Back on Your Feet If you can't work, will your group disability policy give you enough support?

By Mari McQueen
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(MONEY Magazine) – Richard White, a 52-year-old Oakland trial attorney, had everything going for him--a newborn son and a partnership offer at his law firm--when he was diagnosed with a cancerous tumor of the spinal cord. For 15 months, treatments kept him out of work, and for another six months after he returned to the office, he wasn't able to resume all his responsibilities. Looking back on that difficult time, he says, "I would have been devastated if I hadn't had insurance." White's story provides an important reminder: Every working adult needs disability insurance. At age 35, you have a fifty-fifty chance of being unable to work for more than three months before you turn 65, according to data from the Society of Actuaries. And even if you have disability coverage through your job, it may not give you and your family all the protection you need.

More and more employers do offer long-term disability insurance as an employee benefit, although they don't necessarily pay for it. A recent Hewitt Associates survey of firms with more than 1,000 employees found that, while 88% offer long-term-disability insurance, coverage is voluntary more than half the time; at almost a third of companies, employees are responsible for at least part of the premium. Last fall, when MONEY polled Fortune 100 corporations--which tend to offer ample benefits--we found that more than a quarter of the 40 firms that responded make employees pay their entire long-term-disability premiums. Premiums for employer- sponsored group coverage run about $175 to $300 a year, as much as a third of what comparable private coverage costs, so you probably can't afford to pass up a chance to buy low-cost insurance at work. On the other hand, you also can't afford to assume that your firm's policy--whether or not you have to pay for it--is sufficient.

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To determine whether you have adequate disability coverage--and what to do if the answer is no--dust off your employee-benefits materials and answer the following questions. (Many of the same guidelines apply if you have no insurance at work or are self-employed.)

How much of my income will my policy replace?

Group policies typically pay up to 60% or 66% of your take-home pay, but some cap benefits at 50%. And that's usually your base pay, not what you may make in commissions and bonuses. Will that be enough to support your family? Virtually no insurer will sell you a policy that provides more than 80%, but getting as close as you can to that max is a prime reason to buy more coverage. Some employers will let you buy additional group coverage (often in units of $10,000 in annual benefits) at a reasonable cost.

One caveat: Simply knowing the benefit level may not tell you how much you'll take home--and whether you need more protection. If your employer pays the premium, the benefits are taxable; if you pay, benefits are tax-free. Group policies often deduct any Social Security payments from your benefits; individual policies typically don't.

How does the policy define disability?

A policy that pays full benefits indefinitely if you can't return to your former job (your "own occupation," in insurancespeak) is rare and costly. Still, make sure you have own-occupation coverage for at least two years, not "any occupation" coverage from the outset.

What happens when I go back to work?

Fortunately, most people who can't work because of an accident or illness eventually return to work. On average, people under age 50 do so within 3 1/2 years--but not always to the same job. So you need to know what benefits you'll collect if you go back to a less-well-paid job. (In the unlikely event that a permanent disability means you can't work at all, many plans allow you to collect full benefits until you're eligible for Social Security.)

Your group policy will likely pay a portion of your salary for as long as two years if you can't do your own job.

Then, if you return to a different job, the policy either pays a portion of the difference between your old salary and your current one--up to a dollar limit--or terminates your benefits.

If your benefits will run out, consider getting an "income replacement" or "pure residual" supplemental policy, which pays as much as 80% of your salary if you can't work and a smaller benefit if you can but don't earn as much. (This type of residual coverage was critical for White, who collected partial benefits of about $900 a month for six months while he was able to report to the office but too weak to travel and appear in court.) Since you're buying this policy for protection after your group plan's full benefits end, you can cut your premium by getting a six- to 12-month waiting period.

Should I ever turn down group coverage?

Even though a group policy is always cheaper, in certain circumstances it may not be the right choice. If you're in a highly paid specialty of medicine or law, paying for permanent own-occupation coverage may be worth the hefty price. If you're stuck in a stingy group plan and you can't pay more to improve your coverage, consider a more generous private plan instead. Also, if you plan to start a business soon, you may want to buy a private plan now that you can take with you to your solo life. As a self-employed worker, you may have to wait two years or so to get coverage.

How can I keep down costs if I buy a private policy?

Since the early 1990s, premiums for private disability policies have risen as much as 25% a year. An individual policy now runs 2% to 5% of your annual income.

One of the best ways to save is to rely on your own resources for as long as ossible. Disability payments kick in 60 days to 12 months after your accident or the onset of your illness--the longer the wait, the lower the premium. Insurance consultant Carl Westman of Chattanooga suggests holding out for six months. To do this, of course, you must have a six-month emergency fund or other resources, such as short-term work coverage or state disability benefits.

Don't try to save money by settling for a five-year benefit cap. Yes, the average disability lasts 3 1/2 years or less, but there's no guarantee, after all, that your case will be average.

Another option: Create your own group. One relatively new, more affordable private disability choice is a multilife or list-billing plan, offered by issuers such as Unum (www.unum.com) and Mass Mutual (www.massmutual.com; 800-272-2216). To qualify, you must get at least two other people you work with to sign up. If you can comply, the savings can be significant. A 42-year-old male professional earning $60,000 would pay $1,166 a year for an individual plan from Unum but just $813 a year for a multilife plan.