



*James D. Hall*  
*Regional Vice President, State Relations*

## **ACLI Disability Income Insurance – The Basics of What DI Insurance Is and Is Not**

Disability income policies provide financial or income protection for the insured, if the insured is unable to work due to an unforeseen accident or illness.

Disability income insurance is **NOT** coverage for the diagnosis or treatment of medical conditions. Disability income insurance does not provide coverage of expenses incurred for medical conditions. Disability income insurers do not use utilization review.

### **Disability versus Impairment**

In order to understand how one is determined to be disabled for purposes disability income insurance, it is necessary to understand the difference between disability and impairment.

Impairment is an alteration of an individual's health status, which can be shown by objective criteria. Impairment is a medical determination. Impairment is an important **contributing** factor in determining disability; but by itself, it is not sufficient to determine disability.

Disability is an administrative/legal determination. Disability is the inability to perform occupational duties as a result of impairment.

Distinguishing between impairment and disability is crucial. One individual can be impaired significantly and have no disability, while another individual can have a relatively minor impairment and yet be disabled.

For example, a paraplegic who works full-time successfully as an accountant has a significant impairment but is not disabled from employment. On the other extreme, someone could have a minor impairment and be disabled, such as a concert pianist with an injury to a nerve in his finger that severely limits his ability to perform his basic work activities; playing piano.

A diagnosis of impairment is not the sole factor in determining disability benefits. Disability determination involves an integrated evaluation by persons having a variety of types of expertise including medical expertise to diagnose the impairment (in many cases by both physical and mental health specialists), vocational expertise, functional capacity expertise, financial expertise, and contractual (legal) expertise, all of which must be applied to reach a well-grounded decision.

## **Disability Income Insurance versus Medical Expense Insurance**

As previously stated, disability income insurance is not coverage for the diagnosis or treatment of medical conditions. Disability income insurance does not ordinarily cover the costs associated with rehabilitation following an injury or illness. Often these costs are covered under the major medical part of an individual's health insurance plan.

For disability income insurance, once an individual is determined to qualify for disability income benefits, the period of disability represents a single claim. This disability period could continue until the end of the benefit period stated in the policy, such as age 65. Each disability check sent to the claimant during this period does not represent a separate claim or loss.

For medical expense (health) insurance, although a medical episode can continue for an extended period of time, each submission of the expense incurred is a separate claim. In addition, medical expense policies have out-of-pocket costs features - coinsurance, co-pays, and deductibles - that are applied when adjudicating a claim, which are not features of disability income insurance. These out-of-pocket features 'reset' each year, no matter where a claimant is in his/her treatment. The claimant must meet the deductible each year.

Finally, eligibility determinations for disability income benefits are not static but are often made on an ongoing basis in recognition of the fact that an insured's condition may improve, deteriorate or remain static. This process is distinctly different from a determination of medical necessity.

## **Disability Income Insurance versus Workers' Compensation**

Both disability income benefits and workers' compensation pay for lost income due to an injury or illness. Workers' compensation, however, is a state law system that issues cash payments and provides medical care, regardless of fault, to employees injured or disabled on the job. As previously mentioned, disability income insurance does not pay medical expenses, and a covered disability does not have to be related to job-related illness or injury.