

Monthly Tip - Disability Insurance

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This month I've asked Gil Elmaleh of Northwestern Mutual to write about a very important topic - disability insurance. I hope his column will help clear up some misconceptions about this important component of your financial life plan.

Chances are you're probably covered by some sort of life insurance plan to protect your family and assets in case of accidental death. Yet surprisingly, many people have little to no insurance to protect them in the event of disability. Since many people rely heavily on their current earnings for support, some measure of disability income insurance is critical.

One reason for the lack of coverage could be the cost. The fact is, disability insurance can be expensive. Many people purchase group policies, which cost considerably less than individual policies but often provide less comprehensive coverage. It's the old adage "you get what you pay for." In the long run, low-cost coverage is more expensive if a disability from an accident or sickness is not covered or the benefits run out.

To be adequately covered, most experts agree that you'll need at least 60 percent of your gross income for as long as you can't work. (Disability benefits are usually tax-free.) When comparing policies, it's important to understand the differences between the following types of protection:

- Total and permanent disability
- Total disability, not permanent, that prevents you from performing the duties of any occupation
- Total disability, not permanent, that could force you into another occupation
- Total disability followed by partial disability
- Partial disability that progresses into total disability
- Short-term disability that could be total or partial
- Full physical recovery after disability but not full financial recovery

Some policies will pay only if you can't work - total disability. The key is to find one that will also pay if you have a loss of income due to disability. A policy that has partial disability protection allows you to collect benefits even while working part-time - though beware of policies that require you to be totally disabled for a specified time period first. This protects you if you develop a degenerative disease that leads to partial disability and progresses into total disability.

The most comprehensive policies are non-cancelable and guaranteed renewable. This means the insurance company can't refuse to renew your policy if your health fails, and can't raise your premium until age 65. It costs more, but it's well worth the price. I suggest that you also consider purchasing an inflation-protection rider. Finally, look for future insurability, which allows you to increase your coverage regardless of changes in your health, activities or occupation. Keep in mind

the new policy will be subject to the financial insurability standards of the insurance company.

Some companies also have transition benefits that help cover your financial loss even though you're no longer disabled. For instance, say you were out for eight months due to a heart attack. When you return, your income is down 30 percent because some customers have gone elsewhere. Many policies will pay a benefit proportionate to your loss of income, so if you're down 30 percent, you'll receive 30 percent of your benefit.

Once you've decided what type of policy you need, there are other features to consider that can affect your costs. One is the date upon which the benefit payments begin. The longer the wait, the less expensive the policy. Most planners recommend a 90-day period. By living off savings for four months (which includes the 30 days for the insurer to issue the first check), you can significantly reduce the cost of your disability policy.

Another variable is the length of the benefit period. You can buy a policy that will pay benefits for one, two or five years, until you reach age 65, or to age 70. The most common is to age 65, when retirement and pension income usually kick in.

Your last decision is how to pay for your policy. A level premium is a flat rate that remains the same for the life of the contract. A step-rate starts lower, but then jumps higher down the road. An annually renewable (or renewable term rate) policy starts low then increases each year. This benefit is relatively new and is becoming popular among professionals because it's essentially a "pay-as-you-go" policy, much like term life insurance.

Although you may feel you're adequately covered by your group plan, take some time to compare plans. An individual policy may consider all forms of income, including bonuses, overtime, and pension contributions while group plans usually include only base salary. Coverage from a group plan typically ends if you resign, whereas an individual policy remains in force. Insurance companies also reserve the right to raise premiums or even cancel coverage for group policies.

So whether you buy individual disability income insurance as your sole protection against disability or as a supplement to your group coverage, the important thing is to make sure you're covered. You must have good health and an income to purchase individual disability insurance, but if you wait until you need it, you may not qualify. So protect yourself now!

If you would like more information on disability insurance, you can email Gil at gil.elmaleh@nmfn.com or visit his website at www.nmfn.com/gilelmaleh. You also can call him directly at 914-989-7585.