

Accident, Health & Disability Table of Contents

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Health Insurance Basics

Section I. Types of Policies- Disability Income Insurance

RISK MANAGEMENT

Insurance

A contractual coverage binding the insurer to indemnify the insured against a specified loss in return for paid premiums

Indemnification

The concept of restoring individuals to the same financial position they were at before a loss occurred. Indemnification is the central idea behind the concept of insurance.

- Insurance is based on the **Law of Large Numbers**. The bigger the sample observed, the more accurate and predictable are the results.
- Health Insurance transfers economic loss that would impact an individual due to an unforeseen incident, in this case illness or disability from the insured to an insurer.

Pure Risk

A risk involving the probability or possibility of loss with no chance for gain. An example would be a homeowner who wants to guard against a possible house fire. Pure risks are generally insurable.

Speculative Risk

A risk for which it is uncertain whether the final outcome will be a gain or a loss. Gambling is a

speculative risk. Speculative risks are generally not insurable.

Insurable Risks

Not all risks insurable. Speculative risks or certain risks are generally not insurable.

To be considered insurable a risk must be:

- Due to chance
- Measurable
- Predictable
- Based on a large enough pool of individuals so that the law of large numbers can allow the insurer to accurately predict losses.
- Selected from a diverse, randomly selected pool of insurable risks.

The Role of Health Insurance

Health care is one of the largest expenses in our economy today. Businesses have paid most medical insurance costs but have started shifting costs to employees. Who should offer coverage, businesses or government, or should the individual be responsible for their own coverage? This issue is currently the subject of much debate.

Types of Health Insurance Policies

Three main categories of health insurance:

- Disability Income Insurance
- Accidental Death and Dismemberment
- Medical Expense Insurance

DISABILITY INCOME INSURANCE

(Loss of Income Insurance)

Disability insurance is one of the most frequently overlooked exposures. At most ages the probability of a serious, long-term disability is greater than that of death.

- Pays up to a maximum of about 60% of income lost as the result of disability.
- Reimburses for loss of income while disabled.
- No hospitalization required in order to receive benefits.

Coordination of Benefits

Comparing benefits in different policies held by the policyowner at the time of a claim to avoid overpayment or double payment of benefits.

Historically,

- Individually held policies do *not* coordinate if more than one policy is involved. (We'll talk later of how this changes if a coordination of benefits provision is included in the policy.)
- Policies on groups usually *do* coordinate with other existing disability benefits such as Workers' Compensation, other group disability programs, and Social Security, but *not* with individually owned disability benefits.

Disability Policy Limitations

- Historically, employment was more stable and workers often had one job for life. Today it is not uncommon for workers to have five or six different careers. Today's disability policies are based on current occupation and income.
- Insurers protect themselves by limiting disability coverage to not apply in certain circumstances.

Non-Occupational Policies

Coverage is excluded for an individual's hazardous occupation but includes general accident, sickness, or disability coverage. These policies have lower premiums. Examples of such hazardous occupations could include firefighting or test aircraft pilots.

Accidental Bodily Injury Clause

Injuries must be unintentional and accidental.

Definitions of Disability

Total Disability

- *Any Occupation*: Most strict definition of total disability. The insured cannot perform duties of any occupation for which his education, training or experience makes him reasonably suited.
- *Your Occupation/Specific Occupation*: Insured cannot perform duties of his regular profession, or the profession in which he is engaged when the disability begins. There is usually a provision that the insured must be in a doctor's care.
- *Specialist Occupational Disability*: Tighter definition of the "your occupation" definition. This applies when the insured is highly trained in a specific field and cannot do those demanding skills, even though he can still do much less complicated work but would suffer a reduction in income.

Example: A neurosurgeon might lose the intricate dexterity to perform that specialty's duties but could perform as a family physician.

The more specific the definition of what constitutes a total disability, the more expensive the policy.

Partial Disability

- Usually defined in terms of ability to perform duties as well as time the insured can work only on a part-time basis, or cannot perform all of the major duties of his occupation.
- Benefits are usually paid only for a limited time, such as six months.

Residual Disability

An optional coverage in the disability policy that replaces the partial disability concept, residual disability income benefits are paid in proportion to the reduction in income and can continue indefinitely, until the disability is over. Once the disability is over, however, benefits also stop.

Partial and Residual disability benefits are considered to be “**at-work**” benefits.

Occupational vs. Non-Occupational Disability

Disability benefits on an occupational basis are coordinated with Workers' Comp and Social Security benefits.

- Short-term disability policies usually cover non-occupational disabilities only.
- Long-term policies usually cover both occupational and non-occupational sickness and accidents.

Recurrent Disability

A second period of disability arising out of the same or a related cause of an initial disability after the initial disability appeared to have disappeared. If the insured has returned to work for less than a specified period of time after the initial disability (90 days- 6 months), then it is considered to be a recurrent disability and benefits continue as before. If for longer than the specified period, then it is treated as a new disability and is subject to a new elimination period.

Presumptive Disability

Protects against sudden, drastic disabilities.

- Generally protects against loss of hearing, sight, speech or the loss of any two limbs.
- Definition varies between contracts, mainly in wording- Total, Irrevocable or Permanent.
Total losses protect from temporary loss of broken limbs, hearing, sight and speech. With an irrevocable loss the disability must be permanent.
- All contracts that have a presumptive disability provision pay first benefits for these losses (no deductible).
- Similar to benefits through an accidental death and dismemberment contract.

Injury vs. Sickness

Disability policies are designed to pay for loss of income due to either injury or sickness, as long as the probationary and elimination periods have been met. Benefits are coordinated if the individual is both injured and sick- they will not be paid for both at the same time.

Deductibles of Disability Insurance

Probationary Period/Qualification Period

- The period of time between the policy inception and the point at which coverage begins
- Only one Probationary Period during the policy.
- Probationary Period can be 15, 30, or up to 60 days for a long-term policy.

Elimination Period/Waiting Period

- There is an Elimination Period every time there is a new disability.
- The period of time between the disability's onset and the beginning of benefit payments.