

Disability Insurance Terms

To help you understand disability insurance, we have provided below a general explanation of some frequently used terms. Note that the exact definitions of these terms can vary from company to company, from state to state, and from policy form to policy form, even between forms of the same company. Always consult the actual policy for the meaning of the terms applicable to your situation.

Active, Full-time Employee. An individual must work for the employer on a regular basis in the usual course of the employer's business to be considered an active, full-time employee and eligible for coverage. Usually, a minimum number of hours of regular work is specified.

Benefit Percentage. The benefit payable is usually determined as a percentage of the insured's pre-disability income up to an overall maximum benefit amount.

Conversion Privilege. If included, this option allows employees who are terminating employment to continue some or all of their LTD coverage at their own expense without submitting evidence of insurability.

Definition of Total Disability. Probably the most important provision in a disability contract is the definition of disability that will be used to determine an employee's eligibility for benefits.

Own Occupation (Own Occ): Under this definition, an insured will be considered disabled only if he or she is unable to perform the duties of his or her occupation.

Any Occupation (Any Occ): Under this definition, an insured will be considered disabled only if he/she is unable to work in any occupation for which he/she is qualified by education, training, or experience. This is closely related to the definition that the Social Security Administration uses in determining disability.

Definition of Partial/Residual Disability. This further definition of disability applies when an insured is able to return to work part-time or even full-time (with a loss of earnings). If the employee is working in this limited capacity and is earning less than a certain level of income, he or she will still be eligible for limited benefits under the plan. Not all disability insurance carriers use this terminology to describe a "part-time" work situation, but most provide some type of benefit to encourage return to work.

Elimination Period. This is the period of time between the date the disability commences and the beginning of the benefit payment period. It is the period during which an employee must be disabled before payment of benefits begins. It is sometimes referred to as the Qualifying Period.

Evidence of Insurability. Group disability coverage is generally sold as "guaranteed issue" which means that evidence of insurability is not required. However, under certain circumstances (e.g., late enrollment or a high benefit maximum), an employee must provide medical or financial information as proof to the insurance company that he or she is insurable.

Exclusions. There are specific provisions included in group disability plans which exclude coverage in certain situations. Typically, a plan will not pay benefits for disabilities arising from war, participation in a riot, commission of a felony, or self-inflicted injury.

Family Care Expenses. A disabled employee who has family care responsibilities may need extra help when trying to return to work. This type of benefit provides an incentive to the employee who is taking part in a rehabilitation program by allowing credit or partial reimbursement for certain expenses incurred for family care. This is generally an optional benefit under most long term disability policies.

Indexing. Indexing is designed to provide some protection against inflation. After the first year of disability, a disabled employee's pre-disability earnings are usually increased (or indexed) by a certain percentage on an annual basis.

Limitations. There may be specific provisions included in group disability plans that limit coverage in certain situations. Often only limited benefits are payable for specific conditions or under specific circumstances (e.g., mental illness and pre-existing conditions). See also Mental Illness Limitations and Pre-Existing Limitations below.

"Mandatory" Rehabilitation. Based on the premise that most people want to work in order to lead active, productive lives, a "mandatory" rehabilitation provision encourages disabled employees to participate in rehabilitation efforts whenever appropriate. Such a provision allows for termination of benefits if the employee refuses to cooperate or participate with a rehabilitation plan.

Maximum Benefit Period (Benefit Duration). This is the maximum length of time for which benefits are payable under the plan as long as the employee remains continuously disabled.

Maximum Monthly Benefit. This is the highest dollar amount a disabled employee can receive on a monthly basis under the LTD plan.

Mental Illness and Substance Abuse Limitations. When a disability is caused by a psychological/behavioral/emotional disorder, or by alcoholism or the non-medical use of narcotics, sedatives, and so on, benefits are usually limited to a period of 12 or 24 months unless the employee is confined to a hospital.

Minimum Monthly Benefit. There is usually a minimum amount paid as a monthly benefit after reductions for Other Income Benefits.

Other Income Benefits (Benefit Integration). While disabled, an insured may be eligible for benefits from other sources. Benefits payable under the LTD plan may be offset (reduced) by other sources of disability income such as Social Security, workers compensation, or disability benefits received from other employer-sponsored plans.

Pre-Disability Earnings. This is the amount of an employee's wages or salary that was in effect and covered by the plan on the day before the disability began.

Pre-Existing Condition Limitations. When an insured has a physical or mental condition that existed prior to the effective date of his or her insurance coverage, it is considered a pre-existing condition. Most plans exclude or reduce disability benefits for any illness or injury for which an employee received medical treatment or consultation within a specified time period before becoming covered under the plan.

Recurrent Disability. The recurrent disability provision is designed to protect an employee who tries to return to work but becomes disabled again from the same or a related cause. If this happens within a certain period of time, the employee will be considered disabled from the original disability, and will not be subject to a new elimination period. This encourages an employee to return to work without fear of losing benefits.

Rehabilitation. Rehabilitation means the restoration of or improvement in an employee's health and functionality. It usually involves a program of clinical and vocational services with the goal of returning a disabled employee to an active, productive life, and a meaningful occupation if possible.

Return to Work Provision. To encourage employees to return to work as soon as they become physically able, an additional incentive is usually provided for a certain period of time, and is called a return to work provision. Under this provision, the employee can receive up to 100 percent of pre-disability earnings based on a combination of disability benefits and return-to-work earnings.

Survivor Benefit. The survivor benefit is a lump sum payment that will provide benefits to the insured's eligible waiting period can also be the time period between when a disability occurs and when payments from the disability insurance policy begin.)

Waiver of Premium. When an individual becomes disabled and eligible for benefits, no further disability premium payments are required as long as benefits are being paid out.

Workplace Modification or Accommodation. This benefit is designed to provide assistance to an employer when a disabled employee requires modification of the workplace or special adaptive equipment in order to return to work. The employer will usually be reimbursed up to a set amount for the cost of such modifications. survivors in the event the insured dies while receiving disability payments. This is an optional benefit in most policies.

Waiting Period. In order to become eligible for coverage under the policy, an individual must satisfy a certain number of continuous days of service as an active, full-time employee. This is known as the waiting period.