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LONG TERM DISABILITY INSURANCE

WHAT IS IT

The simplest definition is that if you are unable to perform the duties of your job due to a sickness or injury, disability insurance will pay you a portion of your income.

WHY IS IT IMPORTANT

The number one asset you have is your ability to earn a living. More than your home and autos combined. Multiply your annual salary by the number of years you have left to work.

Another reason is that you are 3 times more likely to suffer a disability during your working life than you are to die. If you are disabled and cannot go back to work, or must take a position that pays significantly less, most people will be forced to scale down their living expenses to match their income (even you income is from social security disability (SSDI) only). This means your spouse going back to work, selling your home and autos and replacing them with something that is more cost-effective. Having a disability means losing much more than you ever imagined.

HOW MUCH DOES IT COST

Disability Insurance typically costs between 1% to 3% of your income depending upon the plan.

HOW DO I CHOOSE A PLAN

You work with an insurance agent who understands disability insurance. They can explain the various benefits and optional riders available to you.

WHAT ARE SOME THINGS TO LOOK FOR

There are four very important parts to a disability plan.

1. Definition of disability.
2. Whether it covers partial disability.
3. The length of the elimination period (the period of time before DI will pay out).
4. The length of time the DI will pay out (from 2 years to age 70).

DEFINITION OF DISABILITY

There are three definitions. True Own Occupation, Modified Own Occupation, and Gainfully Employed.

True Own Occupation means the insurance company will pay you if you cannot go back to your same occupation, regardless of whether you are working in another occupation. For example, if you were a physician, became disabled, and are now working in sales, then you would still be paid your full benefit. As long as you are unable to work as a physician.

Modified Own Occupation is the more common definition insurance carriers use. It means the insurance company will pay you if you cannot go back to your same occupation and are not employed in any other occupation. If you are employed in another occupation, then they will pay you the difference between your income from your own occupation and your new occupation. For example, you were earning \$50,000 a year as a project manager. You became disabled and are now earning \$25,000 a year as a cook. DI will pay you 50% of your benefit.

Gainfully Employed is a definition to stay away from. Simply put, if the insurance company feels that you are able to flip burgers and you don't want to, then they will deduct the amount you would have earned from that job from your benefit.

PARTIAL DISABILITY

An extremely important benefit which should be added to every policy is a residual disability rider. This means that if you go back to your own occupation, yet cannot earn as much as before, then the insurance company will make up the difference. Without this rider, if you go back to work (even if your doctor releases you to work just 10 hours per week), you will not get any benefit.

For example, you make \$100,000/year. You become disabled and are only able to work 20 hours/week. You now make \$50,000 per year. Your insurance company will pay you 50% of your benefit.

Note: you must suffer at least a 20% loss of income for this rider to take effect.

ELIMINATION PERIOD

The period of time between when a person becomes disabled and the insurance plan starts to pay out (eligible for benefits). The period can be as little as 30 days up to 2 years, with the most popular being 90 days.

Think of this as your deductible. The longer the elimination period, the less expensive the premium will be. Choose a length of time that you can comfortably go without a paycheck.

LENGTH OF TIME DISABILITY INSURANCE WILL PAY

How long do you think you will need disability insurance to pay? That is a key question. Simply put, choose the longest benefit period you can afford. Note: There are short-term disability plans available through employer groups that are very inexpensive and can fill the short-term gap. Please ask about them.

OTHER OPTIONAL ITEMS

There are many other optional items, including

- COLA - Cost of Living Adjustment
- FIO - Future Increase Option
- AIR - Automatic Increase Rider
- Group LTD Replacement
- Residual Disability Insurance (explained above)
- SIS - Social Insurance Substitute Rider

DISCLAIMER

This is only meant as a general overview of disability insurance and does not contain all provisions/options/definitions. Please speak with your agent for more information. This paper should not be relied on to make a decision about Disability Insurance.

If you have questions, please feel free to contact me.

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