

Make Sure You Have Disability Protection

Most people have life and health insurance to protect them in the event of illness or accident. That means that their medical expenses are covered and their families are protected. But what happens in the event of a serious illness or accident that results in long-term disability? Who would pay for everyday living expenses? How would a family make do?

Many working people have some disability coverage through their employers, but it is often not enough. Many employer-paid policies only cover workplace-related injuries—so there would be no coverage if the disability occurred as a result of a car accident or a debilitating illness.

For those aged 35 to 65, the risk of a disability lasting more than 90 days is one in four—six times the risk of dying.* Becoming disabled can have disastrous financial consequences unless you have long-term disability insurance that provides you with a replacement income.

Many working people have some disability coverage through their employers, but it is often not enough. Many employer-paid policies only cover workplace-related injuries—so there would be no coverage if the disability occurred as a result of a car accident or a debilitating illness. Further, these policies may have time limits—typically six months. A permanent disability would leave the individual unprotected. For those without any coverage—business owners, commission-based workers, the self-employed—individual long-term disability policies are essential for protecting income. If you work for a living, disability insurance is as important as health or life insurance.

Types of Disability Coverage

There are several variables that will impact how much you pay for disability insurance and what you will receive in return. Most policies define disability as the inability to perform the duties of your current occupation. Some less generous policies define disability as the inability to perform any work at all. (This latter is Social Security's definition of disability, which makes it difficult to qualify for.)

The amount of time the insurance will pay benefits is another important factor. Some policies will pay for two years or five years while others will continue paying out until you reach age 65. Another consideration is the waiting period until you begin to collect, which can vary from one to six months. The longer you wait, the lower your premium will be.

The two most important factors in determining your premium are your income and your age. Disability policies generally pay out a percentage of your current income—anywhere from 50 to 80%. Some policies offer the option of automatic cost-of-living adjustments to help your disability payout keep pace with inflation.

The younger you are when you take out your disability policy, the less you'll pay. Once you've passed your physical and have been accepted for coverage, you are guaranteed that the insurer cannot cancel your policy as long as you pay your premiums. Some policies offer premiums that never increase. With other policies, rates can go up over time.

If you become disabled and begin receiving benefits, most policies no longer require you to pay premiums. Also, if you pay your own premiums with

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after-tax dollars, any disability payments you receive are tax-free. If you are insured through your employer's group policy, you would have to pay taxes on your disability benefits.

Because there are so many variables that can impact your coverage, it is important to discuss your disability insurance needs with your financial advisor.

Disability insurance is underwritten by a third-party insurer and is provided through an insurance brokerage affiliate.



** Society of Actuaries, 2002.
American Council of Life Insurers.*

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