

Disability Coverage Protects Workers' Futures

Disability insurance replaces lost income for individuals who are unable to work due to a disability. This type of coverage, which complements health insurance, is a very valuable form of insurance. Research shows that more than 40 percent of people who are currently 40 years old will develop a long-term disability by the time they reach age 65. Income replacement following a disability can be achieved in three main ways.

- ***Social Security Disability Benefits***

These benefits are paid to workers who expect their disabilities to extend past a period of 12 months. In addition to this, their disabilities must be so severe that they are unable to perform gainful employment.

- ***Employer-Paid Disability Coverage***

Most states require this type of insurance. While many employers only offer sick leave on a short-term basis, larger employers usually offer disability coverage in addition to sick leave. The normal amount of coverage offered by employers compensates disabled employees with up to 60 percent of their salary for an amount of time between five years or until they reach age 65. In some cases, coverage may be extended for the remainder of the individual's life.

- ***Individual Disability Income Coverage***

For job-related illnesses or injuries resulting in workers compensation, limited replacement income is offered to workers. Limited replacement income is also available in some circumstances from auto insurance providers and the Department of Veterans Affairs.

The best solution for most workers is an individual disability income policy. Since coverage from employers only covers up to 60 percent of regular income, this is also true for those who have employer-paid coverage. Private policies have income replacement rates between 50 percent and 70 percent. The reason insurers will not pay 100 percent is because they want to provide incentive for people to return to work. Another advantage of self-paid premiums is that disability benefits originating from them are not subject to income tax.

Understanding Employer-Paid Coverage

While most employers offer some form of disability coverage, it is important for every working individual to find out exactly what an employer offers prior to filing a claim. Check with the benefits department to determine individual coverage status. If covered, find out how long payments will last and how long the waiting period is before benefits start. It is also helpful to ask the benefits department if the employer-paid plan considers Social Security or other disability programs when calculating pay.

In addition to this, there are some states that offer temporary disability insurance programs. These programs are designed to provide money for people who are out of work as a result of an

illness or injury that is not related to work. To find out which states currently offer this program, discuss the details with an agent. Long-term disability coverage is also something to consider.

While there are no laws requiring employers to offer long-term disability coverage, nearly 50 percent of mid-sized and large companies offer it to their workers. These benefits usually begin after short-term benefits expire. They continue for a time period between five years and the remainder of a lifetime. Average group long-term benefits provide coverage for up to 60 percent of a worker's salary. In most cases, long-term coverage is paid for by employers, which means employees do not have to contribute anything. However, individuals who use long-term disability benefits from an employer must usually pay state and federal income tax on the money received. To find out more about disability coverage and what to ask an employer, discuss this important coverage option with an agent.