What is disability insurance?

HEALTH INSURANCE

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Key points

- Disability insurance pays part of your income if you are too sick or injured to work.
- There are two main types of disability insurance: short-term and long-term.
- Disability insurance typically costs 1% to 3% of your salary.
- Disability insurance may cover 50% to 80% of your salary, depending on various factors.

Long-Term Disability Insurance	Pays you direct monthly benefits in as little as 30 days that can last up to retirement age if you become too sick or hurt to work	
Compare Quotes	Get Free quotes for the top disability insurance carriers	
Coverage Options	Customizable coverage to accommodate all occupations and budgets as long as you are working a minimum of 30 hours/week	

If you are unable to work due to injury or illness, disability insurance can help cover some of your income. Though you may think a disability is not something you need to worry about, 1 in 4 people will experience some form of illness or injury leading to disability before retirement age, according to the U.S. Social Security Administration.

Here's a breakdown of the different types of disability insurance and what they cover.

How disability insurance works

Disability insurance pays you a portion of your income if you are too sick or injured to work. While some employers offer short-term and long-term disability insurance, purchasing additional coverage can provide you and your loved ones with more financial protection to pay bills and cover everyday expenses.

If your workplace doesn't offer disability insurance or doesn't offer enough for your needs, you can purchase disability insurance directly from an insurance company, or you can work with an agent or broker.

Once you are enrolled, you pay a monthly premium. If you are injured or too sick to work, you file a claim with the insurance company to start receiving benefits. Depending on the details of your policy — such as the type of disability insurance, waiting period and the

number of years the policy is active — you will receive monthly benefit payments for a set amount of time.

While it might seem like a disability insurance policy is an unnecessary expense if you have a savings account or other rainy day funds, you run the risk of depleting those funds very quickly. According to Jason A. Newfield, founding partner of Frankel and Newfield, P.C., "A disability insurance policy is invaluable, especially in the case of a long-term disability, where you are out of work for 10, 20, 30 years or more. A savings account would [likely] not be enough to cover you."

What does disability insurance cover?

While all disability insurance covers a portion of your paycheck, the type of disability insurance (short-term vs. long-term), the definition of disability and the details of your policy will determine what is included, as well as any coverage exclusions.

The following conditions are some evaluated by both disability insurance companies and Social Security to assess coverage:

- Cancer.
- Congenital disorders.
- Digestive disorders.
- Endocrine disorders.
- Genitourinary disorders.
- Heart-related disorders.
- Hematological disorders.
- Immune system disorders.
- Injuries such as fractures, sprains and strains of muscles and ligaments.
- Mental disorders.
- Musculoskeletal disorders.
- Neurological disorders.
- Pregnancy (short-term disability).
- Respiratory disorders.
- Skin disorders.

- Special senses and speech.

Your disability coverage will also depend on whether or not you have a partial or permanent disability.

Partial disability: This can be part of a disability plan or a workers compensation plan. In this plan, the disability is not permanent but prevents you from performing all the duties of your role. Often caused by illness or on-the-job injury, a partial disability could mean that you can return to work but you can no longer do the job you were doing previously or you may only be able to work part-time. Some examples include losing vision in one eye, sustaining a knee injury or developing nerve damage. A physician may need to confirm that you can no longer do 25% to 50% of your role.

Total permanent disability: This type of coverage can come into play when you have a mental or physical disability that permanently prevents you from performing the duties of your role. Your insurance company will outline how it defines a total permanent disability, which will impact the coverage you qualify for.

What doesn't disability insurance cover?

Disability insurance does not cover any medical care or any long-term care, and it will not provide any benefits if you are past the age of 65.

Other coverage exclusions include:

- Disabilities caused by committing or attempting to commit a felony or misdemeanor, war or act of war.
- Cosmetic surgery, unless it's related to an injury or illness that you acquire while you're covered.
- Injuries sustained when taking part in a riot.
- Intentional self-harm.
- Injuries sustained during military service for any country at war.

Depending on how your insurance company specifically defines disability, you may not be covered if you are able to perform some or all duties of an occupation that falls under your education and expertise. This is the case for any-occupational disability, which is defined below.

Types of disability insurance

Short-term and long-term disability insurance are the two most common types of disability, but there is also Social Security disability insurance.

Short-term disability insurance: Short-term disability insurance will cover you if you are sick or injured and unable to perform your job duties for a short period of time. The most common reasons to file a short-term disability claim include pregnancy, musculoskeletal disorders, injuries, digestive disorders and mental health issues. Once you file a claim, you will receive benefits weekly, for a duration of 13, 26 or 52 weeks.

Long-term disability insurance: Unlike short-term disability insurance, long-term disability insurance is paid monthly and you can purchase coverage for a set number of years (five, 10, 20 or until retirement age if needed). The most common reasons to file a long-term disability claim include musculoskeletal disorders, cancer, injuries, mental health issues and circulatory conditions. Short-term disability insurance usually pays a larger portion of your income compared to long-term, but long-term disability pays you for a longer period. This type of coverage will typically replace 60% to 80% of your income.

Social Security disability insurance: Also referred to as SSDI, Social Security disability insurance pays those who are too ill or injured to work, as long as they have paid Social Security taxes, worked long enough and recently enough and their disability meets the qualification requirements. The length of time you have to work to qualify depends on your age. SSDI will only cover disabilities deemed total, long-term and severe. Even if you qualify, you will have to wait five months before you can receive benefits. According to the Annual Statistical Report on the Social Security Disability Insurance Program, which assessed disability claims from 2011 to 2020, an average of 67% of applicants were denied coverage.

TIP: Your employer may also offer worker's compensation, which will only cover your disability if it happens on the job. Some common workplace injuries include falls, contact with objects, overexertion and bodily reactions. Once you are injured at work, you must alert your employer within a certain timeframe, and the company can file a claim on your behalf.

Where to get disability insurance

You may be able to get disability insurance through your employer. If your employer does offer disability insurance, then they might cover part of your premiums. However, workplace

disability insurance might not be enough, depending on your needs. If you want to purchase private disability insurance, you can contact the insurance company directly or work with a broker to find the type and amount of coverage that best suits you.

Disability insurance definitions and terms to know

When buying a disability insurance policy, you need to pay attention to five important factors:

- **Waiting period:** The amount of time you have to wait to receive benefits after you file a claim.

- **Definition of disability:** How an insurer defines a disability. The most common definitions are own-occupation disability and any-occupation disability, each of which is defined below.

- **Benefit period:** The amount of time you are covered. With short-term disability insurance, you will usually receive benefits for three to six months, or up to a year at most. With long-term disability insurance, most people choose to receive coverage for two, five, 10 years or up to age 65.

- **Premium:** The amount of money you pay for coverage. What you end up paying will depend on the benefit amount, length of coverage, your age, gender, occupation and any riders you add to your policy.

- **Benefit:** The amount of money you would get each month if you were to become disabled while your disability coverage is active. You should aim to receive a payment that reflects 60% to 80% of your monthly salary.

Definition of disability

Each insurance company has its own way of defining a disability. This is arguably the most important part of your insurance policy since it will determine whether or not you qualify for benefits. You should carefully read your policy documents to determine how your insurer defines disability. The most common definitions are:

Own-occupation disability

Also known as true own-occupation disability, under this definition you qualify for benefits if you are unable to perform the duties of the job you held at the time of your illness or injury. You will still qualify for coverage even if you are gainfully employed elsewhere. Under the umbrella of own-occupation disability, there are two subcategories:

- **Transitional own-occupation:** Under this definition, you will be paid a benefit based on your total disability benefit amount minus your post-disability income. If you end up earning more than your original earnings, you will not receive a benefit.
- **Modified own-occupation:** You will receive benefits if you are unable to work in your field of expertise and are not working elsewhere. You still receive benefits even if you *choose* not to work.

Any-occupation disability

Any-occupation disability means you only qualify for benefits if you are completely unable to work any job, both in your area of expertise and outside of it.

Generally, own-occupation disability insurance allows more flexibility than any-occupation disability insurance when it comes to qualifying for benefits. "Own-occupation disability is more favorable to the claimant, depending on the language in the policy documents," said Newfield.

Typical disability insurance costs

If you're buying an individual disability insurance policy, you can expect to pay between 1% to 3% of your annual income. In the event of a claim, you'll likely receive 50% to 80% of your income. The exact amount will come down to the type of policy you have, the amount of time you are covered, the benefit amount and how the insurance company underwrites you.

Much like a life insurance policy, your age, health, lifestyle and other factors will affect your premiums. The younger and healthier you are, the less risky you are in the eyes of the insurer. Your occupation will also play a major role in setting your premiums. If your job is considered more dangerous, like construction work, for example, you will likely pay more than someone with a lower-risk position, like a desk job.

What is disability insurance FAQs

Is disability insurance tax deductible?

If you're purchasing private disability insurance, the premiums you pay are not tax-deductible. The same is true for some other types of insurance, like life insurance or homeowners insurance on your main residence.

If you file a claim with private disability insurance and start receiving benefits, the payments are not taxed. However, benefits received from employer-paid disability insurance plans are considered taxable income.