

Disability: The gap in your safety net (and how to fill it)

What would your financial situation be like if you were forced to miss work for a year or more with a disability? Your paycheck could be gone, except for a small amount of compensation from Social Security. Your family might need to hire someone to cover your responsibilities around the house. In some cases, your professional advancement or job security could be jeopardized. Neither your medical insurance nor your life insurance would cover the financial impact.

Disability is a glaring gap in the safety nets of many households, especially those with women earners. Many injuries or illnesses serious enough to keep women out of work also prevent them from contributing the valuable but unpaid services that keep their households running. That means your disability could potentially create negative economic consequences for years— even after good health returns.

Fortunately, there is a financial solution to fill this gap— personal disability income (DI) insurance. This article will help you evaluate whether personal DI makes sense for you and how to shop for it wisely.

Group DI and Social Security

Let's start with three solutions that can help to fill a gap caused by long-term disability.

- Social Security provides a modest benefit to disabled workers, but only after five full months of total disability— and only if you expect to be out of work 12 months or more.

- Some employers offer group DI coverage. If you are covered, this benefit might replace 40-60% of lost income.
- The most flexible type of coverage is personal DI, which you choose and fund yourself. This insurance can replace a higher percent of lost income than either Social Security or group DI. Benefits also can begin sooner after disability occurs.

Terms of Personal DI Coverage

To evaluate and compare personal DI programs, it helps to know their provisions. A personal DI policy will pay a monthly benefit specified in dollars and usually limited to a percentage of your salary—perhaps 60-70%. This benefit begins after a waiting (or elimination) period of lost income due to disability, which typically varies from 60 to 180 days. Once the waiting period has been satisfied, monthly payments will continue as long as the disability keeps you out of work, up to a maximum benefit period. This period may be a fixed number of years or else until you reach age 65.

Some personal DI programs also offer a "cost of living adjustment," which provides for an annual increase in the benefit to keep pace with inflation, and a renewability guarantee, which promises that the program can't be substantially changed and premiums won't greatly increase in the future.

Own-Occupation Coverage

An important issue in evaluating personal DI is whether a policy specifies own-occupation coverage. If so, it offers more protection because the monthly benefit will be paid if the disability keeps you from working in your own occupation, even if you are able to work in another. For example, a disability could prevent the heavy business travel required of an executive-level occupation. Even if a disabled executive can perform less-demanding work, the own-occupation coverage would pay benefits.

If you participate in a group DI program at work, it's important to realize that any benefits received from that coverage can be taxable income. Normally, personal DI coverage is paid for with after-tax dollars and benefit payments are not taxable income. This means individuals can use personal DI to fill a large part of the gap in their safety nets, even if they have some group DI coverage at work.

To decide whether you need personal DI, ask yourself what resources you would use to survive a lengthy period of lost earnings due to disability. If those resources either don't exist or else are necessary for your long-term financial security, it's a good idea to discuss with your financial professional how much personal DI coverage you need, and what companies offer the best combination of coverage and benefits for your situation.