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The importance of disability insurance

[Healthcare Financial Management](#), [Oct, 1995](#) by [William G. Kistner](#)

Many people have determined the amount and type of life insurance they need, but surprisingly few people have analyzed their disability insurance needs. The cost of a debilitating illness or injury easily could deplete cash reserves and assets set aside for other purposes such as retirement or funding a child's education. Even individuals covered by their employers' disability policies may not have enough insurance and should consider a supplemental policy.

To be sure coverage is adequate, current monthly income and expenses should be compared with the income and expenses that would continue through a period of disability, allowing for inflation. Benefits from individually paid disability premiums are not taxable; benefits from employer-paid premiums are taxable.

Some disability policies consider beneficiaries disabled and eligible for benefits only if they are physically or mentally impaired to the point where they can no longer perform any job. Some disability policies are moving from the formerly standard "own-occupation" coverage to "loss-of-earnings" coverage. An own-occupation policy pays if the beneficiary is unable to perform his or her former occupation. Under such a policy, a beneficiary potentially could receive full benefits while working in a different occupation full or part time.

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A loss-of-earnings policy costs less to buy than an own-occupation policy and offers beneficiaries the opportunity to return to their own occupations, or any other, and still be eligible for benefits. In a loss-of-earnings policy, benefits are based on loss of earned income. Beneficiaries only receive benefits if they earn less income than they did before they became disabled.

Other disability policies are moving from lifetime coverage to coverage until retirement. If beneficiaries have adequate retirement-plan assets, coverage until retirement should be sufficient.

Disability insurance premiums decrease in price the longer the "elimination period," ie, the time between disablement and the start of benefits. If a relatively long elimination period is chosen, the beneficiary must have sufficient emergency funds to live on until benefits become available.

For years, "noncancelable" disability policies have been popular because coverage cannot be terminated and premiums are fixed. Many new policies are "guaranteed renewable." An insurer cannot cancel a policy as long as the premiums are paid, but may increase the amount of the policy's premiums over time. Guaranteed renewable policies are designed to provide more affordable coverage, at least initially. Long-term buyers should consider the advantages of a fixed-premium plan.

Some people balk at the cost of disability insurance. Potential buyers, however, should compare the cost of buying disability insurance to the potential cost of not having enough money should disability strike.

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