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GETTING GOING | By Karen Blumenthal

Is Disability Coverage a Buy?

Disability insurance has long been the stepchild of employee benefits, ignored by workers until it's needed. But with employee costs rising and company open-enrollment season beginning, it's worth a closer look.

This year, more employees will have to decide if they want to buy long-term disability coverage—which typically pays a portion of your income if you can't work for more than six months—or if they need to shell out more for better benefits. While many companies still pay for the coverage, an increasing number are offering only a modest core benefit and then charging employees for more-comprehensive plans, consultants say.

Some 47% of companies required employees to pay all or part of long-term disability insurance in 2011, up from 41% in 2007, according to a survey of close to 2,000 plans by benefits consultant Aon Hewitt. For the most part, companies are still footing the full bill for short-term disability insurance, which typically covers workers' pay for up to six months.

Given that health-care premiums are also rising and paychecks aren't, it might be tempting to forgo paying for long-term group disability insurance, which can cost \$450 to \$600 a year for someone making \$100,000.

You do this at your own risk. Many workers are disabled by

things like back trouble, cancer treatments, heart disease or mental-health issues, according to the nonprofit Council for Disability Awareness.

Social Security data indicate that more than one in four 20-year-olds today will be disabled for more than three months at some point in their working lives.

Many of us would be hard-pressed to get by on our savings if we couldn't work for 2 1/2 years, the average length of a disability.

As you weigh whether to buy the insurance or improve your coverage, here are five common myths to consider before you make the decision.

◆ Social Security or worker's compensation will cover me.

Most disabling accidents happen when you're not working, so you likely wouldn't qualify for worker's comp. Social Security requires you to be totally disabled for at least five months before receiving payments, and most applicants are rejected when they first apply. While many win on appeal, it may take years to begin collecting—and even then, the average monthly payment is just \$1,070.

◆ The company's core benefit is sufficient.

It may be if you're single with no kids, says Mary Tavarozzi, a senior consultant at Towers Watson, a benefits

consulting firm. But if you are older and have children at home, a core benefit of 50% of your pay may not be enough.

Some companies offer the option of paying to increase the benefit to a higher percentage of your salary, or to have your disability pay reflect your bonuses. Some policies cap their payouts, so some high earners may not get even half their pay unless they buy extra coverage, says Rich Fuerstberg, a partner at benefits consultant Mercer.

Even then, most group policies don't have a cost-of-living increase, so if you are out of work for a long period, your payments won't increase. You can also buy coverage as an individual, but it's far more expensive, often running 2% to 4% of your annual income.

◆ I can sign up for it later.

It's true that you can sign up for group disability coverage at any time. But if you don't sign up when the benefit is first offered or during open-enrollment periods, you will be putting yourself at risk if you get sick. Those who wait could have to undergo a medical evaluation—and pre-existing conditions might not be covered.

◆ If I'm disabled, payments will continue indefinitely.

That depends. Disability payments for mental-health or substance-abuse issues may be limited to two years.

What's more, most group policies will cover you for two years if you can't return to your current job. But after that, you will be covered only if you can't return to an appropriate job that would pay at least half your old salary, or about what you're currently getting in disability pay. That doesn't mean that former executives will have to stock shelves, but it could well mean returning to a less-exalted position.

◆ Disability insurance alone is enough.

For many families, receiving 50% to 65% of an earner's paychecks isn't enough to make ends meet without also having additional savings, especially since disability benefits are taxable if the company paid for the policy. You can't count on an extra amount from Social Security because any Social Security payments are usually deducted from your disability insurance payments.

You may also have a significant new expense: At some point after you stop working, you may no longer qualify for the company's health insurance plan and have to pay the full premium for your health coverage under Cobra, which can be considerably more expensive. After two years of receiving Social Security disability payments, however, you would qualify for Medicare.

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