The New York Times

BUSINESS DAY

Disability, the Insurance That Is Often Sadly Overlooked

By HILLARY CHURA JUNE 30, 2007

It took just 17 days for Cindy Wrenn to realize that her disability insurance premium was not just another drain on her checking account. One-third of American workers are likely to be disabled for an extended period, and she became one of them when she had a stroke and brain aneurysm at age 28.

Mrs. Wrenn signed up for her long-term disability insurance policy in February 2002, as a supplement to the one she had through her job as a licensed title agent. After her medical emergency, the policies paid 70 percent of her salary for the six months it took her to get back to work full time.

“We thought we were too young to have an illness and were pretty secure in our jobs,” said Mrs. Wrenn, of Knoxville, Md. “It wasn’t an outrageous premium, so we did it. Because of disability insurance, we got to follow through with the purchase of our house, and that is where we are living today.”

Disability insurance provides partial income replacement so that if someone becomes disabled, they need not dive into savings, sell a home or radically change how they live. Working people are more likely to become disabled than they are to die prematurely, even though twice as many people have life insurance as have disability coverage, according to industry statistics.

According to the Department of Housing and Urban Development, illness is a major factor in home foreclosures.

About one-third of 20-year-old workers today will become disabled before they hit retirement age at 67, according to the Social Security Administration. And the primary cause of disability is chronic disease — cardiovascular, musculoskeletal problems and cancer are leading diagnoses — rather than work-related mishaps or nonworkplace accidents, according to a 2007 study for the Life and Health Insurance Foundation for Education, a nonprofit organization that informs the public about insurance needs.

While job-related expenses decrease if someone cannot work, other expenses can soar, especially if homes must be altered to accommodate a disability, said Craig Sampson, a lawyer in Richmond, Va. He bought disability insurance in 1999 when he was self-employed. He pays about $800 a year for $30,000 in coverage.

"Being disabled, you can go down the financial tubes fairly quickly," he said. "Not only do you have regular living expenses you are unable to meet, but you have other expenses and all the uncovered medical bills. There's a lot of stuff health insurance doesn't cover."

Tammy Brown of Bradford, Ark., signed up for short-term and long-term disability insurance after she started working for Wal-Mart Stores when she was 17. Fifteen years later, in December 2004, when she was 32, she learned that she had amyotrophic lateral sclerosis, or Lou Gehrig's disease, and was told she had two to five years to live. She took the summer of 2005 off to spend time with her children, then 6 and 9, and received short-term disability. She went back to work in a wheelchair for about a year, then left on long-term disability in 2006. She receives about half of her salary now.

"Without disability, we would've lost our home, our vehicle," Mrs. Brown, now 34, said. "We probably would've had to move in with my in-laws."

The family bought a handicapped-accessible van and installed a handicapped lavatory complete with roll-in shower and rails around the toilet as well as two ramps to the house and a lift to help move Mrs. Brown around the home. Now unable to use her hands or arms to any degree or walk, she needs 24-hour care, either from relatives or someone they pay.

“As I look back on it, I don’t know what we’d have done without it,” Mrs. Brown said. “I never thought I’d ever use it. I thought I’d be working at Wal-Mart until I was 60 or 70.”

There are two major types of disability insurance. Short-term coverage, often offered by employers, covers the first part of a disability and may provide income for a week up to a year or two, depending on the policy.

Long-term insurance starts after short-term coverage ends and helps replace income for a predetermined period, usually two or five years or when the disabled person retires. It can be offered through work — though usually not free —as well as through private policies.

Even those with a policy through work should consider buying private coverage, as an employer’s policy may be bare-bones, could take a while to begin and will not continue when the employee changes jobs. It may also exclude pre-existing health problems.

About 42 percent of full-time workers have no short- or long-term disability, according to Michael Fradkin, vice president for disability product management for the Metropolitan Life Insurance Company. Specialists agree that if you can afford only one type of disability insurance, buy long-term coverage since being without an income for several months would be a burden but being without an income ever again could be devastating.

Because independent disability insurance tends to be expensive — and becomes more so as people age — specialists urge workers to buy it as soon as they start working so they can lock in lower rates. Besides, young workers often have not yet developed health problems that will hinder coverage later.

Mr. Fradkin said many employers offer disability policies, but some have been shifting costs to employees. At the same time, insurers are changing policies to make benefits less generous. They also are becoming more selective in who is granted a private policy.

The policy should replace at least 60 percent of take-home salary and ideally up to 80 percent, if that level of coverage is affordable. Disability insurance will not cover the whole salary for fear that there would be no incentive to work if the entire paycheck could be collected for staying home.

Before purchasing an individual long-term disability policy, it is best to figure out monthly expenses as well as any income from employers, investments or the government. Realize, however, that Social Security payments tend to be minimal, have a five-month waiting period and apply only if someone cannot do any job. Payouts through work policies are subject to taxes, while benefits through independent coverage are tax free.

Bruce Block, a disability specialist with Jenkins Block & Associates in Baltimore, said few people really understood their coverage. Plans vary. Some pay if someone is unable to work in her own professions; others pay if a person cannot do any job, Mr. Block said. Some offer a combination. Others provide coverage for only a few years, some until Social Security begins.

Premiums vary depending on age, sex, income, health, whether a person smokes, what type of job they have and the exclusions they accept. Generally a young nonsmoking accountant who would not need a payout for two years would pay a smaller premium than a chain-smoking construction worker who would want immediate disbursements.

Cara J. Lovenson, an insurance broker and employee benefits consultant in New York City, said she recently sold a policy to a 45-year-old man in relatively good health who is paid about $200,000 a year. She said the policy cost him about $2,800 a year, covered 80 percent of his salary and started payments after 90 days.

Mrs. Wrenn said that when she and her husband, Matthew, discuss ways to cut expenses, dropping their disability is never an option.

“I’ll never let it go,” Mrs. Wrenn said, “well, not until I retire.”

A version of this article appears in print on , on page C7 of the New York edition with the headline: Disability, the Insurance That Is Often Sadly Overlooked.