

Understanding Disability Insurance

The two types of disability insurance policies are long-term disability and short-term disability. Long-term disability insurance policies have waiting periods lasting at least several weeks, which may ultimately last up to several months. Their maximum benefit periods range between a few years and the remaining lifetime of an insured individual. Short-term disability insurance policies have waiting periods between zero and 14 days. The maximum benefit periods for short-term policies do not exceed two years.

There are two protection features of disability policies, which are important to understand. The non-cancelable feature of a policy means that the insurance company cannot cancel it aside from the condition of unpaid premiums. This means that individuals holding these policies have the right to renew them each year without worry of reduced benefits or premium increases if premiums are paid. The second feature to consider is guaranteed renewal. Guaranteed renewal gives individuals the choice to renew a policy without giving up the same benefits. In addition to this, the company will not cancel the policy. While the insurer reserves the right to increase premiums, the insurance company must also increase premiums of all other policyholders in the same class.

While traditional disability policies are commonly chosen, other options do exist. When considering the purchase of a policy, there are several other options to think about, which are discussed in the following points.

Coordination Of Benefits

Other benefits individuals receive for disability affect the amount of benefits received from the insurance company. Policies list a target amount, which individuals receive from a combination payment that encompasses all of the policies. This means that the policy makes up the difference that is not paid by other policies.

Additional Purchase Options

This benefit gives individuals flexibility in planning. In this provision, the insurance company offers individuals the right to purchase additional coverage in the future.

Partial Or Residual Disability Rider

If returning to work is desired, this feature is beneficial. It allows people who are still partially disabled to go back to work on a part-time basis, collect a portion of a previous salary and enjoy partial disability payments.

Cost Of Living Adjustment

This adjustment is commonly referred to as a COLA. In consideration of the Consumer Price Index and the average cost of living, the COLA increases disability benefits. However, individuals who choose this adjustment will also pay a higher premium.

Waiver Of Premium Provision

This provision means that individuals who are insured and have been disabled for more than 90 days are not required to make premium payments toward the policy.

Return Of Premium

In this provision, the insurance company is required to issue a refund for part of the premium if claims are not made for a specific time period, which is named in the policy.