

# Protecting Your Earning Power with Disability Income Insurance

The possibility of sustaining a long-term disability from an accident or illness is something most of us would rather not contemplate. However, there is a way to protect yourself and your family should you lose your ability to earn an income. Disability income insurance can play a key role in your overall financial plan, and provide a benefit to help replace a portion of your income in the event of a total disability.

## Do I Really Need Disability Income Insurance?

While most people understand the necessity and value of life insurance, many may overlook the valuable role disability income insurance plays in building financial security. How will you support yourself and your family if you cannot work as a result of an accident or illness? For most, Social Security cannot be solely relied on to replace lost wages, because one must be severely disabled to qualify for disability benefits. Even then, it is necessary to wait at least six months for payments to begin. Also, Social Security payments may not sustain you and your family at your current standard of living.

You may be able to "get by" for a few months on your savings, but if the disability is prolonged, you may exhaust most-or all-of your savings. Further financial hardships would become inevitable. You may miss mortgage, car, and other credit payments, and cause damage to your credit rating. Utility bills, tuition, grocery bills, and business/professional expenses will also continue despite disability and loss of income.

The bottom line is that if you lose your ability to earn an income it may be harder to make ends meet. Disability income insurance can be a sensible solution to help protect your financial security in the event you become disabled.

## Types of Coverage Available

Depending on your income, the maximum coverage you can buy will typically replace 45% to 75% of your pre-disability earnings. The cost of the coverage will depend on such factors as the risk level of your occupation, your age, your health history, and the scope of coverage. Professionally employed individuals are typically in a lower risk category than those engaged in more physically demanding work. Individual disability income insurance is by application and is subject to underwriting approval.

It should also be noted that when you pay the premiums (vs. an employer-provided policy), the income from personal disability income policies is tax free. If your employer has a salary continuance plan, you should know the dollar amounts of coverage, the waiting period, and the length of payments, so you can coordinate your personal coverage with your employer-provided benefits.

When examining the contract provisions outlined in a potential disability income insurance policy, consider these items:

- Definition of total disability - Definitions can include coverage in the event that you cannot perform the main duties of your own occupation, or any duties of any occupation. The "own occupation" definition offers better protection, particularly if you are a highly skilled professional.
- A non-cancelable clause - The insurance company cannot cancel or change your policy or increase premiums before you reach age 65 as long as your premiums are paid on time.
- Residual disability payments - The policy will pay benefits in proportion to your loss of earnings if you are partially disabled and return to work at a job that pays less than your former salary.
- Future insurability - This benefit allows the purchase of future coverage without regard to medical insurability.

- Benefits payable until age 65 - Most companies offer benefits payable to age 65 or 67. Many policies offer the ability to continue a policy after age 65 on a conditionally renewable basis. Some companies offer lifetime benefits usually available at a cost by rider.
- A reasonable waiting period - Waiting periods in disability income insurance policies vary. Typical waiting periods are 90 or 180 days. Shorter waiting periods are more expensive than longer waiting periods. Consider your liquidity, sick pay, and any money owed to you, so you can decide how long a waiting period you could reasonably afford.

It is important to note that there may be an additional premium charged for adding any riders to a disability income insurance policy.

Disability income insurance can help protect your most important asset-you and your ability to earn an income. Reviewing your disability coverage may help you determine what type of policy would best help protect you and your family.

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