

A Consumer's Guide To



Long-Term Disability Insurance

NYSUT Member Benefits Trust wants members to be the best-informed consumers in the state. This Consumer's Guide is one of our contributions to achieving that goal. We hope you will find it helpful and informative.

Do you ever stop to think about what you would do if you were to become disabled? How would you and your family get by financially if you could no longer count on your salary?

While it may be unpleasant to consider the prospect of becoming disabled, it is necessary if you want to develop a sound financial plan.

This brochure is designed to provide you with some basic information about:

- the importance of long-term disability protection
- the different sources of long-term disability income
- the types of long-term protection available
- the coverage that best responds to your individual needs

Should I worry about being disabled?

It is a common misconception that the need for life insurance is far greater than the need for disability insurance. Upon close examination, the facts tell quite a different story.

A disability can cause greater financial hardship than death. What would the impact be on your spouse? Your children? Do you have an extended family or other support system to rely on for financial help? Do you have a large financial cushion to fall back on?

Clearly it is important to examine the sources of income you would have if you were to become disabled. Your needs and the needs of your family determine how much protection you should carry.

Most people are disabled for a relatively short time; however, since long-term disabilities create a greater economic hardship, this brochure addresses the need for long-term coverage.

What types of protection do I already have?

Disability insurance provides cash benefits, generally on a monthly basis, if an illness or injury prevents you from working. These payments help replace a portion of your lost income while you are disabled.

You may already be eligible to receive disability income benefits from a variety of sources, including sick leave; your retirement system; Workers' Compensation; Social Security if you qualify; and a group plan if offered by your employer, local association or local association's benefit fund. You may find it necessary to use your personal savings, or you may choose to purchase a voluntary individual plan to supplement these sources. Before examining how these different sources work together to provide coverage, let's take a closer look at each one.

- **Sick Leave** - Most members have a collective bargaining agreement that requires a number of sick days be given at full pay. Often the agreement allows unused days to accumulate from year to year. A sick bank may also be available to you. If you're not sure how your sick days work, contact your local association representative.
- **Retirement Systems** - The majority of our members are covered under one of these four systems:
 - New York State Teachers' Retirement System
 - New York City Teachers' Retirement System
 - New York State Employees' Retirement System
 - Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF)

Each of these systems allows you to apply for a disability pension if you become totally disabled and you have the required years of service. However, you

will only want to apply for a retirement system disability pension if you are ready to retire and are sure your disability will prevent you from returning to work. Be aware that, in order to continue receiving benefits, some disability insurance plans will require you to apply for retirement system disability benefits.

You may be eligible for an *ordinary* disability pension or an *accident* disability pension. Each retirement system may require a minimum number of years of credited service for eligibility.

Generally, your eligibility and the amount of your disability pension depend on which tier you are in and how long you have been working. If you are not sure which tier you are in, refer to your retirement system booklet, which lists the effective dates of each tier.

(Note: TIAA-CREF does not have a tier structure.)

If you are eligible for a disability pension, payments will begin no earlier than 30 days after your benefit application is received by your retirement system. In fact, it could take several months for payments to begin. The waiting period varies on a case-by-case basis.

You should contact your retirement system for details about a disability pension.

- New York State Teachers' Retirement System
(800) 348-7298
 - New York City Teachers' Retirement System
(888) 869-2877
 - New York State Employees' Retirement System
(866) 805-0990
 - TIAA-CREF
(800) 842-2776
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- **Workers' Compensation** - You may be eligible for Workers' Compensation benefits through your employer if you become disabled as the result of a work-related illness or injury. Whether it's called Workers' Compensation, line-of-duty pay or another name, most employers offer some form of protection for job-related injuries.

- **Social Security** - While most of us think of Social Security as a pension program for the elderly, benefits may also be available if you become disabled.

To qualify for Social Security disability benefits, your disability must so severely impair you, mentally or physically, that you cannot perform **any** substantial gainful work. Because Social Security provides no short-term disability benefits, the impairment must be expected to last at least 12 months or result in death. And you must have earned a minimum number of quarters of Social Security coverage.

Disability benefits begin after a waiting period of five full calendar months. To qualify for benefits, you must have been disabled throughout this period. If approved, be aware that you may not receive your first check for a period of time; often, people have had to wait up to one year for their first Social Security disability check.

- **Group Disability Plans** - Your employer, local association or local association's benefit fund may provide a group disability plan. Most group plans are paid by employers or benefit funds; in these cases, the benefits are taxable to the recipient. These plans cover different percentages of your income, usually from 50 percent to 66 percent. If you are not sure whether you are covered by a group plan, check with your local association representative.
- **Voluntary Individual Disability Plans** - If you find that the various sources of disability income benefits available to you aren't sufficient for your needs, you may choose to apply for an individual plan to supplement your current benefits. If you pay the premiums with after-tax income, benefits are tax-free. Many plans offer you choices of waiting periods and benefit amounts so you can tailor a plan specific to your individual needs. These plans are medically underwritten, so it is important to apply when you are healthy, as an individual's application may be declined or amended for medical reasons.

- **Personal Savings** - Your personal savings may play a very important part in helping you financially if you become disabled. This can be particularly true if you are not eligible for benefits from your retirement system or Social Security and have not accumulated a large number of sick days. Even if you are entitled to benefits from the retirement system and Social Security, you may need to use your savings to cover the waiting periods before payments begin.

How the pieces fit together

So what does all this mean to you and your family? How do you figure out the most sensible way to develop a financial plan that addresses the hardship which a disability can cause?

It can be very confusing to figure out how much disability income protection you already have. But this is the most fundamental question you must answer before assessing your need for additional coverage. It is important to fully understand the intent of the coverage you already have and how the various benefit sources work together to provide you with disability payments.

Disability payments are not intended to replace 100 percent of your previously earned income. Why? Because many expenses you have while working are eliminated if you are disabled. You no longer have work-related expenses, such as commuting. You pay no Social Security taxes, no state or city taxes on benefits from the retirement system, and, in most cases, you don't pay income taxes on your Social Security benefits. Disability benefits from coverage for which you paid using after-tax dollars also are not taxed.

Since you are eligible to receive disability benefits from a number of different sources, it is essential to understand the way in which these sources coordinate benefit payments. As discussed earlier, you may receive disability payments from sick leave, your retirement system, Workers' Compensation or line-of-duty pay, Social Security, group disability policies and voluntary individual plans.

Beginning with the retirement system and sick leave, let's examine how the pieces fit together.

If you are eligible, you will receive disability payments from the retirement system. For this example, we'll assume that you are 52 years old and have been approved for a disability pension from your retirement system. Your monthly pay is \$3,300 when you became disabled and you have 40 sick days accumulated. Taking into account weekends and holidays, it would take you about two months to use up 40 sick days. So, for the first two months of your disability, you would receive \$3,300 per month.

Now, let's say that your disability payments from the retirement system equal \$1,100 each month and the payments begin in the third month of your disability. Beginning with your third month of disability, you will receive \$1,100 each month from the retirement system.

Now, let's assume that you qualify for Social Security disability benefits and that your monthly benefit is \$1,125.

Remember, it could take up to one year for your Social Security benefits to start. In this example, let's assume you receive your first Social Security benefit in the twelfth month of disability. So, between your third and twelfth month of disability, you'll only be receiving the retirement system benefits of \$1,100 per month. Starting with the twelfth month, you'll receive both the retirement system payment of \$1,100 plus the Social Security payment of \$1,125, for a total of \$2,225.

When added up, your total monthly disability benefit equals 67.4 percent of your total monthly pay when you were working ($\$3,300 \times 67.4\% = \$2,225$).

Months of Disability	Sick Leave	Retirement System	Social Security	Total Benefit
First 2	\$3,300	\$0	\$0	\$3,300
3-11	\$0	\$1,100	\$0	\$1,100
12 and Beyond	\$0	\$1,100	\$1,125	\$2,225

If, in this example, you did not qualify for Social Security disability benefits, the retirement system benefit of \$1,100 would only provide 33 1/3 percent of your monthly income. Depending on the amount of

disability benefits you're entitled to and your individual situation, you may wish to enhance that protection through a voluntary individual plan. If you were covered under such a plan, you could protect up to 60 percent of your monthly income, depending on the plan.

How much do I need?

How do you know how much you need and how much extra you should buy? You may want to ask yourself some questions about your current financial situation and how you would get by if you were to become disabled.

Are you a two-income household, for example? Do you count on both incomes to meet expenses? Are you eligible for disability benefits from the retirement system? Do you have plans to increase your financial responsibilities in the future? Do you have additional sources of income that would be available if you could no longer work?

It is important to ask yourself these questions now and periodically in the future. You may want to re-evaluate your needs as your situation or your income changes.

One more important step

There is one final step you must take in figuring out how much disability protection you should buy. Disability plans are not designed to fully replace your working income; there is a maximum monthly benefit you may receive while you are disabled. When deciding how much protection you need, keep this maximum in mind. Under most voluntary individual plans, the maximum monthly benefit is 60 percent of your pre-disability income. Here's an example of how the benefit maximum works.

Let's say that you become disabled and your monthly salary is \$3,000. Let's further assume you purchased coverage from a voluntary individual disability plan that coordinates benefits after 12 months with other disability benefits you receive to provide 70 percent of your monthly income. Assume your retirement system benefit is \$950, and let's

further assume that you did not qualify for Social Security disability benefits. Your voluntary individual disability plan monthly benefit is \$1,800 (60% of \$3,000). After the first 12 months, the plan's coordination of benefits provision kicks in. The monthly benefit in this example (\$1,800) combined with the retirement system benefit (\$950) equals \$2,750. Because this amount exceeds 70 percent of your salary (\$2,100), the monthly benefit would be reduced by the amount exceeding 70 percent. In this example, that amount is \$650 (\$2,750 - \$2,100). Therefore, the monthly benefit paid after the first 12 monthly payments would be reduced to \$1,150 (\$1,800 - \$650).

Please note that various individual disability plans may coordinate benefits differently from the above example. Some plans may not even have a coordination of benefits provision.

What else should I know?

There are a few commonly asked questions that you should consider before selecting a disability protection plan that best suits your needs.

- *Do all plans define disability in the same way?*

No. Some plans provide benefits if you are unable to work in **any** job because of your disability. Some plans provide benefits if you can't work in the same type of job you had before becoming disabled. Others combine both of these definitions.

- *What is coordination of benefits and how does it work?*

Coordination of benefits is a process by which two or more insurers, insuring the same person for the same insurance benefits, limit the aggregate benefits he or she receives to an amount not exceeding a certain percentage of allowable expenses. Retirement systems and Social Security do not coordinate disability benefits with each other.

However, voluntary individual plans may coordinate benefits with other disability benefit providers. If the plan coordinates benefits, your benefit from the individual plan would be adjusted so that its benefits added to your other disability benefits would not exceed the plan's maximum monthly benefit.

- *Do all voluntary individual disability plans coordinate their benefits with other disability benefits that I am entitled to?*

No. Each plan is different, so be sure you know how the plan you purchase works. Some plans may coordinate benefits immediately with other disability benefit sources (retirement system, Social Security, Workers' Compensation, Group Disability Plans); others may coordinate benefits after a specific time frame, for example, four months. Some plans do not coordinate benefits at all. And some plans may require you to use all your sick days before paying out benefits.

- *What about pre-existing condition limitations?*

If you had an injury or illness that was treated before the plan begins to cover you, the illness or injury is a pre-existing condition. Most plans have some restrictions on covering pre-existing conditions. Group plans and plans provided by your employer, Social Security and the retirement system do not have these restrictions.

Be sure to check if the plan covers pre-existing conditions at all. If it does, are the payments limited or is there a waiting period before these conditions are covered? With most voluntary individual plans, questions are asked about your health. Unless your particular contract has a limit based on a specific severe illness, there will be no pre-existing condition limitations for conditions disclosed on the application or discovered through a medical examination.

- *How long are benefits payable?*

Many long-term disability plans pay benefits to age 65, subject to coordination of benefits. Verify with the insurance company how long benefits are payable.

- *Do I have to pay premiums while collecting benefits?*

Under some plans, you have to continue paying premiums even if you are disabled and collecting benefits. Other plans offer a waiver of premium when you are disabled and receiving disability benefits.

- *Are there disabilities that are not covered?*

Almost all plans will not cover a disability that is the result of an intentionally self-inflicted injury or caused by war or an act of war. Always check to see if there are any other exclusions under the plan, e.g., maternity. Some plans exclude or place limitations on coverage for disabilities caused by mental or nervous disorders.

- *How do I choose my waiting period?*

Most members base their waiting period on their accumulated sick time. Some plans will not pay benefits until all the sick time has been used. In other instances, other plans will begin paying benefits after the waiting period is up, regardless of sick time.

- *I have disability insurance but am nearing retirement. Should I continue with this coverage?*

This is an individual decision, but if you are nearing retirement and have a substantial amount of accrued sick leave, it may not be necessary to keep the disability coverage in force until the actual retirement date. If you do not have much accrued sick leave, you may want to consider reducing your benefit period to a shorter-term plan to cover the gap until retirement.

- *Do I need disability coverage as a retiree?*

The main purpose of disability coverage is to protect one's salary in the event of an illness or accident that results in being unable to work. As a retiree with a pension as the main source of income, there is typically no need to continue with disability insurance as there is no longer a salary to protect.

Don't put it off

A disability can create a major financial burden for you and your family. But you have the ability to do something about it. Don't put off planning your financial security any longer. Most plans have some degree of medical underwriting. Therefore, the best time to apply for coverage is when you are healthy -- **before a disability strikes**. Use the information in this brochure to help you figure out the amount and type of protection that best serves your needs. Based on those needs, compare a number of disability plans and make the best choice for your individual needs.

Want more information?

If you would like more information about the disability insurance plan endorsed by NYSUT Member Benefits Trust, contact:

NYSUT Member Benefits Trust
(800) 626-8101
e-mail: benefits@nysutmail.org
Web site: www.memberbenefits.nysut.org

For information about contractual expense reimbursement/endorsement arrangements with providers of endorsed programs, please contact NYSUT Member Benefits Trust or refer to your NYSUT Member Benefits Trust Summary Plan Description.

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