

Disability Insurance

Disability insurance (also known as “income protection insurance”) provides a monthly benefit if you are unable to work, due to injury or illness, and you meet the relevant policy provisions.

Things to look for when considering disability insurance:

Benefit period

The benefit period is the maximum period you can stay on claim if you suffer a disability that stops you from returning to work for an extended period of time. The most common benefit periods are 2 years, 5 years, to age 60 and to age 65.

Wait period

The wait period is the length of time you will have to wait until you become entitled to a benefit. These are commonly 14, 30 or 90 days, although some companies do offer longer periods.

The choice of wait period depends entirely on your circumstances, how long you would continue to receive income if you were unable to work, how long you could manage financially without income, etc.

You should be aware that most disability insurance claims are paid in arrears, at the end of each month. This means, if you have a 30 day wait period, you will not be entitled to your first benefit payment until 60 days after you cease working.

An Indemnity or an Agreed Value policy?

Under an Indemnity policy, the benefit is usually the lesser of:

- (a) the monthly sum insured; or
- (b) a specified percentage (usually 75%) of your pre-disability income.

Pre-disability income is calculated as the income earned in the period before making a claim (this is generally the 12 months immediately before the claim, or the best consecutive 12 month period in the 3 years before the claim). Evidence of income is required when a claim is made.

Under an Agreed Value policy, the benefit level is agreed upon when you buy the policy. Evidence of income is required at the time of application, not when a claim is made (there can be exceptions to this rule for claims where you are able to return to work part-time and are entitled to a partial disability benefit).

However, you should be aware that most disability insurance policies, whether they are Indemnity or Agreed Value, offset any on-going income you receive or are entitled to receive – this includes any ACC benefit.

Policy definitions

Disability insurance policies are relatively complex products and policy definitions can vary considerably between companies. It is important that you understand the "*total disability*" and "*partial disability*" definitions in the policy and the circumstances in which benefits will be payable.

"*Total Disability*" will usually mean that you are totally unable to either perform your own occupation, or any occupation for which you have the training, education or experience and you are not in fact working. (In our experience, even if an insured is suffering from an illness or injury, unless the requirements of the policy definition are met, the insurer is not legally obliged to make payment.)

"*Partial Disability*" will usually mean that you can only work a limited number of hours in your own or any other occupation and there may be a requirement to be earning under a certain percentage of your pre-disability earnings.

What happens when you make a claim under a disability policy?

When you make a claim, you have an obligation to provide your insurer with all of the information it needs to assess the claim, including financial and medical information. There may also be obligations to provide ongoing financial information and undergo further medical examinations and tests.

Insurers normally require a considerable amount of information when a claim is made and, because this often has to come from third parties such as employers, accountants and doctors, there can be delays in obtaining it. For that reason, the sooner you notify the insurer of a claim and complete any required forms, the less time the insurer will take to make payment.

What can you do if you're unhappy with your insurer's decision about your claim?

Provided that it falls within our jurisdiction, you can make a complaint to the ISO. The ISO will consider whether your insurer's decision was reasonable, in accordance with your policy wording and the law.

Insurance & Savings Ombudsman
P O Box 10 845
Wellington 6143
Phone: 04 499 7612
Fax: 04 499 7614
Freephone: 0800 888 202
Website: www.iombudsman.org.nz
Email: info@iombudsman.org.nz

