



Most Important Features of a Disability Insurance Contract

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DO YOUR RESEARCH The key components to research and understand when choosing a quality Individual Disability Insurance (IDI) product include:

- **The Individual Contract**
- **Renewal Provision**
- **Definition of Total Disability**
- **Benefit Amount, Elimination & Benefit Period**

THE INDIVIDUAL CONTRACT An Individual Disability Insurance (IDI) policy is a “contract” between an Insured and an Insurance company. An IDI policy is not terminated in the event that you change occupations or jobs (as is the case with most Employer sponsored Group Disability coverage) - it is fully portable not only with every job you ever have but also every career you ever engage in up to your age 65 (or 67). Benefits will only be paid under the terms and “definitions” as specified in the contract. Understanding how benefits will be paid can easily be assessed by doing the research and becoming familiar with the Contract language.

RENEWAL PROVISIONS IN DISABILITY CONTRACTS A “Conditionally Renewable” contract does not offer you any guarantees for your disability insurance policy. The Insurance company issuing your policy can change the price, the terms or cancel coverage completely. Different companies have varying conditions upon which to renew your insurance every year but the only guarantee you have is that you will have little or no influence in the outcome. The policy can be canceled by the insurance company at renewal time and may require you to have periodic physical exams. Most Group Long Term Disability and Surplus Line policies are Conditionally Renewable contracts. The worst-case scenario would be that the policy is pulled when you need it most.

A “Guaranteed Renewable” disability contract guarantees that the policy will be renewed as long as premi-



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ums are paid, however premiums may be changed after a certain time period (generally 2 to 3 years). Any policy changes must apply to all policies with similar benefits in your risk class and require approval by individual State Commissioners. Additionally a Guaranteed Renewable contract can be canceled which normally occurs when an Insurance Carrier exits a certain market or state. Most often Guaranteed Renewable contracts are used in the Blue/Gray Collar markets as an economical approach to providing IDI coverage.

The best available type of contract renewal is “Non-Cancelable and Guaranteed Renewable.” A “Non-Cancelable” disability contract guarantees that the insurance company can never cancel or alter the policy (including change the premium rates) as long as you continue to pay the premiums on time. The only way an insurance company can legally change the contract is if the Insured requests the change; for example removing a rider or reducing monthly benefit amount, etc.

Most people do not have a guarantee their income won't go down later in life. When you own a Non-Cancelable IDI contract and are totally disabled the carrier will pay you 100% of the total disability benefit regardless of income at time of claim. Under a Non-Cancelable policy even if you change occupations the company cannot cancel or change your benefits for the worse.

DEFINITIONS OF DISABILITY The definition of disability coverage is THE MOST IMPORTANT component of your disability insurance policy. There are three standard definitions of disability insurance coverage that can be found in any disability contract, with vast differences between them:

Any Occupation or Reasonable Occupation Definition

(Any occupation based on Education, Training and Experience)

Own Occupation and not engaged in any other occupation

(Also known as Modified Own Occ, Your Occupation or Own Occ by Choice)

Own Occupation

(Often referred to as True or Pure Own Occupation or Own Occ/Specialty)

You must pay careful attention to the definition of total disability language in your policy, as this will be the basis upon which any claim you make for benefits will be adjudicated. Understanding an IDI contracts Definition of Disability is critical so you are aware beforehand of what type of coverage you are paying. For example, some policies will start with one definition of disability for a 2 or 5 year benefit period then convert to a more restrictive definition for the remaining benefit period.

Any Occupation or Reasonable Occupation Definition

(Any occupation based on Education, Training and Experience)

Although this definition of total disability is the least desired, it is very common among employer sponsored Group or Association disability insurance plans. Under this definition, you are eligible to collect benefits only as long as you cannot perform any occupation for which you may be suited based on your education, training and experience. For example, a Surgeon who cannot maintain a practice due to the loss of use of one or both hands, but who could be engaged as a lecturer at a Medical School, might not be paid the full disability income benefits under an “any occ definition” because he could be engaged as a lecturer.

This definition empowers the Insurance Company to decide whether or not you are in fact disabled thus leaving it open for litigation and interpretation. The insurance company will end or reduce your disability benefits if they believe you can perform any occupation. You could be required to be retrained or educated for another occupation even though you are suffering from an injury or sickness. Policies with this definition of disability have the lowest premium costs, but provide the least generous benefits of the three available – You get what you pay for.

Own Occupation and not engaged in any other occupation

(Also known as Modified Own Occ, Your Occupation or Own Occ by Choice)

Under this definition, you are determined to be totally disabled and eligible for benefits if you cannot perform the activities of your occupation at the time of claim AND are not engaged in another occupation. The Insurance Company will reduce or stop your benefits if you decide to return to work or earn income from another source while on claim. While you are 100% protected in your occupation, your benefits are subject to reduction if you choose to pursue a new occupation. With an Own Occupation by Choice definition of disability if you are





disabled in your occupation, it is your choice to pursue a new occupation as the insurance company cannot force you to pursue a “Reasonable Occupation” or, terminate your disability benefits if you decide not to return to gainful employment. This definition of disability ensures that you can maintain your standard of living without compelling you to pursue some other form of gainful employment but, it does not allow you to collect full benefits if you do pursue another occupation.

Own Occupation

(Often referred to as True or Pure Own Occupation or Own Occ/Specialty)

Under this definition, you are considered disabled and eligible for benefits when you cannot perform the material and substantial duties of your own occupation at the time of injury or sickness. This definition, which is the best available, allows you to collect 100% of the Total Disability benefits even if you are employed in another occupation, as long as you cannot be engaged in your own occupation. This is the only definition of disability that WILL allow you to receive additional income without reducing disability insurance benefits.

Most affluent clients will choose to overcome their disabilities rather than stay at home and collect a monthly disability check. The only policy design that does not penalize returning to work in a different occupation during a claim is one that includes a True Own-Occupation definition of disability. In other words, if due to an illness or injury you are unable to perform in your occupation, you will still be considered totally disabled even if you choose to do something else (even if this allows you to make more than you were making prior to your disability). You can still use your talents to work in another occupation, earning, and keeping, as much additional income as you are capable of.

The other benefit of an own occupation definition is that if you can't perform your own occupation the insurance company can't terminate your disability benefits and force you to undergo retraining and education for a new occupation. This is in contrast to an ANY Occupation definition of disability that states you must obtain any occupation based on your education, training and experience. In this instance, you are at the full discretion of the insurance company to determine your disability income payments.

Example: If you have an “Own Occupation” policy as an Orthopedic Surgeon but can no longer fulfill your duties as a Orthopedist, you will receive your full benefits even if you decide to take a job as a Professor of Orthopedic studies or as a Consultant to a Medical Device company, or as a Day-Trader, or any other Occupation that you may wish to engage as long as you continue to be unable to perform the material and substantial duties of an Orthopedic Surgeon.

BENEFIT AMOUNT & BENEFIT PERIOD The Benefit Amount: This is the amount of payments that you will receive if you are disabled and will be stated in your policy. When

you pay for your policy with after-tax dollars, your benefits will be tax-free. Due to this, current disability coverage is generally limited to 65-75% of your adjusted gross income; receiving more than this amount, tax-free, would give you no incentive to return to work.

Determining the exact amount of benefits you should secure is based on a variety of factors, such as your age, income, resources available to you if you can't work and your financial obligations. Generally, the younger you are, the more coverage you need. You may have substantial financial responsibilities, such as student loans to be paid off, costs incurred while establishing your business, a home mortgage, saving for your children's education





or your retirement, yet you may not have worked long enough to set aside the money needed to cover a potential loss of income of more than a few months.

The Elimination Period is the amount of days you must be continuously disabled before you can be considered Totally Disabled. The standard for most contracts is a 90 day elimination period but there are also 30, 60, 180 & 365 day options available. A shorter elimination period will be more expensive than a longer elimination period but it is important to consider cash flow and savings to determine the appropriate amount of time that you can “self-insure” before needing Income from your Disability contract.

The Benefit Period is the length of time for which you would receive the Benefit Amount; both the Benefit Period and Benefit amount will be stated clearly in your policy. You have to take into account a variety of factors, such as your age and resources available to you, when selecting the length of time for which you want to secure coverage to replace your income in case you cannot work due to an injury or sickness. Current benefit periods available include “to age 70,” “to age 67,” “to age 65,” 10-year, 5-year & 2-year

Someone approaching age 55, or who has substantial resources or few obligations, might consider a shorter period than a younger person. The younger person may be more vulnerable to financial disaster caused by loss of income as they may still have substantial obligations, yet have little savings available to meet them if they couldn’t earn a living. Choosing a limited benefit period, while possibly lessening the premium, provides coverage only for disabilities that are resolved during that period. This still leaves you financially vulnerable in case your disability continues after the benefit period has expired; while you remain disabled and your ability to earn a living is impaired, your coverage will end.

CONCLUSIONS There are many different ways to construct a Disability Insurance policy and as you can see slight variations in the contract language can have a material impact on how a policy will (or will not) pay in the event of an injury or sickness. But if you spend the time to research and understand the Contract and Definitions of your coverage you will be prepared if you ever suffer an injury or sickness and need the policy to generate Income While You Are Disabled.



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