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**Harmony Wealth
Strategies**

BUILDING AND SAFEGUARDING
YOUR FINANCIAL WORLD

How Disability Income Insurance Policies Define Disability





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When was the last time you read the fine print of an insurance policy? The fine print tells you some important information--how the policy defines disability, what your benefits will be, what exclusions apply, and more. The disability definition used in the policy determines how you qualify for disability benefits.

To be considered disabled under most policies, you must be unable to earn income. However, many policies narrow down this definition quite a bit. They may specify that you must try working in another occupation if you can't do your own job, or they may pay benefits if you can do some but not all of the duties of your own occupation. Other policies aren't concerned with occupation at all; they consider you to be disabled when, because of illness or injury, you earn less than you did before.

Own occupation coverage

Although the terminology used to define disability varies from policy to policy, an own occupation policy generally defines disability as the inability to perform the material and substantial duties of one's own occupation. This definition of disability is liberal, because even if you can work in another occupation, you still receive disability benefits. Own occupation coverage is often more expensive and may be available only to individuals who have a clean medical history and work in a relatively risk-free occupation.

Any occupation coverage

An any occupation policy defines disability as the inability to perform the duties of any occupation. This definition of disability is strict. To receive benefits according to this definition, you have to be unable to work in any occupation, not just your own. Generally, however, the wording is modified to take into consideration your earning level, education, training, and experience.

Split definition coverage

Many disability policies incorporate both an own occupation definition of disability and an any occupation definition. You purchase a policy that provides own occupation coverage for a limited period of time. After this period ends (usually two years), you must meet the any occupation definition of disability to continue receiving benefits. This is sometimes known as short-term own occupation coverage.

Presumptive total disability coverage

No matter how your insurance company defines total disability, most companies automatically consider certain catastrophic ailments to be totally disabling. If you are disabled by one of these ailments, you don't have to meet the conditions normally required in order to be considered totally disabled. Not only do you receive immediate benefits, but you also continue to receive benefits even if you are able to return to work. These ailments (which may be caused by injury or illness) are the loss of sight in both eyes, hearing in both ears, speech, the use of both hands, the use of both feet, and the use of one hand and one foot.

Residual disability coverage

Disability policies can pay benefits in the event that you cannot work at all (total disability), can work some time but not all the time (residual disability), or both. Residual disability or income replacement policies pay benefits according to the amount of income you have lost due to disability. These policies pay benefits even if you are not totally disabled and can work part-time. Your benefit will be based on the percentage of income you earn working part-time in relation to what you used to earn working full-time. In some policies, to qualify for residual disability coverage, you must first qualify for a period of total disability. This is the least desirable method.

You can purchase a total disability policy with residual coverage as a rider, or an income replacement policy (as residual coverage is known when that is the only way benefits are paid) as a stand-alone policy. The income replacement policy will generally cost less than the total disability policy with the residual rider.

Partial disability coverage

Partial disability coverage is usually offered as a rider to a total disability policy, although it may be included in base coverage. It is similar to, but not the same as, residual disability coverage. Both types of coverage pay benefits if you can perform some but not all of the duties of your occupation. However, unlike residual disability, a partial disability definition does not consider loss of income. Rather, you are paid an amount equal to 50 percent (occasionally less) of the benefit that you would earn if you were totally disabled. In addition, the benefit period is much shorter than that for residual disability (a few months or a year at most).

Does your policy cover illness, injuries, or both?

Most policies offer coverage for both injuries and illnesses. Some policies, however, offer accident-only protection and don't cover



illnesses. Also, because work-related disabilities are covered by workers' compensation, most policies will reduce their benefits by any amount of benefits paid by workers' compensation, as well as any benefits received from Social Security and other government programs.

Sickness is usually defined in disability policies as illness or disease that manifests itself while the policy is in force. This definition covers mental as well as physical illness, but most policies limit payments for mental illness and drug- or alcohol-related disabilities to two years of benefits. Some policies have exclusions for disabilities caused by pregnancy, war, and self-inflicted injuries as well as other exclusions. All of the exclusions will be detailed in the policy.

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