Private Long-Term Disability Income Insurance

Prolonged unemployment due to an illness or injury can jeopardize a family's financial security. Private long-term disability income insurance offers paycheck protection and complements the safety net provided by the Social Security Disability Income program.[1]

Private long-term disability income insurance provides cash to the insured to meet expenses such as mortgage payments, rent or utilities. It also can pay for training or other assistance needed for one to return to work.

Disability income insurance may be provided by an employer as a group benefit or it may be purchased individually. An individual policy provides protection for as long as the policyholder continues to pay the premium. Group coverage lasts as long as someone is employed or is a member of the group, and the premium is paid. In group plans, premiums may be paid by the employer, the employee or both.

Approximately 30 percent of the U.S. workforce is covered by long-term disability insurance through their employer.[2] Private long-term disability insurers provide income protection to approximately 43,600,000 individuals.[3] In 2009, insurers paid more than $8.95 billion in disability insurance benefits.

Group Coverage Through Work

For short-term illness or injury, an employer may offer sick leave or short-term disability insurance (or both). Employee sick leave and short-term disability coverage can range from a few days to six months or more.

Some employers also may offer group long-term disability coverage, which provides benefits that replace a person's salary if he or she is unable to work for an extended time. Group long-term coverage generally begins when the short-term disability coverage from an employer stops.

Benefits from group policies generally continue until either age 65 or retirement age under Social Security or until the policyholder is able to return to work. A typical policy pays at least 60 percent of a covered person's salary up to a specified limit, such as $5,000 a month.

Individual Coverage

Individual long-term disability policies can provide coverage in the absence of group coverage or can be used to supplement coverage obtained through an employer. Most policies pay 50-60 percent of monthly salary but some pay as much as 70-80 percent.

Individual policies can be tailored to meet a policyholder's needs, so features and benefits can vary from policy to policy. For example, some policies pay benefits when a policyholder is unable to perform the major duties of his or her own occupation. Other policies pay benefits if the policyholder is unable to perform the duties of any occupation for which he or she is reasonably qualified by education, training, and experience. Many policies combine these features, providing "own occupation" coverage for one or two years and "any occupation" coverage after that.

Policies also can have different waiting periods (also known as elimination periods) before they pay benefits. Policyholders can lower their premiums by waiting 90 days, six months or even longer before starting to receive benefits.

(continued)

Claims Process

Insurers rely on information from a variety of sources to determine if a claim from a policyholder meets the policy's definition of disability (e.g. own occupation vs. any occupation). This can include, but is not limited to, information from medical professionals and an analysis of the policyholder's work history.

Disability income insurers endeavor to process claims promptly and correctly. Sometimes, a claim is denied if the insurer determines it to be fraudulent. Some claim denials are a result of the policyholder recovering before the waiting, or elimination, period (as defined in the contract) has expired.

Research shows that insurers approve the vast majority of claims they receive. According to a 2008 study, group disability insurers approved 78.8 percent of submitted claims. Of claims that were not approved, 25 percent were denied because the claimant recovered before the elimination period had expired.[4]

Laws and Regulations

Disability insurers are governed by state and federal laws and regulations designed to ensure policyholders are treated fairly and honestly. Employer-sponsored plans are subject to requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Requirements under ERISA address timeframes for claim decisions, requirements for keeping claimants informed and apprised of claim actions, and the appeal rights afforded claimants whose claims are denied.

In addition to ERISA, insurers must adhere to state requirements that ensure claims are handled promptly and properly. The National Association of Insurance Commissioners' Unfair Claims Settlement Practices Act ensures that claimants are treated fairly, claims are settled promptly, and clarifies the right of claimants whose claims are denied to have their matter reviewed by the state insurance department.

September 27, 2010

---

[1]For individuals who qualify, Social Security replaces a limited portion of their salary if they are disabled. Generally, qualifications to receive Social Security Disability Income (SSDI) benefits are much stricter than those of private insurance policies.

[2] National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007.

[3] American Council of Life Insurers calculation based on NAIC data as of 12/31/2009.

[4] JHA's 2008 U.S. Group Disability Rate and Risk Management Survey.