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The market for business health insurance offers the financial advisor a genuine challenge and opportunity. Business life insurance to indemnify a business for the death of a key executive has been sold for decades. However, the basic concept that a disabled owner or key executive represents a loss to a business, as well as a nonproductive drain on assets when his salary is continued, may not yet be fully appreciated.

# Introduction

Disability—the sidelining of an owner due to a temporary or permanent injury or sickness—is the business hazard that is most often ignored. There exists for the financial advisor a fertile market. Millions of business organizations exist in the United States. The large majority of these businesses is small and would experience great hardship upon losing the services of an owner or a key employee due to disability.

The limited number of key people in a small business or professional practice places an increased emphasis on the availability of each person for work. If a key person leaves the enterprise because of disability or death, the effect may be disastrous upon the business. But even if the business or practice escapes bankruptcy or liquidation, there is bound to be a period of shrunken profits and increased costs, especially if a competent replacement must be hired.

Businesspersons are quick to grasp the importance of safeguarding business assets against shrinkage. They protect property and equipment with fire insurance. Liability insurance is carried. Trucks and inventory are insured. Furthermore, these same business owners and professional persons seek to safeguard themselves and their families. They often personally prepare for death and retirement, for they recognize that either one or the other is inevitable. Preparation for disability is all too often neglected.

Expenses of Disability

In many ways disability should be feared more than death. Unlike a dead person, a disabled person remains an expense to himself and his family. A businessperson will face major expenses if he is disabled even temporarily. These disability expenses include:

First, expenses connected with medical care;

Second, the expense of keeping an office open for business during a period of an owner's disability;

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Third, personal expenses go on-house payments must be met, children educated, utility bills paid and food purchased during the period of disability.

Since medical care expenses occur most frequently, let us discuss those first.

*Medical Care Expense.* Just a few statistics reveal the high costs of medical care. The Health Insurance Association of America's Source Book of Health Insurance Data 1997-1998 reports, for example, that medical costs have absorbed an increasing portion of the gross domestic product (GDP) for several decades, rising from 4 percent in 1950 to 14 percent in 1995. The portion of personal disposable income spent on medical care rose from 4.3 percent to 16.9 percent during the same period. The U.S. average cost of a single day in a community hospital, as of 1995, was $968.

*Business Overhead Expense.* The expenses of keeping a business open include rent, employees' salaries, and the costs of utilities and telephones. It is important that these expenses be met if the business owner is disabled. Otherwise, the business's lease may be cancelled, and the employees may be forced to find work elsewhere. As discussed later, business overhead expense insurance can provide the funds necessary to keep a business open during the temporary disability of the owner.

*Family Expenses.* When a family breadwinner is disabled, his family many times is in a worse position financially than it would be if he had died. Why? Because not only does the family continue to have its ordinary expenses (e.g., for food, education of the children, housing, clothing and transportation), but also it now faces the extraordinary expenses of caring for the disabled breadwinner. Medical and hospital insurance can help the family to meet the extraordinary expenses, but not the ordinary day-to-day expenses that heretofore have been met out of the breadwinner's earnings. In many cases, those earnings will be terminated or reduced when the breadwinner becomes disabled, and therefore he and his family need to insure against loss of income. As discussed later, disability income insurance can solve the problem of lost income.

Income during Disability

It is little wonder that over 200 million Americans have some form of medical care insurance. Still, many will return from the hospital with unpaid medical bills or depleted savings, because their hospital plan failed to cover all the expenses.

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Add to these unreimbursed or uninsured medical expenses the cost of maintaining the family household during the breadwinner's illness and one can see the financial tragedy that can accompany a long-term sickness.

*Sources of Income.* There are only two sources of family income: investment income—dollars at work, and earned income—an individual at work exchanging his service for dollars.

Of the two, the greater source of income is the individual at work. In spite of our tremendous investments in plant and machinery and buildings throughout the country, the returns from property represent a small share of national income. Earnings—in the form of wages, salaries, and fees for services—produce the larger portion.

The majority of all persons between the ages of 21 and 65 in the United States and Canada are dependent on earned income for support. But a person's earning power is a dangerously perishable thing. So long as a person is able to work, he is able to provide income for his own needs and the needs of his family. But if, because of sickness or serious accident, he cannot work, his earned income is lost; he becomes dependent upon investment income.

*Two Kinds of Income.* There are two kinds of income—past income and future income.

Past income is the income of yesterday. It has done its job. It has maintained the family standard of living. It has paid for educations. It has provided the home. It has paid for food and shoes, for vacations, and other social activities. It has paid the doctor and the dentist. And it has brought the breadwinner and his family up to the present moment in their lives. But past income dealt with yesterday. We know that today takes care of itself—income will be received for today's work.

But what of tomorrow—that income is not assured. Yet, all the dreams, hopes, and plans of people depend on future income. From the income earned next week, next month, or next year, we must pay the storeowner, the banker, the doctor for our day-to-day living. Furthermore, we meet the promises we have made to ourselves, our spouses, and our children as to future enjoyments. In addition, we plan to save some of our future income for retirement.

All these things require a steady income from employment. An individual does not fear a temporary gap of a week or two in income, or an unexpected minor expense. He knows that he can make up these losses—so long as he can work thereafter on a regular basis. But what he fears is a major catastrophe.

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A Major Catastrophe

A major threat to every working person is the possibility of losing his earning power for three months, six months, a year, or longer. When, for reasons beyond his control, he cannot work, he cannot earn the income on which his future depends.

Suppose that a working person is determined to solve his future income problem with a savings account. Assume further that he is able to save $300 a month for 12 months or 18 months. Then he becomes disabled. With medical expenses added to his regular family expenses, how long will $3,600 or $5,400 last?

However, suppose that a person could "rent" a sum of money that would be sufficiently large to yield him an income when he was disabled and unable to work. Suppose further that this income would be paid for as long as he was disabled—one year, two years, five years, or whatever was the period of disability. In effect, this person would have income replacement or disability insurance.

Proprietors and partners typically purchase disability income insurance in three ways, namely, (1) as individual disability income policies, (2) as part of an employee group insurance program, and (3) as association-sponsored insurance through a professional or trade association. In addition, professional persons, and in some cases business proprietors and partners, may purchase business overhead expense insurance.

# Disability in a Small Business

The Self-Employed Individual and Disability

In our economic system the idea of being self-employed has tremendous appeal. The business proprietor, the professional person in solo practice, and the business or professional partner are all self-employed. Let's consider the plight of each one when faced with a disabling accident or illness.

*The Business Proprietor.* The business proprietor and his business are one and the same. He manages the business: what the business earns, he earns; what the business loses, he loses. Thus, its prosperity or failure largely depends upon the owner himself. And should he become disabled, the business may fail.

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While disability lacks the inevitability of retirement or death, it still is too common to be ignored. For instance, one out of two persons, age 35, will be disabled for at least 90 days before age 65, and of those disabled for at least that period, the average period of disability is 2½ years!

How would a proprietorship fare if the owner were disabled for 2½ years, or for that matter even 90 days? How long would sales hold up? How long before production, service and quality would suffer? How long before black ink would change into red?

*His Employees.* Sickness and accident are equally harmful to the employees of the sole proprietor. They, too, have medical care expenses. Furthermore, many of these employees have families that depend upon them for support. Again, they have house or rental payments to meet, children to educate, utility bills to pay and food to purchase.

The proprietor probably feels a responsibility toward these disabled employees. But, in most cases, his generosity is necessarily limited by his own lack of capital resources. He couldn't afford, for instance, to carry the employee on the payroll as long as a large corporation can carry a similarly disabled worker.

Despite his lack of capital resources, the sole proprietor is still a competitor. He competes not only in the marketplace with others in the same business, but he also competes for the better employees. The clothing store operator competes with the department stores for his help. He, at least, must match their pay and fringe benefit schedules if he hopes to hire and retain competent employees. And a competitive health program is part of that business competition.

*The Professional Person.* The self-employed professional, like his commercial counterpart, the sole proprietor, is an independent businessperson. He invests large sums of money in his education and preparation just as a business owner invests his money in equipment, fixtures, inventory or machinery before he opens his doors. Also, like the business owner, the professional usually puts in years of long hours at low earnings just to get himself established.

But beyond these similarities, the professional and the businessperson differ.

In his practice a professional renders personal service and advice. His patients or clients look to him for advice or care; therefore, he must be present to render this service-his practice cannot run itself.

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On the other hand, when the owner of a retail store, a wholesale concern or a manufacturing plant is not at its helm, the business can coast along for a while. Clerks will continue selling stock from the retailer's shelves; the salespeople on the road will continue to write orders; the machinery and equipment will continue to turn out goods for sale.

Thus, because the business owner employs capital and the services of others in his business, it can run for a time without him. Such is not the case with the professional person. When he stops work he stops making money.

The professional has expenses. He pays for his home, his cars, his possessions with the income he earns. He sets aside dollars from his income for his children's education. He saves for his own retirement.

And he protects the property he owns. He has fire insurance on his home and its furnishings and auto and casualty coverages on his cars and other possessions. All these expenses are met out of his income.

From this income, too, he pays the costs of operating his professional business. These expenses continue month after month and include his office rent, electricity, telephone, laundry, postage, dues for professional societies, and employees' salaries. In fact, he generally finds that 40 cents out of every dollar he takes in goes to cover his business overhead.

*The Living Death.* But what if the professional person becomes disabled? The living death of disability can be worse than death. Unlike a dead person, a disabled person remains an expense to himself and his family. He has the expenses connected with his medical care, plus his family's expenses.

In addition, the professional has the expense of keeping his office open during the period of his disability. When the professional believes that his disability will last less than six months, he will want to keep his doors open, but where can he or she obtain the necessary funds?

The ideal solution to the hazard of disability is for the professional to insure the expenses of medical care, business overhead, and income replacement.

The Basic Policy

The individual disability income policy is an effective way for the sole proprietor to hedge against the hazards of disability. The individual disability policy is a contract

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between the policyowner and the insurance company, in which the company agrees to pay money to the insured when he is prevented from continuing work.

*The Insuring Clause.* The insuring clause is the basic condition upon which the disability policy is built. The conditions of the clause must be met before the insured can receive any benefits under the policy. In the typical present-day "accident and sickness" policy, the event that triggers the policy is an injury or sickness suffered by the insured that result in his complete inability to engage in his occupation.

After an extended period of disability—often two to five years in many contracts—benefit payments are conditioned upon a stricter definition of total disability. Of course, this definition varies with each contract. A common contract provision makes indemnity dependent upon the insured's complete inability to engage in any reasonably gainful occupation for which he could readily become qualified by reason of education, training or experience. Other contracts are more or less liberal.

Benefits will not be paid beyond the term (i.e. benefit period) of the contract, for example, beyond age 65 for a disability due to sickness. A recurrent disability will usually be treated as a continuation of the previous disability if it occurs within six months. In addition, some contracts provide partial indemnity payments for partial disability. Under some contracts, such partial disability must follow a period of total disability.

*The Policy Benefits.* The policy benefits normally are a monthly income paid during the period of defined disability.

In addition, there may be a loss of limb, loss of sight, or loss of life benefit in the policy. If there is this type of benefit, a lump sum will be paid to the insured or his beneficiary, dependent upon the degree of loss.

To prevent malingering, most insurance companies attempt to keep the amount of the insured's disability benefit (counting social security benefits) at or below his net take home pay. This level is generally about 75 percent of his earned income. As a result, few insurance companies will underwrite a person for more than 50 percent to 60 percent of his earned income.

# Group Disability Income Insurance

Group disability coverage generally is offered by insurance companies as part of a package, which includes group life insurance. A sole proprietor or partnership whose

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working force meets the group standard may qualify on a nonmedical basis for such group disability coverage. (Some insurance companies write "franchise" or "wholesale" insurance. This is a form of individual insurance, but with modified underwriting. Other companies offer a similar form of group insurance under multi-employer trusts. Groups with as few as three lives may be insured. Each employee is required to answer a medical questionnaire and may be denied coverage on the basis of his answers.)

Insurance companies offer both short- and long-term disability contracts. In either case, the employee is promised a benefit for his absence from work due to a non-occupational accident or illness. (Injuries or sicknesses that are covered by workmen's compensation are excluded.) The short-term disability contract generally pays a benefit of two-thirds of the employee's weekly wage up to a specified maximum. The maximum benefit period usually is 26 weeks at which time the employee may be eligible for social security.

Group long-term disability coverage provides a weekly or monthly sick-pay benefit after an initial three, six, or twelve months’ elimination period. Usually, the six months’ period is the one most widely selected by employers. These benefits start after the end of the short-term disability period.

For the first two years of the contract, total disability generally is defined as the inability to perform the duties of his occupation. Where the contract is superimposed on a six months’ short-term disability contract, this means that his or her occupation definition of a total disability applies for 2½ years. After that period, some plans define total disability as the inability to perform an occupation for which he is qualified—or could become qualified—by reason of his education, training, or experience.

The monthly benefit paid under group long-term disability is 50 percent to 60 percent of the worker's earnings, not to exceed a specified maximum. If the employer so desires, disability income may be paid to age 65 for both accident and sickness.

In conclusion, group disability income insurance should be considered by those sole proprietors with a sufficient work force to meet the minimum group requirements. The generally lower premium rates and the simplified medical underwriting make group disability insurance a worthwhile coverage for the sole proprietor and his employees.

# Association Disability Income Insurance

Many professional or trade associations today offer disability insurance coverages to their members. The insurance underwriter is not the association, but insurance

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companies. The association serves merely as a sales agent that promotes the sales among its members. The association generally receives nothing for its efforts; the group coverage is promoted as an additional service to its members.

The initial annual premium for association disability insurance is inexpensive—in fact, this is the chief selling point. It should be pointed out that the insurance coverage cannot be strictly compared to an individual disability policy.

While there is no medical examination with this particular association disability policy, there are medical questions on the application. The applying association member typically must be under age 60 and in the active practice of his profession. Furthermore, he is questioned about pre-existing health conditions. If these pre-existing conditions are a health hazard, the association's policy will be issued so as not to cover a disability due to a recurrence of these pre-existing conditions.

Potential Pitfalls of Association Coverage

One professional association's experience with its disability income coverage is particularly interesting. The current insurance carrier is the second company to underwrite members of this association. The original insurance company gave up after apparently experiencing too many claims and losses. The latest insurance carrier, not wanting to commit itself indefinitely, has a five-year contract to provide the coverage for the association. At the end of this period, the company presumably will check its underwriting experience to determine whether it should renew the contract, and if so, on what basis.

What does this switching of insurance carriers do for the association's members? It can put them in a bind. As examples, consider the cases of two hypothetical members of the above professional association.

Member A: This person is age 45, and three years ago suffered a heart attack. He recovered and is now back at work. Originally covered by the first company, he now makes application for disability coverage with the new carrier. The new carrier will issue him a policy but, of course, will not make benefit payments for a disability due to heart disease. As a result, the very condition that is most likely to recur cannot be insured.

If  Member A had purchased an individual disability income policy at a time when he was in good health, he would have had a way to assure his family an income during some future disability due to heart disease.

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Member B: This person is age 60, in the active practice of his profession, and intends to continue his practice for another ten years. Like Member A, he was insured by the previous disability carrier, but due to his age the new carrier will not accept his application for coverage. Again because of the rather strict underwriting of such insurance, he must have purchased a previous individual disability policy to have coverage today.

It is therefore evident that association disability coverage cannot always be relied upon as a primary source of disability insurance coverage.

*Purchase Individual Coverage First.* What then is the best solution for the professional person, or for any other person who has the opportunity to purchase this association insurance? The best solution is for him to make application for an individual disability policy before he purchases the association coverage. This will give him an additional amount of disability benefits because the insurance companies normally consider existing coverages in writing individual policies.

For instance, if the applicant already has $1,000 per month of association disability coverage in effect, this amount would be offset against the maximum coverage the insurance company would sell the applicant. If the company's maximum in this case was $1,500 per month, the second carrier would limit the applicant to $500 per month.

On the other hand, association disability insurance is sold without consideration of the disability insurance the member has previously purchased. Therefore, it makes sense for the association member to purchase his individual policy first.

# Key-Executive Disability Insurance

The kinds of disability insurance we have examined so far are designed to help the disabled individual or his family. Key-executive insurance is designed to protect the disabled individual's business against losses that are bound to occur because of a key executive’s absence from work.

A key executive is one whose death or disability prior to expected retirement will have substantial, adverse consequences for the business of which he or she is an owner or in which he or she is a nonowner employee. The adverse consequences typically include loss of profits and impairment of credit. A disabled key executive ordinarily needs to be replaced; and therefore his or her business will incur large expense in many cases in hiring a suitable replacement. This expense is reflected in the business's loss of profits.

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The business that needs key-executive insurance is easily identified. It is a business where management is left to a few persons, where no management training program exists, where a small number of people are doing the work of many, where no liquid surplus exists to meet emergencies, or where business loans are unobtainable without the personal guarantee of one or more of the business's co-owners.

In the event that a key executive becomes disabled a key person disability plan will provide the business with:

1. cash to allow the business to continue operating;

2. cash to allow the business to maintain its existing lines of credit;

3. cash to cover the expenses of finding, securing and training an employee to replace the disabled executive; and

4. cash for many uses that cannot be determined in advance because those uses will depend on the particular circumstances of the company.

To be insured as a key person an executive must be a permanent, full-time employee. Carriers will usually not insure employees whose earnings fall below a predetermined amount, such as $30,000 or $40,000 annually. Similarly, carriers prefer not to insure employees older than 55 or 60 years of age, because of the higher risks involved.

In addition, some disability carriers will not insure majority business owners. These carriers reason that majority owners benefit indirectly from any insurance program protecting business profits. Thus, these companies do not make key person coverage available to sole proprietors or shareholders with more than a 50 percent interest in the business. Other insurers limit coverage of a majority owner to a certain percentage of his or her salary.

Finally, partners in a professional partnership or shareholder-employees in a professional corporation may not be eligible for key person disability insurance. Many insurance companies consider these entities to be formed by professionals, such as physicians, optometrists and dentists, for the purpose of combining their professional skills and sharing overhead expenses. Thus each individual is considered a specialist and does not qualify as a key employee.

A key person policy offers two benefits: (1) the disability income benefit, and (2) the employee replacement expense benefit. The minimum disability income benefit may range from $500 to a maximum of $10,000 or more per month. Some insurers limit the maximum benefit to no more than 50 percent of the key person's salary. If the executive is not an owner of the business, coverage may be available for 100 percent of his or her salary.

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Disability income benefit payments begin once the insured meets an occupation definition of disability and the elimination period (usually 30, 60 or 90 days) is satisfied. The typical benefit period is from 12 to 18 months.

The employee replacement expense benefit usually takes effect after the employee has been disabled for a period of six months. Covered expenses include:

1. The replacement employee's basic monthly compensation for the first three months.

2. Employment agency and executive search firm fees.

3. Space advertising in newspapers and trade magazines.

4. Moving expenses of the replacement employee.

A key person disability policy is owned by and benefits are payable to the company. Premium payments, however, are not tax deductible. The Internal Revenue Service considers key person premiums to be a capital investment and not a business expense [IRC Sec. 264].

Insurance premiums paid for a key person policy are taxable to the insured key executive only when the employer retains the right to name a beneficiary other than the business or if benefit payments will directly benefit the key person or his dependents. In this case, the IRS treats the corporation as paying the premium for the benefit of the key employee and the premiums are a deductible business expense of the employer [IRC Sec. 162(a)(1)].

Benefits received from a key person policy are not taxable to the corporation as long as the following IRS requirements are satisfied at the time the policy is purchased:

The insured individual is a key employee whose death or disability would result in a loss to the corporation.

A valid reason exists for the corporation to purchase the insurance; i.e., to indemnify itself against the loss of the key person by disability.

The policy amount is reasonable in relation to the key person's value to the corporation.

The type of policy purchased is consistent with the indemnification objective; i.e., the policy is designed to cover only those costs that would result from the disability of the key executive.

If a corporation fails to prove that a loss has been sustained as the result of the total disability of the insured key person, the entire benefit amount will be included in the company's assets for the purpose of determining the value of corporate stock.

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The amount of key person insurance owned by a company is based on the value of the key employee. Two methods are used to calculate that value:

1. determine the replacement cost of the key employee; or

2. determine the present value of the future loss of an employee.

The replacement cost of a key employee is the sum of the salary estimated for a replacement employee plus the total dollars lost during the period that the new employee operates at a lower efficiency level than required. The present value of a future loss is used to calculate the value of employees, such as management consultants or key sales executives who generate a certain level of annual revenues or billings. Under this method the key person coverage is equal to the replacement cost of the key person plus any revenue loss the company might experience until another producer picks up the slack.

The mechanics of a key-executive disability plan are relatively simple. In the case of a corporation, the board of directors passes a resolution that spells out the value of the key-executive and states the economic loss expected to result if he is disabled, and which authorizes an officer of the corporation to purchase the needed policy. If one officer is the insured, another officer should sign the application on behalf of the corporation. In the case of a partnership, a simple majority of the partners is needed to authorize purchase of the policy. The insured partner should sign the application as the proposed insured, and another partner should execute the application on behalf of the partnership. The ease of establishing a key-executive disability plan makes it highly sellable to small corporations and partnerships.

# Business Overhead Expense Insurance

Business overhead expense insurance that allows disabled professionals, proprietors, and, in some cases, partners, to pay office expenses such as rent, utilities, and employees' salaries for a period of up to two years.

Most professional persons expect that, if they become disabled, their period of disability will be short and not involve a long absence from work. Naturally, if they do become disabled, their initial reaction is to keep their office open for business. After all, they will be back to work shortly. But, while they are absent—even for a short time—who will pay their business overhead: the rent, electricity, heat, water, laundry, telephone, employees' salaries, and other fixed expenses which are normal and customary in an office?

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*Scope of the Coverage.* Fortunately, a number of insurance companies offer a business overhead insurance policy for professional persons. This business overhead insurance is available to accountants, architects, consulting engineers, chiropodists, chiropractors, dentists, doctors, lawyers, optometrists, and other professionals. These companies will insure a professional person in solo practice or in a partnership practice with not more than one other person. Where there are three or more partners, the activity of the nondisabled partners should be sufficient to meet the firm's overhead expenses.

Some insurance companies, though, have broadened their business overhead coverage to include unincorporated owners of mercantile businesses. A few companies will insure even more than two partners.

The primary purpose of this overhead expense policy is to reimburse the professional person for the actual overhead expenses he incurs while disabled. Covered expenses consist of rent, electricity, telephone, heat, water, laundry, depreciation, employees' salaries, and other fixed expenses that are normal and customary in the conduct of the office. Certain expenses are excluded under an office overhead expense policy. For example, the cost of goods, wares, merchandise or implements is excluded; so are the fees, salaries, drawing account, or other remuneration for the insured.

The benefits paid generally will be the smaller of:

1. the covered expenses actually incurred, provided the insured was liable for them six months prior to the date of disability, or

2. the maximum benefits payable under the policy.

Benefits are generally payable one month after the onset of a disability with the benefit retroactive to the first day. The disability must be one that renders the insured unable to perform the duties of his profession and requires the care of a physician.

The policy is written to pay the business overhead for a period of one or two years. This certainly seems adequate; the professional person should know within six months whether or not she should close her office.

*Deductible Premium.* The premium for business overhead insurance is tax deductible, which greatly reduces the net cost [Rev. Rul. 55-264, 1955-1 C.B. 11].

The benefits are taxable, but they will be offset by a business expense deduction for the actual overhead expenses incurred. Thus, for every dollar of benefit the insured will receive, he'll have a dollar of business expense to offset it.

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# Governmental Medical and Disability Benefits

The federal and state governments are involved in providing various medical care and disability income benefits, including: (1) workmen's compensation, (2) non-occupational disability benefits, and (3) Medicare and Medicaid. These benefits are described briefly below.

*Workmen's Compensation.* Workmen's compensation benefits are payable under the laws of the various states for injuries or illnesses arising out of employment. The benefits are paid according to schedule, which fixes the amount of compensation for each kind of injury or illness. Most states allow claimants to receive benefits for some kinds of injury or illness either in installments or in a lump sum. A common complaint is that benefits are inadequate.

*Non-Occupational Disability Benefits Laws.* A number of states have non-occupational disability benefits laws under which periodic amounts are paid to workers who are disabled due to non-work related injuries or illnesses. The benefit funds generally are created by both employer and employee contributions. The non-occupational disability benefit laws are intended to fill a gap left by workmen's compensation laws, which generally cover only occupational disabilities.

*Medicare and Medicaid.* The federal government's Medicare program for persons aged 65 and over is composed of 4 parts:

1. compulsory hospitalization insurance, which is financed by employer and employee contributions, and

2. voluntary medical insurance to pay for doctors' fees, some medical services, and some supplies not covered by the compulsory insurance.

3. combination of the hospitalization insurance and medical insurance, but under managed care alternatives, and

4. voluntary prescription drug benefit program.

The voluntary insurance is financed by monthly premiums shared equally by those choosing the voluntary insurance and by the federal government. Insurance companies and the Blue Cross/Blue Shield plans participate in Medicare as intermediaries for the federal government. Medicare (Title 19 of the Social Security Act) enables the states to expand their public assistance by means of federal matching funds to persons, regardless of age, whose income and resources are insufficient to pay for health care.

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*Social Security Disability.* Under the Social Security Act, a permanently and totally disabled individual may receive disability benefits (a monthly benefit equal to his primary insurance amount) to age 65 if he meets certain tests:

1. he has completed a five months' waiting period;

2. he is unable to engage in any substantial gainful activity, taking into consideration his age, education, and work experience, that exists in the national economy, regardless of whether such work exists in his area, whether a specific job vacancy exists for him, or whether he would be hired if he applied for work;

3. such inability results from a "medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months";

4. he is less than 65 years old;

5. he has filed an application for disability benefits; and

6. he either is accepting state vocational rehabilitation services or has good cause for refusal [S.S.A., §§222, 223].

*Veteran's Disability Benefits.* The federal Veterans' Administration provides a service-connected disability pension for veterans suffering from a disease or injury incurred on active duty or active duty for training, or that is aggravated by such duty. The pension benefits are paid monthly. The veteran must have received other than a dishonorable discharge and the injury must not have been caused by willful misconduct. The rate of compensation depends upon the degree of disability.

The VA also provides a non-service-connected disability pension to veterans of World War II or the Korean or Vietnam conflicts, provided the veteran in question meets a number of tests, including an income limitation test.