

## INSURANCE LAW

# Owning your disability insurance plan a smart idea

By Nancy Graham

If you still need to be convinced of the value of disability insurance — or DI as it is commonly known — is an important risk management tool for anyone in the legal profession. This article is about the difference between various DI policies. It is presumed you accept the concept already.

Allan is a lawyer making \$80,000 a year who loves to ski. Allan is married with two young children. His wife earns \$45,000 annually. He is an employee of a law firm and anticipates making partner in the next few years as his own practice grows.

Over the Christmas holidays last year Allan was injured on the slopes and was off work for six weeks. He returned to work part-time and then full-time after six months. The firm's sick-leave program covered part of his income for the first six weeks. After that he worked part-time and the plan topped up his income to 60 per cent of his pre-accident income. He has recurrent headaches — the doctors don't know why — that

keep him home from work for a couple of days at a time. This time away makes it difficult for Allan to complete time-sensitive, profitable client work. Allan's income is now \$50,000



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and his plans of partnership are indefinitely postponed; he cannot generate sufficient billings to qualify.

No one ever plans to become disabled, but what happens if you are unable to work? For most of us work provides a cherished standard of living for our families and ourselves during

our working life and into retirement. The process is such a basic part of whom we are and what we are about that we cannot or will not contemplate what would happen if we simply could not fulfill this role. Let's look at some options for lawyers purchasing disability insurance.

### Group/association plans

Few people know what their disability coverage provides or, more importantly, what it does not. Commonly a group plan will have a short-term sickness policy that provides partial or complete income replacement for a brief period of time. Then long-term disability takes over. Suddenly the details of your group insurance plan that you have never read become a very important defender of your standard of living.

- Make sure your plan covers you in case of accident and sickness. You really don't care if you can't work because of a skiing accident or a serious illness.

- How long do you have to wait to get paid? The plans usually read something like this: You are continuously unable to

perform the job duties of your regular job for 120 days; returning to work for even a short period of time could restart this tally.

- How much income is replaced? Is it capped? You may find you must survive on half of your current take-home pay.

- What is required to get paid? A common description is, "if you are unable to do most of the important duties of your regular job" you will receive a benefit. Frequently this changes at the two-year mark.

Two years is an important stage in disability and recovery. If you have not returned to work by the end of two years, the likelihood that you will return to your position is now 10 per cent. (Source: *The Globe and Mail*, June 18, 2003.) This second anniversary is also when most group plans change the standard of measurement to determine if you will receive benefits. Many group plans state you will only receive benefits if your disability prevents you from being gainfully employed in *any* job. What is not clear is whether you will be able to land a job or earn anywhere near your previous income.

To darken an already sombre picture, partial income-replacement benefits often end at this point, too. Some association plans may allow you to "buy up" the definitions, thereby increasing benefits.

The employer or the association control the contract, and premiums are not guaranteed. They will rise if there are more claims than anticipated. When this happens, the plan is often shopped to control premium costs. This frequently results in a loss of value in the contract: monthly benefits can be reduced, an accident-and-sickness plan may become an accident-only plan, and the definitions can get harder to meet.

### Owning your own plan

One reason to consider owning your own plan is control. Your policy cannot be cancelled should you change jobs or be out of work for a period of time, suffer a change in health, or make a claim and subsequently recover and return to work.

Premiums for owning your own plan are level; definitions are not subject to change. Locking in your premiums now at an affordable level pays dividends later. Had he had his own plan to begin with, Allan could be eligible for an ongoing top up of income based on his pre-disability \$80,000 income. He would be relieved of the concern of securing new income protection if he left his current employment, particularly to protect him should his current

condition worsen. He would have considerably more security and choice.

Owning your own plan — is a smart option for lawyers — is an investment in the same way paying for professional development is. Your own plan enables you to buy better definitions at the outset. You can purchase protection for your regular occupation and part income replacement to age 65, avoiding the 24 months "any occupation" cliff that many insured people fall off.

Simply put, you will be saved from having to accept any job at any income in order to make ends meet.

Owning a DI plan can also provide protection for your "Own Occupation." This very valuable addition to a DI policy means that should you be unable to work in the occupation you were pursuing when you became disabled you could receive a benefit even if you were able to work at something else.

Also worth noting, since disability insurers design their product to only replace a portion of your income — and the percentage declines as income rises — the ability to retain your benefit while doing something else can enable you to come much closer to your pre-disability income level.

Some private plans also offer a return-of-premium option that allows a repayment to you of premiums if you do not make a claim.

At this point, Allan could hope for an opportunity to be swept into a private plan offering where a large group of people, perhaps from a professional organization, could be insured at the same time. If the pool of applicants is large enough, the strict medical requirements are sometimes reduced and this may provide him an opportunity for some good quality coverage. Finding this, however, could be tough.

### Conclusion

What do you need to know about DI?

1. Own your own contract.
2. Understand how sick you need to be to get paid.
3. Keep it current so your coverage keeps pace with your income.
4. Coverage is just another expense of being in business
5. Buy it and pray you never need it.

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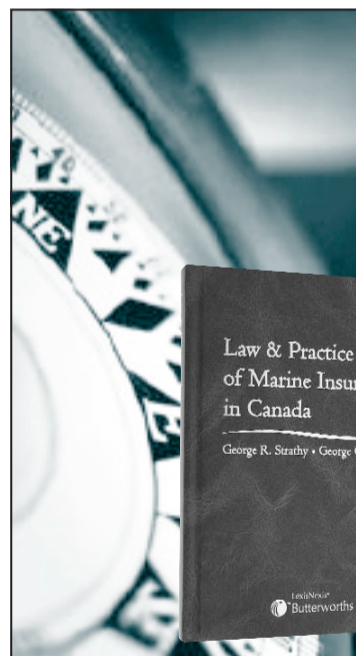
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