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# Surviving the Underwriting Process when Buying Disability Income Insurance





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## What is underwriting?

Underwriting is the process insurance companies use to evaluate information collected about an insurance applicant in order to decide whether or not that applicant should be issued an insurance policy. Disability insurance underwriting is strict because the insurance company has only one chance to evaluate the potential risk, and the risk factors for disability are hard to evaluate. In addition, disability claims can cost insurance companies a great deal of money.

### *The underwriter*

An underwriter is the person who reviews information about an insurance applicant and then decides whether the company should issue an insurance policy to that applicant. The underwriter makes his or her decision carefully, evaluating the applicant's personal, medical, and financial history, using guidelines and policies established by the insurance company.

### *The underwriting process*

The process of disability insurance underwriting begins when you contact an insurance agent or insurance company. Any information you give, whether formally or informally, may be used to classify you as an acceptable risk. The insurance representative may ask you some preliminary questions, particularly about your medical history or occupation, in order to determine whether you are likely to survive the underwriting process and be issued coverage. Then, you will fill out an application and often undergo medical testing. Finally, your application will be reviewed by the home office underwriter, who will decide what coverage you will be issued and at what cost.

## Field underwriting: gathering information

### *The insurance agent's role*

The insurance agent does not decide whether or not you will be issued coverage, although he or she may make a recommendation to the home office underwriter. Rather, he or she often serves as a field underwriter, gathering information that the home office underwriter will later use to approve or deny your insurance application. If he or she collects sufficient preliminary information, the home office underwriter may be able to easily classify the risk and issue coverage. The insurance agent will help you fill out an application, arrange any tests, and discuss coverage options with you.

***Example(s):** Theresa wanted to buy a disability insurance policy, but she had recovered from an appendectomy only four months earlier, so she was concerned that her health would prevent her from buying a disability policy. Her insurance agent asked her a few medical questions and assured her that her recent operation probably wouldn't affect her disability insurance coverage, since she had fully recovered. The agent suggested that Theresa provide a statement from her physician and ordered a few routine medical tests in order to give the underwriter as much information about Theresa's health as possible.*

### *The insurance application*

Applications for disability insurance may seem frightening. They are lengthy and ask specific medical, personal, and financial questions. These questions are designed to give the insurance company as much information as possible about your risk for disability. Your answers will be used to decide whether or not you will be issued disability insurance, in what amounts, with what coverage, and at what cost. You will be asked to provide information about your age, occupation, income, medical history, personal habits, and other disability insurance coverage.

***Caution:** Answer the questions completely and truthfully. The insurance company has the right to cancel your coverage within a certain period of time (usually two years) due to errors or misrepresentations on your application.*

## General questions

You will be asked to fill in your name, address, date of birth, gender, and Social Security number, among other things. Your disability premium, in part, will be based on your age and gender. The younger you are, the less your premium will be. If you are female, you will pay a higher premium than if you are male (unless the insurance company offers unisex pricing). Females file



more disability insurance claims than males, so insurance companies usually consider them to be a greater risk.

## Occupation

Your occupation plays an important role in determining what kind of disability coverage you can buy and how much your premium will be. The underwriter will consider your job duties as well as your title. Statistically, certain occupations pose less risk to the insurance company. For instance, if you are an architect, an engineer, or a CPA, you are less likely to file a disability claim than if you are a maintenance worker, hotel manager, or mechanic. Insurance companies group occupations together and assign them a rating class based on how hazardous the occupation is, the income level of individuals working in the occupation, and claims experience. These ratings vary from company to company but use a number and/or letter system to classify risks (such as class 1, 2, 3, and 4 or A, B, C, and D).

**Example(s):** Harry and his girlfriend, Christine, applied for disability insurance on the same day. Harry, who worked as a waiter, was offered a policy rated for occupational class 3A. Christine, a nurse, was offered a policy rated for occupational class 4A. They both elected elimination periods of 90 days and a benefit period of two years. However, the maximum monthly benefit payment under Christine's policy was \$15,000, while the maximum monthly benefit payment under Harry's policy was only \$5,000. In addition, Harry paid a slightly higher premium for his coverage than did Christine.

## Income

How much money you earn affects the type of coverage you can buy, what your monthly disability benefit will be, and how high your premium will be. High-income professionals generally fall into higher ratings classes. If you have relatively high earnings, you may be able to buy a policy that has a more liberal definition of disability and more comprehensive coverage. In addition, the benefit amount you may purchase is based on your gross earned income before taxes. You will usually be asked to present proof of income (most likely an income tax form or wage and earnings statement).

**Example(s):** Shelly is a hospital administrator whose pretax earnings are \$5,000 per month. She can buy a disability insurance policy that will pay her a \$3,000 a month benefit until she is age 65 in the event that she becomes disabled and can't do her own job.

Each insurance company has a table that is used to determine how much monthly benefit you can receive based on your earnings. In general, the insurance company will try to replace 50 to 70 percent of your pretax earnings. This percentage may be higher if your income is low or less if your income is high.

## Medical

How healthy you are now and how healthy you've been in the past is the single most important factor used to determine your eligibility for disability insurance coverage. The application will list a series of questions designed to expose current and past health conditions. If you've had health problems, you'll need to supply details such as the name and address of your physician, duration of treatment, and dates of illness or injury. You'll probably be asked to take a paramed examination, including a blood test and a urinalysis. Some people must undergo a full physical examination. You may also be asked questions about your family's medical history in order to determine whether you are at high risk for developing certain medical conditions, such as diabetes, heart disease, cancer, or Parkinson's disease (among others).

**Example(s):** Leticia listed her family's health history on her disability insurance application. Although her father had died of lung cancer at age 47, the insurance company's underwriter didn't weigh that factor heavily, because he had been a heavy smoker and Leticia was a nonsmoker. In addition, Leticia's mother was active and healthy at age 74, so Leticia was not at a greater risk of disability due to her family's health history.

**Tip:** In some cases, if your insurance agent realizes that you have a medical condition that may prevent you from buying disability insurance coverage, he or she will call the underwriter to discuss your case. The underwriter may suggest that the agent submit a trial application for underwriting rather than go through the entire underwriting process immediately. However, it's likely that you won't be turned down for disability coverage; many medical conditions do not substantially increase your risk of disability. The underwriter may instead charge you an extra premium for coverage, issue a restricted policy, or simply issue a standard policy.

## Personal habits

You'll also be asked a series of questions designed to determine whether your lifestyle increases your chances of suffering a disability. For instance, you may be asked if you've ever been declined for other disability insurance, if you're a pilot, or if you've ever been arrested. Be truthful. The insurance company has access to a lot more information than you may suspect. It can get



information from databases and, with your permission, from credit bureaus and other organizations. It can even conduct interviews with your friends and family.

**Example(s):** *Gerald was disabled when he was injured by a hit-and-run driver. He had no disability insurance and was unable to support himself. A year later, the bank foreclosed on his house. When he filled out an application for disability insurance six years later, he said that he had never suffered a disability. However, when the insurance company obtained a credit report and found out about the foreclosure, it denied Gerald's application because he had lied, instead of giving him a chance to explain the circumstances surrounding his case.*

**Tip:** *If your lifestyle seems risky, you may be asked to fill out one or more supplemental questionnaires designed to shed more light on the actual risk you pose. Again, even less-than-perfect answers to these questions may not affect your ability to buy disability insurance. It's just one point the insurance company considers.*

## **Other disability coverage**

Insurance companies want you to get better and return to work rather than living off your disability income forever. To give you incentive, they limit the amount of coverage you can buy, based on the amount of coverage you already have. They take into consideration what other private disability policies you own, what group insurance disability benefits you will be entitled to, and your Social Security disability coverage. Your new policy will be designed to supplement, not add to, the benefits of any other coverage you have.

**Example(s):** *Daniel earned \$3,200 per month and was covered by a group disability insurance company through his employer. He would receive \$1,300 a month in benefits for 24 months in the event he became disabled. Although he wanted to buy an individual disability policy with an additional benefit amount of \$2,000, the insurance company said no because he would be overinsured. Instead, it offered him a policy designed to supplement his first policy. This policy would pay Daniel an initial benefit of \$700 per month, designed to increase to \$2,000 if he suffered a disability that lasted longer than 24 months.*

## **Home office underwriting: evaluating and classifying the risk**

Although underwriting practices vary, here's how the underwriting process usually works: After your agent submits your application, the home office underwriter reviews it. You may be issued coverage right away, or you may have to submit additional information or reports to help the underwriter determine whether or not you are an acceptable risk. You will be assigned one of three risk categories: the preferred risk, the standard risk, or the special risk (also called substandard risk). The category to which you are assigned determines what kind of coverage you can buy and how much the coverage will cost.

### **Preferred risk**

You may be classified as a preferred risk if you are (in the eyes of the underwriter) less likely than most people to file a claim for disability insurance. To be considered a preferred risk, you have to meet the guidelines established by the insurance company. For instance, you may have to be a nonsmoker, work in a low-risk occupation, and be very healthy. As a preferred risk, you may pay less for disability insurance coverage than others pay.

### **Standard risk**

Most disability insurance applicants are classified as standard risks. They are no more or no less likely to become disabled than anyone else. When you are classified as a standard risk, your disability insurance policy will be issued as applied for.

### **Special risk**

If the underwriter feels that you are especially likely to file a future disability insurance claim, he or she may classify you as a special or substandard risk. You may be denied coverage; however, more likely you will be issued coverage but with special terms and conditions. A coverage waiver may be attached to your policy that fully excludes certain medical conditions or excludes them for a period of time. In addition, you may have to pay a higher premium or settle for a longer elimination period, a shorter benefit period, or both.

**Example(s):** *Burly Bobbie, a professional wrestler, applied for disability insurance and was classified as a substandard risk due to the nature of his occupation and the fact that he had previously broken his neck. He was able to purchase a policy, but the premium was 25 percent higher than he would have paid had he been classified as a standard risk. In addition, a rider was attached to his policy that excluded coverage for disabilities related to his back and his neck.*



## After the disability income insurance policy is issued

### ***Review the policy carefully***

When you receive your disability insurance policy, read through it carefully, examining every item. Your insurance agent will probably go through it with you to make sure you understand the terms, provisions, and coverage. If you notice any errors, contact the insurance company immediately, because a mistake on your policy may affect claims payment later on.

**Example(s):** *When Jeremiah reviewed his disability insurance policy, he noticed that his age had been mistakenly reported as 48, when in fact he was only 46. He asked his insurance company to correct the information right away, particularly since it affected the amount of his premium.*

## What to do if you are denied coverage

### ***Enlist your insurance agent's help***

Your insurance agent can be your best friend if you are turned down for coverage; he or she is, after all, a salesperson who earns a commission if your policy is issued. In addition, your agent is familiar with the underwriting process and supplied information to the home office underwriter, so he or she is in a good position to plead your case. However, there may be nothing your insurance agent can do if you simply don't meet the risk factors established by the insurance company.

Your agent may be able to place your case with a substandard insurance carrier or another carrier that might offer to issue you insurance at a higher premium. However, once one carrier turns you down, another carrier might be reluctant to issue you a policy.

### ***Appeal the decision***

The application form usually outlines the procedure to follow in the event your application is denied, and you want to appeal. Or, you can ask the insurance agent to explain what you can do to appeal. Usually, if you believe the company denied you due to erroneous information it received, you can write a statement explaining why you disagree with its decision and provide correct information, if possible. Your agent can serve as your advocate.

### ***Buy a group policy***

If you cannot buy an individual disability insurance policy but you still need coverage, ask your employer whether he or she offers group disability coverage. You may also be able to purchase group coverage through an organization, labor union, or trade association to which you belong. Group coverage is easier to get because underwriting standards are less stringent. Of course, group disability insurance may offer you less coverage than an individual plan, but some coverage is better than no coverage.

## Questions & Answers

### ***Can your insurance company require you to take a blood test, even if you object to it?***

It depends on what state you live in. In many states, you can be required to take a blood test only if your benefit will be over a certain amount. Check your state's policy before you make a decision. In every state, however, you must sign a consent form for any blood or HIV testing. In addition, if you have taken a blood test within the last six months as part of a personal physical exam, your insurance company may consider those results.

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