

What is Disability Income Insurance?

Disability Income Insurance - The Basics

Understanding disability income insurance is easier than you may think.

- Disability income insurance provides income while you're disabled.
- The amount paid is usually a percentage of your salary or wages.
- The payments are for a specific period of time stated in the insurance policy.

The 2 types of disability income insurance you can buy as an individual are long-term disability income insurance and short-term disability income insurance.

Defining Disability

Considering the purchase of disability income insurance? **The definitions of disability used in an insurance policy are very important.**

The words used to define types of disability can:

- Determine the amount of the payments you receive.
- Affect how long and under what circumstances you'll receive benefits.

The 4 most common definitions of "disability" are:

1. Total Disability

Can mean you're unable to:

- perform the requirements of your own occupation **or**,
- perform the requirements of any occupation.

After a year or 2 of paying benefits, **some disability income insurance policies will stop payments if you're unable to perform your own job, but can perform the requirements of another suitable occupation.**

2. Catastrophic Disability

Usually means a complete loss of speech, loss of hearing in both ears, sight in both eyes, or use of 2 limbs. **Many insurance policies pay an additional 50% of the monthly total disability amount** if one of these losses occur.

3. Partial Disability

Generally means you can perform only part of your job duties. Insurance usually costs more if you want to be paid partial disability benefits.

4. Residual Disability

Most often means you have begun to recover from total disability, but are not yet capable of earning your former salary. Insurance usually costs more if you want to be paid residual disability benefits.

Things to Consider About Disability Income Insurance

What if you suddenly became disabled and are unable to produce the income needed to pay your bills and living expenses? Consider this:

- Even if Social Security or a state disability program sends a monthly benefit check, the amount of money may not be enough to cover expenses.
- Group disability insurance payments from an employer's plan may not be large enough, either.
- Without more income you could be faced with dipping into personal savings or changing your lifestyle.

Disability Payments and Taxes

When you buy disability income insurance the benefits paid are generally income tax free. If an employer pays all or part of the premium for group disability insurance coverage, the payments are taxable income to you. **Consult your tax advisor to see if this applies to your specific financial circumstances.**

Coordination of Payments

Under most personal policies, the monthly amount paid by long-term disability income insurance may be reduced if money is received from:

- Social Security
- State disability or worker's compensation
- Group disability insurance
- Short-term disability insurance