

## WISER Special Report

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### Disability Insurance

Every working woman needs it — but it can be difficult to figure out what to buy!

**D**isability insurance is designed to replace employment income lost to illness or injury. In theory, every woman of working age should be carrying this kind of protection. In fact, however, most working women either have no disability coverage at all or are underinsured.

Most of us are aware of how important life insurance is to our families. But the risk of facing a disability that keeps you from providing for your family is a different matter. At age 35 people have about a one in four chance of being disabled for 90 days or more during the remainder of their working lives.

A good case can be made that disability insurance ought to be at least as high a priority as life insurance, especially if you're a single mother or you are bringing home a substantial chunk of total household income. Think of disability insurance as the bridge that can carry you across the years until you're eligible for Social Security and Medicare. You need to be sure you have access to that bridge — and that the bridge is structurally sound.

#### Short-Term Disability Insurance

Short-term disability insurance is designed to replace part of the income you lose when a physical or mental setback temporarily takes you away from work. The assumption is that you'll be returning to your job — or to a similar if less demanding one — within a few weeks or months. A few states require most employers to provide short term disability insurance, but in most states, it is at the employers' discretion. The cost to a company is often low, so if your employer doesn't offer short-term disability insurance, it is worth lobbying for.

#### Long-Term Disability Insurance

Long-term disability (LTD) insurance is designed to replace part of your income in situations where other resources may not do the job — that is, when your illness or injury is ongoing or permanent. It's possible to get either a group or

*At age 35 people have about a one in four chance of being disabled for 90 days or more during the remainder of their working lives.*

— Based on 1987 actuarial tables released by the National Association of Insurance Commissioners

### What About Social Security Disability?

The Social Security Disability Insurance program pays out benefits to nearly 5 million disabled workers. But the program covers only disabilities that are severe enough to prevent working at *any* job and that are expected to last at least a year or result in death.\*

These are very restrictive requirements—because the Social Security program assumes that, for short periods of disability, you will have access to workers' compensation, insurance, savings, and investments. The number of work credits needed to collect depends on your age when you become disabled. The amount of your benefit also depends on age and income — the average Social Security disability payment is currently about \$755 a month.

\* Certain family members may also qualify for benefits on your work record.

### WISER has moved!

WISER is now located at:  
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## From WISER's Executive Director

We all hate to consider what could happen if disaster strikes. A friend's story made the point all too well.



*Her daughter left a full time job after giving birth, opting for a consulting job to earn more money and work less hours. She left the old job and a benefits package for more flexibility. After all, she was young, what could happen?*

*A freak medical problem left her without the ability to work or take care of her child. Without disability benefits, her family has become financially disabled as well.*



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## Special Report

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individual LTD policy written to provide for paying benefits until you become eligible for Social Security and Medicare.

LTD insurance will replace only a percentage of your working income (excluding commissions and bonuses), not all of it. Policies usually pay 50 to 60 percent of your income, up to a specified maximum limit such as \$5,000 per month.

### Who Has LTD Insurance?

Employers are not required by any federal or state laws to offer LTD coverage, but most larger companies do — 98 percent among employers with more than 5,000 employees, and 72 percent of those with 100-500 employees provide it. But only 33 percent of employers with fewer than 100 employees provide LTD insurance.

Your first step, then, should be to determine whether you currently have any LTD coverage. Then you can use the checklist on pages 3 & 4 to understand what you have.

### Buying an Individual Disability Policy

There are two different reasons why you may decide to buy an individual disability policy —

- 1) to supplement your coverage through your company's group policy or
- 2) because you have no disability coverage at all.

### Supplementing Coverage

- ❏ If you are buying a policy, it may be less costly to do it through your company's group policy.
- ❏ However, supplemental coverage purchased through your employer may not be portable — meaning you may not be able to take it with you if you switch employers (be sure to ask).

### Individual Policies

- ❏ An individually purchased policy has the big advantage of being portable — it won't be tied to your employment.
- ❏ The actual cost will depend on variables such as your age, health status, income, the percentage of income you want to replace, the waiting period you specify before benefits start, how long benefits are to be paid, and whether they're to be paid if you can't return to your own occupation or only if you can't return to *any* job for which you're reasonably qualified.
- ❏ Women usually pay more than men for an individual policy because claim costs are higher for women than men. Under a group policy, however, men and women typically pay the same rate.

# What to Look for When Buying a Policy — and Understanding What You Already Have

## Long Term Disability Insurance Checklist

*Make sure you understand what the policy covers. Ask for an outline of coverage so you can compare the provisions of several policies.*

**Eligibility** To be covered by your employer's policy, you may have to work full-time, or work a specified number of months or years before you are covered.

**Examine how the policy defines disability** Some policies will pay benefits if you are unable to complete the duties of any occupation for which you are reasonably qualified by training, experience, and education. And, others pay benefits if you are unable to perform the major duties of your own occupation. Some policies pay benefits if you become ill or injured and are unable to earn a specific percentage of your income.

**Health considerations** Your health status determines whether you are eligible for standard rates or rates that

are higher. A policy may exclude from coverage any health conditions that exist before the policy is issued. Different insurers use different standards for determining whether to insure a person with a health condition or to charge a higher rate.

**Waiting or elimination period** This is the period of time after you become disabled that you have to wait for the benefits to start. The longer the wait, the lower the premium. But a very long waiting period could leave a major gap between any short-term coverage and the kicking-in of LTD benefits.

**Length of coverage** Benefits may be payable for anywhere from two years to retirement age. Shorter lengths of coverage cost less, but could leave you with enormous risk if your disability deprives you of employment income for a longer period of time.

**Benefit amount** The benefit can either be a flat rate or a percentage of your regular income.

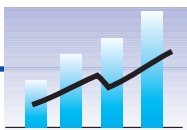
**Inflation-adjusted payments** Some policies do not include a cost of living adjustment, and the real value of your payments could be eroded by inflation if you are disabled for a long time.

**Special provisions** Some policies will continue to pay reduced benefits if you're "partially disabled" — that is, able to go back to work part-time or at a lower-paying job. Some will also reimburse you for child-care expenses if your non-earning spouse has to go to work as a result of your disability.

### *Additional Questions for Individual LTD Policies*

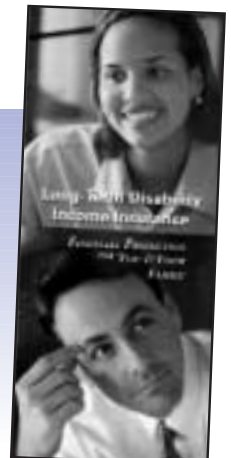
**Will I be eligible?** You may not be eligible for an individual LTD policy if you work less than 30 hours a week, or if you work in a high-risk profession. Premiums are risk-related, so if you're accepted for coverage but considered relatively high-risk, your premium will be higher.

*Checklist continued on page 4*



According to a survey conducted by the Consumer Federation of America (CFA) and the American Council of Life Insurers (ACLI), the majority of workers interviewed thought that disability insurance was one of their most important benefits. At the same time, nearly half were not aware of what their basic disability benefit provides.

CFA and ACLI also have collaborated on a consumer brochure, Long-Term Disability Income Insurance: Financial Protection for You and Your Family. To order a free copy, call 1-800-589-ACLI. The brochure also is available online at [www.consumerfed.org](http://www.consumerfed.org) or [www.acli.com](http://www.acli.com).



# Checklist

continued from page 3

## Will I have to have a medical exam?

Probably. The insurer will certainly want to review your medical history before writing a policy. Pre-existing conditions will usually be excluded from coverage.

## How much does a policy pay?

The amount of income you receive when disabled varies by policy. However, benefits from all sources are usually limited to 70-80 percent of your pre-disability salary. Policies that pay 50-60 percent of salary are most common.

If you purchase your own policy, your disability benefits are not subject to income taxes. Benefits are taxed, however, if your employer pays for the disability insurance coverage.

## How long will the policy pay benefits?

Ideally you want a policy that pays benefits until you reach the age of eligibility for Social Security (and your pension, if you have one). But keep in mind that the longer a policy pays benefits the higher your costs.

## Noncancellable and guaranteed renewable

A noncancellable policy can't be dropped by the insurer, unless you fail to pay the premiums, and your premiums can't be increased. A guaranteed-renewable policy means that the insurer must renew you but your premiums can be raised. They can't be raised for you alone but must be raised for an entire class of policyholders. Noncancellable policies are more expensive.

## Does the policy pay for return to work?

Some policies have return-to-work or rehabilitation provisions that enable the insurer to pay for training, modifications to your work environment, or other services that assist you in returning to work.

## What does "return of premium" mean?

Some policies offer to return some of the premiums you've paid after a specified number of years, minus any claims paid. This type of rider could be expensive.

## Other options to think about —

### Does the policy:

- Pay benefits for disability resulting from an accident or illness?
- Pay for partial disability?
- Waive premiums after you are disabled?
- Cover mental health problems and substance abuse? If so, for how long?
- Protect benefits against inflation?
- Allow you to increase your benefits later?

After you've looked at the fine print of your policy, you'll want to sit down with a worksheet (see next page) and calculate whether the cash payments will come close to covering your most important expenses. If the answer is no, look into purchasing additional coverage.

## Tips on Buying Disability Insurance

If you are in the market for disability income insurance, shop around to compare costs. Disability income insurance is sold individually through insurance agents, or through group policies which may be available from your employer or professional organization. Experts say to keep these tips in mind:

1. Make sure you thoroughly understand any policy you are considering — a policy that does not provide the protection you need is not a good buy.
2. Fill out your application accurately. Answer questions about your medical history and health completely, otherwise the company may later be able to cancel your coverage.
3. Always check the date the insurance becomes effective.
4. Make your check payable to the insurance company. Do not pay the agent. Be sure to get a receipt.
5. "Free Look" period. After purchasing a policy, you may have a "free look period" (usually 10 days after you receive the policy) when you can change your mind. If you decide not to keep it, the company will cancel the policy and give you a full refund.

## Resources:

### Five Places to Find Information

There's a wealth of information about disability insurance available online, although the quality varies greatly. Following is a selection of useful websites:

**Insure.com:**

"The basics of long-term disability insurance" and "Disability insurance glossary"  
[www.insure.com/health/longtermdisability.html](http://www.insure.com/health/longtermdisability.html)

**Kiplinger.com:**

"Do you have enough disability coverage?"  
[www.kiplinger.com/basics/managing/insurance/disabl.htm](http://www.kiplinger.com/basics/managing/insurance/disabl.htm)

**Motley Fool:**

"Disability insurance"  
[www.fool.com/insurancecenter/disability/](http://www.fool.com/insurancecenter/disability/)

**SmartMoney.com:**

"Disability insurance"  
[www.smartmoney.com/insurance/disability/](http://www.smartmoney.com/insurance/disability/)

**Social Security Online:**

"Disability Programs"  
[www.ssa.gov/disability/](http://www.ssa.gov/disability/)

## Worksheet:

### Calculating the Coverage You Need

Use this worksheet to calculate how much protection you'll need in case of a disability lasting a year.

1. Enter your annual take-home pay from all jobs you hold. \$ \_\_\_\_\_
2. Add your annual contributions to a 401(k) or other tax-deferred payroll savings plan. \$ \_\_\_\_\_
3. Add any annual pretax contributions you make to cover medical or child-care expenses. \$ \_\_\_\_\_
4. Add any bonuses, commissions, or freelance income. \$ \_\_\_\_\_  
Your total income: \$ \_\_\_\_\_
5. Multiply by 0.70 to get a rough estimate of the income you'd need to cover basic expenses and maintain your living standard. \$ \_\_\_\_\_
6. Subtract any benefits you would receive from an employer-provided group long-term disability policy. \$ \_\_\_\_\_  
The disability coverage you need: \$ \_\_\_\_\_

adapted from *Consumer Reports* July 1999

## CHECK OUT THE INSURANCE COMPANY

It's important to know the financial status of the insurance company underwriting your policy. This information is available through insurance rating services. All have websites or you can check their reports at public libraries. Having a policy from a financially strong company is important to guard against the possibility of bankruptcy in the future.

Insurance company rating services:

A.M. Best: [www.ambest.com](http://www.ambest.com)

Moody's: [www.moody's.com](http://www.moody's.com)

Standard & Poor's: [www.insure.com/ratings](http://www.insure.com/ratings)

**Make sure that the insurance company and your agent are licensed in your state**

The National Association of Insurance Commissioners (NAIC) has a list of state insurance commissioners:

[www.naic.org/1regulator/usamap.htm](http://www.naic.org/1regulator/usamap.htm)

## Book Review

*How to Retire Happy — Everything You Need to Know About the 12 Most Important Decisions You Must Make Before You Retire*, by Stan Hinden, McGraw Hill (\$14.95).

Perhaps because Stan Hinden writes the syndicated column "Retirement Journal," we assumed that this book was just for people who are very close to retiring, or recently retired. While it is an excellent resource for that audience, the book has valuable information for a much wider audience, including anyone who has begun to wonder how soon to retire, or those planning to retire early.



Hinden writes in a very easy style, and provides lots of information on investing, 401(k)s, pensions, health insurance, and many other topics. He shares his mistakes with us — such as when he pulled his money out of the stock market during a downturn, and kept it out, missing out on the stock market recovery. Also, Hinden and his wife did not choose the spousal benefit, so that his wife could collect his pension if he should die first. All of this shows how tricky it can be to make the right investment and retirement choices, even for a nationally known personal finance columnist with 25 years experience.

## Where's WISER?

Cindy Hounsell, WISER's Executive Director, was quoted on the front page of the *New York Times* on June 26, 2001, in the article, "Lacking Pensions, Older Divorced Women Remain at Work".



### Next Issue:

**Social Security Update — The new commission and what it means for women.**



## WISERWoman

A QUARTERLY NEWSLETTER FROM THE  
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