

WHY DISABILITY INSURANCE IS AN IMPORTANT ASPECT OF YOUR FINANCIAL PLAN

Each year, approximately one in eight people becomes disabled. Unfortunately, many of them have to worry not only about their health, but also about replacing their salary. Disability insurance can make a difficult time financially manageable. Most people are provided disability insurance through their employers, but the self-employed, the professional, and the new business owner are challenged with finding adequate disability coverage in the type and amounts they need.



Disability income insurance pays benefits that generally replace 50 percent to 70 percent of your earned income when you can't work due to illness or an accident. While the government provides a base coverage to all workers, it's the most difficult to qualify for. And while your employer may provide you with comprehensive short- and long-term coverage, even that may not be sufficient for your needs.

So, who needs disability insurance? Individuals whose salary represents their family's sole (or primary) source of income are ideal candidates, as are individuals who could not afford to maintain their lifestyle if their occupational income were interrupted. Admittedly, this definition includes most people, but there are many who should not consider disability insurance: the retired, certain government workers who are explicitly covered under state or federal law, part-time workers who are not relying on their income as a principle source of wealth, and those who are wealthy enough that their investment income is sufficient to live off of.

The next question is somewhat more difficult: how much insurance do you need, and what sort of policy? Determining how much insurance you need requires that we conduct a thorough analysis of your cash flow, other income sources, and future income needs. As we evaluate what sort of policy best suits your situation, we will focus on the definition of disabled that each policy specifies.

In order to be considered disabled, you must be unable to work and earn an income. But, depending on the policy, this may require that you be unable to work in another occupation. There are four distinct definitions of disability and four types of coverage.

- **Pure own occupation coverage** means that you are unable to perform the usual and customary duties of your own occupation. This is the most liberal definition of disability because, even if you work in another occupation, you will still receive the benefits of the policy. Due to the relative ease with which you can qualify for benefits, insurance companies only issue coverage to the best candidates with the least risk—and charge the most for this type of coverage.
- **Any occupation coverage** means that you are unable to perform the duties of any occupation. This is the most restrictive definition because, in order to receive benefits, you have to be unable to work in any gainful occupation, not just your own. Often, the wording is modified to take into consideration your earnings level, education, training, and experience.
- **Split definition coverage** combines both definitions of disability to provide pure own occupation coverage for a limited time before converting to an any occupation policy after that period expires.

- **Presumptive disability coverage** protects you in the event of a catastrophic ailment that is utterly disabling. Benefits will be paid even if you are able to earn a living. Catastrophic ailments include the loss of sight in both eyes, hearing in both ears, ability to speak, use of both hands or feet, and/or use of one hand and one foot.

When purchasing a disability income insurance policy, it is critical to ensure that the policy cannot be changed or canceled without your permission. In addition, the benefits you receive from disability insurance may or may not be taxable, depending on whether the premiums were paid with after-tax or pretax dollars and the types of benefits you are receiving.

Disability insurance is difficult to purchase. Your job responsibilities, the time you've spent in your present occupation, your earnings history, and your health are considered. Conditions such as prior back strains, depression episodes, and other health history can restrict your benefits and you may not be able to qualify for any coverage, at any price. Working with an experienced financial professional can help you prepare your financial situation in the event you cannot buy disability coverage. Disability insurance is an integral part of risk management and a product that we always consider when developing a financial plan. We want to make sure that you know your options and that you feel safe, no matter what tomorrow brings.