

Who Needs Disability Insurance? You Do.



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ACCORDING TO THE SOCIAL SECURITY ADMINISTRATION, 30 percent of men and women in their 20s will become disabled at some time in their lives to the extent that they will not be able to do their jobs. Compare that to about a quarter of a percent of U.S. homes that had fires last year, the point being that few people would risk not having insurance to protect their investment in their house while many are willing to go without protecting their livelihoods.

Still, do you really need disability insurance? Perhaps the best way to determine whether or not you do is to ask yourself about your game plan for supporting yourself and your family, paying your bills and saving for the future if you can't go to work and earn your income. For most people, the answer is that they have no game plan.

What about Social Security Disability Insurance? Is that a reasonable game plan? First of all, Social Security disability payments are extremely difficult to qualify for based on the government's definition of disabled, which includes not being able to do work other than your career — flipping hamburgers, for example, as opposed to continuing your career as a brain surgeon. You also must have worked a certain number of years in a job where you paid Social Security taxes (FICA). You'll need to have complied "work credits," and how many you need to qualify for benefits depends on how old you are when you become disabled. The requirements are so strict that only about a third of claimants are awarded the benefits.

Maybe your game plan is to play it by ear. You'll simply reduce your expenses if you become disabled. The problem with that game plan is that most expenses are fixed: mortgage or rent, utility bills, car payments, grocery bills, and so on. In fact, you're likely to have greater expenses if you become disabled: doctors and medicines, help around the house, childcare.

PRIVATE DISABILITY INSURANCE

Your game plan should be some type of private disability insurance. You can buy your own disability policy, although some people receive coverage through their employer. The coverage you buy for yourself is almost always going to be long-term disability

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insurance (LTDI), which protects your income for a number of years by paying you disability benefits that act like regular monthly paychecks. Short-term disability insurance, which you'll receive only through an employer-sponsored benefits package, covers you just for a specified number of months, never more than a year. As well, employer-funded plans provide a benefit of only 60 percent of your income — and it is taxable. You'll need to supplement that coverage with your own to get your benefit to an amount reasonable to live off of.

When looking to purchase LTDI, you'll have a variety of options or features to choose from, including:

- A "cost of living adjustment" (COLA) rider provides that the amount of your benefit will increase with inflation. That could make a substantial difference if you are disabled 20 or 30 years after you take out your policy and could be particularly critical for a long-term disability.
- If your policy includes a "guaranteed renewal," the insurer must keep your policy in force as long as your premium payments are up to date. Unless you have a "waiver of premium" clause in your policy, you must continue to make premium payments while you are collecting benefits. With a guaranteed renewal, the insurer can — and insurers commonly do — raise your premium. If the insurer goes out of business, your policy must be passed along to another insurer and remains intact.
- A "non-cancelable" policy eliminates the concern over increases in premiums. The insurer cannot cancel or change the benefit, features or premium of the policy as long as your premium payments are up to date. A policy that is both non-cancelable and guaranteed renewable eliminates your concern that your coverage might not be there for you some day.

Most people think of becoming disabled as the result of a major accident of some kind, but there are many ways to become disabled to the extent that you can't do your job. Often workers become disabled from the work they do. As such one of the most important things about your disability insurance is that it covers exactly the work that you do.

We're here to help. Contact an HBKS financial advisor for more information about disability insurance and the type of policy that best suits your needs.

For more information or to schedule a meeting, contact me at MRingler@hbkswealth.com or by phone at 716-672-7800.

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Michael serves as a financial advisor in the Fredonia, New York, office of HBKS® Wealth Advisors. He specializes in providing personal financial planning for investments, retirement, protection planning, retirement income, estate planning strategies, education funding, tax management strategies and wealth preservation strategies.

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