



A MOMENT OF CLARITY

What is Disability Insurance?

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Disability insurance is a type of insurance that will provide income in the event a worker is unable to earn a living due to a disability. This type of insurance is important as individuals are significantly more likely to suffer from a disability than premature death during their working years. Having the proper amount of disability insurance will provide a worker and their families with replacement cash flow while the worker is unable to perform his/her duties.

Many employers offer basic forms of disability insurance that cover a portion of an employee's salary. In addition, Social Security provides a minimal disability benefit, but it is very hard to claim without serious physical injury. These coverages often fall short from fully protecting a family in the case of a long-term disability and many individuals seek additional private disability insurance.

Individual policies should be purchased with extreme care. The amount and type of coverage can vary greatly between providers. When purchasing an individual disability policy, it is essential to ask the following questions:

- **How much coverage does the policy provide?**
- **How much does the policy cost?**
- **How long does it cover you for if you get disabled?**
- **When does the coverage start paying? (What is the "elimination period"?)**
- **What kinds of disabilities does it cover?**
- **Are you covered if you cannot do your current type of work, or does it start only if you cannot do any work at all?**
- **Will it cover you on a prorated basis if you can only work part time?**
- **What kind of reputation does the insurance company have for paying or fighting claims?**

Understanding the answers to these questions are very important. For example, a professional such as an attorney or doctor should obtain disability insurance that would protect their ability to work in the same occupation. This is commonly referred to as an “own-occupation” policy. Even if physically able, these highly skilled individuals would presumably not want to work in a lower paying, less skilled field. If this person had a generic policy, they may be denied a claim if they could work in any job (known as an “any-occupation” policy).

Given that there is a vast difference in quality and coverage of disability policies, speaking with a qualified professional who understands the nuances of these insurance rules is important. Workers approaching retirement or with significant financial assets may need less coverage. Younger workers with long careers ahead and fewer assets many need significantly more coverage. An independent financial advisor will take a holistic outlook at your finances to determine the appropriate amount and type of disability insurance for your circumstances.



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