
Group Disability Insurance

As the name implies, a “group” disability insurance policy covers a number of people who are linked in some way, such as through an employer, a trade association, or a school. Benefits are paid to replace earnings lost due to accident or sickness. Premiums may be paid for by the individual, the organization, or both. Generally, the cost of group coverage is less expensive than the cost of individual coverage.



Factors to Consider

Group disability policies can vary widely. Factors to keep in mind include:

- **Benefit period:** How long will benefits be paid?
- **Benefit level:** How much (in dollar terms) will the benefit be? Disability income policies usually replace only a portion of an individual’s income, typically 60%.
- **Risks covered:** Does the policy cover both occupational (on-the job) and non-occupational (off-the-job) injuries and illnesses, or just one of these?
- **Elimination period:** How long do you have to wait before benefits begin?

Short-Term Disability (STD)

Group STD policies tend to have short elimination periods (1-14 days), typically cover non-occupational illnesses and injuries, and generally pay benefits for six months to one year. Group STD policies are designed to cover temporary situations such as a broken ankle or a pregnancy.

Long-Term Disability (LTD)

There are times when an injury or illness will render an individual unable to perform the essential duties of his or her occupation for an extended period of time. Group LTD policies are designed to meet this type of need. Typically, group LTD covers both occupational and non-occupational illnesses and injuries (24-hour coverage), with longer elimination periods of six months or more. Since some injuries or illnesses are permanent, a group LTD policy may pay benefits for years.

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Federal Income Tax Treatment of Disability Income Payments

For federal income tax purposes, if an individual pays for disability insurance with after-tax dollars, the benefits paid under a disability income policy are received free of federal income tax. If, however, the individual pays the premiums with pre-tax dollars, or if the premiums are paid for by someone else (an employer, for example), any benefits received are taxable income to the individual. State or local income tax treatment of disability income benefits can vary widely.

Seek Professional Guidance

In planning for a possible period of disability, the guidance of appropriate financial professionals is strongly recommended.