Protect Your Income


Your Green with
Roger Green, MSFS, CFP©

Have you considered how you would support yourself if you became unable to work? If married with a stay-at-home spouse and children, how would you support them if you become incapacitated and unable to work? *Just over 1 in 4 of today's 20-year-olds will become disabled before they retire (disbilitycanhappen.org, Chances of Disability, 2023), and 27% - or about 1 in 4 American adults - have a disability (CDC, May 2023). The majority of wage earners believe they have a 2% or less chance of being disabled for 3 months or more during their working career, but the actual odds for a worker entering the workforce today are about 25% (Council for Disability Awareness, Disability Statistics, 2013). According to a 2019 CNBC article, 66.5% of bankruptcies are caused by medical expenses, making it the leading cause for bankruptcy* and we have yet to see the impact the pandemic has had on this statistic. **None of us know what challenges life will bring and that is why you should consider disability insurance protection.**

Many assume they would qualify for Social Security Disability benefits – or haven't actually given this issue any thought at all. According to Social Security Administration's 2022 Factsheet, *the average monthly benefit paid by Social Security Disability Insurance (SSDI) in 2022 was only $1,358.30 per month.* Can your family live on $16,229.60 per year – or possibly less? And of the estimated 54 million adults with a disability of some sort, only about 9 million disabled wage earners have qualified for SSDI benefits *(SSA.gov, Faces and Facts of Disability)*, so even if you could live on that income level, will you even qualify for benefits and how long might it take to become qualified?

According to the Integrated Benefits Institute's 2020 report, the following were the leading causes of new disability claims in 2019:

- Musculoskeletal/connective tissue disorders (27.6%)
- Cancer (15%)
- Injury, poisoning (12%)
- Mental Health Issues (9.3%)
- Cardiovascular/circulatory disorders (8.2%)
- Pregnancy/childbirth (6.8%)
- Nervous system (6.4%)

You have probably insured your home, cars, and other property against damage and theft, but have you protected your most valuable asset – your ability to work and earn an income? How many months would you be able to continue paying your mortgage and other living expenses if you lost your ability to earn an income?

Fortunately, disability insurance is available and it is coverage most working Americans should consider. Your employer may offer group disability coverage, available without medical underwriting, and that can also be the most cost-effective way to obtain coverage. If you opted out previously, now may be the time to reconsider. A financial professional can work with you to evaluate the coverage offered by your employer to help you select the levels of coverage you need.

If group coverage is not available, there are vendors who offer individual, non-cancelable, guaranteed renewable Disability Income (DI) insurance policies that might be appropriate for you.

There are two basic categories of disability policies available – short-term policies, and long-term policies. Short-term disability policies usually cover a percentage of your income, and pay you starting after 7 or 14 days of being out of work, up to usually 3-6 months. Long-term disability coverage generally provides benefits beginning 3-6 months after disability begins and continues to pay until you go back to work, turn age 65, or for the number of years stated in the policy.

Generally, disability benefits provide 50-60% income replacement, depending on the policy. Nearly all provide that the benefits will be offset, or reduced by, the amount of any Social Security, Worker's Compensation, or similar benefit you may be receiving. Disability insurance is not designed to replace 100% of your lost earnings, even in conjunction with other benefits you may be entitled to receive. Generally, they limit your total income to around 60% of your pre-disability income to avoid providing a disincentive to returning to work.

Disability policies have basically three different definitions of disability, and this is very important, as this definition determines if you qualify for payment in the event of a disability. These three definitions are:

- **Any occupation** – covers you if you can't do the duties of any occupation, similar to Social Security. It is the least protective of all disability definitions.
- **Modified own occupation** – This policy will generally pay you if you can't do the duties of your own occupation, and you're not performing some other occupation. In this policy, the insurance company leaves it up to you as to whether or not you work again. If you do, they will reduce what they pay you based on your new income. Some policies include a modified own occupation for a limited period of time (most commonly two years), followed by the any-occupation definition thereafter.
- **Own occupation** – This is the best definition of disability available. It states that you will be considered disabled if you cannot perform the material and substantial duties of your current occupation. In effect, you're buying a policy to pay you if you can't do your specific job, even if you chose to go back to work in another job, although your payments will usually be reduced by your other earnings.

If you need an individual policy, l**ook for policies with a cost-of-living adjustment (COLA) rider** that will increase your monthly disability benefit, once you're disabled and receiving benefits to keep pace with inflation.

Also, assess the need for a future increase option, which is a rider that provides you with the ability to purchase additional coverage in the future with no further medical underwriting. This rider provides you with the ability to periodically increase your benefit level to correspond to increases in your earnings as you progress in your career.

If you own a small business, you may need to consider overhead expense and disability buy-out coverage to protect your business and your income stream from that business. Overhead expense insurance covers things like rent, utilities, and other fixed expenses of running a business; and is generally designed for businesses that rely on a small number of people (or one person) to produce the income that keeps the business running. Disability buy-out insurance is designed to provide the funds needed to purchase a disabled owner or partner's interest in a business if they become disabled

When you apply for most disability policies, your medical history and usually some sort of examination are required. Many people wait until health issues develop before they consider adding this coverage, but then they may be denied coverage. You owe it to yourself to protect your income, your home, and most of all, your family. Don't let an unexpected situation ruin your financial security. Even the best retirement planning can be completely derailed if you don't plan for the potential of disability.

To plan for coverage to protect your financial independence, call my office at 770.931.1414 or through www.rogersgreen.com - or contact another financial professional – but act today.

Roger S. Green is an Investment Advisor Representative offering securities and advisory services through Cetera Advisors LLC, a Registered Investment Advisor and Broker/Dealer, member FINRA/SIPC. His office is located at 3700 Crestwood Pkwy, Ste 140, Duluth, GA 30096. Green Financial and Cetera Advisors are not affiliated.