

II. OVERVIEW

Individuals and families who rely on steady sources of working income need protection when medical, physical or other disabilities interrupt their ability to continue working. State-regulated workers' compensation systems provide protection for work-related disabilities and federal Social Security systems provide benefits for permanent disabilities preventing a return to any employment. Private disability income ("DI") coverage is offered when workers' compensation or Social Security benefits are not available or insufficient to replace the income generated from one's business or occupation.

DI coverage, depending on the features of the policy, provides income replacement benefits when an insured suffers from a temporary or permanent disability that prevents the insured from performing material and substantial duties of either the insured's own occupation, of any occupation, or of any occupation for which the insured may be qualified by reason of education, training or experience. Most individual DI coverage policies are guaranteed renewable up to a certain age (usually 65) and conditionally renewable every year thereafter based on hours worked per week. Most group DI coverage policies are guaranteed renewable, but not based on a certain age of the insured. Companies do, however, medically underwrite policies and may turn down applicants if they do not meet underwriting criteria.

While most disability income insurance provides weekly or monthly benefits to an insured to replace income that is lost when the insured becomes disabled and unable to work, some policies also are issued to businesses to cover the cost of replacing a key person or paying business expenses if a managing partner is unable to work at a business.

Massachusetts has limited regulations establishing specific standards applicable to DI products. Insurance carriers offer a number of options and individuals may purchase coverage that replaces differing levels of income in the event that the covered person becomes disabled as defined within the policy. When making choices, the insured chooses among plans based on the following types of product features:

- disabilities covered (*e.g.*, total, partial, residual, presumptive);
- level of replacement income (*e.g.*, fixed dollar amount per month or percent of lost income);
- duration of coverage (*e.g.*, number of months or years of coverage); and
- length of elimination (waiting) period before benefits begin.

Consumers may choose plans that include inflation protection, return of premium benefits, Social Security offset benefits and additional accident and sickness insurance benefits. In addition to plan benefits, plans can have different exclusions and limitations, including pre-existing condition limitations. Premiums will differ based on coverage chosen and additional features added to a policy.

The Division has surveyed the market for disability income insurance to understand the products that Massachusetts and national insureds buy in the individual and group markets and how carriers offer products, and trends in the industry in order to identify areas that may require further action in the future.