Demystifying Disability

Waiting periods

A key component in the assessment of a disability claim is the waiting period. So in this issue we take the next step and demystify waiting periods – what do they do, and why do we need them?

What is a waiting period?

A waiting period is simply the length of time that a person should remain unable to work before a benefit becomes payable.

To qualify for the disability benefit, a claimant needs to survive to the end of this period and continue to meet the disability definition.

The table below summarises the more common waiting periods by product:

Product	Waiting Period Options
Lump Sum Disability (LSDB)	6 months; 12 months; 24 months
Disability Income (PHI)	3 months; 6 months
Temporary Disability Income (TTD)	1 week up to 3 months

Why are waiting periods needed?

It is best to consider disability income products separately from lump sum products, as the waiting periods have similar but slightly different roles.

Disability Income

Put simply - disability income products do not **need** waiting periods. The choice of waiting period is about practicality and cost - in general the shorter the waiting period, the higher the cost.

As highlighted in the previous *Demystifying Disability* issues, PHI and TTD require a person to be totally disabled, but the condition can be temporary. As a result of this, more claims will be admitted as the waiting period reduces. Where there is no waiting period at all, any health event that makes a person unable to work could potentially lead to a claim – even if they are only absent for one day. This would lead to a large number of claims, as well as high administration costs due to the individual medical assessments required for relatively small benefit amounts.

Waiting periods are also useful for aligning the disability income product with a client's needs. Employees generally have access to sick leave, and employers may be able to bear the financial cost of providing some extended sick leave. What employers really need protection against is the financial burden of paying someone a salary for many years while they can't work. By introducing a waiting period, the cost of the insurance is reduced while still addressing the real financial risk.

Lump Sum Disability

For lump sum products, the definition of disability requires the condition to be permanent. The waiting period is very important here as it helps to establish the permanence medically. A short waiting period would not give sufficient time to observe the outcome of many conditions. For this reason, the waiting period for lump sum disability tends to be longer than for disability income products.

However, where it is very clear that the disability is total and permanent, the lump sum disability benefit is sometimes paid **before** the end of the waiting period.

A common benefit structure is also to combine lump sum disability with a temporary disability income product. In this case the lump sum disability waiting period would be aligned with the benefit payment period for the income product (usually 12 or 24 months). In this way claimants continue to receive an income while the permanence of their disability is established.

Other options: Backdating

An option under disability income products is to 'backdate' the waiting period. This means that where a claim is accepted, benefits are paid retrospectively from the start of the waiting period. Clients usually have a choice of how far to backdate e.g. for a 3 month waiting period you could choose to backdate 1 month, 2 months or 3 months. This enables employers to tailor the disability benefit to their sick leave and risk appetite, while avoiding some of the consequences of short waiting periods.