is established according to a formula specified in the policy.

### **RETURN OF PREMIUM RIDER**

Return of premium is a rider that requires the insurer to return a portion of the premiums paid to the insured provided benefits received during a specified period (stated in the policy) remain below a specified level.

### **WAIVER OF PREMIUM RIDER**

Waiver of premium allows an insured to keep coverage in force without having to make premium payments when disabled for a specified amount of time.

## POLICY LIMITATIONS AND EXCLUSIONS



Review and study your policy. It is important for you to understand your rights, obligations, what is covered and what is not covered.

### POSSIBLE LIMITATIONS ON BENEFITS PAID

#### **Previous Earnings**

The benefit provided by the policy is typically based on your previous earnings. If you experience a decrease in earnings after you purchase your coverage, your disability benefits may be adjusted accordingly.

#### **Multiple Policies**

The amount of benefits may be reduced depending on the total amount payable by all policies in the event you are covered by multiple policies. Social Security Disability Income benefits may reduce the amount of your private disability benefits if your policy contains a social security offset provision.

### TYPICAL EXCLUSIONS

#### **Pre-existing Conditions**

The policy may deny coverage for claims due to pre-existing conditions. A pre-existing condition is generally considered a health condition for which you received medical treatment or exhibited symptoms that usually require medical care, within a time period prior to the effective date of coverage. The time period may vary from contract to contract.

#### **Act of War**

Injuries and sicknesses resulting from war are excluded.

#### **Self-Inflicted Injuries**

Any injury that is self-inflicted is excluded.

#### **Work-Related Injuries**

Work related disabilities may be excluded and receipt of workers compensation benefits may render an insured ineligible for benefits under a typical disability income insurance policy.

## FREQUENTLY ASKED QUESTIONS

### Do all disability income policies provide coverage for losses due to sickness and accidents?

No. Some policies only cover disabilities from accidental injury. Make sure to read your policy and know what is and what is not covered.

### When I apply for insurance, what information will I be asked to provide?

To determine your eligibility, companies frequently ask for medical and personal information.

### Does the Department of Insurance set premium rates and determine how much companies can charge?

No. The North Carolina Department of Insurance does not have the authority to set rates. However, carriers are required to justify their rates and demonstrate that they are actuarially sound and not unfairly discriminatory.

## CONSUMER TIPS

- Shop around. Compare plans from more than one company. Do not feel pressured to make a quick decision.
- Ask questions.
- Verify the agent and company you choose to do business with are licensed in North Carolina.
- Make sure you fully understand any policy you are considering and that you are comfortable with the company, agent and product.
- Do not sign an insurance application until you review it carefully to be sure all the answers are complete and accurate.
- DO NOT PAY CASH. When you purchase a policy, make your check or money order payable to the insurance company, NOT THE AGENT. Be sure to get a receipt.
- READ YOUR POLICY and keep it in a safe and secure place.
- Make sure all claim forms are filled out promptly, completely and accurately.

**IF YOU HAVE QUESTIONS, THE CONSUMER SERVICES DIVISION OF THE DEPARTMENT OF INSURANCE IS HERE TO HELP.**

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You can find additional information as well as a downloadable copy of our [Request for Assistance](#) form on the NCDI Web site.

NC Department of Insurance | Mike Causey, Commissioner | [www.ncdoi.com](http://www.ncdoi.com)