



Illinois Insurance Facts

Illinois Department of Insurance

Shopping for Individual Disability Income Insurance

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Note: This information was developed to provide consumers with general information and guidance about insurance coverages and laws. It is not intended to provide a formal, definitive description or interpretation of Department policy. For specific Department policy on any issue, regulated entities (insurance industry) and interested parties should contact the Department.

What is Disability Income Insurance?

What would happen if you could not work due to an illness or injury? What would you do for income during that time? Disability income insurance provides a specific benefit to replace part of lost income when an insured person becomes unable to work because of an illness or injury.

Assessing Your Needs for Individual Disability Income Insurance

Some employers provide group disability income insurance as a benefit of employment. If you are covered by a group disability income insurance policy, you should review it to see if the coverage meets your needs. Group policies may only cover short-term disabilities up to 6 months or they may include long-term coverage but at a small percentage of your normal income. If this is the case, you may wish to purchase additional coverage on your own to supplement the group coverage and to extend the benefit period when the group coverage expires. If you cannot obtain disability income insurance through an employer or another group, or if that insurance is not adequate to meet your needs, you may want to consider buying an individual disability income insurance policy.

If you are self-employed or have no group benefits, you should consider how your income would be affected in the event of illness or injury. Most people do not have enough money in savings to sustain them through a loss of income for an extended period of time. If this is your situation, you may want to consider purchasing individual disability income insurance.

Disability Income Insurance Policy Features

Disability income insurance is not intended to fully replace your income. If that were the case, there would be little or no incentive to return to work. Rather, the benefit should be sufficient to financially sustain you during your disability. The following policy provisions will impact the disability benefits you receive:

Amount of Benefit – The insurance company will review your income history to determine the disability income benefit they will offer you. The benefit may be a stated dollar amount or it may be a percentage of your income (typically 50 to 70%).

Definition of Total Disability – To receive benefits under a disability income insurance policy, you must meet the definition of **total disability** as defined in the policy. Most companies define total

disability in two stages. At the beginning of the disability, you are considered totally disabled if your disability prevents you from performing the essential duties of your own occupation. However, at the end of a specified period (usually one or two years) you are considered totally disabled only if you are unable to perform any job suitable for your education, training and experience. Each policy is different and you should check the definition of total disability within a policy before buying it. You should also determine whether the policy pays benefits for disabilities resulting from both accidental injury and illness. An accident-only policy may not be adequate to meet your needs.

Elimination or waiting period –The policy will specify the number of days you must be disabled before qualifying for benefits under your disability income insurance policy. Waiting periods may be anywhere from 30 to 365 days.

Benefit period – The policy will specify the length of time you will receive monthly benefits. Benefit periods can range from 1 year, 2 years or 5 years up to age 65 as defined by the contract.

Optional Benefits and Features

Many disability income policies offer supplemental or optional benefits that you can purchase:

Cost of living adjustment (COLA) – Increases your disability benefits over time based on a flat percentage or on the increased cost of living measured by the Consumer Price Index.

Increase in benefit – Grants you the right to purchase additional coverage to increase the disability income benefit amount provided under the policy in the event your earnings increase between the time you buy the policy and the time you become disabled.

Return of Premium – Requires the insurance company to refund a portion of your premiums if no claims are made for a specific period of time stated in the policy.

Partial Disability Rider – Allows you to return to work part-time and receive partial benefits if you are not ready to return to work on a full-time basis due to your disability. This benefit is a flat amount specified by the policy and is sometimes offered as a standard benefit within the policy.

Residual Disability Rider – Similar to the partial disability rider in that it can also be offered if you are unable to return to work on a full-time basis. A residual benefit can also be paid if you return to work full-time but your income is not fully restored. For example, if you are a physician and you return to work full-time but your practice has suffered due to your absence, the residual benefit will pay because you have lost income as a result of the disability. The residual benefit is a percentage of the full disability benefit.

Waiver of premium provision – Allows you to stop paying the premium for the policy if you are disabled longer than a specific period of time, usually 90 days.

Additionally, you should look for one of the following optional protections in an individual income disability policy:

- **Non-cancelable** – The policy cannot be canceled by the insurance company, except for nonpayment of premiums. You can renew the policy every year without an increase in premium or reduction in benefits;

- **Guaranteed renewable** – The policy cannot be canceled by the company, except for nonpayment of premiums, and you have the right to renew it with the same benefits. However, the insurance company has the right to increase your premiums as long as it does so for all policyholders in the same rating class as you.

Possible Reductions in Benefits

Your policy may contain clauses that reduce the disability income benefit for the following reasons:

Earnings History – The policy benefit is normally based on your earnings at the time you purchased the policy. If, prior to a disability, your earnings decrease due to a job change or a period of unemployment, your disability benefit may be reduced accordingly.

Multiple Policies – If you are covered by more than one disability income policy, the benefits may be reduced depending on your income at the time of the disability and the total benefit amount payable by all policies in force.

Social Security Disability Income – If you qualify for disability benefits from the Social Security Administration, your disability income insurance benefit may be reduced to offset that benefit.

Typical Exclusions

Some disability income insurance policies exclude coverage under certain conditions:

Pre-existing Conditions – Typically, a policy will not pay for a pre-existing condition for the first 12 months of coverage. If you have a severe or chronic health condition, the insurance company may exclude benefits permanently for that condition or they may refuse to sell you the policy.

A pre-existing condition is a health condition you already have when you buy a policy. It may include a condition you have recovered from. Any condition, whether or not revealed on the application, for which symptoms existed prior to the effective date of coverage, causing an ordinarily prudent person to seek diagnosis, care or treatment, or one in which medical advice or treatment was recommended by or received from a physician may also be considered a pre-existing condition.

One of the main reasons for claim denials or delayed payments is pre-existing condition exclusions in the policy. Even if health questions are not asked on the application, the policy may not cover conditions you already have. Make sure you understand the definition of pre-existing condition and how long such conditions will not be covered. Read the limitation and exclusion provisions of your policy very carefully.

Act or Accident of War – Injuries or sicknesses that result from war.

Alcoholism, intoxication and drug addiction – Injuries or sicknesses that result from alcoholism, intoxication or drug addiction as defined and determined by the laws of the state where the loss or cause of the loss was incurred.

Self-Inflicted or Work-Related Injuries – If your disability is self-inflicted or work-related, the disability income policy may not pay benefits.

Applying For An Individual Disability Income Insurance Policy

Most companies will require you to complete an application and provide personal information, including your medical history. If your application is incomplete or inaccurate, the company may deny benefits at claim time and rescind your coverage. **It is important that you disclose all conditions and answer all questions completely to assure you have coverage when it is time to submit a claim.** If someone else fills out the application for you, read it carefully before signing it. When you sign an application, you are agreeing that it is correct and complete.

Companies frequently request medical records and may require you to take a physical exam or have blood tests. If you have serious or chronic health conditions, you may be charged a higher premium for coverage or you may be unable to qualify for individual disability income insurance.

The Cost of Individual Disability Income Insurance

Many factors contribute to disability insurance premiums, including: your age, gender, occupation, health status and the amount of potential lost income you are trying to protect. In general, the less dangerous your occupation, the lower the premium will be. If the policy is issued on a “Guaranteed Renewable” or a “Non-cancelable” basis, the premium may be affected.

The length of the elimination and benefit periods you choose will also affect your premium. The longer the elimination period, the lower the premiums will be. If you have enough resources to cover your expenses for 60 or 90 days, rather than the typical 30-day period, your premium will be lower. The longer the benefit period, the higher the premiums will be. If you select a maximum benefit period to age 65 rather than for five years, the premium will be higher. Any optional benefits you select will increase your premium.

Tips on Buying Individual Disability Income Insurance

- **Find a reliable company.** An Internet search can lead you to websites that provide quotes from several companies. For more personal service, a local insurance agent can provide information on coverage available in your area.

Contact the Department of Insurance to find out if a company is **licensed** in Illinois. To sell insurance or provide coverage in Illinois, insurance companies must be licensed by the Department of Insurance and obey our laws and regulations. Licensed companies must also pay into an insurance guaranty fund or association that protects consumers if a licensed company becomes bankrupt and is placed in liquidation.

If you buy insurance from an unlicensed entity, you have no guarantee that the policy complies with Illinois laws or that the coverage you pay for will be honored. Check a company’s **complaint ratio**. Our website lists [complaint information](#) for accident and health companies with ten or more insurance complaints. Check a company’s **financial stability** to ensure that it can pay its claims. Refer to our fact sheet [Finding a Reputable Insurance Company – Using Financial Rating Agencies](#) for assistance.

- **Finding an Agent** - Look in the yellow pages or ask people you know and respect if they would recommend their agent. Find an agent who is reliable and helpful in answering any questions you have regarding your policy. You can verify an agent's licensing status by contacting the Department of Insurance or visiting the [Producer Licensing Record](#) of the Producer Information section on our website.
- **Shop Carefully** – Disability insurance is somewhat complicated, so comparison-shopping is worth the time it takes. Take your time and do not be pressured into buying a policy by high-pressure sales tactics. When comparing policies from two or more companies or even two policies from the same company, make sure you understand the differences in the policies. Read the renewal provision that is usually found on the first page of the policy to determine if and when the company can refuse to renew your coverage.
- **Replacing a Policy** - Replacing an old policy with a new one may not be a good idea. A new policy may have waiting periods and pre-existing condition exclusions that could leave you without coverage for a period of time. The company may also attach riders to a new policy that completely exclude coverage for an existing health condition.
- **Make Sure There is a “Free Look” Provision** - Companies issuing individual disability income insurance in Illinois are required to give you a minimum period of ten days to review the policy and return it if you are not satisfied for any reason. The ten days begin the day you receive the policy either in the mail or by delivery from an agent. If during the ten-day period, you decide not to keep the policy, return it to the agent and obtain a receipt, or return it to the company by certified mail. Once the ten days have passed, the company is not required to refund the premium. Some companies, however, will take extenuating circumstances into consideration, so it is worth the effort to explain any unusual delay in returning the policy for a refund.
- **How to Pay Policy Premiums** - It is best to pay by check, money order, or bank draft made directly to the **insurance company**. If you pay in cash, obtain a receipt for the payment. Keep in mind that when you pay an annual or semi-annual premium, the company considers the premium to be fully earned when they receive it and seldom will they refund any portion of the prepaid premium if you decide to change companies and drop the current policy.
- **Fill out your application completely and accurately:** It is important to give correct and complete answers when applying for insurance. If you omit or misrepresent information, the company can void the contract.

Common Terms Used In Disability Income Insurance Policies

Benefit Period: The period of time for which benefits will be paid after satisfying the elimination or waiting period.

Cost of Living Adjustment: An optional benefit that increases the disability income benefit amount being paid to the disabled insured in accordance with a percentage increase in the cost of living.

Earned Income: Income that will cease when you become disabled. Income from rental property, investments or savings is not considered earned income. Individual disability income policies usually specifically define earned income that is being insured.

Elimination or Waiting Period: The period of time (usually a specified number of days) that must pass from the onset of the disabling condition before benefits will be paid.

Guaranteed Renewable: The policy cannot be terminated, except for nonpayment of premium, and benefits cannot be reduced but the premiums may increase.

Non-Cancelable: The policy cannot be terminated, except for nonpayment of premium, and the premium and benefits remain the same.

Partial Disability: A disability that prevents you from performing some of the duties of your own occupation or from performing your occupation on a full-time basis.

Partial Disability Benefit: A flat benefit paid when you suffer a partial disability. Usually paid for a short period of time, typically 6 months.

Residual Disability: A disability that prevents you from performing some of the duties of your own occupation or from performing your occupation on a full-time basis (same as partial disability). A residual disability can also take place when you return to work full-time but you suffer loss of income because your business or practice has suffered as a result of your absence. This is a common benefit offered for self-employed professionals such as physicians, dentists, lawyers, and accountants.

Residual Disability Benefit: A benefit paid when you suffer a loss of income due to a covered disability or if loss of income persists. This benefit is based on a formula specified in your policy and it is generally a percentage of the full benefit. It may be paid up to the maximum benefit period.

Return to Work (RTW): The date when a disabled person returns to the workforce. This date is typically used as the official end of the disability.

For More Information

Call our Consumer Services Section at (312) 814-2427 or
our Office of Consumer Health Insurance toll free at (877) 527-9431
or visit us on our website at <http://insurance.illinois.gov>

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