



Growing Appeal of Disability Insurance

by: M.P. McQueen, Wall Street Journal | Dec 19, 2006

Often, it's one of the last safety nets people think about -- after health, home and car insurance. After life, dental and maybe even pet insurance. But now, disability insurance is attracting new interest.

Sales of disability insurance, which provides an income if you can't work because of a serious illness or injury, had been stagnant after industry losses drove out many providers. But now sales are on the rise, driven by more-affordable policies, as well as a growing number of employers making disability insurance available for workers to purchase at a discount.

In particular, a simpler and cheaper type of disability policy called "guaranteed renewable" is becoming increasingly popular, with sales of new policies increasing 8% last year, according to Limra International, an insurance-industry research group. Guaranteed renewable provides less of a safety net than older-style "noncancelable" policies that lock in premiums for the life of the policy. The rates on guaranteed-renewable insurance can go up each year. But it is significantly cheaper than noncancelable coverage.

Prices and benefits range widely according to age, the amount of income being replaced and a host of other variables. The average monthly benefit for noncancelable individual disability insurance is \$4,242, for an average annual premium of \$1,684, among companies reporting to Limra. The average monthly benefit for guaranteed renewable is \$1,479, for an annual premium of \$523. (Figures include both long- and short-term policies.)

Fewer employers are paying for group coverage in their employee-benefit packages, in a bid to cut labor costs. But the newer products are allowing employers such as Staples Inc., ING Groep NV and hospital group Freeman Health System to offer private policies for at least 20% less than what workers would pay if they bought coverage on their own.

Some of the big providers of individual long- and short-term disability policies are UnumProvident Corp., Metropolitan Life Insurance Co., and Massachusetts Mutual Life Insurance Co., a subsidiary of MassMutual Financial Group. At MassMutual, worksite sales of private insurance grew 17% in the past three years, a spokesman says. Aflac Inc. is the top seller of short-term disability policies that cover workers for a few months, as well as accident disability policies.

There are a number of issues to consider before buying a disability policy, say insurers, consultants and consumer experts. Consumers should be sure they understand how "disabled" is defined by the policy, the percentage of income that would be replaced, and the duration and tax treatment of benefits. Also, policies bought at the office fall into a gray area of

benefits law, with some courts limiting consumers' ability to sue if claims are denied.

But even consumer advocates who are often critical of the insurance industry for pushing unnecessary products (such as life insurance for someone with no dependents) say that a disability policy can be a smart buy. "Disability insurance would probably be the one insurance product that is undersold," says J. Robert Hunter, insurance director for the Consumer Federation of America.

The renewed interest in disability insurance comes as disability rates are rising. Americans are recovering and living longer from accidents and diseases such as cancer, but they aren't always able to go back to their jobs. And some research, such as a recent Hartford Insurance Co. study, suggest that rising rates of obesity and diabetes are leaving workers disabled at younger ages than in the recent past. Cancer was the No. 1 cause of long-term disability last year at the largest disability insurer, UnumProvident, the company says. Other top causes include complications of pregnancy, musculoskeletal diseases, back injuries and heart disease.

Lack of Coverage

Despite the growing risks, less than a third of all workers in private industry have long-term disability insurance, and only 40% of managerial and professional workers do, according to the Bureau of Labor Statistics.

As recognition of the coverage gap grows, some people are buying policies to supplement an employer-paid benefit -- say, to increase the income replacement or cover short-term loss if the employer pays for only long-term. But many buy it because they otherwise have no coverage.

Five states (New York, New Jersey, Rhode Island, California and Hawaii) and Puerto Rico mandate that employers provide some short-term disability coverage, or provide it through a state-funded program.

Elizabeth Vaughn, 53, a cardiovascular scrub nurse at Freeman West Hospital in Joplin, Mo., signed up for a short-term disability policy with \$40-a-month payroll deductions to cover 60% of her income this spring. Her employer has offered discounted short-term disability from UnumProvident since November 2004. In August, she underwent a knee-replacement surgery. During a 12-week leave of absence, she received nearly \$5,000 in disability benefits.

Buying on the Job

Four years ago, when she had the same operation on her other knee, she borrowed money from her retirement plan to live on while she recovered. Ms. Vaughn says she had never considered buying disability insurance until she was offered it at work. "I never checked into it. I didn't know the benefits of it until we received it here," she says.

Karen Morse, director of employee benefits at ING Groep in New York, says the financial-services company started offering supplemental disability insurance from MassMutual at a 25% discount in addition to its long-term employer-paid group coverage nearly six years ago. The employer-paid plan simply didn't cover enough of the highly compensated executives' salaries, Ms. Morse says.

Taxable Benefits

To be sure, most people in the U.S. who do have disability coverage get it from their employers as a benefit. Group coverage has the advantage of being often free to employees and guaranteed: No medical questions are asked and you can't be disqualified. But benefits are often limited to 50%-60% of income and may be capped at \$5,000-\$10,000 a month, among other limitations. Benefits are taxable when the employer pays the premium. Group policies also aren't portable; you usually have to leave insurance behind with the job.

With private, individual policies, benefits aren't taxable if you pay your own premium. And policies are portable if you change employers. Private policies sold in the workplace may even share some characteristics of group policies, such as not requiring medical testing.

Among individual policies, noncancelable insurance is often marketed to high-income executives and professionals. It tends to have generous features such as desirable "own occupation" definitions of disability that pay a full benefit if one is unable to perform the specialized duties of one's occupation -- say, those of a surgeon -- but one can still work at other jobs, such as a general practitioner.

Affordable Option

Guaranteed-renewable policies tend to have fewer features, but their lower cost -- an average of 20% less than noncancelable -- makes them more affordable. As long as the premium is paid, the insurer can't drop the policy. But rates on guaranteed-renewable policies can be increased, subject to approval by state regulators.

Rates for newly issued policies of both types of policies for 35-year-old males have been rising at about 7% a year, according to Gregory Large, managing partner of Lenox Advisors Inc., a benefits broker and administrator based in New York.

Individual policies of all types often include the option to buy inflation-protection and other riders. And a growing number of insurers also offer policies and riders that make up for lost retirement-account contributions during disability, including Berkshire Life Insurance Co. of America's Retirement Protection Plus and MassMutual's RetireGuard (though some group plans do, too).

Legal Protections

Consumer advocates warn that legal protections for consumers who buy some individual disability insurance products at work can be unclear.

Insurance watchdog Joseph Belth, professor emeritus at Indiana University of Bloomington, has criticized some insurers for invoking the Employment Retirement Income Security Act, a federal law that regulates benefits plans, to avoid lawsuits by disgruntled claimants.

Erisa was intended to protect employees' retirement benefits, but has sometimes been interpreted by the courts in ways that favor employers and insurers defending against claimant lawsuits.

