



## WHAT TO LOOK FOR IN CHANGING DISABILITY POLICIES

Statistics show that workers are more likely to suffer loss of income from a temporary disability of 90 days or more, or a permanent disability, than they are from death. If you cannot afford to self-insure, or you don't have an outstanding group policy from your employer, you're probably going to have to buy an individual disability income policy. However, disability insurers have been redesigning their policies in recent years. Here are some of the changes you should consider when buying a new policy.

**Own-occupation coverage being limited.** For years, the own-occupation benefit was a mainstay of disability policies. This meant that if you couldn't substantially perform the duties of your particular occupation—even if you could do something else—the policy paid benefits in full. A surgeon who could no longer perform surgery but could perform as a general practitioner still collected full benefits.

However, claims became so high—in some cases, abusive claims—that insurers began redesigning the benefit or pricing premiums for own-occupation policies 20 to 25 percent higher. In some cases, insurers limit full own-occupation benefits to a certain number of years, such as two (the most common) or five years. The person collects full benefits beyond this period only if he or she can't perform any type of suitable work.

Another prevalent approach now is to simply have the shortfall of earnings replaced. If you can work at another job that pays two-thirds of what you were previously earning, the policy will replace the missing third—not pay you full benefits.

**Guaranteed renewable becoming the rule.** The norm for disability policies was non-cancelable—the premiums were guaranteed never to go up nor the benefits changed. Now the standard is guaranteed renewable—premiums can rise, but only with the approval of state regulators, and only for the entire class of policyholders.

**Tighter definition of disability.** Carriers are tightening their definitions of disability. In particular, they are making it tougher to collect for mental illness, nervous disorders or substance abuse.

**Reducing income benefits.** Insurers have reduced the percentage of pre-disability income they are willing to pay out. In some cases, nontaxable benefit payouts (the premiums were paid with after-tax dollars) were nearly as high as the after-tax income being earned by the insured, thus reducing the incentive to return to some kind of work.

**Limiting benefits.** It's more common to see lifetime maximums on certain types of claims, such as two years for mental illness or carpal tunnel syndrome.

**Lack of lifetime benefits.** Benefits for life either are not available or are expensive. Insurers may still offer benefits up to age 65 or 67, but not all do even that. This is less of a problem the older you are, since you've probably been able to accumulate assets that can help replace lost income.

**Lower premiums.** The upside to this restricting of benefits is that policies generally are priced lower than they were in the past—15 to 30 percent lower. However, these lower premiums complicate the decision of whether to drop an old policy. On the one hand, the premiums of a new policy will likely be lower. On the other hand, the features such as own-occupation and non-cancelable may be more valuable.

If the old policy is a good one but with premiums that are too steep, consider reducing some of the benefit levels or extending the waiting period. These options become more attractive the more wealth you've accumulated. The decision to drop an old policy in favor of a new one, or drop coverage entirely, should be discussed thoroughly with your Certified Financial Planner practitioner in light of your current financial situation and your ability to obtain alternative coverage.

**Rehabilitation features added.** Newer policies tend to be more willing to pay for rehabilitation treatments so that the policyholder can go back to work.

**Finding coverage can still be difficult.** As in the past, the self-employed will still find it more difficult than most others to qualify for coverage or for the amount of coverage they want. Some occupations, such as dentists and physicians, may find individual coverage more expensive and more difficult to obtain. If group policies are available, they may be the better deal.

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