



“On The Money Report”

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DISABILITY INSURANCE BY Randolph J. Shine, CFP, MBA

What is Disability Insurance?

Disability insurance pays the insured a monthly income when he/she becomes disabled. A person is disabled, by definition, when they cannot perform the duties of their job or profession due to sickness or injury.

Why is Disability Insurance needed?

- A. A recent Harvard study* found that over half of all personal bankruptcies and mortgage foreclosures are the result of disability.
- B. If you are over 30 years old, there's almost a 50% chance you will become disabled for 90 days or longer before the age of 65.**
- C. Income replacement is necessary because, as a recent Parade Magazine study*** found, most Americans are living paycheck to paycheck and have no money left after paying their everyday living expenses.
- D. The incidence of personal disability is increasing because of claims due to cancer.

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“On The Money Report”

Types of Disability Insurance:

- A. “Guaranteed Renewable” policies guarantee that your policy cannot be cancelled as long as you pay the premiums. The premiums *can* go up over time, but before the company can increase any premium it must receive approval from the state insurance commissioner.**
- B. “Noncancelable” policies guarantee that your insurance company cannot cancel your policy as long as you pay the premiums. The premiums are fixed at time of purchase and cannot be changed.**
- C. Private or personal disability insurance coverage benefits are outlined in the insurance policy contract and have riders and options which can be added to the base policy. One example of a popular rider is an inflation rider.**
- D. Group policies give the insured a certificate of coverage but have limited coverage and benefits. Today, many employers are allowing their employees to purchase private disability through the company, at a discount up to 25% in order to supplement the employer’s group coverage.**

Tips on purchasing disability insurance:

- A. Scrutinize the definitions of disability in the policy.**

“Own-occupation” coverage protects you if you cannot perform the specialized task upon which your job is based.

“Any occupation” coverage will not pay a benefit if you can still work in any occupation at all.

- B. The term “Length of benefits” refers to the time you will receive payments while disabled. The time can be two years, five years, or to age 65. Take note if the definitions of disability change after a set period of time. For example,**

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after two years of being unable to perform the duties of your job or profession, the contract terms may change to “any occupation.”

C. Before you purchase a private policy, be sure to check with your employer about policies which can be purchased through the company. Is short term and long term disability coverage available? If you can only afford one type of coverage and have to make a choice, purchase the long term plan.

D. The elimination or waiting period is the time between being injured or sick and when the disability policy will start paying monthly income. You can lengthen the elimination period to reduce the cost of coverage.

E. Check that any policy you purchase in the workplace is portable, meaning you can keep the policy as long as you continue paying the premium. If the policy is not portable, ask if it will allow you to convert to a new policy without medical examination?

What is new in disability insurance?

- A. True owner-occupation (own-occ) policies are back. Policies now accept specialties recognized by the AMA and ADA as “owner-occ.”**
- B. Physicians, Dentists and Small business owners can insure 100% of their retirement plan contributions if disabled.**
- C. Disability insurance premiums are decreasing and benefits and caps are increasing. It is now possible to protect more than 66% of your income.**



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For more information about disability insurance go to: www.disabilitycanhappen.org.

- * Health Affairs, the Policy Journal of the Health Sphere, February 2, 2005
- ** www.disabilitycanhappen.org
- *** Parade Magazine, April 24, 2006

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