



Buying Disability Insurance

by Peter Hood

According to statistics from the National Safety Council, the average American is five times more likely to be disabled in an accident than to die prematurely. Despite these odds, most of my contractor clients who have life insurance policies balk at buying disability insurance. One reason is that disability insurance seems to be very expensive. But there are several different types of coverage, and these can often be combined in ways that provide good protection at a reasonable cost.

Two Types of Coverage

Contractors need to consider two main types of disability insurance: income and overhead expense. (A third type, called buyout insurance, provides one partner with the funds needed to purchase an injured partner's interest in the company. Premiums are very high, however, and few small companies buy this type of coverage.)

Income insurance. If you get injured and can't work, your income may decline or dry up altogether, but you will continue to incur personal expenses. Disability income insurance can supply the money you will need to pay your bills until you can return to work. (This type of insurance covers non-occupational injuries only; if you get injured at work, you're covered by workers comp.)

The monthly benefit payment depends strictly on your income. (Premiums are set by other factors, such as waiting period and benefit period, which I'll discuss later.) Most companies will pay benefits equal to about 60% of your gross monthly income as determined from your tax returns.

Some newer disability income policies pay benefits equal to the percentage of income actually lost. Typically, such "partial disability" benefit plans are attached as a rider to a standard income policy. The premiums are very low, but are paid in addition to the standard premium.

Business overhead expense insurance. When you are injured, your company will continue to incur certain regular expenses, such as rent and utility bills. If you don't continue to make these payments, *you* may survive your injury, but your company won't.

Business overhead expense insurance will pay for certain cost-of-doing-business expenses for as long as you are unable to work. The amount varies, depending on what your actual overhead expenses are at the time you buy the insurance. To receive payments, you will have to submit actual bills.

Remember, only fixed expenses are covered; costs for materials or subcontractors do not qualify.

Group policies. In addition to indi-

Table A.
Disability Income

(annual premiums based on a 45-year-old male)

WAITING PERIOD	BENEFIT PERIOD				
	15 months	30 months	60 months	Age 65	Life
30 Days	\$1,592	\$2,047	\$3,025	\$4,770	\$5,913
60 Days	1,024	1,403	2,118	3,233	4,419
90 Days	658	951	1,498	2,335	3,465
180 Days	519	914	1,252	1,975	3,100
365 Days	478	651	1,114	1,766	2,906
430 Days	—	596	947	1,545	2,651

Disability income policies commonly carry a 90-day waiting period, and benefits continue to age 65. But the savings on annual premiums can be substantial for different options.

Table B.
Business Overhead Expense
 (annual premiums based on a 45-year-old male)

WAITING PERIOD	BENEFIT PERIOD		
	12 months	18 months	24 months
30 Days	\$1,314	\$1,425	\$1,889
60 Days	886	1,027	1,314
90 Days	607	725	942

Benefit periods are typically limited to 24 months, by which time most companies are either out of business or under new management.

vidual disability policies, group plans are also available — and at much lower premiums. In a group plan, the terms of the policy are the same for everyone, although the premiums and payments may vary for different salary levels.

One disadvantage is that policy options that make group insurance more affordable may leave you with less coverage than you'd like to have. Fortunately, you can supplement the group policy with an individual policy for yourself that makes up the difference between the coverage you want and the coverage provided by the group plan. Individual employees can also buy supplemental policies and increase their protection at their own expense.

Premium Options

If you shop for just the coverage you really need, you can put together a disability insurance package that's affordable and provides adequate protection.

For both types of disability insurance, you can reduce costs by extending the waiting period (the amount of time you can wait before payments begin) and by shortening the benefit period (the length of time benefits are paid).

Waiting period. Insurance premiums are lower the longer you can wait before payments begin. Most people can wait at least 30 days before receiving income payments. Most contractors can also extend the waiting period for overhead expense reimbursements. This is especially true if your company can continue to complete and bill for jobs while you're injured.

Benefit period. The longer the policy pays benefits, the higher the premiums. Most companies no longer offer lifetime payments on income policies, and those that do charge high premiums for them.

Premiums drop significantly, however, if disability income payments stop when you reach age 65, when you become eligible for social security.

Choosing a reasonable benefit period can save even more money on business overhead expense insurance. The more your company depends on you, however, the shorter the benefit period you need to buy, because if you're out of commission for too long, chances are your business won't survive.

Mix and match. Different waiting periods and benefit periods can dramatically affect annual premiums. For example, in the disability income sample in Table A, increasing the waiting period from 30 days to 60 days reduces annual premiums for disability income insurance by 25% for a lifetime benefit period. Longer waiting periods and shorter benefit periods yield even lower premiums. The same is true of the premium example for business overhead expense insurance in Table B (above).

But buying the cheapest — or the most expensive — policy isn't always the best course. Instead, try to match the coverage to your particular circumstances. For example, suppose your company usually has a couple of good-sized jobs going, and that you normally supervise the work. If you get injured, your short-term need is for someone to come in to supervise those jobs to completion. This could be covered by a disability income policy with a short waiting period.

But you can delay the waiting period for any business overhead insurance, because the payments your clients make for the completed work will cover fixed expenses for six months or more. If no new work has been sold by then, the business overhead reimbursements will kick in and will keep the balls in the air long enough for you to recover.

The most important point to keep in mind is that disability insurance, like other types of insurance, can be tailored to suit your company and your personal financial circumstances. Before you buy a policy, analyze your situation and make sure you don't end up paying for more coverage than you need. ■

Peter Hood owns the Noyle W. Johnson Insurance Agency, with offices in Montpelier, Middlebury, and Danville, Vt.