



Determining the Need for Disability Income Insurance

Many individuals assume they are adequately protected against disability through employer-sponsored benefits or government programs. This assumption often leads to a significant coverage gap. While some employers offer disability benefits, coverage is frequently limited in duration, amount, or definition of disability. Government programs provide an important safety net, but they apply strict eligibility standards and generally replace only a portion of income.

Disability income insurance is designed to help replace lost earnings if illness or injury prevents you from working. Because income is typically the foundation of financial security, protecting it is a critical component of a well-rounded financial plan.

Understanding the Risk of Disability

The risk of experiencing a disabling illness or injury during your working years is higher than many people expect. Disabilities are often the result of illnesses—such as cancer, heart disease, or chronic conditions—rather than accidents alone.

While statistics vary, studies consistently show that a meaningful percentage of working adults will experience a disability lasting several months or longer before retirement. Even individuals in good health or low-risk occupations are not immune. The key question is not whether a disability will occur, but whether you are financially prepared if it does.

If your income were interrupted for an extended period, how would you: - Pay ongoing household expenses? - Meet debt obligations? - Continue supporting your family? - Protect long-term savings and retirement goals?

Evaluating Your Income and Expenses

When applying for disability insurance, insurers typically assess your earned income to determine the maximum benefit available. Documentation such as tax returns or financial statements may be required, especially for self-employed individuals.

Estimating post-disability income needs requires careful consideration. While some work-related expenses may decrease, many core expenses remain unchanged, and some costs may increase.

Expenses That Often Continue to Increase

- Housing and utility costs
- Insurance premiums
- Medical expenses, deductibles, and out-of-pocket costs
- Household assistance or caregiving services

A realistic review of both current and anticipated expenses is essential when determining appropriate coverage levels.

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Existing Sources of Disability Income

Before purchasing additional coverage, it is important to understand what benefits may already be available.

Employer-Sponsored Disability Income

Many employers offer short-term disability (STD), long-term disability (LTD), or both. These plans often: - Replace approximately 50–60% of income - Cap monthly benefits - Use restrictive definitions of disability - End coverage if employment terminates

Group coverage can be valuable, but it is rarely sufficient on its own for long-term income protection.

Government Disability Programs

Social Security Disability Insurance (SSDI)

SSDI provides benefits to individuals who meet strict federal definitions of disability and have sufficient work credits. Approval rates are limited, and benefits are based on average lifetime earnings rather than current income. In addition, a mandatory waiting period generally applies before benefits begin.

SSDI should be viewed as supplemental support rather than a primary income replacement strategy.

Workers' Compensation

Workers' compensation may provide benefits for disabilities that are directly related to employment. Coverage varies by state and applies only to work-related injuries or illnesses, making it a limited source of protection for most disabilities.

Pension or Retirement Disability Benefits

Some pension or retirement plans offer disability benefits, often integrated with other income sources. These benefits may be reduced or offset by Social Security or workers' compensation payments.

Anticipating Additional Expenses During Disability

A disability can introduce unexpected financial demands.

Medical and Health-Related Costs

Even with health insurance, disabilities often lead to increased expenses, including: - Deductibles and coinsurance - Prescription medications - Medical equipment or therapy - Higher premiums if employer coverage ends

If employment ends, continuing health insurance through COBRA or an individual policy may significantly increase monthly costs.

Household and Lifestyle Expenses

Disabilities may limit the ability to perform everyday tasks, resulting in added expenses for: - Home maintenance and yard care - Transportation services - Personal or household assistance

Childcare and Family Support

For families with children, a disability may increase childcare costs or force changes in employment arrangements, further affecting household income.

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Calculating Your Disability Income Insurance Need

Once income, expenses, and existing benefits are identified, you can estimate the amount of income that would need to be replaced during a disability.

A common approach includes: 1. Calculating total monthly household expenses 2. Identifying income sources that would continue during a disability 3. Estimating additional disability-related costs 4. Determining the resulting income shortfall

This analysis helps identify the level of disability income insurance needed to maintain financial stability without depleting savings or retirement assets.

Individual Disability Income Insurance

Private disability income insurance can be tailored to complement employer and government benefits. Individually owned policies often provide: - More favorable definitions of disability - Greater benefit flexibility - Coverage portability if employment changes - Predictable, contractually guaranteed benefits

Premiums are typically based on age, occupation, income, health, and policy features.

Final Considerations

Disability income insurance is a foundational element of risk management and financial planning. Without adequate coverage, a prolonged disability can disrupt income, deplete savings, and derail long-term goals.

Determining how much disability insurance is enough requires a thoughtful evaluation of income, expenses, existing benefits, and personal priorities. Working with a knowledgeable insurance or financial professional can help ensure coverage is properly structured and aligned with both personal and professional objectives.

IMPORTANT DISCLOSURES

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