



## Disability Insurance Terms and Definitions

### **What is Personal Disability Insurance?**

Personal DI insurance is designed to replace a portion of earned income lost due to a disability. The policy provides monthly benefits to help pay for personal living expenses incurred during disability, such as mortgage or rent payments, car payments, utilities, and food. The monthly benefit amount that can purchase is based on income at the time the policy is purchased. A typical policy can replace 50% to 75% of income.

### **What is an elimination period?**

The elimination period is the number of days that must pass before benefits are payable. Typical elimination periods include 30, 60, 90, 180 and 365 days. The shorter the elimination period, the more costly the plan.

### **What is a benefit period?**

The benefit period is how long benefits are payable while on claim. Typical benefit periods are 2 years, 5 years, 10 years, To Age 67 and To Age 70. The longer the benefit period, the more costly the plan.

### **What is the definition of total disability?**

There are several definitions of disability. Many policies will consider someone to be disabled if they cannot perform the substantial and material duties of their occupation. Specialty definitions of disability are available for physicians, dentists, attorneys, and other professionals.

### **What is a residual disability?**

Residual disability can provide benefits when returning to work on a part-time basis and there is a loss of income. Benefits are payable based on the percentage of lost earnings. For example, a 50% loss of earnings would mean that 50% of the monthly benefit would be payable.

### **What is a Cost of Living Adjustment?**

Cost of Living Adjustment (COLA) is an additional cost rider. This rider provides an increase to the monthly benefit each year the insured is on claim. The increased benefit is to offset the effects of inflation on the monthly benefit. The increase in monthly benefit is usually 3% - 5%. It is also sometimes tied to the increase in the Consumer Price Index. The COLA rider can add an additional 10% - 15% cost to the policy. It is usually recommended for a younger person who would lose purchasing power from inflation during a long-term disability.

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## **What is a Future Purchase Option?**

Future Purchase Option (FIO) is an additional cost rider. It provides a pool of monthly benefit that can be purchased in the future as income grows. Additional monthly benefit can be purchased without evidence of medical insurability. The FIO rider is typically purchased by a younger person whose income will continue to grow throughout their career. It guarantees that the insured will be able to purchase additional coverage without regard to a change in health. The FIO rider can add an additional 10% - 15% cost.

## **What does disability insurance cost?**

The cost for coverage depends on factors such as age, occupation, health, and amount of monthly benefit purchased. Once the policy is purchased, the rate is usually guaranteed not to increase until the insured's 65th birthday. As a rule, the cost to replace 60% of income will cost between 2% - 4% of salary.

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