

About-
Disability-
Insurance.com

Group vs. Individual Disability Insurance

"Their first, **and incorrect reaction**, is that they are still getting a better deal through their company."

[Disability Insurance Articles](#)

[Disability Insurance Web Sites](#)

Policy Provisions

[Definition of Total Disability](#)

[Renewability](#)

[Residual Disability Insurance](#)

[Presumptive](#)

[Recurrent](#)

[Elimination Period](#)

[Benefit Period](#)

[Optional Riders](#)

[Policy Exclusions](#)

[Policy Exclusions](#)

[Policy Exclusions](#)

[Home](#)

What Are The Differences Between Group LTD & Personal Disability Insurance?



By: William Olmsted

Almost every day I get a call from someone looking to compare their group long term disability insurance at work with what is available to them as an individual. Usually they are looking to compare the two totally different types of disability protection based on cost alone, and this just may be the largest mistake people make when they evaluate their disability insurance options. They have just found out that the company LTD received a premium increase, and they want to know if the new rate is a "good deal".

When talking to people in this situation, I try to stress that there are many interpretations of a "good deal." There is a good deal on price, and one on policy benefits. The perception, however, is that the two should be similar. They are not. A cheap policy is rarely a quality policy, and a quality policy is rarely cheap. This article will try to touch on the important differences of a group long term disability policy and an individual disability insurance policy.

Related Article:

[Disability Insurance Facts](#)

My Premium Just Did What?

Most often, the calls I receive from people comparing group LTD to individual disability insurance coverage are generated from a seemingly significant increase in premium on their LTD coverage. Most long term disability plans guarantee the rate for a period of time. After that guaranteed period, however, they are free to raise the rate to the employer as needed. In these situations, employers can pass that increase on to their employees. For employees who have not been used to paying premiums, and now find themselves out \$20 per pay period, it is not a welcome change. They have felt entitled to the coverage all along, probably haven't paid it any attention, and don't think disability insurance is something they really [need to worry about](#) anyway.

The other type of employee is someone who has been paying a modest amount all along for their disability insurance coverage. They have been paying \$50 per pay period and now got an increase to \$80. They see the value in having disability coverage, but just not at a \$30 per pay period increase.

Both of these people want to test the waters on the individual disability insurance side, thinking that they might be able to get the same coverage for less money on their own. It worked for them on their term life insurance, so it might work for

disability insurance too. The bottom line is there is not a good disability insurance policy on the market for an individual that has a lower cost than the group coverage available through work. If that is all you are interested in, you can stop now. However, if the brief amount of research you have done has already shown you that there are several severe short-falls associated with most group LTD plans, now may be the time to evaluate supplementing your group LTD plan with a quality individual policy.

Maybe I've Got A Good Deal After All

Once the conversation about the individual disability insurance starts, it becomes apparent to the employee that they will not be able to save money by going to a personal disability insurance plan. In fact, they are usually looking at paying a significant amount more for personal coverage. Their first, **and incorrect reaction**, is that they are still getting a better deal through their company, and should just take what is being offered to them. Again, this is one of the biggest, and most common mistakes we see people make on a daily basis.

Unfortunately, they are right only in one situation. If they never become disabled, they would have a good deal with the cheapest possible coverage (i.e. LTD at work). However, if they were the one out of every seven employees that [statistically](#) become disabled for 5 years or more, they would not think their cheap LTD was such a "good deal" anymore.

Well, is it really a good deal?

When discussing LTD and individual disability insurance (IDI), it is important to get past the issue of cost. As with most things, you get what you pay for. The more expensive policies are pricy simply because they tend to pay more claims dollars in more claims scenarios. Most people do not realize just how many holes there are in a typical group long term disability insurance policy until they are fighting an insurance company to pay a claim. Typically people have few problems in the first two years of a claim, however after they have been on claim for a couple years the definitions go from mediocre, to very restrictive. This is when people in the worst possible scenario lose their needed disability insurance benefits. A typical group policy will have a "[modified own-occupation](#)" definition of total disability for the first two years of a claim, but after two years the definition becomes "[gainful occupation](#)". This is the reason behind many people having their claim terminated under a group policy. I like to tell people considering a supplemental plan, that their group long term disability insurance coverage should be considered a two year benefit plan, because the definition of total disability is only good for two years. The following is a list of things to look for when comparing your LTD to any individual coverage. Although there may be other aspects to consider, here are some major differences between group long term disability insurance and individual coverage.

Group LTD

The most common definition we see is a "[modified own-](#)

Individual Disability Insurance

One can purchase anything they want from a [pure own-](#)

Definition of Disability	<u>occupation</u> for the first two years of a claim, then a change to the restrictive " <u>gainful</u> " <u>occupation</u> definition for the rest of the benefit period.	<u>occupation</u> policy to a modified own-occupation contract.
Portability	It is extremely rare to find a group LTD policy you can take with you should you change employers, or become self-employed. Most LTD contracts are not portable, and do not fall under COBRA regulations.	You own it, and the coverage remains in-force so long as you pay the premiums regardless of how many different companies you work for, including becoming self-employed. One can take this policy with them to any new employer, or new occupation without a need to update their coverage.
Taxability of Benefits	If your company pays the premiums for the LTD coverage, if you go on claim the benefits are taxed as ordinary income to you. That 60% benefit is truly much less after you pay taxes on it.	When you pay the premiums for this insurance with your own after-tax dollars, any benefit received during a claim is tax-free to you.
Residual / Partial Benefits	Some group LTD plans make no provisions for partial coverage; some pay partial benefits for up to 2 years, and very few have extended partial benefits to 65.	Most individual disability insurance plans have a significantly better residual / partial provision that covers partial disabilities to age 65.
Mental & Nervous Restrictions	Group plans typically limit claims paid for any mental and nervous disability to 2 years. Many will also limit claims paid for drug and alcohol abuse to one year.	Some individual plans limit mental and nervous, and drug and alcohol benefits to two years as well, however there are still some that treat mental and nervous claims like any other disability.
Monthly Maximums	Every group plan has a monthly maximum benefit. Two of the most common maximums are \$5,000 and \$10,000. A group LTD policy will typically pay 60% of base salary to a monthly maximum of 5K / 10K a month.	Most insurance carriers limit the monthly benefit under an individual disability insurance policy to \$15,000. Physicians are often limited to \$10,000 a month.
Covered Income	Many group LTD plans only cover base salary, and leave out commissions and bonus income. Anybody in sales, or who depends on bonus money for a portion of their income has even less LTD coverage than they think.	Insurance carriers typically cover any earned income filed on a federal tax return. This includes commissions, bonus, and profit-sharing.

Perception vs. Reality

The perception is that group disability insurance provides adequate protection against disabilities. Our belief is that it is a shell of a disability insurance contract, and provides too many people with a false sense of security. The perception is that individual disability insurance is too costly, and will pay the same amount as a group LTD plan. The reality is that personal policies cost more than group LTD, but they also pay you more money in more claims scenarios, and can protect your income in your own-occupation.

This perception can be emphasized with another example. Let's say you were in the market for a Honda Accord, and went to two dealerships, and found two identical cars. One was priced at \$27,000 and the other at \$2,700. You would probably be skeptical of the one that was priced \$2,700. Now let's say you are in the market for a disability insurance policy. One costs \$3,000 and the other costs \$300, why is it that people are skeptical of the one that costs \$3,000. The difference is that people are familiar with what a Honda Accord should cost, they are not familiar with what a quality own-occupation contract should cost.

Don't let the perception become reality, look past the cost, and assess the value of the policy you are considering. A policy that pays you when you need it is a much better deal than the one that costs a lot less and is not there when you need it. Disability insurance is designed to protect your income, if you have a family depending on your income, and the only protection you have is group LTD, your family is truly exposed to financial disaster should you suffer an extended long term disability.

[Contact Me](#)

[Disclaimer](#)

Site Content © Steve Crawford 2001

[About The Author](#)

[Site Map](#)