

Disability Insurance



Things to Consider Before You Buy

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NO ONE WANTS TO THINK ABOUT NEED DISABILITY INSURANCE. But consider that, according to the Social Security Administration, the probability a person born in 2000 will become disabled before age 60 is nearly twice that of passing away. As you age, the probabilities for both increase, but you are still more likely to experience a disability than death. Doing something to address that risk could save you a lot of grief and aggravation should you become disabled.

The Council for Disability Awareness lists the top five reasons for disability claims as musculoskeletal (muscle, back and joint disorders), cancer, injuries, cardiovascular issues and mental disorders. All of these conditions are unforeseen and can cause people to need more time off work than their paid time off allows, sometimes for extended periods, sometimes permanently.

The loss of income from not being able to work, especially during your peak earning years, can be catastrophic to your financial goals, not to mention your normal living expenses plus the expenses related to the disability itself. Outside of an on-the-job injury, which is typically covered by workers' compensation, or negotiating the many restrictions to qualify for Social Security Disability Insurance (only about a third of SSDI claims are approved), the way to mitigate your risk is by purchasing private disability insurance. Many employers provide an option to join a group plan, a cost-effective way to get coverage, or you can buy it yourself from a licensed insurance professional.

There are some important considerations before buying a private disability policy — or in reviewing current coverage:

Short or Long Term: Short-term disability insurance can range in duration, usually less than six months, while long-term disability lasts typically to age 65. The term can, of course, vary by policy. With people living longer, and many working beyond age 65, it's important to know how long your coverage will provide some income replacement.

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There are also waiting periods for each, usually one to two weeks for short-term and 90 days for long-term disability.

Coverage Amount: Most disability policies cover 60 percent of your regular wages to a maximum dollar amount. They do not fully cover your lost income, the thinking being that it would be an incentive to remain on disability as opposed to going back to work. As well, you will have to verify your income. And when looking at the amount of coverage, note if the policy has a COLA (Cost Of Living Adjustment) provision or rider, which provides for increases in your maximum benefit amount over time and what future increases are based on.

Covered Disabilities: Generally, coverage extends to any sort of injury or illness that would prevent you from being able to do your job, such as accidental injuries, childbirth, or major surgery requiring recovery time. Also check the policy for exclusions or limitations.

Taxability: If your employer pays your premiums as a work benefit or you pay them pre-tax as a deductible expense, the amounts paid to you as benefits are fully taxable as income. If you pay the premiums of a policy you purchased for yourself with after-tax dollars, the benefits you receive are non-taxable. This is important to know; you don't want any surprises when you file your taxes.

Definition of Occupation: If your policy says it covers you for your "own occupation," it means that if you are unable to do your job but could do another type of job, you are still covered. If your policy uses the term "any occupation" and you can work in a different career or job, with or without workplace accommodations, you won't be eligible for benefits.

Partial vs. Total Disability: Some policies allow for a "residual" benefit for a loss of employment income if you're not able to work full time or have to take a lower paying position due to your disability. Be sure to read the fine print of the policy to learn if it includes such an option.

We're here to help. Talk to an HBKS financial advisor and licensed insurance agent about disability insurance, whether reviewing and interpreting your current coverage or looking for a new policy. You can contact us at (239) 433-7533, or email me at kgoldsmith@hbkswealth.com.

Sources:

- Social Security Administration Disability and Death Probability Tables for Insured Workers Born in 2000, published June 2020: <https://www.ssa.gov/oact/NOTES/ran6/an2020-6.pdf>
- Council for Disability Awareness "The Top 10 Causes of Disability," May 4, 2015: <https://blog.disabilitycanhappen.org/top-ten-causes-of-disability/>

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