

### 4.1.3: READ- Everything You Need to Know About Disability Insurance



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#### Disability Insurance

For most people, the term “disability insurance” conjures images of accidents and worst-case scenarios, the things that you don’t plan on. One result: the average American probably knows very little about how to qualify for it, the different types available, and the resources designed to help with the application process.

But this Disability Insurance Awareness Month (DIAM), especially as we begin to see the long-term impact of Covid-19, it’s important to remember that hoping for the best can be supplemented by planning for the worst. Disability insurance is an accessible way to protect yourself, your family and your income, for those unforeseen events in life.

Disability insurance isn’t about covering the medical portion of any injury or illness – it’s insurance for your income. That’s why many industry experts call it disability income insurance and recommend that most Americans currently earning an income obtain some sort of disability coverage.

Choosing disability insurance involves understanding the different types and the benefits each brings. For example, there are two categories of private disability policies: long-term disability (LTD) and short-term disability (STD) insurance. According to Steve Perrigo, Vice President of Allsup, a nationwide provider of Social Security Disability Insurance (SSDI) representation services, a long-term disability policy may provide coverage for several years after a work-limiting disability occurs. LTD policies typically replace 60% of someone’s income if they can no longer work, while a short-term disability policy typically replaces 40%-70% of income for 13-26 weeks.

Long-term disability policies are most commonly offered as a benefit through an employer, or purchased as an individual policy through a broker or financial advisor. Short-term disability policies are typically obtained as a group policy benefit through someone’s workplace.

SSDI is an additional form of disability insurance available, should you sustain an injury or illness that makes it impossible to work. This federal insurance program is coverage that workers and employers pay for as part of FICA payroll taxes, along with Social Security retirement.

The benefit, or amount you can expect to receive each month while you are unable to work, will vary depending on the plan. It’s important to note that the benefit from an individual disability policy usually isn’t taxed unless it’s paid for from pre-tax dollars. The benefit from a short-term group disability policy offered by an employer, on the other hand, will be taxable.

The next two criteria, the benefit period and the waiting period, will vary depending on the policy and the insurance carrier. The waiting period can be important to research because this let’s you know how soon benefits are likely to begin after experiencing a disability. Also called the elimination period, the typical wait time for short-term coverage is two weeks, while the wait time is 90 days for long-term coverage.

The most critical part of choosing your private disability coverage is the final piece of the policy: the definition of disability. Each policy and carrier has a specific definition of what qualifies as a disability to receive benefits. For example in the case of “own-occupation” and “any-occupation” — the former provides coverage if you are unable to perform the occupation you were trained for, and the latter provides coverage only if you are unable to perform any reasonably suitable occupation. Different levels of disability also may be defined, such as “partial disability,” which could qualify you for a percentage of your total benefit amount.

No matter your occupation or income level, disability insurance is an essential protection for most people against things that are impossible to plan for, such as a life-altering disability, a debilitating illness, or even a global pandemic. We protect our homes, cars, and health with insurance, and safeguarding our income with disability insurance is just as crucial for future security and well-being.

Paula Morgan Paula Morgan has 21 years of public and private experience helping people successfully navigate Social Security Administration (SSA)

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