

Just in Case

Disability Insurance

In one of Aesop's most well-known fables, there is a goose that lays golden eggs. Like that goose, our greatest assets are our health and economic viability, which translate into our ability to generate income. But no one can guarantee an unending supply of golden eggs, which is where disability insurance comes in.

By Patrick Lim

Individual disability income insurance has been around for a long time, ever since Great Eastern began marketing products in the late 1980s. A disability income insurance plan protects or insures a person's future income until the desired retirement age, which cannot be over 65.

Of the 12 life insurers in Singapore, only Great Eastern, Aviva (formerly CGU-ICS) and John Hancock offer this sort of plan. Based on the underwriting of insurers in mature economies, the claims experience for disability insurance has not been good, with some insurers withdrawing from the marketplace, while others have folded. It is not difficult to understand why so few insurers here have yet to 'jump in' and underwrite this risk class. To co-share and reduce their risks, all three insurers have a re-insurance treaty with Swiss-Re, a giant global re-insurance company.

Disability income insurance plans provide benefits to replace lost income in the event of a medium- to long-term disability due to accident (injury) or illness. The monthly benefit for those who are employed is capped at 75% of gross income by Aviva and Great Eastern, and 80% by John Hancock. It is payable for a continuous total disability that continues after the pre-benefit period, which ranges from 45 to 180 days.

During the first two years, total disability is defined as the complete inability to perform the material duties of one's own occupation because of accident or illness. Thereafter, it means the complete inability to perform the duties of any occupation to which one may be suited by reason of education, training or experience. A reduced monthly benefit is also payable for partial disability that follows a period of total disability.



Why buy?

There are several compelling reasons for enrolling in such a plan. A typical whole life scheme, for example, does provide for death, total and permanent disability, and coverage for 30 major illnesses, but the disability income plan plugs the gaps. Many assume that total and permanent disability (TPD) is similar to the disability definition in an income plan, but with a TPD plan the standard definition adopted by the industry is:

- total and irrecoverable loss of sight in both eyes; or
- severance of two limbs at or above the wrist or ankle; or
- total and irrecoverable loss of sight in one eye, and loss by severance of one limb at or above wrist or ankle.

While a whole life plan is limited to coverage of 30 major illnesses, the disability income plan pays out on disability due either to accident or illness. New illnesses and diseases are being discovered year after year, so the whole life coverage of 30 illnesses can be severely limiting.

It is also worth bearing in mind that even if you were to take out multiple whole life policies, the industry places a limit on the eventual payout for major illness of \$750,000 per life. Some insurers have a lower limit than that, but no such restrictions apply to the disability income payout. Although monthly benefits are capped at \$7,500, the total liability of the insurer can amount to several million.

Paying your premiums

Premiums are primarily determined by the usual parameters of age and sex, but for disability plans, premiums will also

depend on the insured's occupation. These are rated from 'Class 1' to 'Class 4', with Class 1 including mostly office-based occupations and Class 4 encompassing semi-skilled manual work of a medium to heavy nature.

For the maximum monthly benefit of \$7,500 to be paid until the age of 60, with a pre-benefit period of 180 days, a man aged 40 on his next birthday and working in a Class 1 occupation would pay annual premiums of between \$1,506 and \$2,206.25 (see **Disability Income Plans**). That works

out at between \$4 and \$6 a day, which is not even enough to buy a movie ticket, though obviously premiums will be higher for the occupation classes 2 to 4. A journalist would fall into Class 2, a dentist into Class 3 and occupations involving semi-skilled manual work of a medium to heavy nature, such as baggage handling, are categorised as Class 4.

The classifications do not vary significantly between the three insurers, though there are differences. Great Eastern, for example, rates doctors and surgeons as Class 1, while Aviva and John Hancock counts these professionals as Class 3, which carries higher premiums. Great Eastern will also consider and underwrite pilots flying with commercial international airlines, while Aviva and John Hancock will not accept this class of business.

DISABILITY INCOME PLANS

As at 1 September, 2002

FEATURES

Insurer	AVIVA	Great Eastern Life	John Hancock
Name Of Plan	Pay Protector	PayCare	Income Protector
Monthly Income Benefit	\$500 Minimum \$7,500 Maximum	\$500 Minimum \$7,500 Maximum	\$1,000 Minimum \$7,500 Maximum
Occupation Class	1 to 4	1 to 4	1 to 4
Age	22 Minimum 60 Maximum	21 Minimum 50 Maximum	21 Minimum 55 Maximum
Pre-Benefit Period	3 or 6 Months	45, 90 or 180 Days	60, 90 or 180 Days
Coverage Term	Up to Age 55, 60 or 65 Years	Up to Age 55 or 60 Yrs	For 5 Years or up to Age 60 or 65 Years
Territorial Coverage	Singapore	Singapore, Malaysia and Brunei	Singapore
Index Option	YES	NO	NO

COMPARISON

Male/Occupation Class 1/ANB: 40 Years
Monthly Income Benefit: \$7,500.00
Coverage Term: Up to age 60

Insurer	AVIVA	Great Eastern Life	John Hancock
Pre-Benefit Period: 90 Days Premium (Annually)			
Up to age 55	\$1,341.75	\$1,802.00	Not Available
Up to age 60	\$1,897.50	\$2,456.00	\$1,701.00
Pre-Benefit Period: 180 Days Premium (Annually)			
Up to age 55	\$1,181.25	\$1,615.25	Not Available
Up to age 60	\$1,653.00	\$2,206.25	\$1,506.00

Depression and nervous disorders

There is another interesting distinction between disability cover and whole life plans. Depression, or any other mental or functional nervous disorder which is not caused by an organic disease, qualifies for total and partial disability benefits that are not included in whole life plans.

John Hancock will limit this payment to two years, but Great Eastern and Aviva will continue to pay the benefit so long as it is not a pre-existing condition (an industry-wide stipulation) and the policyholder undergoes a yearly assessment by a recognised medical practitioner.

Guarantees

While it is common practice amongst insurers to raise premiums with very short notice, the premiums for this sort of plan are level and guaranteed at the point of inception. The only thing to watch out for is that the policyholder must notify their insurer within 30 days if they change their occupation or engage in additional work. In such an event, bear in mind that the insurer has the right to charge an additional premium, reduce benefit payments or impose other terms deemed necessary. If you fail to give such notice, the insurer will be entitled to repudiate any claim or adjust the benefits payable at its own discretion.

Remember, too, that you will not be able to reside outside the stated territorial coverage area for more than 180 days (300 with Aviva) without the insurer's prior approval. John Hancock's policy also states that you cannot be unemployed for more than 90 days, while Aviva allows you to be out of work for 180 days and Great Eastern for an entire year.

~ Patrick Lim is a broking manager at Promiseland Life Insurance Brokers Pte Ltd. Mr Lim can be reached at jcislord@singnet.com.sg