



Buying Disability Insurance: What You Should Be Looking For

What Are the Advantages of Buying Disability Insurance? What Should You Be Looking for in a Disability Policy? McKennon | Schindler LLP partner Robert J. McKennon has been litigating disability insurance claims for over twenty-five years and gives his advice on buying disability insurance.

What are some advantages to private disability insurance?

- Benefits you receive if you become disabled will be tax-free, as long as you paid the insurance premiums with after-tax money;
- Own occupation policies ensure you for your inability to perform the substantial and material duties of your own occupation in the usual and customary manner and with reasonable continuity. This California law standard is very favorable for consumers when insurance companies determine when you are disabled;
- The policy is not tied to your current occupation. This means you can move around to different occupations and still maintain your policy;
- Once you obtain it, as long as you timely pay your premiums, most policies do not allow insurers to cancel disability policies, no matter your change in health;
- If you buy disability insurance when you are earning a high income, most policies provide that the benefits at the time you apply for a disability policy are based on a percentage of your income and your benefits will be locked in even if your income substantially diminishes;
- If you buy a policy with lifetime benefits and if you are permanently disabled, you now have a nice “annuitized” income for the remainder of your life;
- Your greatest asset is your earning capacity and disability insurance insures that asset – it should be an important part of your financial planning.

What are some important things to look for when considering disability insurance?

- Be sure the policy is “guaranteed renewable” and “non-cancellable.” This guarantees that policy premiums cannot be changed as long as you pay them and your policy must be renewed every year no matter your health condition;
- Be sure the policy provides benefits to age 65 or lifetime;
- Look for disability policies that have “accident” or “injury” definitions that pay benefits for your lifetime;
- Although more expensive, always buy “own occupation” policies (with an occupational specialty rider if applicable);
- “Residual benefits” are available as an optional rider. This benefit essentially allows you to collect partial disability benefits while you work if you can only work part-time or I can work full-time but can perform some, but not all, of your occupational duties. I recommend against buying this rider because it is expensive and, under California law, it is mostly likely not necessary. In addition, such a rider/provision can be interpreted to disallow total disability benefits when a residual rider is in place (insurers often make this argument);
- If you can afford it, a cost-of-living rider will protect your future benefits from inflation;

- Buy a policy with a right elimination period (time when you are disabled but you not entitled to receive benefits) – the longer this period, the less expensive your policy.

Once you become disabled, it is vitally important that you fully understand all provisions of your policy and that you obtain necessary counsel if your claim is denied. If you have any questions about your disability coverage, your individual disability claim or ERISA disability claim, please contact us.



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