



One Resource Group
13548 Zubrick Road
Roanoke, IN 46783
888-467-6755
Life_Sales@ORGCorp.com



Determining the Need for Disability Income Insurance: How Much Is Enough?





Determining the Need for Disability Income Insurance: How Much Is Enough?

What is it?

Most people believe that they are adequately insured against disability because they think they have coverage through their employer or through the government. That's probably why 80 percent of Americans don't own private disability income insurance coverage. However, assuming that you're covered against disability through your employer or through the government is a mistake. Although 50 percent of employers cover short-term disability, only 40 percent cover long-term disability. Government programs, such as Social Security and workers' compensation, may pay you benefits, but you qualify for benefits only if you meet a strict definition of disability.

Example(s): *Chris worked for a major electronics company and was severely injured in a motorcycle accident on his way to work. He assumed that he was covered for disability under workers' compensation, but his employer told him that because his accident wasn't directly work-related, he wouldn't be eligible for workers' compensation disability benefits. His employer did tell him, though, that he was covered for short-term disability under the employer's group plan, and he received those benefits for a year. At the end of that year, however, his benefits expired. Unfortunately, Chris still was not able to work and was left without income to pay his mortgage or his bills.*

Evaluate your risk

Statistically, your risk of being disabled is great. It is estimated that every year, one in eight people become disabled. If you are age 45 right now, you have a 50 percent chance of suffering a disability that lasts more than 90 days sometime before you turn 65. Of course, statistics can be misleading. You might never become disabled, especially if you're healthy and work in a low-risk occupation. But then again, how many people do you know who have had cancer or suffered a heart attack? How many of your friends and family members have been in car accidents or have had back problems? Illness, as well as injury, is disabling. If you were hurt or got sick, how would you support yourself or your family?

Determine your income and expenses

When you purchase disability insurance, the insurance company will determine the maximum amount of disability insurance you can buy by looking at your present income. It may also ask you to submit your financial records for the last three years to document your income. It's hard to know exactly how much income you'll need after you suffer a disability, but you'll probably need more than you think. Most of your fixed expenses won't change, and you may save money on work-related expenses such as clothing, automobile costs, and lunches out. However, you'll also spend more on other items, such as health-care expenses. Taking an honest look at your current and post-disability income needs is an important step in planning for disability.

Determine what disability benefits you may receive if you become disabled

Through government programs and group insurance, you may already be covered by some disability insurance. However, relying on these types of insurance can be dangerous; government plans often pay benefits under strict definitions of disability, and group insurance may not be comprehensive, offering only short-term or long-term benefits. Both types of insurance may pay you only a small portion of your current salary. Review the forms of coverage available to you, take a look at the specifics of any group disability policies you already are covered by, then decide whether you need more disability coverage.

Example(s): *After reviewing his disability insurance coverage, Ichabod decided to buy a private disability income insurance policy. Although he was covered for short-term disability under a plan sponsored by his employer, he had no way of supporting himself if he was disabled for more than a year. Even if he qualified for Social Security disability benefits, he knew that they would only replace a portion of his average lifetime earnings, not his current salary. To protect himself against a lifetime of disability, he bought a policy that guaranteed to pay Ichabod benefits up to age 65. Good thing, too. A few months later, after seeing a headless horseman, Ichabod filed a claim for benefits because he was unable to work due to a psychiatric condition.*

Social Security disability benefits



Although you shouldn't overlook the disability benefits you may be eligible to receive from Social Security, you shouldn't rely on them either. Social Security denies more than 50 percent of the claims submitted, in part due to a strict definition of disability. If you are deemed eligible for benefits, you still won't begin receiving them until at least six months after you become disabled because of the waiting period that applies. In addition, your benefit may replace only a fraction of your pre-disability income.

Example(s): *Vinnie was hurt in a skydiving accident and applied for Social Security disability benefits. His claim was approved, but he didn't begin receiving benefits until six months after his accident. Although he was earning \$3,000 a month at the time of his accident, his Social Security benefit was only \$1,100 a month because it was based on his average lifetime earnings, not on his current earnings.*

Workers' compensation insurance

If you are injured at work or get sick from job-related causes, you will likely receive some disability benefits from workers' compensation insurance. How much you will receive depends on the state that you live in. When reviewing your disability insurance needs, remember that workers' compensation only pays benefits if your disability is work-related, so it offers only limited disability protection. Some states also cover only the diseases or disabilities outlined in the state's workers' compensation laws.

Example(s): *Corrine fell down a flight of stairs at home. Her back injury kept her bed-ridden for months. She thought she had disability protection through her job because she was covered by workers' compensation. However, since her injury occurred at home, workers' compensation did not pay her disability claim.*

Pension benefits

Some government and private pension plans pay disability benefits. Often these plans pay benefits based on total, permanent disability, or your retirement benefit may be reduced in proportion to what you already received for a disability. In addition, remember that these benefits are usually integrated with Social Security or workers' compensation, so your benefit may be less than you expect if you also receive disability income from other government sources.

Benefits from group disability insurance

If you work, you may have purchased (or your employer may have supplied) disability insurance. However, don't assume that because you own a group policy your income will be protected if you become disabled. Often, benefits from a group plan are short-term and may be restricted to specific types of disabilities. If you purchased group insurance through a trade association, you may have been able to add on riders or other options that make your plan more flexible. At this point, you should carefully review any group disability coverage you may already own and decide whether it offers you adequate protection. How much benefit will you receive? When will benefits begin? How long will they last? How do you qualify for benefits?

Anticipate additional expenses you might incur if you were disabled

Medical expenses

Unfortunately, when you are disabled, your monthly expenses often increase, even though you expect them to decrease. You can expect your medical expenses to rise when you suffer a disability. Assuming you have health insurance, you'll probably have to satisfy a deductible as well as an out-of-pocket maximum, which may increase your expenses immediately after your disability occurs. In addition, if you suffer a long-term disability and are forced to quit your job, your group medical insurance coverage may be terminated. Of course, you can elect to continue coverage through Consolidated Omnibus Budget Reconciliation Act (COBRA) and conversion coverage may also be available, but you'll have to pay the premium yourself. This can add hundreds of dollars to your budget. You may also need to buy medical equipment or supplies or even renovate your house to accommodate your disability.

Living expenses

What if you can't drive, clean your apartment or house, mow the lawn, or cook for yourself after you become disabled? Will you need to hire household help to take care of day-to-day activities that you can no longer do? Hiring help can be a substantial, unexpected expense you incur when you become disabled.

Example(s): *Sam developed a heart condition and was no longer able to do yard work. For a few months, his friends and family*



helped him out, mowing his lawn, raking leaves, and shoveling snow. But soon, they tired of helping him, and Sam had to hire a lawn maintenance service that charged him \$150 a month to do the work.

Child-care expenses

If you have young children and you and your spouse both work, you know how expensive child care is. Could you afford to pay for it if you or your spouse was disabled and no longer employed? The disabled partner may be able to care for the children at home but not if his or her disability is too limiting. If, on the other hand, you currently stay at home with your children, you may be forced to return to work if your spouse is disabled, and you may have to contend with an unforeseen additional expense.

Example(s): Nancy stayed at home with her two sons, ages one and three. When her husband developed a lung disorder and couldn't work, Nancy decided to resume her teaching career. Although she was able to earn as much monthly income as her husband had been bringing home at the time he was disabled (\$3,600), she had to pay \$1,200 for child care. As a result, their monthly income was reduced by 33 percent.

Calculate your disability income insurance needs

Once you've collected information, you can estimate how much income you will need to replace if you become disabled. To estimate your post-disability income needs, use the Disability Income Needs Worksheet (see example below). Once you complete the document, talk to your financial advisor or insurance professional about purchasing disability insurance. The following example illustrates how to fill out the Disability Income Needs Worksheet:

Example(s): Ozzie and his wife, Martha, are considering buying private disability insurance. Ozzie earns \$2,800 a month (net income), whereas Martha earns \$3,600 a month (net income). She also receives \$300 a month in child support from her former husband. They add up their monthly expenses and include in that figure payments they make for housing, utilities, groceries, clothing, child care, insurance, autos, credit cards, and loans. Their monthly expenses total \$4,800. They contribute a total of \$400 a month to their 401(k) plans and save \$100 a month toward their children's college education. They also put \$500 a month into a money market account. They filled out their Disability Income Needs Worksheet this way:

Disability Income Needs Worksheet

Current Income

Ozzie's current monthly net income	\$2,800
Martha's current monthly net income	3,600
Other miscellaneous income	300

Current Expenses

Their current living expenses	4,800
Their current contributions to investments	1,000

Analysis

Total Current Income	6,700
Total Current Expenses and Investments	5,800
Excess Income	900

Income Available After Disability

Ozzie's monthly net income from salary	2,800
Martha's monthly net income from salary if she was disabled	0
Monthly income expected from an association disability insurance policy	1,000
Other income	300

Anticipated Expenses After Disability



Ozzie and Martha's current living expenses	4,800
Anticipated additional expenses due to disability	300
Amount they want to continue investing	1,000
Analysis	
Total Anticipated Expenses After Disability	6,100
Total Income Available After Disability	4,100
Income Deficit or Excess	\$2,000

Example(s): *Ozzie and Martha considered what they could do to eliminate the income deficit they would face if Martha became disabled. They decided that they could stop saving for their retirement and their children's education and withdraw money from their savings account every month. But then, Martha had second thoughts. They could afford to do this for a few months, but what if she was permanently disabled? Unless Ozzie got a substantial raise or they found a way to dramatically reduce their expenses, eventually their savings would run out. So, after evaluating their income needs, Ozzie and Martha decided to plan for disability by purchasing a disability income insurance policy that would protect Martha's income and allow them to continue saving money.*

IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.



One Resource Group
13548 Zubrick Road
Roanoke, IN 46783
888-467-6755
Life_Sales@ORGCorp.com

