

why get disability income insurance?

Are you able to foresee events? If not, then how can you predict your financial future? What will happen to your dependents, home, goals and retirement plans if you become sick or injured and are unable to earn money? How will you pay your bills without borrowing money or exhausting your rainy-day fund? It's surprising how few of us think about how we'll afford everyday living expenses if we become disabled. Imagine what it would be like to lose your ability to afford basic necessities.

Consider the benefits of buying disability income insurance to help protect a portion of your earned income in the event of a sickness or injury. Disability income insurance may even protect your ability to make retirement contributions if you become totally disabled due to sickness or injury.

Why Buy Disability Income Insurance?

"It won't happen to me," or "The statistics don't really affect me," are common arguments we've heard or used. They might be comforting or persuasive but they don't account for the fact that one out of five 35-year-olds will experience a disability that lasts three months or more before age 65.*

Did you know that out-of-pocket expenditures for people with disabilities are more than double the expenditures of people without disabilities? Did you know that public programs cover only half of all medical expenditures for people with disabilities?***

Considering the cost to feed, clothe and provide shelter - the affordability of disability income insurance needn't cause any objections.

The Alternatives

Before outlining disability income insurance coverage options and key terminology, consider the alternatives to this insurance in the event of a disability:

- Group Long-Term Disability (LTD) Insurance: Many corporations provide group long-term disability insurance to their middle- and upper-level executives, but in many cases these employer-provided benefits do not replace enough income for executives during prolonged illness or injury to maintain their standard of living. What's more, long-term disability insurance does not always cover bonus income or retirement contributions and has a cap on monthly benefits. Highly paid personnel may only receive 30 percent to 50 percent of earnings if disabled.
- Social Security: Qualifying for Social Security benefits may be difficult. The amount of benefit received depends upon several variables including age, income and contribution status.
- Savings Withdrawals: Withdrawing money from your savings account is one way to pay for monthly expenses; however, a disability spanning 90 days or more could rapidly decrease savings and increase stress.
- Borrow: You could borrow money from a family member. How much is the individual willing to loan? How long can you continue to borrow?

Now Try Disability Income Insurance

Don't despair. Individual disability income insurance can help provide protection against the financial uncertainties a disability causes. To make an informed decision, consumers should understand the definitions behind the terms below. Please note, these definitions are not complete and will vary according to the terms of the individual policy.

- **Total Disability:** Individuals are considered to have a total disability if they are unable to perform occupational responsibilities as a result of illness or injury.
- **Partial Disability Benefit:** If one is partially disabled and the ability to perform one's job is impaired, it is important to consider protection to supplement lost income in case they cannot return to work on a full-time basis.
- **Non-cancelable:** Insurers cannot terminate coverage as long as the policyholder pays his or her premium on time. The insured, however, may terminate the policy at any time. What's more, this type of policy locks in premiums until a certain age, usually 65.

Weighing Options

By making informed decisions regarding essential coverage options, solid disability income insurance protection can be purchased at cost-effective rates. Consider the following alternatives:

- **Benefit Period:** The amount of time benefits are paid for a disability. Another premium-saving solution is to elect a shorter, five- or 10-year benefit period instead of choosing to continue benefits to age 65.
- **Elimination/Waiting Period:** The minimum amount of time an insured must be disabled before collecting benefits. Elimination or waiting periods vary according to the terms of a particular policy. On average, the longer the waiting period, the lower the cost of the policy. In most cases, it's better to save on the waiting period than the benefit period. If price is a consideration, it is recommended to move the waiting period out.
- **Riders:** A rider is optional, added coverage on a policy and usually carries a premium. It's important to consider adding a cost of living rider for coverage that helps disability benefits keep pace with inflation. Coverage provided by all optional riders can be refused.

The Importance of Disability Income Insurance

Amidst all the talk about the importance of long-term financial planning - from 401(k)s to IRAs - isn't buying disability income insurance coverage an equally important consideration? There's been a greater emphasis put on cost-effective, flexible products that the consumer needs. Today you may be insurable, but tomorrow - who knows?

* (1985 Commissioners' Individual Disability A Table, Society of Actuaries)

** (U.S. Department of Education, National Institute on Disability & Rehabilitation Research, Disability Statistics Abstract, Number 13, November 1995, pp. 1, 3.)

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