

# Consumer Tips

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From the Vermont Health Care Administration

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## Individual Disability Income Insurance

### **What is Individual Disability Income Insurance?**

Disability insurance provides benefits that replace part of your lost income when you become unable to work due to illness or injury. If you become injured or ill and can no longer work, disability insurance generally does not fully replace your income during your disability; it only replaces a portion of your income. Unlike workers compensation, disability income insurance supplements your income even in cases where the illness or injury is not job-related.

### **How does Individual Disability Income Insurance work?**

To receive benefits (income replacement) under a disability income insurance policy, you must meet the definition of total or partial 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 basic duties of your occupation. However, at the end of a specified period (within two years) you are considered totally disabled only if you are unable to perform any job suitable to your education, training and experience. You are considered partially disabled if your disability prevents you from performing one or more, but not all, essential tasks of employment or occupation, reduces the percentage of time or specified number of hours you are able to work, or causes a reduction in compensation.

Each policy is different and you should check the definitions of total and partial 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.

### **What should I know when buying a disability policy?**

Shop carefully. Disability insurance can be complicated, so comparison shopping is worth the time and effort. Take your time and do not feel pressured into buying a policy. Make sure you understand the differences between each policy that you are considering. Read and understand the common terms used in disability income policies.

## Individual Disability Income Insurance (continued)

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### **What should I know about Individual Disability Income Insurance eligibility?**

Disability policies usually include a waiting period that specifies the number of days you must be disabled before qualifying for benefits. Waiting periods can range from 90 days to 365 days before benefits are available. These policies will also specify the length of time you will receive monthly income replacement benefits. Benefit periods can range from 1 year, 2 years or 5 years up to age 65. Read the policy carefully to understand waiting and benefit periods. If you become disabled, the insurance company will review your income history to determine your disability income benefit. The benefit may be stated as a dollar amount or as a percentage of your income.

### **What are the typical benefit periods for short term and long term disability insurance?**

Disability income insurance is usually offered as either a short term or long term policy. Short term disability insurance typically replaces a portion of lost earnings for a limited time, typically less than one year. Long term disability insurance replaces a portion of lost earnings for a specified time, typically greater than one year.

### **What other features of Individual Disability Income Insurance should I be aware of?**

Many disability income policies offer additional benefits that you can buy. These can include:

**Cost of Living adjustment (COLA)** – increases your disability benefits over time based on a flat percentage or the Consumer Price Index.

**Increase in Benefit** – Grants the right to buy additional coverage to increase the disability income benefit amount provided under your 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.

**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 small business owner and you return to work full-time but your business has suffered due to your absence, the residual benefit will pay because you have lost income as a result of your disability.

**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.

## Individual Disability Income Insurance (continued)

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### **How do I find approved individual disability income insurers in Vermont?**

For a list of authorized accident and health insurers in Vermont, contact Consumer Services at the Division of Health Care Administration at **1-800-631-7788** or visit our website at [www.bishca.state.vt.us](http://www.bishca.state.vt.us). You may also contact us in writing at:

Consumer Services  
Division of Health Care Administration  
Department of Banking, Insurance, Securities, & Health Care Administration  
89 Main St. Drawer 20  
Montpelier, VT 05620-3101

### **How do I apply for Individual Disability Income Insurance?**

Most companies require you to complete an application and provide personal information, including your medical history. 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. 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 coverage.

### **What can I do if I can no longer work and my insurance company refuses to provide benefits?**

You may call Consumer Services at the Division of Health Care Administration at **1-800-631-7788** to discuss your problem. If the matter cannot be resolved informally, you may file a formal complaint with the Division of Health Care Administration by requesting a complaint form. When returning the complaint form, it's important to attach copies of any related documentation that you have (such as a claim, a claim denial or proof of payment). The Health Care Administration will not be able to resolve all disability complaints.



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