



Avoiding Total Disability

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Individuals will buy homeowner's insurance to protect their residence. They will purchase life insurance to insure their families and businesses. They will insure their cars, boats, jewelry or even golf clubs (understandably). Yet many wage earners & business owners forego the insurance that may be just as essential: Disability insurance. In this edition of *Fiscal Fitness*, we will discuss the features of disability insurance and hopefully clarify some misconception about the product.

The fundamental benefit of disability insurance is to provide income replacement if the insured becomes temporarily or permanently disabled. Usually, a disability policy will provide a benefit equal to a percentage of the insured current expected income (usually between 60%-80%). Weighing cost as a factor, you should try to secure the highest coverage for which you can obtain underwriting. Typical policies cover the insured up to normal retirement age, say age 65. Also consider attaching a cost of living adjustment to your policy. It's usually worth the extra cost.

Secondly, consider the "elimination period." The elimination period, or the time delay until payments start, can range from 30 to 180 days. The longer the waiting period, the cheaper the premiums. Think of it like a deductible. If the insured feels he or she can afford to wait a longer period of time for benefits, a meaningful amount on premium savings can be realized. If you can afford it, we suggest you opt for a 13-week minimum elimination period.

Thirdly, look at the coverage itself. Would you want a policy to cover a disability that restricts the functioning of his/her current occupation only? These are called "Own-Occ" policies. A surgeon, for example, might consider this coverage. If a hand were injured, he/she would receive full benefits even though they could [theoretically] earn income from teaching or consulting. The second type of disability policy is the income or "Any Occ" policy. This policy provides benefit if the insured is unable to perform any type of income producing job. As described, this policy is more general in scope and noticeably less expensive than the Own-Occ policy.

Finally, we want to comment on the taxability of disability benefits. Employees, if they are offered coverage, have some disability coverage as a tax-free fringe benefit. Since, with most group plans, the company pays the premiums, any disability benefits received are taxable to the insured. If the individual pays for individual policies, there is no deduction and all benefits received are tax-free. If your company pays your disability premium, we suggest that you either repay the company or advise the company to add the premiums paid to your taxable wages to ensure that your benefits are tax-free. Since you will only be receiving a percentage of your current salary, foregoing short-term gain to avoid the long-term pain of being taxed is a fiscally fit decision.

Whether you should carry a disability policy, ask yourself this: Can you afford to lose your entire earned income stream without compromising your family's living standard? If yes, you have no need for disability insurance. If no, check into coverage today and pay close attention to the different features. Also remember you must pass underwriting which may mean a physical exam. The younger you apply for coverage, the cheaper your insurance and the better your chances of being insurable.

☛ Accidents and physical disability happen. Financial disability is avoidable \$.