

Understanding Disability Income Insurance
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Understanding Insurance

People buy insurance coverage to transfer a portion of potential financial responsibility to an insurance company. When faced with the challenges of cancer, it is vitally important for clients to understand their current insurance coverages, benefits, and coverage gaps. The goal is to make optimal use of disability income insurance.

Disability Income Insurance

Short-term disability insurance

If a client's cancer illness restricts or prevents the ability to work, the client may be participating in an individual, employer, or government disability benefit plan. For example, short-term disability insurance is designed to replace a portion of the client's income that will be lost in the event of a brief medical leave from work. An employer may hold the client's position during this period, since the client expects to return to work. However, they are only legally required to keep the position open if the client is taking 12 weeks of Family Medical Leave Act (FMLA). Generally, short-term disability programs will cover up to 26 weeks away from work and pay between 55 and 100 percent of wages. Some plans start immediately, while others have a waiting period before benefits start.

In many cases, the debilitating side effects of these treatments can give rise to a claim for short-term disability insurance benefits. Disability insurers generally approve short-term disability claims at a higher rate than those for long-term benefits.

Long-term disability plans

Long-term disability plans can be purchased individually or offered by employers. Policies differ from plan to plan, including the type of paperwork to complete, benefits and relevant filing deadlines. This type of policy often replaces 60 to 70 percent of income.

If your client suffers from cancer and it prevents them from performing the material duties of their occupation or any occupation in the economy (depending on how their policy defines disability), they will be eligible for long-term disability benefits.

Long-term disability payments might not begin until three to six months after they are disabled. Check their policy for details.

If your client applies for long-term disability benefits, expect their claim to be closely examined. It is essential that their claim file contain all the medical evidence relevant to their disability. ERISA, the federal law governing most employer-provided long-term disability plans, allows workers or their attorneys to request a free copy of the claim file from the plan administrator. Once your client has obtained a copy of their file, they must make sure it contains their diagnostic tests and notes from their treating physician. Disability claims must be decided within a reasonable period of time, no later than 45 days after the plan has received your client's claim.

Be aware that individual disability income (DI) policies typically contain a "recurrent disability" provision that provides for the immediate resumption of benefits without having to satisfy the waiting period if the insured had previously received benefits, returned to work, and then become disabled again within 12 months. Some policies will waive the waiting period (normally referred to as the "elimination period") for up to five years after a disability for which benefits were paid.

Another feature of individual DI policies to look for is the partial or "residual" disability benefit that will pay a benefit to the insured if a disability has reduced the ability to work such that income is reduced by, typically, 15 to 20 percent. The benefit is proportional to the loss of income (i.e. if there is a 30 percent loss of income, the policy will pay 30 percent of the stated benefit). Qualifying for a partial disability benefit does not usually require a prior period of total disability. So, your client should not assume that the policy will only pay in the case of total disability until he/she has reviewed the contractual provisions.

Social Security Disability Insurance or Supplemental Security Income

A client who does not have personal or employer-based disability insurance may qualify for certain government programs if they meet other requirements. There are two disability insurance programs that are administered by the federal government: Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI). To be eligible for either of these programs your client must meet the Social Security Administration's (SSA) definition of a disability, which is having an illness or injury that's expected to last 12 months or longer, or it's predicted to be terminal.

In addition to having a disability, to qualify for SSDI, your client will need to have worked and contributed to Social Security through past paychecks for a certain number of years, which is based upon their age. Qualifying for SSI is based on your client's income level and not their work history.

The Social Security Administration recommends that individuals apply for disability benefits as soon as they become disabled, because the process can take several months. To find out how to apply for a federal long-term disability program, visit <http://ssa.gov/disability/>.

Figuring out benefits and programs can be confusing, especially when some may seem to overlap. Your client can take advantage of a host of resources to help. Among them:

- To get up to speed on Social Security disability benefits, see an online booklet published by the Social Security Administration at <http://www.ssa.gov/pubs/10029.html>. Included is information on who is eligible, how to apply and what you need to know when the benefits begin.
- Hiring an attorney to help with an appeal. Disability attorneys can be found through local or state bar association's lawyer referral service. These attorneys are required to provide assistance on a contingency basis, which means that they only get paid if they help get your client past benefits.

If your client qualifies for disability benefits from more than one source (such as an individual and a job-based policy and a federal program), or if your client has other sources of income while they are disabled, one or more of the payers may reduce or "offset" their benefits.

Five states and one territory also provide short-term disability benefits for employees: [California](#), [Hawaii](#), [New Jersey](#), [New York](#), [Rhode Island](#), and [Puerto Rico](#). State Disability (SDI) benefits typically begin after one week of a qualifying disability and continue for a maximum of 6 to 12 months. Several of the plans also provide "paid family leave" or "temporary caregiver insurance," which pays individuals who have to stay home to care for a seriously ill family member.

Sources:

American Cancer Society
Cancer and Careers
NOLO
SHRM