DEPARTMENT OF Professional & Financial Regulation STATE OF MAINE

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Maine Bureau of Insurance
Guide to Disability Insurance

Disability insurance provides you with a portion of your income if an injury or illness prevents you from working. The purpose of disability insurance is to provide benefits sufficient to meet daily expenses, while not being large enough to discourage an insured from returning to work.

Benefits may be calculated as a percentage of your pre-disability income or as a flat dollar amount for events such as injury, surgery, or maternity leave.

You may have short-term and/or long-term disability insurance through your employer, although many people also choose to purchase individual disability insurance on their own.

Disability policies vary in their benefits and exclusions; the best way to understand your coverage is to read your policy.

Disability Defined

The definition of disability will depend upon your contract with the insurance company.

- Some policies consider you disabled when you are unable to perform the duties of your own occupation (“*own occ*”).
- Other policies pay only if you are unable to perform any job for which you are suitable based on your training, education, and experience (“*any occ*”).

A policy may include a definition of disability that changes over time. For example: your disability policy may provide benefits if you are unable to perform the substantial and material duties of your regular occupation (*own occ*), but, after two years, the definition will change to an any occ. This means that after two years, your inability to perform your own, regular occupation will no longer qualify you for benefits; you must be unable to perform the duties of any occupation you are suited for, based on your training, education, and experience.

An *own occ* definition of disability is tied to the performance of your own occupation; however, the insurance company will likely look at the duties associated with your occupation in the national economy (i.e., not the specific duties *you* have with *your* employer).

Some policies require that you not be gainfully employed while you are collecting benefits, or that you be unable to earn a certain percentage of your pre-disability income because of injury or sickness.

- **Social Security Administration (SSA) Definition of Disability** If you apply for federal disability benefits from the SSA and are found to be disabled, that does not automatically mean that your private disability **insurance** benefits will be approved. The definition of disability in your insurance contract may differ from that of the SSA, and the insurance company will want to review your medical records to make its own determination. For additional information, visit www.ssa.gov.

Short-term & Long-term Disability

Short-term disability (STD) coverage generally provides a specified percentage of pre-disability income (e.g., 60%). The duration of STD coverage varies, but is typically not longer than six months. STD may fill in the elimination period before long-term disability benefits begin.

Typical group *long-term disability* (LTD) benefits start when short-term benefits are exhausted. Benefits may continue anywhere from five years to the remainder of an individual's life. LTD insurance is generally considered protection against a catastrophic illness or injury, but many long-term disability claims result from common medical conditions that cause an increasing level of impairment over time. It is important to check a policy's maximum benefit period.

Benefit Limitations

As mentioned, a disability policy may apply an *own occ* definition of disability for a two year period and then change to an *any occ* definition. Some policies limit benefit periods for specific types of conditions, such as "mental/nervous disorders" or disabilities based on self-reported symptoms (those not supported by medical testing). A common limitation of the benefit period is 24 months for disability arising out of mental nervous disorders (e.g., major depressive disorder).

Pre-existing Conditions & Exclusions

A *pre-existing condition* is a medical condition that you were treated for before you obtained insurance. The exact definition will depend upon your policy's language. Disability due to a pre-existing condition may be excluded for a period of time, depending upon the language in your policy.

The policy may contain provisions called a "look back" (usually six months to a year) and a "look forward" (usually one year), which establish the pre-existing condition exclusion time frame.

For example, if you receive medical treatment for a heart condition within six months of the effective date of your disability policy (the look back period) and suffer a disability related to your heart condition within the first year that the policy is in-force, benefits will be denied due to your pre-existing condition.

An *exclusion* is a condition or type of injury that is expressly **not covered** under your policy. If your policy was individually underwritten (not a group policy), it is possible that certain types of sickness could be excluded due to your medical history. Unlike a pre-existing condition, a disability related to a condition that is excluded will never be covered under that policy.

Other sources of income: Offsets

If you are receiving income from alternate sources, this is likely to reduce the amount of your disability payments through *offset* (also known as *integration*). Workers' compensation, Social Security benefits, other insurance, and retirement plan benefits are among the other income sources that may reduce your benefits under your disability insurance policy.

In the event that a determination of benefits under another source of income has not been made, the insurance company may offer to reduce your benefits by the estimated amount they think you will receive. They may also provide you with the option of receiving your full disability amount subject to an obligation of returning any overpayments at a later date. If you elect the latter option, be aware that the amount you are responsible for repaying could be significant and may reduce future benefit payments.

Offset provisions will vary by contract, so it is important to review your policy.

Tax Consequences

If your employer pays the premiums for your disability insurance, your benefits are taxable to you; however, under current tax laws, your disability benefits are not taxed if you pay the premiums. If you and your employer share the cost of your disability premiums, the portion paid by your employer is taxed. For assistance with specific tax questions, please consult with a tax advisor.

Questions to Ask Before You Buy:

- How much coverage do I need?
- What other income sources do I have?
- How does this policy define disability?
- Does the policy require total disability or just partial disability to begin paying benefits?
- Does the policy cover both accidents and illness?
- Does the policy cover disability resulting from mental illness or substance abuse?
- How long is the elimination period?
- Are there riders available that may provide additional protections, such as cost of living adjustments?
- Is there a "free-look" period?
- What are the policy's limitations and exclusions?
- How long will benefits be paid?

Terminology

Elimination Period: The *elimination period* (EP) is the number of days from the start of disability to the date when benefits become payable. This period may vary depending upon whether you have short-term or long-term disability coverage. During the elimination period, no benefits are paid, and generally you are still responsible for the payment of premiums.

Waiting Period: While the elimination period is sometimes referred to as the *waiting period*, it can have another meaning. Under a group disability policy (e.g., your plan provided through your employer), the waiting period may be the number of days that you must be employed prior to being covered under the plan. Because the definition varies, you should check your policy to find out which of these terms are used and how they are defined under your contract.

Free-look Period: The *free-look period* is the time during which you may review your new policy and, if you are not satisfied, return it to the insurance company for a refund.

Underwriting: Underwriting is the process of selecting applicants for insurance and classifying them according to their degrees of insurability so that the appropriate premium rates may be charged. The process includes rejection of unacceptable risks.

Waiver of Premium: A waiver of premium benefit is a policy feature that will waive your obligation to pay premiums during your disability, usually after you have been disabled under the policy's definition for a stated period of time.

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