Chapter – Six
Life & Health Insurance

So far in this course we have seen the nature of risk and haw to manage them by applying different mechanisms so as reduce and or illuminate the burden on our business venture or individual's equity. Furthermore, we have also tried to see insurance in some details about the definition, principles, legal requirements, unique characteristics and basic parts of insurance contractual agreement. Now in this chapter we will take a look, specifically, at life and health insurance contracts, which we have considered as more important to be discussed in this course.

The unit is organized in to two broad sections. In the first section you will learn about life insurance policy details such as, premature death, Ways of providing life insurance, major types of life insurance provisions. The second section deals with health insurance specifically medical expense and disability income contracts.

Objectives

At the end of this unit you should be able to:

- Understood premature death, and economic justification of buying life insurance
- The different ways of acquiring life insurance as a customer or prospect insured
- Describe the major types of life insurance and their uses
- Appreciate the advantages and disadvantages of major life insurance types.

Section-I: Life Insurance Policy

Human life values are far greater and more significant than all the different property values combined. The true wealth of a nation lies not in its natural resources or its accumulated property, but in the inherent capability of its population and the way in which this population is employed. A careful study of the specific type's economic losses caused by the distraction of life or poor health is vital to an understanding of the insurance methods available to solve this burden.

In light of the above these section deals with life insurance concepts like premature death and its impact on the surviving family members; the ways of acquiring life insurance and the types of life insurance and their uses. The section will conclude with a discussion of rate making in life insurance.

6.1. Premature Death & Economic Justification of Life Insurance

Meaning of Premature Death

Premature death **is defined** *as the death of family head with outstanding unfulfilled financial obligation, such as dependants to support, children to educate and a mortgage to pay off.* Premature death can cause serious financial problems for the surviving family members because their share of diseased breadwinner's earnings is lost forever. If the replacement income after the death of the family head, from different sources is or if the accumulated financial assets available to the family are inadequate the surviving family members are expected to suffer grate financial insecurity.

There are ***some costs*** that are associated with premature death. First, the family's share of the earning is lost forever. Second, additional expanses may also be incurred because of funeral expenses, uninsured medical bill, estates. Third, because of insufficient income, some families will experience a reduction in their standard of

living. Finally certain non economic costs are incurred, such as the diseased bread winner's counseling and guidance for his/her children, loss of parental role model and emotional grief.

Therefore, **life insurance is used to alleviate the financial consequence of premature death**. The *purchase of life insurance is economically justified if the insured earns an income, and others are dependent on that earning capacity for at least part of their financial support*. If the family head dies prematurely, life insurance can be used to restore the family's share of the diseased family head's earnings.

It should be noted that a life insurance, *unlike property and liability insurance,* ***is a valued policy*** that pays a stated sum to a named beneficiary and is **not a contract of indemnity** (see the exceptions of the principle of indemnity in chapter 4).The insurer event is the uncertainty of the time of death. We all must die, but the time of death is uncertain.

As a social and economic device **life insurance** is a method by which a group of people may ***cooperate to share the loss resulting from the premature death of member of the group***. The insurer collect contributions from each member, invests these contributions, guarantees both their safety and a minimum interest return, and distributes benefits to the estates of the members who die.

6.1.2. The Ways to Acquire Life Insurance

This sub- section will explain the ways for customers, prospect life insurance applicants, to acquire life insurance. Life insurance companies distribute life insurance in the following three different ways:

- ♣ **Group life insurance**
- ♣ **Industrial life insurance**
- ♣ **Individual life insurance**

GROUP LIFE INSURANCE

Group life insurance is provided to a well-**defined group of people who are associated for some purpose** other than purchasing life insurance; most common groups covered by life insurance are employee groups, such as **employees of a corporation**, professional associations, such as **medical associations, accounting associations**, can also obtain group insurance for their members.

Credit life insurance is special type of group life insurance purchased by a lender for its group of debtors. Bankers, credit unions, or retail stores selling merchandise on credit offer credit life insurance to their customers. For example a consumer purchasing merchandize on an installment credit basis also may purchase credit life insurance. If the debtor dies with the loan outstanding, the life insurance proceeds repay the debt.

Except for credit life insurance, which can be expansive, group life insurance generally **costs less than similar individually purchased insurance**. This lower price is possible because the manager of the plan, employer, does much of the administrative work; the absence of a medical examination reduces the insurer's cost. As a result, the total selling expanse is less for group insurance than for an equivalent amount of individual insurance. Thus, it is often advantageous to be covered by a group insurance plan, especially if the employer contributes part of or pays the entire premium. From the customer stand point, the following facts as a **demerit** should be considered

The amount of group insurance benefit cannot be selected to suit individuals need rather is selected on a group base.

- ✓ If the individual leaves the membership (group) he/she loses the coverage.
- ✓ Group life insurance is a term insurance and thus it provides temporary protection.

INDUSTRIAL LIFE INSURANCE

People purchase industrial life insurance in small amount typically the premiums are collected at the insured's home on a regular, (generally weekly or monthly) basis. This insurance is designed to meet the needs of low-income workers. The weekly visit of the agent coincided with the weekly paycheck and the purchase of the insurance was to provide a burial fund

The cost of industrial life insurance is high for two reasons. First, the health, and thus the life expectancy, of low-income workers are not as good as average members of society. Second, there is a significant administrative expense for an agent to collect and account for numerous small premium payments. Because of these two factors the cost of industrial life coverage is relatively expansive compared to other individual coverage's.

INDIVIDUAL LIFE INSURANCE

Most consumers purchase individual life insurance, which also is called ordinary life insurance. Unlike industrial life insurance, customers purchase ten, fifty and hundreds thousand dollar (and even larger) individual life policies. Insured's pay premium annually, monthly, quarterly or annually by mail or by preauthorized bank drafts.

6.1.3. MAJOR TYPES OF LIFE INSURANCE

Life insurance policy can be classified as either term insurance or cash value life insurance. Term insurance provides temporary protection, while cash-value life insurance has a saving component and builds cash value at the end. Numerous combinations of these two types of life insurance are also available today. This sub-section will have a discussion on the following major classes of life insurance:

- **6.1.3.1 Term life insurance.**
- **6.1.3.2 Whole life insurance.**
- **6.1.3.3 Endowment life insurance**

6.1.3.1 TERM LIFE INSURANCE

When a life insurer sells a term life insurance policy, it promises to pay the beneficiary if the insured dies with in a specified period. If the insured outlines (survives) the period, the insured makes no payment

Term life insurance is similar to property insurance in this respect. If there is no loss to home or automobile while the policy is in force, the insurer makes no payment. This is also the case with term life insurance. Moreover, like property insurance policies, term life insurance does not build saving or cash value, as do other types of life insurance. Thus term life insurance is often spoken of as providing "pure death protection". This type of insurance is relatively simple type of insurance, and in part of this reason, it has been among the first insurance which is provided through internet.

CHARACTERISTICS OF TERM INSURANCE

- ♣ **The period of protection is temporary**
- ♣ **It is renewable & convertible**
- ♣ **Have no cash value or saving element**

The period of protection provided under term life insurance is only for temporary period, such as one, two, five, ten or twenty years, unless the policy is renewed, the protection expires at the end of the period.

Most term life insurances are renewable, which means that the policy can be renewed for additional periods without evidence of insurability. Here the premium is increased at each renewal and is base on the insured attained age. The purpose of renewal provision is to protect the insurability of the insured and to protect the policy from lapsing.

Most term insurance policies are also convertible, which means that the policy can be exchanged for a cash value policy without evince of insurability. There are two methods for converting a term insurance these are "attained age" and "original age method". Under the attained-age method, the premium charged is based on the insured attained age at the time of protection. Under the original-age method, the premium charged is based on the insurers original age when the term insurance was first purchased.

Finally, term insurance policies have no cash value or saving element, although some long-term policies develops a small resent it is used up by the contract expiration date.

TYPES OF TERM INSURANCE

Insurance sell several types of term life insurance policies including the following major categories:

- **Yearly renewable**
- **5,10,15,20-year term to age 65**
- **Decreasing value term insurance**
- **Increasing value term insurance**
- **Reentry term insurance**

Yearly renewable term insurance is issued for a one-year period, and the policy owner can renew for a successive one-year periods to same stated age without evidence of insurability. Premiums increase with the increase in age but level with in the given protection period (one year)

Term life insurance can also be issued for 5, 10, 15, or 20 years or for a longer period. Like yearly renewable term insurance the premiums paid during the term period are level, but it increase when the policy is renewed.
A term to age 65 policy provides protection to age 65, and then it expires.

A decreasing value term life insurance policy provides the beneficiary with less and lesser proceeds each year while the policy is in force. That is, if the death occurs in the first policy years, the beneficiary receives the face amount. If the death occurs in a succeeding years the proceeds will be less. Here the premiums paid during the term period are level but purchase less insurance. That is, the mount of death benefits decreases because the chance of death increases with age. Decreasing term insurance is useful to provide funds to repay a mortgage or provide support for a dependent child until the child reaches age, 21. Over time, the fund needed to accomplish each of these goals decreases and so the insurance proceeds.

Hypothetical life insurance company illustration of decreasing value term insurance for Mr. Z

Age/sex: 35, male , non- smoker			
Year	**Age**	**Annual premium**	**Death benefit**
1	35	$100	$90,000
2	36	$100	$80,000
3	37	$100	$90,000
4	38	$100	$60,000
5	39	$100	$50,000

Table. 6.1.1. **Illustration for a 5 year decreasing value term insurance policies**

An increasing term insurance policy provides a proceed that increases each year. If death occurs in the first year, the insurer pays the face amount of the policy, and if the insured dies in the succeeding years the proceeds will increase accordingly. Increasing term insurance policy is attractive in an inflationary economy. For example, as the price of a collage education increases so do the insurance procedures of increasing term insurance. Premiums for these policy increases at each renewal.

Hypothetical life insurance company illustration of increasing value term insurance for Mr. X

Age/sex: 35, male , smoker			
Year	**Age**	**Annual premium**	**Death benefit**
1	35	$120	$100,000
2	36	$120	$110,000
3	37	$120	$120,000
4	38	$120	$130,000
5	39	$120	$140,000

Table 6.1.2 illustration for a 5 year increasing value term insurance policies

A level term insurance policy pays the same amount of benefit if the death occurs at any point while the policy is enforced. Table 6.1.3 below presents a sale illustration for a 5 year level term policy prepared for Mr Alemu in a hypothetical life insurance company. As can be seen the premium and the death benefits are level throughout the period of protection. Even at the end of 5th year the policy may be kept (renewed) but the premiums will then rise steeply to reflect Mr. Alemu age at that time.

Hypothetical life insurance company illustration of level term insurance for Mr. Alemu Age/sex: 35, male, non-smoker

Age/sex: 35, male , smoker			
Year	**Age**	**Annual premium**	**Death benefit**
1	35	$114	$100,000
2	36	$114	$100,000
3	37	$114	$100,000
4	38	$114	$100,000
5	39	$114	$100,000

Table 6.1.3. **Illustration for a 5 year level term insurance policies**

Reentry term is another important term insurance product. Under this policy Selection & protection of the prospect insured is based on evidence (lower) 0f morality rate, if the insured can periodically demonstrate acceptable evidence of insurability and good health, protection will be kept if not the insured will be protected no more years.

ADVANTAGES OF PURCHASING TERM LIFE INSURANCE

- ✓ When the need for protection is temporary
- ✓ For low income earners. If the amount of income that can be spent on life insurance is limited. Term insurance is appropriate and cost effective to be used.
- ✓ Finally term insurance can also be used to insure guarantee for future insurability.

DISADVANTAGES OF TERM LIFE INSURANCE

- ✓ Term insurance premiums increases with age and eventually it reaches at a level which is not affordable.
- ✓ No saving element or cash value at the end of the policy. Term insurance is not appropriate if you wish to save money for a specific need.

6.1.3.2 WHOLE LIFE INSURANCE

In contrast to term insurance, which provides only temporary protection without any cash value, ***whole life insurance provides both life time protection and cash value or saving element at the age of 100***. Whole life insurance is considered as matured when the insurer makes a claim payment. In addition to the claim payment the insurer knows for a certainty that eventually pay a claim on every whole life policy which remains in force. This circumstance makes whole life insurance different from term life insurance contracts.

Here you may ask a question that where this cash value or saving element comes from the following discussion will give you the answer. The level premium method of paying whole life insurance produces a saving element called cash value, in permanent life insurance policies such as whole life insurance; the saving element is generated as follows. The insurer initially charges a substantially larger premium than necessary to be paid for financing early death claims. This additional charge continues during the first portion of the policies duration. After a period this additional change and the compound interest on them generates a significant saving value.

TYPES OF WHOLE LIFE INSURANCE

Based on the method of premium payment insurers classify whole life insurance policies in the following categories

- ♣ **Single premium**
- ♣ **Continuous premium**
- ♣ **Limited payment whole life insurance**

I. SINGLE PREMIUM WHOLE LIFE INSURANCE

Single premium whole life insurance policies are those to which the insurer promises to pay the claim whenever death occurs ***in exchange to one relatively large premium***. Individuals did not usually prefer this type because it is difficult to provide a single large amount of premium.

II CONTINUOUS –PREMIUM WHOLE LIFE INSURANCE

This policy requires insured's to pay the same premium as long as they live or until they reach age 100. Insurance companies usually sales this policy as; level premium whole life **insurance, straight premium whole life insurance, or as ordinary life insurance.** The premiums take in to account, mathematically, both compound interest and the mortality rate (probability of the insured's death) if the insured survives up to 100 age the insurer will give the cash value. In other word, the insured death means the insurer must make a claim payment. It also means an insured will no longer make premium payment to the insurer.

III. LIMITED-PAYMENT WHOLE LIFE INSURANCE

It is another class of whole life insurance where the premium payment schedule falls somewhere between single premium and continuous premium policies. The insurance is permanent, and the insured has life time protection. The premiums are also level but they are paid only for a certain period. For instance, a man age 35 may purchases 20 year limited payment insurance for a specified amount say $25,000. After 20 years, the policy is completely paid up, and no additional premiums are required even though the coverage remains in force.

Paid up policy should not be confused with a matured policy. When we say a policy is matured, it means the face amount is paid as a death claim or as an endowment. But when we say the policy is paid-up it is to mean that, payment of premium is exhausted but not the policy is ended rather the policy is in force up to age 100.

The size of each payment is a function of the number of time it will be paid. The fewer the number of payment, the larger each payment will be. Thus, a man age 35, payment for a 20 year limited payment whole life insurance becomes paid up within 20 years. Customers waiting long term death protection but who don't went to continue paying life insurance premiums, especially during retirement, choose limited-payment policy. Here the secret of the limited-payment policy is that the insurer is willing to accept a smaller number of larger payments, as a result, greater compound interest is earned compared to the continuous premium plan.

6.1.3.1. Endowment Insurance

Endowment insurance is another type of life insurance which combines the characteristics of both term and cash-value policy. An endowment policy pays the face amount of insurance if the insured dies within a specified period. If the insured survives to the end of the endowment period, the face, amount is paid to the policy owner at that time. For instance, a man of age 35 who purchases 20 year endowment policy and died any time with in the 20 year period the face amount would be paid to his beneficiary; if he survives to the end of the period, the face amount (the cash value or saving element) would be paid to him.

Like term insurance, endowment insurance contract provide death benefit for a specified period of time. However unlike term insurance, endowment insurance has a cash value and the policy owner is paid the contracts face amount at the end of term of protection if the insured is still alive.

6.1.4 Factors Considered In Life Insurance Underwriting

Quite often, life insurance covers are aimed at protecting the dependents of the insured from suffering financial losses in case of his premature death. This means that the covers are usually connected with the occurrence of death to the insured. As a result in life insurance underwriting the factors that are considered or examined are those that influence morality the insured himself/herself. These include age, sex, current physical condition personal medical history family medical history occupation habits, avocation marital status and the like.

1. **Age:** This is the most important factor to consider in life insurance underwriting. The likelihood of death or illness generally increases with an increase in age. People develop physical problems as their age increases. The higher the age level, the greater they develop physical problems as their age increases.
2. **Gender:** Empirical studies indicate that women generally live longer than men. This may influence the underwriter to charge a lower premium payments for women for a given age level as their counterparts, men.
3. **Current Physical Condition:** This refers to the proposed insured's current physical and health condition regarding pulse rate, heart condition, blood pressure, lungs, nervous system, body build, height weight, etc...
4. **Personal Medical History:** The insured's past medical history is examined to check for any previous illness that may possibly reoccur in the future. From personal health history of the insured the underwriter wants to know whether the proposed insured had gone major medical treatments in the past.
5. **Family Medical History:** Here, the medical history for the insured family is examined to discover any possible hereditary diseased or deficiencies.
6. **Occupation**: Occupation is given as much equal importance as that of age in life insurance underwriting. Occupation can affect the insured's chance of suffering accidents of premature death. For example a coal miner is much more exposed to risk of premature death or illness than a manager or an accountant.
7. **Insurable Interest:** There should be an insurable interest to be protected by purchasing life insurance policy. Absence of insurable interest could reflect the presence of wagering in the contract. The underwriter must make sure that there is an insurable interest in applying for life insurance cover. This involves identifying any relationship between the proposed insured and named beneficiary.
8. **Financial Position**: The proposed insured's financial position or his level of income has become an important factor to consider in life insurance underwriting. The proposed insured's financial position is examined to check the existence of speculation and lack of insurable interest. Particularly, close examination is to be made when the amount of cover is appreciable large.
9. **Habits:** Habits such as drug or alcohol consumption and smoking could lead to accidents by retarding a person's judgment, reducing flexibility and damaging his reflex system.

SOURCES OF INFORMATION FOR UNDERWRITING

The assessment and evaluation of the risk is based on the information collected by the underwriter. Pertinent information needed for underwriting is obtained from the following sources:

i. Proposal Form
ii. Medical Report
iii. Attending Physicians Statement
iv. Agent's/ Salesman's Report
v. Questionnaires and Interview
vi. Underwriting Manuals
vii. Inspection Report

SECTION II HEALTH INSURANCE

Dear learners, in the first section of this chapter we have seen life insurance and its economic justification, Types of life insurance and other details, know in this section we will deal the details of health insurance.

The sections specifically deals with policies providing reimbursement for medical expenses and policies replacing lost income that people cannot earn when they are disabled by accident or illness traditionally called disability insurance

A serious illness or injury can result in great financial and economic insecurity, two major problems are encountered if the sickness or disability if prolonged and severe. The disabled person loses his or her work earnings, and medical expanse must also be paid. Dear learners, disability resulting from illness or accident may be even greater peril to a family than premature death. This is because disability not only cuts off income but also may create large medical expenses. A six month or longer period of disability in fact, is a more likely cause of loss to people on their working years that are premature death. Insurance can transfer the burden of the costs of illness or accident so that insured don't face financial mainly because of poor health.

Health insurance provides a wide variety of specific individual health insurance coverage's. Among the varieties the following are selected to be death in this section

6.2.1. Medical expense insurance
6.2.2. Disability income insurance

6.2.1. Medical Expense Insurance

As we have explained above medical expanse provides for the payment of the cost of medical care that results from sickness and injury. Its benefits help to meet the expanses of physical hospital nursing, surgical expanse, and related services, as well as medications and supplies. The benefits may be in the form of reimbursement of actual expanses up to specified limit of insurance, cash payment or the direct provision of services. Medical expanses insurance is paid under the following specific coverage's

1. **Hospital insurance**
2. **Surgical insurance**
3. **Physicals expanse insurance**
4. **Major medical insurance.**

6.2.1.1 Hospital Insurance

Hospital insurance contract is one of the basic health insurance policies. Hospital insurance pays for medical expenses incurred while the insured is in a hospital. A typical hospital insurance policy provides two basic benefits.

Daily hospital benefit
A benefit for miscellaneous expanse

A daily benefit is paid for room and board changes while hospitalized the plan typically pay for a stated number of days. For example, the insured may be allowed to select a daily benefit of Br.175 or Br. 200 for 90,120 or 360 days. There are three basic approaches for paying the daily room and board benefit.

- ✓ ***Indemnity approach:*** The plan pays the actual coasts of the daily services up to some maximum limit.
- ✓ ***Valued approach:*** A fixed amount is paid for each day of hospitalization regardless of the actual cost of the services provided.
- ✓ ***Service approach:*** Service benefits rather than cash benefits are provided to the insured. For example, the full cost of hospital services in a semiprivate room may be paid for each day of hospitalization up to some maximum number of days.

A hospital policy also provides a lump-sum benefit for miscellaneous expenses, such as laboratory charges, X-ray drugs, and the use of the operating room. Depending on the plan, part or all of the miscellaneous expenses are paid up to some maximum limit.
There are several methods for determining the amount paid for miscellaneous expenses.
Choice of maximum dollar amounts: Many plans offer the insured a choice of maximum dollar amounts, such as Br.2000 or Br.3000.
Multiple of daily room benefit: Another approach is to pay a benefit for miscellaneous expenses that is a multiple of the daily room benefit, such as 10,15, or 20 times the daily benefit.
Percentage participation clause: Another method is to use a percentage participation clause (coinsurance). Such as payment of 80 percent of the miscellaneous expenses up to some maximum limit.
With respect to maternity benefits, individual hospital policies generally cover only the complications of pregnancy, and not eh normal costs of childbirth. A complication of pregnancy is a medical condition that is distinct form a normal pregnancy, but which is caused by the pregnancy.

6.2.1.2. Surgical Expense Insurance

Individual hospital-surgical plans also insurer coverage for surgical expanses, such as physicians' fees associated with covered surgeries surgical expense insurance can be added to a hospital policy. There are three basic approaches for compensating physicians under surgical expense policy.
1. **Surgical schedule**: The benefits paid can be determined by a schedule of surgical operations. A surgical schedule lists the different surgical procedures and the maximum amount paid for each operation. The insured ahs a cho9ice of surgical schedules, such as a Br.1200 or Br.1500 schedule. For example, the policy may pay Br.2000 for a gallbladder operation but only Br.200 for a tonsillectomy.

2. **Relative value schedule:** A relative value schedule can also be used to determine the maximum amounts paid for surgical operations. Instead of a stated dollar amount for each surgical procedure, a relative value schedule assigns a number of units or points for each operation based on the complexity of the operation. The actual dollar amount paid for each operation is determined by multiplying the number of units by the value of the unit (stated in the policy). The advantage of this approach is that it determines the amounts paid based on the complexity and degree of difficulty of each operation. For example, a complex eye operation may have a value of 100, wile a simple tonsil operation may have a value of 15 thus, if the unit value is Br.10, the policy pays Br.1000 for the eye operation but only Br.150 for the tonsil operation.
Another advantage of a relative value schedule is that it can be conveniently adapted to differences in the cost of living and in surgeons' fees in different geographical areas.

3. **Reasonable and customary charges**: Another method for compensating physicians is on the basis of their reasonable and customary charges. Reasonable and customary charges (also referred to as usual, reasonable, and customary charges) are charges that fall within a range of fees charged by physicians for a similar medical procedure in the same geographical area. If the actual charge falls within the range o f allowable fees, insurers usually pay the charge in full, subject to any deductible or coinsurance requirements. There is no uniform method for determining reasonable and customary charges and insurers differ in the methodology used.

Surgical expanse plan can be reimbursed on the basis of schedule approach reasonable and customary. Under Schedule charges approach; common surgical procedures are listed in a schedule with a maximum dollar amount paid for each Procedure. However, schedule procedure with listed maximum fees becomes obsolete quickly because of the increase in surgical fees over time,
Under reasonable and customary charges approach, surgeons are reimbursed based on their normal fees as long as the fee is reasonable and customary.

6.2.1.3. Physician's Expanse Insurance

Physician's expanse insurance pays a benefit for non-surgical care provided by a physician in the hospital, the patient's home, or in the doctor's office. Some plans also pay for diagnostic X-ray and laboratory expenses performed outside the hospital. It also pays for visits to a doctor's office or for a doctor house calls or hospital visits, usually with a limit per visit. Example Br 25 to Birr 100 and a maximum number of calls per sickness or injury.

6.2.1.4 Major Medical Insurance

Insured's often desire broader and more comprehensive protection than that is provided by the basic medical expanse coverage's just discussed. An alternative approach of obtaining the desired protection is the purchase of major medical policy. This insurance is also designed to pay a large proportion of the covered expanses of a catastrophic illness or injury.

6.2.2. Disability-Income Insurance

Disability-income insurance is another important form of individual health insurance. A serious disability can result in a substantial loss of works earnings. Unless you have replacement income from disability-income insurance or income from other sources, you may be financially insecure. Many workers seldom think about the financial consequences of a long-term disability. However, the probability of becoming disabled before age 65 is much higher than is commonly believed, especially at the younger ages.

The financial loss to the family from long-term total and permanent disability can be substantially greater than the financial loss that results from premature death at the same age. In the case of premature death, the family loses its share of the deceased family head's future earnings, and funeral expenses are also incurred. However, in the case of long-term total and permanent disability, earned income is lost; medical bills are being incurred; savings are reduced or depleted; employee benefits may be lost; and additional expenses are incurred, such as getting someone to care for the disabled person. It is clear that disability-income insurance should be a high priority in a personal risk management program.

Generally this insurance provides income payments when the insured is unable to work because of sickness or injury. An individual policy pays monthly income benefits to an insured who becomes totally disabled from a sickness or accident. The amount of disability insurance you can buy is related to your earnings.' To prevent over insurance and to reduce moral hazard and malingering, most insurers limit the amount of disability income sold to no more than 60 to 80 percent of your gross earnings.

Meaning of Total Disability

The most important policy provision in a disability income policy is the meaning of "total disability." Most policies require the worker to be totally disabled to receive benefits.

Definitions of Total Disability

There are several definitions of total disability. The most important include the following

- ✓ Inability to perform all duties of the insured sown occupation
- ✓ Inability to perform the duties of any Occupations for which the insured is reasonably fitted by education, training, and experience
- ✓ Inability to perform the duties of any gainful occupation Loss of income test

The, first, most liberal definition defines total disability in terms of occupation. Total disability is the complete inability of the insured to perform each and every duty of his / her occupation. An example would be a surgeon whose hands blown off in a hunting accident. The surgeon could no longer perform surgery and would be totally disabled under this definition.

The second definition is more restrictive intricate, total disability is the complete inability to perform the duties of any occupation for which the insured is reasonably fitted by education, training, and experience. Thus, if the surgeon who lost a hand in a hunting accident could get a job as a professor in a medical school or as a research scientist, he or she would not be considered disabled because these occupations are consistent with the surgeon's training and experience.

The third definition is the most restrictive and is commonly used for hazardous occupations where disability is likely to occur. Total disability is depended as the inability to perform the duties a gainful occupation. The courts generally have interprets this definition to mean that the person is totally disabled if he or she cannot work in any gainful occupation reasonably fitted by education, training, and experience.
Finally, some insurers use a loss-of-income test to determine if the insured is disabled. You are considered disabled if your income is reduced as a result of a sickness or accident. A disability-income policy containing this definition typically pays a percentage of the maximum monthly benefit equal to the percentage of earned income that is lost. For example, assume that Mesay earns birr 1000 monthly and has disability-income contract with a maximum monthly' benefit of Birr 800. If Mesay work earnings are reduced to birr 500 monthly because of disability (50persent) the policy pays birr 400 monthly (50persent of birr 800).

End !