



Recent articles by Ginger Applegarth:
• [How to assess your life insurance needs](#),
3/10/2004
• [The raging debate over term vs. whole life](#),
3/9/2004
• [Why financial ratings matter](#),
3/8/2004
[More...](#)

Disability insurance can save your life

By [Ginger Applegarth](#)

Ask any financial planner or agent what risk could be termed “the forgotten risk” and chances are the answer will be disability. Their clients often come in the door questioning whether they have enough, too much or the right kind of life insurance, but rarely have they thought about how they could survive financially with no earned income. In reality, disability insurance is as important as (and in some cases, even more important than) life insurance.

More become disabled than die

That’s because at any given age the odds of becoming disabled are much higher than dying. In fact, every year 12% of the adult U.S. population suffers a long term disability. One out of every seven workers will suffer a five-year or longer period of disability before age 65, and if you’re 35 now, your chances of experiencing a three-month or longer disability before you reach age 65 are 50%. If you’re 45, the figure is 44%.

These odds would not be a problem if people had substantial savings that could be drawn on in the event of a disability. But that’s rarely the case, and any money that has been set aside has likely been earmarked for goals such as college or retirement.

‘A living death’

Disability is called a living death for good reason.

First, suffering a disability would be a catastrophic event for you, your family, your friends and your co-workers. It would create enormous emotional pressures for the family because your role would change and you would have physical needs to be met. There would be enormous financial pressures that would exacerbate those emotional pressures. And with a disability, you would witness first-hand the impact that your disability planning – good or bad – would have on you and your family.

Harder to get

To complicate matters, fewer employers offer disability insurance than life insurance and it’s much harder to qualify for individual disability coverage than for individual life insurance. The bottom line is that if you’re working and you need your income to live, you need disability insurance. The only time you don’t need it is when you have so much money that you could live comfortably for the rest of your life as well as meet other goals such as college, new home and retirement without help. You should apply for disability insurance; the insurance company will always tell you if you have too much money to qualify for coverage. That’s because unlike life insurance, you can’t buy all the disability insurance you may need. Usually you can get a maximum of 50% to 60% of your monthly earned income before taxes. (Unearned or investment income does not qualify because it continues even if you are disabled.) You cannot get more coverage than that because the insurance company does not want to deter you from returning to work.

Social Security’s disability coverage

The good news is that if you are working you may already have some disability insurance, even if you haven’t thought of it that way. It’s called Social Security. Social Security does not just provide retirement income but disability income as well. The bad news is that it’s very difficult to qualify for Social Security disability benefits. More than 80% of the applicants fail the first time around. The smart ones hire lawyers to help in the appeals process.

To get an estimate of what your Social Security disability benefits might be, call up the Social Security Web site. Just as with retirement benefits, your disability income is dependent upon your “covered earnings,” or the amount on which you are taxed for Social Security. Social Security disability benefits are great to have if you can qualify, but don’t count on them when you evaluate your disability income needs. And even if you do qualify, the benefits probably won’t be enough for you and your family to maintain even the most basic standard of living.

Workers compensation

The second kind of disability insurance you may already have is workers compensation. Most employers are required to provide this coverage. The amount and duration of monthly benefits varies by state. Workers comp. only pays if your disability is job-related, typically lasts for only a few years, and the payments are low. Just as with Social Security disability payments, it's wise to think of workers compensation as a nice "extra" if you qualify, but don't count on it.

Variables in coverage

Insurance is always complicated and disability is no exception. There are all kinds of disability policies and permutations. However, the basics are simple. The first variable is the amount of monthly benefit. Most disability policies have a fixed monthly benefit that does not increase with time, although you can purchase extra coverage, or riders, that offer higher payment schedules. The second variable is the definition of disability – whether it is "own occ," or the inability to perform the duties of your specific occupation, or "any occ," the inability to perform the duties of any job for which your education and training make you qualified. The third variable is the waiting period, or the amount of time you must be disabled before benefits kick in. These waiting periods can range from one week to two years, and the longer you wait the less your disability policy will cost. The fourth variable is the benefit period, or how long you will receive monthly benefits once your policy starts paying. The benefit period can range from six months to life, depending on what you choose as well as what your insurance company is willing to offer you.

Other alternatives

In addition to these variables, there are other coverage options, as well as a variety of other riders. The most important is a rider that pays if you can only remain or return to work part-time. The Social Security offset rider guarantees that if you qualify for disability payments under your insurance policy but not for Social Security (a frequent occurrence) your disability policy will pay what Social Security should have. Another important option is the additional purchase option, which guarantees you the right to buy additional disability insurance in the future regardless of your health at that time.

Group coverage

The first place to start in evaluating your disability needs is to check with your employer. Just like other types of insurance, group coverage is much less expensive than individual policies. The main drawback to group coverage is sometimes you can only convert it to a watered-down individual policy with weaker coverage. Your employer may pick up part or your entire disability premium. When you check out your employer coverage, keep these rules in mind. If it doesn't pay at least 60% of your income, doesn't pay benefits to age 65 and has a waiting period longer than your savings can last, you need to look at private insurance as well. Individual disability policies are not cheap, but you can't afford not to have them if you need them.

Individual policies

Individual policies can vary enormously. The monthly amount for which you can qualify, the price, and the benefit period amount all depend upon the hazards of your occupation. If you are an attorney, your disability insurance is going to be cheaper than if you are an electrician. All of these factors are also affected by your physical and mental health. (You can in fact be in excellent mental health but even a few visits to a therapist for family counseling may only make you eligible for a policy with a "mental illness" exclusion.) Individual disability insurance is getting harder and harder to get. When shopping, here are some rules of thumb to put together your entire benefits package: Get the highest monthly benefits for which you can qualify. Try to get "own occupation" coverage for life. Many insurers now only offer the "any occ" coverage, which could force you into a new line of work. Get the longest waiting period you can afford. A policy with a six-month waiting period is much less expensive than one with a two-week waiting period. Get coverage for the longest benefit period possible. The goal is age 65 or even for life, but if your choice -- either imposed by the insurance company or by your pocketbook -- is a higher monthly income or a longer benefit period, opt for the longer benefit period.

NOTE: MSN Money's editorial goal is to provide a forum for personal finance and investment ideas. Our articles, columns, message board posts and other features should not be construed as investment advice, nor does their appearance imply an endorsement by Microsoft of any specific security or trading strategy. An investor's best course of action must be based on individual circumstances.

TAKEN FROM: <http://moneycentral.msn.com/content/Insurance/Insureyourhealth/P35613.asp>