MOST AMERICANS UNPREPARED FOR FINANCIAL IMPACT OF DISABILITY

South Dakota Insurance Commissioner Offers Tips to Consumers on Disability Insurance

The Basics: What All Consumers Should Know About Disability Insurance

For insurance purposes, disability is typically defined as the inability to work due to an illness or injury, although the definition varies among different insurance companies and policies.

There are two main types of disability insurance: short–term and long–term.

Short–term disability insurance, replaces a portion of the policyholder's salary for a short-period — typically from three to six months following a disability. The specific percentage of replaced income varies with different policies.

Long–term disability insurance coverage typically begins after the policyholder is disabled and unable to work for at least six months. The coverage period can extend for a specific number of years or until the policyholder retires or turns 65, depending on the policy selected and the type of disability. Though policies can be costly, being disabled for a long period of time can be financially devastating. According to research by the U.S. Department of Education and the National Institute on Disability and Rehabilitation, the most common causes of long–term disability are heart disease, back injuries and cancer, followed by anxiety and depression. In 2005, about a third of disabled worker beneficiaries had been diagnosed with a mental disorder, according to the SSA.

Consumers should not confuse disability insurance with workers' compensation — a benefit that employers are required to carry in most states for employees who are injured on the job.

Tips:

- Determine how much money you'll need to cover all of your critical expenses (such as mortgage payments/rent, food, utilities and transportation) should you become disabled. Unless your investments and savings can maintain your current lifestyle for several years, you may want to consider purchasing long–term disability insurance, which typically covers about 60 percent of your previous income. The percentage varies depending on the policy you select. Also, you'll need to decide how long you want benefits to last. You should consider what employer paid leave may be available determining what kind of policy would fit your needs.

- Be aware that having a pre–existing health condition, such as a back problem or heart ailment, coupled with your age, could affect whether you'll qualify for long–term disability insurance and at what cost. You may be subject to a higher premium or be "excluded" completely from purchasing a policy based on your medical history.

- Typically, younger, healthier individuals pay lower disability premiums. If you purchase disability insurance at a young age and can get a "non–cancelable" policy, your coverage can't be cancelled and the premiums can't be raised once your medical exam has been approved and your policy issued, assuming your premiums are paid on time.

- While a "guaranteed renewable" policy can't be cancelled, its premiums may be increased on the anniversary of the policy or when stated in the policy.

- Most long–term disability insurance stipulates a waiting period, such as 90 days, 180 days or one year before benefits are paid. The longer the waiting period you select, the lower the premium.

- If you have disability insurance and become disabled, you'll need to file a claim. Keep in mind that many insurance companies will require supporting documentation from physicians to verify whether and to what extent you are disabled, before paying out on a claim.

- Find out if your employer offers a group short–term and/or long–term disability plan. Typically, premiums from group plans are less expensive than individual policies. Also explore whether you can convert group disability coverage from your previous employer to an individual policy should you change jobs.

The federal government does offer long–term disability benefits through the SSA under the following specific circumstances: *"…if you cannot do work that you did before and we decide that you cannot adjust to other work because of your medical condition(s). Your disability must also last or be expected to last for at least one year or to result in death."*

Disability Insurance Tips for Each Life Stage

Following are some considerations for consumers based on their likely needs in different life stages.

- **Young singles**: A 20-year-old worker has a 30 percent chance of becoming disabled before reaching retirement age, according to the SSA. Young people who suddenly can't work due to an accident or sickness still will be responsible for paying their bills.

- **Young families** who rely on both spouses' incomes should consider purchasing long–term disability insurance for both. At this life stage, families typically have many expenses, including a mortgage and child care.

- **Established families** may also want to consider purchasing disability insurance. In addition to their regular expenses, established families are likely trying to put away a portion of their income to pay for their kids' college tuition, as well as save for retirement. Becoming disabled for a lengthy period can greatly interfere with these savings plans.

- **Empty nesters/seniors** who are still employed may want to keep their disability insurance in force until they turn 65 or retire.

Consumers are welcome to contact the Division of Insurance at 445 E. Capitol Pierre, SD 57501 or by calling (605) 773-3563 before purchasing any disability policy to make sure the company offering the coverage is legitimate, solvent and authorized to do business in South Dakota.