

## Know the Facts Before You Choose a DI Policy

A sports injury, a car accident, a problem pregnancy...no one knows when—or how—disability will strike. That unpredictability is why the best disability income (DI) insurance policy is the one that generates the most benefits in the greatest number of disability scenarios.

But how do you know which DI policy is the best for you? Given how much is riding on your decision—your ability to maintain your family’s current (and future) lifestyle—it is imperative that you know what to look for before you purchase disability protection...as well as what to reasonably expect from your insurance carrier once you become a disability income insurance policyholder.

Admittedly, it can be a daunting prospect. Because disability coverage involves many more factors than life insurance, sorting through various DI policy provisions may seem overwhelming. Obviously, your selection of an insurance agent or broker who can work with you to find optimal coverage for your individual situation is key. If your questions or concerns aren’t being addressed to your satisfaction, find another advisor.

However, you don’t have to be an insurance professional to know what to look for. When it comes to DI, there are a number of criteria—independent of any specific insurance carrier—that can help you evaluate a policy.

### Five Sound Ways to Judge

**First, look for the signs of quality coverage.** The renewability provision is one of the key features of any individual disability income policy. The reason? This provision defines your rights when it comes to keeping your DI protection in force.

In general, a disability contract may be *guaranteed renewable* only or both *non-cancellable* and *guaranteed renewable*. If a policy is guaranteed renewable only, the insurance company agrees to keep renewing your contract as long as you continue to pay the premiums on a timely basis. While the insurer cannot change the provisions of the policy, it can increase premiums by age, state, occupation class and other categories with prior notification.

When the term “non-cancellable” is added to guaranteed renewable, the insurance company cannot change any policy provisions and it cannot increase the premiums. As long as premiums are paid on a timely basis—and assuming that all underwriting information is truthful and accurate—the insurance company cannot cancel the contract.

**Second, understand the policy’s definition of “total disability.”** There are two basic kinds of DI insurance available: *Income Replacement* and *Own-Occupation* (often referred to as “own-occ”). Each has its own definition of what constitutes a benefit-worthy disability, so it’s important to know about the differences between them.

As its name implies, Income Replacement pays benefits if you suffer a loss of income due to a disability. The drawback to this type of policy is that it doesn’t cover you for the loss of a skilled profession, such as dentistry, which—as you well know—requires years of specialized, difficult and expensive training.

Own-Occupation pays benefits if you can’t perform “the material and substantial duties of your occupation” due to sickness or injury. In other words, you are considered totally disabled—and receive benefits accordingly—as long as you are not able to work in the occupation in which you were engaged at the time you became disabled. This is true even if you are performing unrelated duties in a different occupation—even, for example, if you are earning a significant income teaching or writing.

Dental specialists, take note: A few own-occ policies even take the own-occupation concept a step further in protecting professional specialties. If your occupation is limited to a single dental specialty recognized by the ADA, certain policies will consider that specialty to be your occupation, even if you're able to perform other dental procedures.

**Third, be aware of what happens if you don't experience a "total disability."** Disability isn't always "total." You may suffer a partial (or residual) disability that limits your ability to work and results in decreased income—or an initial total disability followed by an extended period of residual disability.

In such circumstances, most good policies will pay benefits proportionate to your income loss and, for the first six months' benefit, at least 50% of the total disability benefit. Beyond that, DI policies can vary significantly when it comes to residual disability benefits. For example, most companies discontinue residual benefits when your income loss falls below 20%. Some policies, however, will continue to pay residual benefits after this point as long as the monthly benefit greater than a certain pre-specified amount.

As with all contracts, it pays (and, in a highly compensated profession such as yours, pays substantially) to read and thoroughly understand the fine print.

**Fourth, know the specifics of your policy's "elimination period."** All DI policies have an *elimination period*—that is, the period of time that must elapse before monthly benefits begin. It functions somewhat in the way a deductible amount does on other types of insurance—except rather than making you responsible for paying a certain dollar amount before coverage starts, it is a period of time you must wait after you become disabled before your benefits can begin.

Most companies offer several choices of elimination periods—from as little as one month to as much as two years. The longer the elimination period, the lower the cost of your coverage. Be on the lookout for whether your prospective insurer allows different periods of disability, from the same or a different cause, to count towards your elimination period (which typically must be accumulated within a certain timeframe, e.g., a three-month elimination period must be accumulated within a seven-month period).

If you return to work after a period of disability that's shorter than your elimination period but then become disabled again while you are still in the accumulation period, many companies will require the second disability to be due to the same or related causes, or they'll apply a new elimination period. Again, understanding the fine print is critical. In this case, understanding how an elimination period is calculated can result in finding a policy that pays out more in benefits—and sooner.

**Finally, customization is key.** One size does not fit all. The best DI policies offer a variety of optional benefits to enhance your coverage and allow you to tailor it to your specific situation. Depending on the insurer, you may be able to add policy riders to keep your coverage in line with your increasing income, help your disability benefit keep pace with inflation, work alongside Social Security benefits, even help maintain your coverage if you become unemployed.

## **Okay, now what?**

Congratulations: You've done your homework, listened closely to an agent or broker whom you trust and scrutinized the provisions of the perfect DI policy. What should you expect once you sign the dotted line and submit an application?

Underwriting a life insurance policy tends to be a more straightforward proposition than underwriting DI coverage. In addition to medical tests, extensive financial documentation is required. To avoid delays in policy issue, it's essential that your agent or broker gathers a complete health history from you, including dates, types and amounts of medications; procedures performed; and names and addresses of all medical professionals consulted. Obviously, your honesty in disclosing your medical history is of paramount importance, both at the underwriting stage of the process as well as when and if a claim should need to be filed. The same goes for your finances.

If the company's underwriters determine that—due to a pre-existing medical condition or engagement in an activity that could result in a disability—a risk of your becoming disabled in the future exists, a number of outcomes are possible. You may be deemed eligible for coverage but may be asked to pay slightly higher premiums (a process called “rating”). A small percentage of applications are declined. In between these two outcomes, many applicants with medical conditions can still obtain excellent DI coverage with a Medical Exclusion Rider attached (depending on the insurer).

The basic idea behind a Medical Exclusion Rider is to offer you disability income coverage even if you have a medical problem—with the proviso that any disability you suffer that is attributed to or involves the condition that has been excluded from coverage will result in no eligibility for benefits. And (again, depending on the insurer), although a Medical Exclusion Rider is usually permanent because of the nature of the medical risk that has been identified, in some cases the carrier will consider removing it if you believe and can show that the condition excluded is no longer a concern.

## **If Disability Strikes**

I am a strong believer that carefully choosing the right DI policy for your circumstances should result in fewer surprises when it comes time to file a claim. And, while it may seem unlikely that you will ever be in that situation, particularly if you are young and healthy, consider this: A 35-year old man is 4.1 times more likely to suffer a disability that lasts 90 days or more before he reaches age 65 than he is to die; a 45-year old is 4.4 times more likely.

How you choose to safeguard your livelihood is one of the most important decisions you will ever make. High-quality disability coverage is expensive. Therefore, you owe it to yourself and to your loved ones to become the most educated DI consumer you can, ask difficult questions and insist on comprehensive answers, thoroughly weigh all options and, once you select a policy, participate honestly and openly in the underwriting process.

If this “due diligence” is exercised, you can feel confident that you have done the best you can to secure reliable DI coverage from a reputable company.