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The weakest link in your insurance program - Disability Income

Financially speaking, disability is worse than death. Disability is one of the most devastating threats to a family's financial security. An illness or injury can start a downward slide that wipes off all your assets with it. A family can lose its main source of income, then its savings, as it shoulders the unbearable costs of medical or custodial care. Even though most disability is not permanent, it will do severe damage to your finances. Disability has been and still is one of the major causes of personal bankruptcies.

Am I well covered for disability? The answer for most people is NO. Most depends on their TPD or "Total and Permanent Disability" cover that comes free with their life insurance. Unfortunately, TPD cover is very difficult to qualify. This is evident if one would just examine its definition.

TPD is defined as

- Total and irrecoverable loss of use of two limbs at or above the wrist or ankle
- Total and irrecoverable loss of sight in both eyes
- Total and irrecoverable loss of sight in one eyes and loss of one limb

Actual claim statistics for TPD are usually low as claimants need to satisfy the stringent requirements for both "total" AND "irrecoverable".

In most situations, disabilities are not permanent. Claimants are either temporarily or partial disabled, which does not qualify for the TPD definition. Among those who are disabled, only 1/3 is still disabled after five years. But the financial toll of even a temporary disability can still be severe. On top of that, the strain on the family would increase significantly once the disabled person loses his company medical coverage. Most company medical coverage only protects you when you are employed with the company and cease the very day you leave. And in the case of a long term disability, the company is not obliged to keep you under payroll for longer than 3 months, based on Ministry of Manpower guidelines. With income and medical benefits gone, people can lose almost everything they have.

Mr. John Tan (not his real name), who in his forties, is suffering from Parkinson disease recounts, "As a result of my illness, I am spending most of my day in my three-room flat, but now I am in danger of losing even that." He has been missing his monthly mortgage payments and owes over one year of conservancy charges. "I lost my job in the factory two years ago when my condition got worse and am living on the little savings I have got left. I don't know how long that is going to last me."

The best solution lays then in putting in place a good "**Disability Income**" cover, the most commonly ignored protection in most insurance plans.

How then, is "disability income" cover different from the usual TPD cover? Firstly, you need not prove permanence or totality. Most people are either temporarily totally disabled or permanently partially disabled. Not many disabled people can meet the strict TPD definition. After the waiting period, which range from 45 days to 180 days, a monthly benefit would be paid to you until you can go back to work again. The key word here is “until”. If an injury keeps you from work for two years, the monthly benefit ceases after two years. If the disability lasts for 10 years or longer, you are ensured that the disability benefits would continue to be paid to you until you healthy to work again. The benefit cut-off period would be around 55-65 years old, which is when most Singaporeans are going to retire anyway.

The whole idea is to insure your earning ability, which is your greatest asset. The fact that you can work and generate an income is your most valuable asset. You are the golden goose that laid the golden eggs. **Most insurance policies only pay when the golden goose drops dead or is critically ill, but this is not enough**. **What we need to do is to insure the golden goose’s “ability” to lay golden eggs.** For example, no insurance plan would pay a teacher if she loses her voice and have to quit teaching. Losing of voice does not meet the definition of TPD, but is sufficient to trigger your disability income payouts. Similarly, no insurance plan would pay a pilot if he is grounded because his diabetic condition affects his vision. A properly designed disability income program would ensure a monthly income payout if you cannot perform your primary occupation because of an injury, accident or ANY illness (this need not be one of the 30 major illnesses).

Most people insure their car and home, not realising that their lifetime income potential could be many times the value of their home equity. Granted, if you have enough assets to replace your income, you would have reached a point of self-insurance and hence income may not matter anymore. Until then, disability income cover provides an important safety net against financial disaster and should be a part of all prudent financial planning strategies.

Common excuses for not covering yourself

Some claim that they would be paid a weekly income from their personal accident plan. Note that in this case, the weekly income is payable only if the cause of disability is accidental, defined as external and violent. Causes of disability from illnesses would be totally excluded. Also, the weekly income usually only extends for a one- to two-year period.

Disability income insurance, as the name suggests, provides for replacement of income in all cases of disability. There are many who feel that since their profession is not “risky”, there is no need for disability income cover. It is important to highlight that although occupational risk of injury may be lower, generic risk of illnesses and general physical risk of commuting to and from work and outside work is the same for most people. It will even cover you when you are sunbathing in Hawaii or admiring the majestic pyramids in Egypt or holidaying in San Francisco. The fact of the matter is if you are really in a high risk profession, you will not even be able to qualify for disability income insurance as the underwriting guidelines are very stringent, even more so than for critical illness cover as the potential liability for the insurance company can be severe.

The chances of an adult dying before the age of 65 is one-in-seven, while there is a one-in-three chance of that adult missing more than three months of work due to an illness or injury. Worse, the severe disability rate is rising. This significant trend is a direct consequence of medical advancement, which prolongs the lives of patients whose diseases might have quickly killed them two or three decades ago. Overweight problems in Singapore may also share the blame. Joint, muscle and connective-tissue conditions and back injuries, all related to obesity, are some of the leading causes of long term disability claims.

Do not wait for a disability to expose the weak link in your insurance program. Take action now to protect your loved ones against losing your stream of income, before it is too late.

Basics on Disability Income

1) Waiting period - Usually ranges from 45 days to 180 days. This is the pre-benefit benefit from the onset of disability when no benefit is payable.
2) Benefit period - How long the benefits are payable in the event of disability. Usually it is until 55, 60 or 65 yrs old.
3) Own vs. suitable occupation - For someone with highly specialised skills, such as a surgeon, “own occupation” means the policy pays benefits as long as you cannot return to your specific job – even if you take a lower paying work in another field. “Suitable occupation” would lower your benefit if you are generating some income in an alternative lower paying job.
4) Monthly income - The monthly benefit that you can opt to cover, subject to a maximum cap of 75% of your current monthly salary.
5) Total disability - The policyholder is totally unable by reason of sickness or injury to perform any gainful occupation.
6) Partial disability - The policyholder is unable to perform his own occupation but is able to perform some lower paying occupation reasonably fitted by virtue of training, experience or education and as a result is earning 85% or less of his pre-disability earnings.
7) Some common exclusions

- Self inflicted injuries
- Indulgence in alcohol or drugs
- Action of armed forces
- Engaging in racing on horses or wheels
- Pre-existing conditions