

What is Disability Cover?

- **Q: One of the topics briefly mentioned previously in fully-underwritten life cover was disability cover. What exactly is this?**

In its simplest form, disability cover can be a standalone product, or a cover included under a larger fully-underwritten life insurance policy, and essentially is there to pay a benefit if you are disabled by an accident or illness.

Disability cover is typically paid for by way of a monthly premium (like most insurance policies you may know) and it will compensate you financially if you are disabled, either by an accident or illness, and are unable to work or carry out your normal duties.

- **Q: Disability cover is not something very well known. Who should be thinking about a disability cover?**

Disability cover is essential for any one with working years ahead of them. A disability can take away your most valuable asset – your ability to earn an income in the future. When you are young and healthy it can be hard to imagine you could ever be anything else, unless you have seen someone close to you take ill or be injured. However, the reality is that disability can happen at any age and to anyone – even the fittest and most healthy among us can be involved in an accident.

Most people use their ability to earn over the years to accumulate assets such as a home, a car, retirement savings, and so on. A loss of income from a disability, permanent or temporary, can set you back for many years or even forever. Expecting family, or the state to provide for you should you be disabled is also not wise, as you cannot count on them being able to support you. This means the most important insurance cover that you, as a working person, should have in place is disability cover. Disability insurance is especially critical if you are self-employed and don't have any sick leave paid by an employer. Life cover is more important once you are in a relationship and/or have children or other dependents who rely on you to provide for them.

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- **Q: Disability cover ensures that our families and ourselves would be taken care of in the incident we are no longer able to work and earn an income, but what exactly does disability here refer to?**

A disability or becoming disabled for the purposes of this type of cover is usually measured in three ways:

1. *Ability to work:* Your disability cover may be defined in terms of what you can or cannot do when it comes to doing your job, or a similar job, and the policy will aim to provide a benefit that serves to replace, or partly replace, your income if a disability leaves you permanently unable to work. These policies are often said to be occupation-based.
2. *Your impairment:* You can also buy cover that pays out if you suffer from one of a number of listed conditions that results in your body's structure or functions being permanently impaired to a certain degree, or in you being unable to do certain activities of daily living with no hope of recovering. This kind of cover can compensate you for the additional costs that come with, for example, the loss of a limb, or organ such as an eye, a mental illness or paraplegia, whether you are working or not and regardless of whether you can continue to work or not. You may, for example, lose a limb but still be able to do an office job. However, the cost of living with your disability will be ongoing and could involve the need to adapt your home or, your vehicle, buy special equipment or even hire a carer, costs not covered by your medical scheme.
3. *As an event:* Life insurers also sell event-based disability or personal accident cover. This cover pays a percentage of the sum insured for particular disabilities according to criteria defined in the policy, for example 50% of the sum assured for the loss of a limb. If you buy this cover, remember the amount for which you are insured – the sum assured – is the total amount you can claim. So, if you are paid out 50% for the loss of a limb, you will have only 50% of the insured amount available for any subsequent claims.

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- **Q: You mentioned that disability cover could be a part of a larger fully-underwritten life insurance policy or stand alone. Are there different types of disability cover options and how do they work?**

Generally, you would want to consider in what form you would want to receive a payout.

1. A once-off sum of money If your policy pays out a single lump sum it may be referred to as lump sum disability cover or capital disability. Lump sum disability cover is useful if you need to provide for a specific need should you be disabled. For example, if you want to cover debt or to provide a sum for a child's tertiary education. Lump-sum benefits are typically specified when you take out your policy and may grow each year either by inflation or at a rate chosen by you. The disadvantage of lump sum disability cover is that it only protects you against permanent loss of the ability to do your job and you may be off work for a long time with an illness or injury from which you will recover. Lump sum benefits paid on impairment policies may be tiered. This means if your impairment is less severe, you will be paid only a percentage of the amount for which you are insured.
 2. Ongoing monthly payments: If it pays out an ongoing monthly income payment, your policy will be referred to as income protection one or as having an income disability benefit. Ongoing income payments can give you better cover against the loss of your income due to an inability to work, as it is easy to see how the income benefit relates to your earnings and you are guaranteed payments as long as you are unable to work until your retirement age. Disability income benefits are typically related to your monthly earnings when you take out your policy, and you need to make sure that the benefits you are entitled to escalate each year (in the way your salary would increase over time).
- **Q: What would happen if I were to become disabled as a result of my work? For example, I get injured at work.**

If you are an employee, your employer should be contributing to the Compensation Fund. This means that if you injured at work, such as in an accident on a construction site, in a factory or while driving to a meeting, or you become ill as a result of being at work, your injuries or illnesses should be covered by the Fund. A disability benefit may exclude cover for work-related illnesses or injuries, or it may take any benefit paid by the Compensation Fund into consideration before your benefits are paid. Other insurers do not take Compensation Fund pay outs into account as they are too difficult to administer.

This is a question you could direct to your employer as well as your insurer to understand how this could affect your policy and cover.

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- **Q: Different employers sometimes offer different group life cover benefits to their employees. If some of our listeners are in this situation, what do they need to think about and does this conversation affect them at all?**

The important thing to realize here is, yes as you say numerous employers can offer their employees different group cover benefits (which may include life cover, disability cover or funeral cover and so on), but it would be very important to consider your needs and that of your family outside of this employer offering. Answer this question for yourself: Does this group benefit provide for ALL the needs my family may have were I to pass away or no longer be able to work?

In my case, my employer's group life benefits cover on average only around a quarter of my needs and that of my family. Can you afford not to at least check whether you or your family would be short most of the income you earn now should you die or become disabled before retirement? In my case, definitely not. Remember that your employer has likely calculated the benefits of their cover offering with the average employee in mind. Your individual circumstances may require more or less of different types of cover. You, or your financial adviser, need to work out what you and/or your family would need to live on in the event of different scenarios: your death before retirement and you becoming disabled or severely ill before retirement.

- Here is a quick few questions to ask yourself about your employee group cover:

1. **Is the cover amount sufficient?**
2. **What definition is used for disability?** Are you covered for an inability to do your own job, your own or a similar job, or any job? What happens if you suffer a permanent injury such as losing a limb, but you can still work? How are you covered?
3. **Are you covered for temporary disability or only permanent disability?**
4. **Is there a severe illness cover? What illnesses does the severe illness benefit cover?**
5. **Does your life cover remain in place if you are disabled?**
6. **Which family members are included in your group cover?** This may only be you or some direct family members.

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