DISABILITY INSURANCE

Disability insurance or disability income insurance is a form of insurance that insures the beneficiary's earned income against the risk that disability will make working (and therefore earning) impossible. It includes paid sick leave, short-term disability benefits, and long-term disability benefits.

Individual Disability Insurance

Where employers do not provide benefits or self-employed individuals desire disability coverage, may purchase their own policies on the open market. Premiums and benefits for individual coverage vary considerably between different companies, different occupations, and provinces. In general, premiums are higher for policies that provide more monthly benefit, pay the benefit for a longer period of time, and start payments for benefits more quickly following a disability. Premiums also tend to be higher for policies that define disability in broader terms, meaning the policy would pay benefits in a wider variety of circumstances.

High Limit Disability Insurance

Traditional disability carriers have limitations on the monthly benefits that can be purchased which limits the benefits for high income earners. Benefits will normally cap at $20,000-$25,000 of monthly benefits until you go to the High Limit Disability markets. High Limit Disability Insurance is designed to keep individual disability benefits at 65% of income regardless of the income level. Coverage is typically issued on top of coverage that is already in force. High Limit Disability Insurance benefits can be anywhere from an additional $2,000 to $100,000 per month.

Key Person Disability Insurance

Key persons disability insurance provides crucial benefits for any functioning business to protect the company from financial hardship that may result from the loss of a key employee due to disability. Key Person coverage provides cash flow to help a company move forward and maintain a profit in the event a key employee becomes disabled. The company could use the disability benefits to hire a temporary employee should the disabled employee's prognosis appear to be a short-term disability. In the unfortunate circumstance of a permanent disability, benefits would then be used to help defray the costs related to hiring a replacement employee, such as recruitment, training, startup, loss in revenue and unfunded salary continuation costs.

Business Overhead Expense Disability Insurance

Business Overhead Expense (BOE) coverage is designed to reimburse a business for overhead expenses should the owner experience a disability. Eligible benefits include: Rent or mortgage payments, utilities, leasing costs, laundry/maintenance, accounting/billing and collection service fees, business insurance premiums, employee salaries, employee benefits, property tax, and other regular monthly expenses.

Claims: What is Covered and For How Long

The important variables regarding claims are listed below. Not every variable matters to every type of disability insurance, but most of these are generally relevant.

- **Was the disability unpredictable (not resulting from previously-known chronic illness)?**
  - For example, a potential policyholder seeking a regular individual policy on the open market must warrant that he is in good health and to the best of his own knowledge is not currently HIV-positive. A general principle of insurance is that the policyholder sells risk that, to the best of his knowledge, is not higher than the stated circumstances imply. Withholding relevant circumstances or hiding them is selling something that is not what it is represented to be.

- **Was the disability incurred in the course of performing job-related duties?**
  - For example, workers' compensation policies are not obligated to pay claims for disability that is not job-related. Insurance for such risks can indeed be purchased, but because the risks are more inclusive, the premiums are higher. A policyholder always needs to understand what she is or isn't buying with her premium. And the insurer is legally obligated to specify exactly what coverage is or isn't being sold.

- **How long is the waiting period before claim payments start?**
  - Because most disability events are temporary, insurance coverage for them is cheaper when the policyholder agrees to wait longer before receiving claim payments. For example, if you break a finger, it may only be 2 months before you are able to do your job again. If you agreed to wait 60 days before receiving claim payments, then the insurer will not have to pay a claim for your event. This reduction to his risk is reflected in the lower price that you paid to purchase coverage (lower premiums)

- **What other insurance policies will pay claims for this event?**
  - For example, if an auto accident renders you unable to work for 5 months, your auto insurance policy with Company A may include coverage for lost income during this period. (Often lost-income coverage is a separate rider to the auto insurance policy that you must pay extra for if you choose to have it.) In this case, you may choose to make a claim with Company A and either (1) make another, secondary claim with Company B, who issues your disability income insurance, or (2) decide that the primary claim is enough and avoid making an unnecessary claim with Company B. Sometimes there is a previously established order of priority that rules that Company B is liable for the claim only to the extent that Company A's coverage is not enough.

- Another important example in this category is that if your injury is someone else's fault, their liability coverage from, say, an auto, home, or personal umbrella policy may pay for your lost income, and therefore you will not make a claim on your own policy.

- **How much money will be paid per week/month/pay period?**
  - For example, it is rare for any policy to pay the full amount of the beneficiary's regular salary. (Policies that do are expensive, "high-end-of-the-market"-type policies.) Generally it will pay only some percentage, such as 80%, or it will pay only a flat amount, such as $1500/month, regardless of the normal salary amount.

    The idea behind this reduced benefit is that it is enough to protect you from mortgage foreclosure, or to keep you from running up huge debts, during your convalescence, even though it is not enough to live a carefree lifestyle on. In return for this trade-off, your premiums are lower. This is a good trade-off when you remember that hopefully, you will never have to make a claim anyway, so why pay higher premiums than you have to?

- **For how many weeks/months/pay periods will payments continue?**
  - Most policies in the lower and middle areas of the market will have a cap, for example, 5 years. More expensive policies will pay all the way to the age when the government pension plan takes over as the primary income source.

- **What if the beneficiary is not totally disabled, but partially?**
  - Most policies in the lower and middle areas of the market will only pay claims if there is *no* job that the beneficiary can possibly do. Others, referred to as **own-occ** policies, will pay the claim as long as you cannot return to *your own occupation*. Own-occ policies cost more to buy (higher premiums) than non-own-occ, because their claims risk is greater. For example, suppose that your normal job involves lifting heavy boxes and getting paid $4000/month. Then you get injured, and can't lift so much weight. However, you are still capable of doing light assembly work at a workbench for $2000/month. If your policy is a less-expensive model, the insurer will tell you that no claim will be paid, because you are capable of working (although not at your own occupation). But if your policy is an own-occ policy with a claim amount of 75% of your normal salary, it will pay you a claim of $3000/month. This payment will recur monthly until (a) you are able to do your normal job again; or (b) the cap is reached (for example, 5 years later); or (c) you reach age 65 (when the policy ends and you begin collecting CPP)

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