

# A Summary of Disability Insurance

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## WHAT IS THE PURPOSE OF DISABILITY INSURANCE

Individual disability insurance is used to help protect your future earnings should you become either fully, or partially disabled and are unable to continue your current job in the same capacity. It is recommended to have coverage to replace 60-80% of your current income to ensure you are still able to pay your bills, enjoy life, and maintain your financial goals. Unfortunately, it is impossible to predict the future, so it is necessary to proactively mitigate risk. According to the Council for Disability Awareness, unexpected illnesses are the main cause of disability claims and on average last 31.2 months.<sup>1</sup>

This is broken down in the chart to the right:

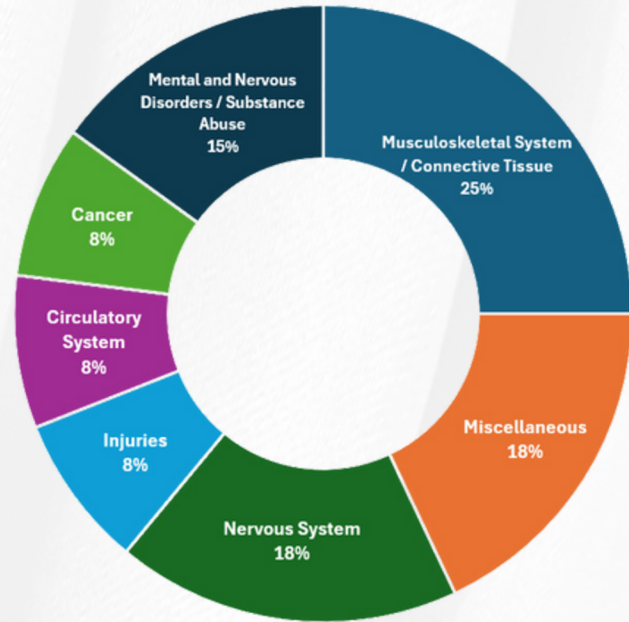


Chart source: Principal Life Disability insurance active claims as of May 2018. The above is for illustrative purposes only and is not intended as a complete representation of all claims. <sup>1</sup>Council for Disability Awareness. Blog.disabilitiescanhappen.org, January 2016. Most recent available

## SOMETHING TO CONSIDER

When a disability prevents you from working, two things happen. First, your income is reduced, second, your expenses increase. These include new disability related expenses such as: Insurance co-pays, medical costs not covered by insurance, in-home care, home modifications, COBRA premiums. What options would be available to offset those costs? You could use savings, retirement account or emergency funds, rely on a spouse's income, or take out a loan or run up credit card debt.

## WHAT IF YOU ALREADY HAVE GROUP DISABILITY

If you already have group disability through your employer, it may not be enough. Often employers provide a certain percentage of coverage, but also place a monthly cap. Additionally, if they are paying the premiums, any benefits you receive is viewed as income and will be taxed. The example above shows an income of \$20,000 per month or \$240,000 per year. If your employer caps your group disability at \$10,000 and that is then taxed, it will be necessary to supplement your disability benefit with individual coverage to regain anything close to your original income, post-tax.

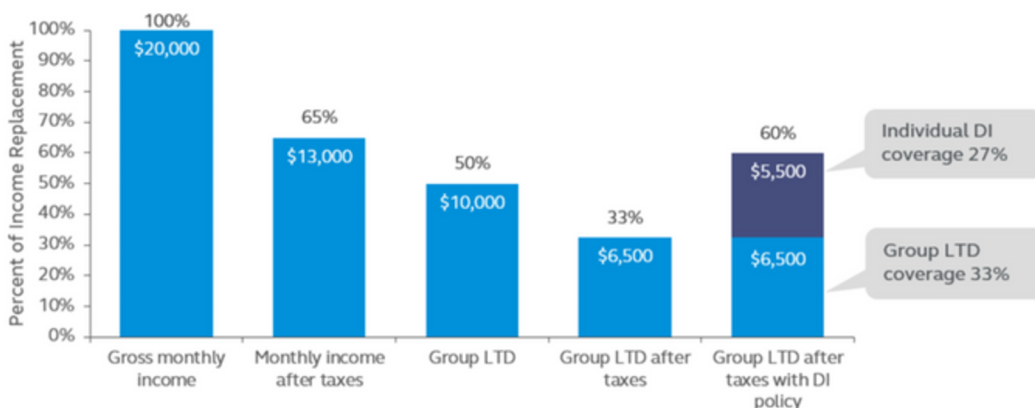


Chart based on \$20,000 gross monthly income (\$240,000 annually), with a 60% group LTD program with a monthly cap of \$10,000, assuming a 35% tax bracket for Federal, State and FICA. This is a hypothetical example. For illustrative purposes only.

# ARE ALL DISABILITY INSURANCE PROVIDERS THE SAME

The simple answer is no. It is important to shop multiple providers and make sure all the riders and details are the same to ensure you are receiving the best benefit for the least amount. Additionally, there are disparities between what most providers are willing to offer. The best policies available provide Own Occupation. This is nicknamed, "double dip occupation". This means that your policy will pay if you cannot work in your occupation or specialty, even if you can and do work in another field and make as much money as you want. There are six providers that offer this form of coverage. They are Ameritas, Principal, Guardian, Mass Mutual, The Standard, and Ohio National. Should you retrain in a different specialty or separate job, other providers will pro-rate the income lost. Should you regain or exceed your original income, they will discontinue payments. Additionally, other providers may try to mask their terminology with "Physician Occupation" or "Medical Own Occupation," but this is not the same. The question to ask is why would you pay the same premium for less benefit?

## WHAT ARE ALL THE DIFFERENT TERMS

There are multiple terms associated with a policy. These are referred to as riders. Each one can add value but may increase the overall cost. A few key examples include:

- **COLA (Cost of Living adjustment):** This automatically increases your monthly benefit based upon inflation. This increase can either be simple or compounded.
- **FIO (Future Increase Option):** This allows you to increase your disability coverage as your salary increases over time.
- **Student Loan Repayment:** If you are disabled while still paying off school debt, this will cover student loan payments in addition to the benefit paid out.
- **Elimination Period:** This is the period between when you were disabled and the day you start collecting benefits. These periods range from as short as 30 days (about 4 and a half weeks) to 720 days (about 2 years).

*Note: The longer the elimination period, the lower the premium. But consider having no income and medical debts are compiling while waiting six months for any benefits.*

## WHEN SHOULD I APPLY FOR DISABILITY INSURANCE

The best time is prior to finishing your Residency or Fellowship. Most providers offer a 10-30% discount based upon your specialty and Residency or Fellowship program. Once you finish your program, those discounts are no longer available. The benefit of obtaining those discount rates, is even after you accept a future increase option based upon your higher income, those discounts continue to be applied thereby savings you a considerable amount of money over the length of your career and ensure that you do not leave money on the table.

If you would like a complimentary comprehensive comparison between Own Occupation providers, you can contact us here: [Stephan.McKee@25financial.com](mailto:Stephan.McKee@25financial.com)