Harmony Wealth Strategies
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Harmony Wealth Strategies
BUILDING AND SAFEGUARDING YOUR FINANCIAL WORLD

Beyond the Basics: Disability Income Insurance Riders

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Riders are policy add-ons that enable you to customize an individual disability policy to fit your needs. By using riders, companies do not require every policyowner to pay for every optional feature, whether they want it or not.

Some benefits and features normally sold as riders will be included as base coverage in some policies, but more often they must be purchased in addition to the policy, and will substantially increase the policy's cost. Generally, you must purchase riders when you buy the policy--they typically can't be added on to the contract after the policy is issued. Here are details on some (but not all) of the optional benefits and features that can be purchased as riders and added on to a disability income insurance policy.

Future increase option rider

This is one of the most common riders, and one that may be particularly important to younger policyholders (typically, those under 40). A future increase option rider protects your future insurability by guaranteeing you the right to purchase additional amounts of disability insurance at specified dates in the future. The premium for any additional coverage purchased in the future will be based on your age at the time of purchase. Future purchases are generally limited to half the original benefit amount, and you will be required to prove that your earned income warrants additional coverage. This rider generally cannot be added after you reach age 45, although some insurers make it available through age 50. The future increase option may also be called a guaranteed insurability option or a guaranteed purchase option.

Cost-of-living rider

A cost-of-living rider protects the purchasing power of your disability benefits against the effects of inflation. After you have received benefits for a year, this rider automatically increases the amount of your benefits to offset cost-of-living increases. Typically, increases in benefits occur annually and are tied to an established index that measures the cost of living, such as the consumer price index (CPI), or are a set percentage of your benefit. Some companies cap the increase amount to one or two times the original benefit. The insurance company lets you choose the CPI index or a fixed percentage at the time you purchase the rider. The cost-of-living rider is often very expensive, but it may pay off if you suffer a long-term disability.

Social Security rider

The Social Security Administration has a very narrow definition of "total disability," and consequently about 60 percent of all initial applications for Social Security disability benefits are denied. (Source: Social Security Administration, Disabled Worker Beneficiary Statistics.) Even those that are approved must wait several months before Social Security benefits begin. Because of this, companies have introduced the Social Security rider, which provides additional benefits during the first year of your disability while you are waiting for your Social Security benefits to kick in. This rider may be structured in one of two ways:

- All-or-nothing rider: If Social Security approves your application and provides any benefit, this rider pays nothing. If you do not get Social Security benefits, the rider pays out the specified benefit.
- Offset rider: The benefit paid by the rider will be reduced (or offset) by any amount you receive through Social Security.

Hospital income rider

This rider, which is losing popularity, provides a set payment for each day you are hospitalized because of your disability. Payments can last up to 12 months, which can be especially beneficial if you have elected a long elimination period. However, this rider typically is not a good value, as most hospital stays are relatively short these days.

Lifetime extension rider

The lifetime extension rider extends your benefit period beyond age 65. In other words, if you are totally disabled as a result of an injury or illness that occurs before age 65, benefits will continue throughout your lifetime as long as you remain totally disabled. The insurance company may specify that the injury or illness must begin before a certain age (usually 45 or 50) in order for you to receive a full benefit under this rider. If the disability begins after this specified age, you would typically receive a reduced benefit until age 65, at which time the benefits would end. The amount of your reduced benefit would be based on your age at the time you became disabled.

Waiver-of-premium rider

The waiver-of-premium rider allows you to stop paying premiums in the event that you are disabled. This rider provides that you will not be required to pay any further premiums once you have been disabled for a certain period of time. Once you are able to return to work full-time, the rider requires you to begin paying premiums on your policy once again.

Accidental death and dismemberment rider

This type of rider provides an additional benefit if you die or suffer a combination of loss of limbs, sight, and hearing as a result of accidental bodily injury. When you purchase this additional coverage, the insurance company provides a schedule that assigns a benefit amount to each specific type of injury.

Automatic benefits increase rider

This rider stipulates that the monthly benefit amount will be adjusted automatically every year (provided you are not disabled) to account for pay raises or increased income you are likely to receive after you purchase a disability policy. The rider provides annual increases for a certain term (often five years). During this time, you won't have to provide any proof that your income has gone up. However, if the rider is renewable and you want to renew it, you may have to show evidence that your income has increased at that time, although the increased benefits you already have cannot be taken away from you. In most cases, there is a corresponding increase in premium, so most companies allow you to decide whether you want to accept the higher benefit level and premium each year as it is offered.

Partial disability benefits rider

A partial disability benefits rider will pay you benefits in the event that you are unable to perform some or all of the duties of your occupation on a full-time basis. However, a partial benefits rider doesn't pay benefits based on the percentage of earnings you've lost. Instead, it simply states that you will receive a percentage of your monthly benefit for a specified period (usually three to six months). A partial benefits rider may require you to have first qualified for total disability benefits before being able to collect under this rider.

Return-of-premium rider

The return-of-premium rider might appeal to you if, like most people, you don't believe that you will actually become disabled, but you are buying a disability policy just in case. The return-of-premium rider entitles you to get back the premium money you pay in the event you don't need to use the policy benefits. Depending on the type of rider you choose, you will get either a portion of the money back at certain ages or after a certain number of years, or all of your money back at age 65 when the rider expires. Any claims payments made to you will reduce the amount of premium that you get back. Also, this rider will substantially increase your premium. Because of this rider's high cost and limits on potential premiums return, you should be wary as it may not be the best value for your premium dollar.

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