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NEWS FOR YOU

Shopping Smart For Disability Insurance Check Out Discounts And Don't Rely Only On Company Plan

By Morey Stettner
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For most professionals, disability insurance is even more important than life insurance.

That's because the odds of a serious disability — one that lasts at least three months — striking someone between the ages of 35 and 65 are three times greater than the chance of dying.

Yet it's easy to ignore disability coverage, which replaces wages lost when you can't work due to illness or injury. Part of the problem is that some agents tend to pitch life insurance first. Disability protection is often an afterthought.

Also, many people assume that their company plan offers adequate disability insurance. But, according to insurance experts, these plans rarely provide

enough long-term disability coverage.

"Most employer plans pay a maximum of 60% replacement income, and that's only to lower-level employees," said Daniel R. Thomas, director of disability at the Health Insurance Association of America. "As one goes up the ladder as an executive, the plan actually pays a smaller percentage of total income, say 40% replacement income."

Professionals who wish to maintain their standard of living after becoming disabled should usually carry insurance for at least 70% of their income, adds Thomas.

That means you may need to shop for an individual disability policy. Step No. 1 in planning your purchase is to answer the question: How long could you pay your bills and maintain your current standard of living if you could not work due to sickness or injury?

If you can tap an emergency fund or

otherwise live comfortably without income from a job, you don't need disability insurance. But few people have such a rich cash reserve on hand.

Once you know how long you could support yourself and make the mortgage payments without your work income, you can select a policy with the appropriate "waiting period."

The longer you're willing to wait to get benefits after you become disabled, the lower your premium. For example, waiting one or two years — instead of the industry standard of three months — to start getting benefits will result in big savings.

"Try to combine your employer's group disability plan and your individual plan so that when the group coverage ends, the individual plan kicks in," advised Mark R. Schwartz, a New York-based insurance broker specialist.

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Shopping For Disability Insurance

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ing in insuring high-income executives. "If your group plan protects you for the first two years, then see if you can take a two-year elimination period on your individual long-term plan."

Another way to cut costs is to look for competitively priced policies that pay for loss of income while you undergo rehabilitation and that waive your premium while you're totally disabled. Most basic disability contracts have these benefits without an extra charge.

But standard disability policies vary in terms of what they include as basic coverage. Some bare-bones products might be cheaper. But you need to pay extra for riders or policy add-ons, which offer more complete protection.

The "guaranteed insurability" option, for instance, lets you buy more disability insurance as your income increases, without further underwriting or medical screening. It can be a lifesaver if you become uninsurable during your prime earning years.

"Any way that the consumer can guarantee the right to purchase more insurance without

having to get a medical exam, it's in their best interest to lock it in," said Frank Darras, an attorney and partner at Shernoff, Bidart & Darras in Claremont, Calif. "Even if you pay \$100 more a year for that right, it could mean that the insurer will give you \$500 more of income protection every year" if you become disabled.

Another valuable option, lifetime own-occupation coverage, has become increasingly expensive and hard to find. This protection allows you to lock in full disability payments for life if you're unable to perform the duties required in your occupation.

Bargain shoppers can take advantage of "list bill discounts" by buying disability insurance along with two colleagues, according to Paul Devore, a financial planner and vice chairman of Financial Management Inc., Reseda, Calif.

"If you're an executive, the best way to save money is to buy individual disability insurance with two other people at work," Devore said. "As long as they're in the same company and they all pay on the same bill that's sent to the

same employment address, the main carriers will give a 15% discount. It's a convenient and easy loophole that was designed for employers to provide individual disability policies for their employees. But any three people at the same company can do it."

Ginger Applegarth, author of "The Money Diet," offers a tax tip: Pay all your disability insurance premiums in after-tax dollars. That way, any benefits you get will not be considered taxable income by the Internal Revenue Service.

And don't forget about your policy after you buy it. Periodically check that your current level of earnings is reflected in the amount of replacement income available if you become disabled.

Glenn Daily, a New York City-based fee-only financial planner, suggests that you review your policy every time your insurer gives you the option to buy more coverage.

Finally, read your insurance contract and pay attention to exclusions. "Avoid like the plague policies that totally exclude mental and nervous disorders," warned Darras. "Anything can be cubbyholed into a mental and nervous disorder, such as a brain injury, chronic fatigue or Epstein-Barr. Also beware of policies that exclude alcohol-related claims."