



Todd Radwick | Will your group disability insurance be enough?

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Many people erroneously believe they are “covered,” through their group disability insurance provided by their employer. But simply having coverage is not the same as being truly covered, or understanding what you actually have.

As a disability insurance specialist, I find the vast majority of people I visit with really don’t have a clue as to the language and the terms. For example, they don’t know what other forms of income might offset the benefit, i.e. reduce what they will actually receive.

For instance, if you have group insurance, but also receive Social Security or worker’s comp (L&I) will this reduce how much you get from the group insurance? In the vast majority of cases, it’s “yes.” If you get a settlement from a car accident, do the proceeds have to be declared and can they too offset your group disability benefits? Sometimes they can. If you receive disability benefits, is it taxed? Are there any caps or limitations? How does your group plan define what “disabled” actually means? Does your plan’s definition say you are unable to perform YOUR occupation, or ANY occupation, even a low paying one, like saying “would you like to ‘supersize’ that?” If you go back to work, or take a lesser paying job, will this affect your benefits?

Ignorance of how your plan works, or worse, not thinking you will ever get disabled and not getting ANY disability insurance at all can be bliss – until it’s too late. You don’t want to making a claim or calling your HR or benefits person from the hospital bed to find out what you have, only to hear two dreaded words: “Not exactly.”

How important is disability insurance anyway? Are you aware of the risks? Due to the miracles of modern medical technology, your odds of getting disabled, and needing disability insurance are actually a lot higher than that of dying prematurely and needing life insurance. In fact, according the National Safety Council, Injury Facts, 2012 edition, you are 240 times more likely to get disabled from an accident, than you are to suffer a fatal one. Every single second, there is an accident that causes a disability, versus a fatal one, which is about every four minutes.

Group plans should be thought of as a “nice-to-have,” a perk, a benefit, like a company car. Just because they give you a company car, doesn’t mean you don’t also have your own car. Group disability coverage is usually pretty basic, very generic, cookie-cutter in nature, and generally without the best definitions and language. Some private, individually owned policies on the other hand, with “Own Occupation” definitions can even allow you to be on full claim, collecting a benefit check, while working at another job, allowing for “double dipping.”

Individual policies can also typically provide a lot of value added bells and whistles that group policies simply can’t match. For example, some individual policies pay for construction costs such as widening doorways and hallways, putting ramps on your house, or lowering countertops, or putting handles in bathrooms. Some policies are generous when it comes to paying for rehabilitation, covering exercise equipment or gym memberships, or tuition and books for retraining to learn another occupation. Some private policies pay for COBRA benefits, no small expense, when you will undoubtedly get laid off from work because your disability is deemed long term and you end up losing your medical insurance. Portability can be an issue. Your group insurance might not be portable so you can’t take you coverage with you if you leave, and even if you can, it’s probably not nearly as good as individual plans anyway.

One very little known fact is that group plans which are under ERISA, do not allow you to sue for punitive damages, should you be wrongfully denied a claim. If you sue, and you win, you will only be entitled to the amount of benefits that should have been

paid. Individual, privately owned policies, on the other hand don't provide insurance companies this layer of protection, and so consequently more is at stake if they don't pay, and there is a higher likelihood a claim on your private plan will be paid and go more smoothly and faster.

What about benefit amounts? Will you get enough? Most group plan benefits are capped at 60 percent of your income, or a dollar amount, typically \$5,000 per month whichever is less. If you are in sales, that percentage may only be based on your base salary, not your commissions or bonuses which could be a significant part of your income. For example, let's say you make about \$180,000 per year. But of that, \$50,000 of it is salary and the other \$130,000 is bonus or commission. If you have a plan that works this way, you are only going to get \$30,000 per year (60 percent of the \$50,000).

Many people who are not aware of this until claim time are in for a huge wakeup call and reality check. See what I mean about that call to HR? What's more, if your group plan is employer paid, or if you pay for your group insurance with payroll deductible pre-tax dollars, your benefits when received will be taxable. So now that \$30,000 may only be about \$24,000 making matters worse. So between the company cap on benefits and the taxes you could be in for a real shock, and at a time when you're spending more than ever on all that extra rehabilitation and physical therapy you'll need that might not be covered by your medical insurance. Get the picture?

The bottom line is that you should think of group coverage the way you do a company car. You don't own it, the company does. That means they can change it, take it back, modify it, have a budget change and delete the program all together.

What about cost? Good quality stand alone individual coverage only costs about 2 percent or less of your income, (About \$4 per day, using the above example of someone earning \$75,000). If you are supplementing your group policy, it may only be about 1 percent of your income, or \$2 per day in this example. In any event, you may want to really read the fine print of your group plan or visit with a professional versed in disability insurance to have them go through your plan and read the language to help you better understand it. You don't always have what you thought you did.

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