

The Waiver of Premium for Disability

Of all the events that could undo a world-class saving program, an extended disability is arguably one of the hardest to overcome.¹ Dr. Solomon Huebner, a mid-20th-century economics professor known widely as the “father of insurance education,” referred to disability as a “living death,” calling it an event that was “the worst economically.”

Here’s the essential financial challenge of an extended disability: Even a maximized disability income insurance plan cannot fully replace one’s income, because to do so creates adverse incentives to not return to work. At the same time, an extended disability will almost inevitably add new medical and rehabilitation expenses to the monthly budget. When income decreases and expenses increase, saving is typically the first casualty. And without saving, it is difficult, if not impossible, to anticipate a prosperous future.

But there is a life insurance rider that, when properly positioned in your financial strategy, can help keep your savings on track in the event of an extended disability. Commonly known as a waiver of premium for disability (WPD) rider, this provision states the insurance company will waive all premiums if the insured person experiences an extended period of disability (typically six months or longer), while keeping the policy in-force.²

The terms of these riders, and their protection, will vary depending on the policy. For many whole life policies, a comprehensive waiver of premium obligates the insurance company to pay the policy’s premium that not only preserves the insurance benefit, but also continue the build-up of cash values³ — for as long as the insured is disabled, even the rest of their life — depending on what age the disability occurred and to what age it continues.



With this rider, an insured who is disabled continues to increase cash values, receive dividends, and accumulate paid-up additions just as if they were paying the premiums themselves.⁴ And unlike standard disability income insurance, the accumulation benefits from a life insurance waiver of premium rider are not tied to earnings. Consequently, the amount of disability protection for future savings may be as large as one’s budget and human life value will allow.

Your ability to earn an income is your greatest financial asset; the intention to save between 15 and 20 percent of that income can be one of the most important financial actions. Considering these two truths, you may want to consider how much of your lifetime savings can be protected by a waiver of premium rider on a whole life insurance policy. A modest rider premium can help provide great assurance, because should you ever encounter the “worst economically,” there can still be something set aside for the future.

¹ Guardian considers someone who saves at least 15 to 20% of their income to be a World-Class Saver.

² The Disability Income and Waiver of Policy Premium Benefit Rider (form ICC21 DIR, DIR (12-2021), or state equivalent) is underwritten and issued by The Guardian Life Insurance Company of America (Guardian®), New York, NY. There will be an additional cost or premium associated with this Rider. Provisions, features, and availability may vary by state. Exclusions and limitations may apply.

³ Some whole life policies do not have cash values in the first two years of the policy and don’t pay a dividend until the policy’s third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

⁴ Paid-up Additions (PUA) are purchases of additional insurance (death benefit) that have a cash value. These purchases are made with dividends and/or a rider that allows the policyholder to pay an additional premium over and above the base premium. This creates the growth of death benefit and cash values in a participating whole life policy. Adding large amounts of paid-up additions may create a Modified Endowment Contract (MEC). A MEC is a type of life insurance contract that is subject to last-in-first-out (LIFO) ordinary income tax treatment, similar to distributions from an annuity. The distribution may also be subject to a 10% federal tax penalty on the gain portion of the policy if the owner is under age 59½. The death benefit is generally income tax free.