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Don't Ignore This Insurance
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You've probably heard the mantra: The likelihood of suffering from a long-term disability is significantly greater than the likelihood of dying before age 65, especially when you're young.

Despite these grim odds, the life insurance industry has done a lot better job selling policies than its disability counterpart. According to one statistic lurking on the Internet, 70% of Americans have life insurance policies, while only 40% have disability coverage.

And don't assume you're out of the woods if your boss offers group coverage. Group policies typically pay a maximum of only 60% of base salary -- not including such extras as bonuses, commissions and stock options.

Payments are usually capped at a monthly maximum, too. And when your employer pays the premiums, you pay the taxes.

Things are tougher now

What this means is, there's a good chance you and your spouse need this insurance, or need more of it in the form of a supplemental policy. Unfortunately, it's not as easy to get as it used to be.

Ten or 15 years ago, disability insurance policies were more generous and premiums were lower. Then, after a deluge of claims and resulting floods of red ink, companies left the business or merged, leaving only a handful in the market.

Although premiums haven't increased much in the last few years, overall they are from 50% to 70% higher than they were before the bloodletting. Currently, Guardian Life, which sells top-of-the-line disability insurance, offers a policy with benefits to age 65 and a three-month waiting period for a healthy, 45-year-old male non-smoker with a job such as computer analyst, CPA, architect, or financial planner and earning $50,000 a year for $1,275 annually. For a woman of the same age, health and job, the annual premium would be $1,813. The benefit in each case would be 60% of salary per year, or $2,500 per month.

If it's hard to pin down a cause for your ailment, as it is for, say, chronic fatigue syndrome, "some insurance companies will start hassling you" about paying claims, says Bill Barrett of The Plus Group, a disability insurance brokerage marketing organization. And companies have toughened up financial underwriting.

Disability insurers have been even more reluctant to insure home-based businesses because of the difficulty of verifying a disability as well as income.

Fortunately, insurance companies are beginning to join the 21st century. Some, such as

Assurity Insurance, Mutual of Omaha and the Principal Insurance Group have begun easing requirements for home-based businesses.

In fact, new coverage announced in early May by Guardian Life no longer requires owners to spend 50% of their time working outside the home or to receive clients at the house in order to qualify.

Shopping for policies

If you need more insurance and you can buy *individual* coverage through your employer, take advantage of the offer. The premiums will be lower than buying on your own, and you will be able to take the policy with you if you leave your job. (You normally can't take group coverage with you.)

Look for a future insurance option (cost: about 10% of the premium) that guarantees you the right to buy more insurance without a medical exam as your income grows.

Pay special attention to these provisions in any policy:

- **The definition of disability.** This is the key to determining under what circumstances you will get your benefits. *Own-occupation* policies pay benefits if you can't practice your profession any more. With this coverage, you can work in a related field and still get the benefits.

Any-occupation coverage pays only if you cannot work in any occupation that fits your training and education. For example, if you can't litigate in the courtroom any more but can teach law, you won't get benefits. Some policies offer two years of own-occupation coverage then switch to any-occupation coverage. Own-occupation policies run about 10% to 15% more than any-occupation policies.

- **Residual benefits.** To encourage employees to come back to work, some policies offer residual or loss-of-income benefits. If, say, you can go back to work only part time, earning 80% or less of your former earnings, this provision pays you the difference between current and former earnings. Without it, your part-time work might cause you to lose benefits.

Proving a claim under residual benefit provisions can be complicated these days as well. Jeff Sadler, author of *Disability Income* (published by The National Underwriter), says that some claimants have had to hire accountants to submit forms to prove their claims.

His recommendation: when you apply for insurance with residual benefits, "find out then what kind of records are necessary to prove a claim. It's so much easier for you if you have the right records up front."

- **Non-cancelable vs. guaranteed renewable.** Under either of these policies the insurer can't change the provisions or cancel the policy. But under a guaranteed renewable policy the company can raise premiums -- as long as it's for a whole class of policyholders, such as all of those living in your state. Non-cancelable insurance is better but it is more expensive than guaranteed renewable insurance.

- **Waiting period.** The waiting period (also called the elimination period) is the length of time between the onset of a qualifying disability and when you start receiving benefits. Three to six months is common.

Sometimes you can get a policy with a one- or two-month waiting period, but most people have enough sick leave and savings to get by for three months, so they're often not worth the higher price.

- **Benefit period.** Some policies provide coverage only for two or five years, which many experts believe is inadequate. It's more expensive, but safer, to get a policy that provides benefits to age 65, when the income you are protecting might end with retirement anyway.