Disability Insurance 101

What is the Right Kind of Disability Insurance?

The most flexible and reliable source of coverage is an individual disability insurance policy you purchase on your own. A privately owned policy is portable, meaning you won't have to worry about losing coverage if you change jobs. Generally, most individual plans will pay between 40% to 65% of your pre-disability gross salary. When paid with after-tax dollars, benefits are received income-tax free.
Have you ever thought about how you would replace your income if disability strikes? Have you ever thought about your ability to earn living as your greatest asset? You insure your home and your car, right? Did you know the probability of having a loss in your home is 1 out of 88 and for automobiles it's 1 out of 70? The probability of having a DISABILITY LOSS is 1 out of 8.

When evaluating a disability insurance policy, here are the most important terms to be familiar with:

Total Disability= The insured has a total disability or is totally disabled if, due to sickness or injury, in and of itself, he or she is not able to perform the material and substantial duties of his or her regular occupation. If an insured's regular occupation at the time disability began is limited to a board certified specialty within the scope of his or her degree or license, the company will deem that specialty to be the insured's regular occupation.

Non-cancellable= Cannot cancel the policy as long as premiums are being paid.

Guaranteed Renewable= guarantees the premiums as stated in the policy, which can be renewed until the expiration date of the benefit period selected. Cannot add restrictions during that time. Own Occupation or Regular Occupation.

Occupation= The insured has a total disability or is totally disabled if, due to a sickness or injury, in and of itself, he or she is not able to perform the material and substantial duties of his or her regular occupation. The insured is not totally disabled if he or she can:

1. **Perform any of the material and substantial duties of his or her regular occupation; and**
2. **Be employed in, or can engage in, his or her regular occupation on a full-time or part-time basis.**

The occupation (or occupations if more than one) in which the insured is regularly engaged at the time disability began. If his or her regular occupation at the time disability began is limited to a board-certified specialty within the scope of his or her degree or license, we will deem that specialty to be his or her regular occupation. If the insured is not working at the time disability began, regular occupation means any occupation he or she is able to do based on his or her education, training and experience.

Elimination Period= The elimination period is the period of time that the insured must be totally disabled or residually disabled before benefits begin.

Benefit Period= from the time of claim to age 65 or 67 or 70. You get to choose.

Waiver of Premium= If the insured is totally or partially disabled for at least 90 days or the waiting period, if shorter, we will waive payment of premiums that become due while he or she is receiving total or partial income.

Residual= This is the most used rider by Physicians. If disabled due to Sickness or Injury, the insured suffers a loss of time or a loss of duties, and an earned income loss between 20%-75% of Pre-Disability earnings, then proportionate benefits are paid equal to the percentage of income lost. Example... If income loss is 60%, then 60% of the total disability base benefit amount will be paid. *(a minimum of 50% of the total base benefit is guaranteed the first 6 months of Residual Disability, if there is at least a 20% earnings loss.)* It is conveniently called the "back to work rider".

Catastrophic= Provides additional Total Disability Benefits while catastrophically disabled. If due to sickness or injury: (a) the insured is unable to perform two of six Activities of Daily Living (ADL's) (bathing, continence, dressing, eating, toileting, transferring) without stand-by assistance due to loss of functional capacity; or (b) the insured requires substantial supervision due to Severe Cognitive Impairment. At time of issue the CAT Rider benefit is limited to the following: (1) up to 3x base monthly benefit, (2) Maximum Issue Amount of $10,000 per month, and (3) Total coverage cannot exceed 100% of the insured's monthly earned income.

Why put your Individual Disability in place now:

- **97% of Physicians carry an Individual Disability Plan.**
- **Unlike Employer (Group) Disability Plans, Individual plans transfer between jobs.**
- **Lock your rate while you are still young and healthy.**

Other items of interest

What Is a Cross-Purchase Agreement?

A cross-purchase agreement is a tool used by business owners to assure that "business as usual" continues if co-owner dies. The cross-purchase buy-sell agreement stipulates that—

- **a deceased owner's estate must sell the business interest to surviving owners, and**
- **the surviving owners will buy that interest.**

There are no exceptions—the estate must sell and the survivors must buy. A cross-purchase agreement also establishes the price to be paid for the deceased owner's business interest. The price is based on: (1) a definite fixed amount stated in the agreement; or (2) a formula by which a definite price can be established. Current tax law has made the second method the more prudent choice in recent years.

Why a Disability Buy-out Agreement Is Needed?

Disability may be a double expense to the small business. In the absence of an agreement, the owner may still receive his or her share of the profits or a salary. In addition, if the owner was active in the management of the business, the business may have to hire a suitable replacement, thereby "paying twice." How long should this go on?

Unless a disability buy-out agreement is established, an otherwise healthy and prosperous business could be headed down the road to financial disaster. Co-owners and/or business associates may find their freedom to make decisions limited by the differing priorities of the disabled owner or by their own desires to protect their investments. These active owners may also be placed in the position of seeing their disabled associate share in the profits just as if he or she were still an active contributor to the business.

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