



## Disability Insurance Basics

Disability insurance is designed to replace a portion of your income if you are unable to work due to illness or injury. Because your ability to earn an income is often your most valuable financial asset, disability insurance plays a critical role in a comprehensive financial protection strategy.

Most disability income policies pay a monthly benefit that replaces a percentage of your earned income while you are unable to work, helping you meet ongoing financial obligations during a period of reduced or lost earnings.

### Why Disability Insurance Matters

The likelihood of experiencing a disabling illness or injury is higher than many people expect. According to the Social Security Administration, more than one in four 20-year-olds will experience a disability lasting at least one year before reaching retirement age. Disabilities are not limited to workplace accidents—many occur due to illnesses or injuries outside of work.

Consider the financial impact if you were unable to work for months or years: - Fixed expenses such as housing, utilities, and debt payments generally continue - Family obligations may increase rather than decrease - Savings and retirement plans may be disrupted

Even households with dual incomes may find it difficult to maintain their standard of living if one income is lost. Disability insurance helps provide financial stability during these uncertain periods.

### Business Owners and Professionals

Disability insurance is especially important for business owners and key professionals. Coverage options may include: - **Individual disability income insurance** to protect personal earnings - **Key person disability insurance** to help offset business disruption caused by the disability of a critical employee - **Disability buy-sell insurance** to facilitate the purchase of a disabled partner's business interest

### Key Features of Disability Insurance

#### *Elimination (Waiting) Period*

The elimination period is the length of time between the onset of a disability and when benefits begin. Common elimination periods range from 30 to 180 days, with 90 days being typical for long-term coverage. Short-term disability plans often have much shorter waiting periods.



### *Benefit Period*

The benefit period defines how long benefits are payable once a claim is approved. Common options include: - 2-year or 5-year benefit periods - Benefits payable to age 65 or full retirement age

Policies with longer benefit periods generally carry higher premiums.

### *Partial and Residual Benefits*

Many modern disability policies include riders that provide partial or residual benefits if you are able to return to work on a limited or reduced-income basis.

## **Sources of Disability Insurance**

Disability insurance generally falls into two categories:

### *Private Disability Insurance*

Private coverage is purchased through insurance carriers and may be structured as: - Individual disability income policies - Employer-sponsored group policies - Association-sponsored group policies - Riders attached to life insurance policies

Individually owned policies typically offer the most comprehensive and customizable coverage, while group plans tend to be more affordable but less flexible.

### *Government Disability Programs*

Government programs are intended to provide a basic safety net and include: - Workers' compensation - Social Security Disability Insurance (SSDI) - State-mandated disability programs (available in select states)

While these programs can provide important support, they often offer limited benefits and strict eligibility requirements. As a result, they are generally insufficient as a sole source of income replacement.

## **Determining How Much Disability Insurance You Need**

The appropriate amount of disability insurance depends on: - Your monthly income and fixed expenses - Existing disability benefits through your employer - Personal savings and emergency funds - Premium affordability

### *Estimating Income Needs*

Many expenses remain unchanged during a disability, and some may increase, including: - Medical costs and insurance premiums - Household and personal assistance services - Childcare or dependent care expenses

Carefully reviewing your household budget can help determine the level of income replacement needed.

### *Employer-Provided Coverage*

Employer-sponsored plans may include short-term disability, long-term disability, or both. These plans typically replace up to 50–60% of income and may cap benefits. If employer coverage is limited, supplemental individual coverage may be appropriate.

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## How Much Coverage Can You Purchase?

Insurance companies set maximum benefit amounts based on income, age, occupation, health, and existing coverage. Most insurers allow coverage that replaces approximately 50–70% of gross earned income.

### *Tax Considerations*

- Premiums paid with after-tax dollars generally result in tax-free benefits
- Premiums paid with pre-tax dollars may result in taxable benefits

Tax treatment should be reviewed with a qualified tax advisor.

## Social Security Disability Insurance (SSDI)

SSDI provides benefits to individuals who meet strict federal definitions of disability and have sufficient work credits. To qualify, an impairment must be expected to last at least 12 months or result in death and must prevent substantial gainful activity.

### *Eligibility Requirements*

- Meeting SSA's medical definition of disability
- Sufficient work credits based on age
- Earnings below established thresholds

### *Family Benefits*

Certain family members may also qualify for benefits based on the disabled worker's earnings record, subject to program limits.

### *Application Process*

Claims may be filed online, by phone, or through a local Social Security office. Because approval can take time and denials are common, applicants should apply as soon as a long-term disability appears likely.

## Comparing Disability Policy Types

### *Individual Disability Income Policies*

**Advantages:** - Most comprehensive and customizable coverage - Generally portable and non-cancelable - Benefits often tax-free

**Considerations:** - Higher premiums - Subject to medical underwriting

### *Employer-Sponsored Group Policies*

**Advantages:** - Lower cost - Limited or no underwriting

**Considerations:** - Coverage often ends with employment - Less flexible definitions of disability - Benefits may be taxable

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### *Association Group Policies*

**Advantages:** - Competitive pricing - Simplified underwriting in some cases

**Considerations:** - Limited customization - Premiums and availability may change

## **Final Conclusions**

Disability insurance is a foundational component of financial planning. Selecting the appropriate type and amount of coverage requires careful evaluation of income, expenses, existing benefits, and long-term goals. A licensed insurance professional can help assess options and design coverage aligned with individual and business needs.

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## **IMPORTANT DISCLOSURES**

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