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Life and Health Insurance Agency

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Ensuring Your Largest Asset Continues To Generate An Income..... Regardless Of Your Ability To Work

According to LIMRA and LIFE Foundation's 2012 Insurance Barometer Study, along with CarrerBuilder's Survey, 2011:

- 75% of Americans are concerned about being able to support themselves should they become unable to work due to a disabling illness or injury;
- However, 50% of workers feel they don't need disability insurance;
- While 42% of Americans live paycheck to paycheck.

It's rare to find a product or service so universally needed as disability insurance. Yet, if you earn a paycheck, your ability to continue to earn your paycheck is simultaneously your largest asset and greatest risk. Your annual earned income, not even factoring inflation and wage increases, until retirement is undoubtedly a larger figure than any other assets you possess. Suffering a disability that disrupts your ability to work and earn your accustomed income (and future income) is a significantly greater risk, financially, than other risks we all insure, including those relating to our homes and autos. Quite simply, what would happen to you and your family's standard of living if you earned materially less than you do now?

Attached are disability statistics as of July, 2013 courtesy of The Council for Disability Awareness. We suggest you look over this information as Americans, overall, are playing a dangerous game of having no, or insufficient, disability income insurance despite relatively high risks of suffering a partial or total disability. **The following contains some key points to keep in mind when thinking about disability income insurance:**

- **Group disability income insurance policies** are guaranteed issue, meaning they have no medical underwriting. Often, the premiums are paid by the employer. Sounds perfect! However, some important facts regarding group disability income insurance you should be aware of include:
 - Most plans cap the maximum monthly benefit they will pay, such as \$5,000/month or \$10,000/month – irrespective of your income.
 - Typically, variable compensation, such as bonus income and commissions, is not counted as income.
 - Since most employers pay the premium, any benefits to the insured would be taxable.
 - Although the plan may intend to cover 60% of one's income, for example, often times the actual percentage is significantly less once taxes and the exclusion of any variable pay are considered.
 - Such policies are usually not portable – meaning you lose the coverage when you no longer work for the company.

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- The policy definitions are more restrictive than those in an individual plan, particularly the definition of disability – making it less likely an employee will ever qualify for benefits.
- These plans often have limited to no partial (residual) disability benefits, which is significant considering many disabilities are not total or permanent in nature.
- Additionally, group plans do not offer inflation protection.
- Finally, the employee is at the mercy of the employer and insurer, having no control over the plan design or even continuation of the plan/coverage.
- **Individual disability income insurance policies** require full underwriting based upon one's (1) occupation, (2) medical history/current health, (3) compensation and (4) any other relevant factors unique to the individual. Underwriting is more involved than with individual life insurance since there is the chance for multiple claims associated with one insured (e.g. multiple and/or recurrent disabilities throughout one's career).
 - Each carrier has its own maximum issue and participation limits which specify how much coverage may be obtained given one's annual income and any existing coverage. It is not uncommon to be able to get up to \$20,000/month in traditional individual disability income insurance.
 - Coverage is issued on a noncancelable basis with level premiums throughout the policy's life (subject to any riders which may have increasing premiums each year or if executed in any given year). It is possible to utilize graded premiums which start lower and increase over time – with an ability to convert to level premiums at your then current (attained) age.
 - Importantly, an 'own' occupation definition of disability is available, meaning you are considered disabled in the event you are unable to perform the material and substantial responsibilities of your own occupation (rather than any other occupation you may be able to work in given your skill set despite having a disability).
 - Provided you pay the premiums yourself with after-tax dollars, any benefits received would be income tax-free. Benefits often are paid thru age 65 although they may be extended at an additional cost.
 - Valuable riders are available including (a) the right to buy additional coverage absent medical underwriting, solely subject to financial underwriting; (b) the right to receive inflationary increases in monthly benefits both pre-disability and post-disability; (c) an ability to insure one's retirement contributions (employee salary deferrals plus employer matching contributions) and (d) receiving payments in the event of a partial disability – often defined based upon one's loss of income being greater than a certain threshold.
 - Note: Depending upon the state you live in it may be possible to obtain a stand-alone policy solely to protect/insure your retirement contributions.
 - With at least 3 or more individuals applying for insurance, it is possible to obtain 'multi-life' discounts for each policy – in place forever regardless of the employee's future employment status.
 - This can be quite significant for females, since their rates are higher than males given their longer average life expectancies.
 - Often, the price of individual disability income insurance is in the range of 2% to 4% of one's annual income.

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Along with the above, the following types of disability insurance exist for business owners and more specialized situations:

- **Disability buy-out insurance** is used in closely held businesses where there is more than one owner in order to provide some or all of the funding necessary to 'buy-out' a permanently disabled owner (however this is defined – with the definition of disability needing to match whatever is in the Buy-Sell Agreement assuming there is one in place). Without this coverage, imagine the harsh ramifications to both the business and the owner/his or her family were a disability to occur.
- **Business overhead insurance** provides a monthly benefit to the business upon an owner's disability in order to support the normal and customary expenses associated with running a business (e.g. salaries, rent, utilities, advertising, etc.).
 - A specialized type of this policy, **business reducing term insurance**, covers any loans/fixed obligations which, often times, have reducing principal amounts throughout the term of the loan.
- Particularly for very high income professionals, as well as those in unique and more hazardous occupations such as professional athletes, **Lloyd's of London** offers specialized coverage that can address a host of disability and life insurance situations outside of the traditional realm of polices, providing a flexible and customizable approach. For example:
 - Disability coverage of up to \$200,000/month in benefits may be available (subject to insuring no more than roughly 60% to 65% of one's earned income).
 - Benefits may be paid in one lump sum and/or periodic installments over time.
 - Bridge insurance, similar to a bridge loan, is available. Often times, banks require key-man disability income and life insurance to approve a loan, merger, etc. Through Lloyd's it may be possible to get coverage bound within a few hours or days in order to ensure the transaction takes place (such coverage is often for a shorter period of time, meant to be replaced by more permanent policies).

Personal and business disability insurance should form the foundation of paycheck and asset protection for all workers and business owners alike. With (1) the chances of disability being significantly greater than many people believe, (2) most disabilities not work-related, (3) social security denying most disability claims given their stringent requirements and (4) the average social security disability recipient receiving around \$1,110/month, **to the extent you have no or inadequate disability insurance, have you determined the financial capital required to continue to live your accustomed lifestyle, as well as operating your business in an uninterrupted manner in the event of a disability? If not, what are you waiting for?**

IRS CIRCULAR DISCLOSURE

To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Disability Statistics



It happens more often than you'd imagine

- Just over 1 in 4 of today's 20 year-olds will become disabled before they retire.¹
- Over 37 million Americans are classified as disabled; about 12% of the total population. More than 50% of those disabled Americans are in their working years, from 18-64.²
- 8.8 million disabled wage earners, over 5% of U.S. workers, were receiving Social Security Disability (SSDI) benefits at the end of 2012.³
- In December of 2012, there were over 2.5 million disabled workers in their 20s, 30s, and 40s receiving SSDI benefits.³

Chances of becoming disabled

The following statistics come from CDA's PDQ disability risk calculator:⁴

- A typical female, age 35, 5'4", 125 pounds, non-smoker, who works mostly an office job, with some outdoor physical responsibilities, and who leads a healthy lifestyle has the following risks:
 - A 24% chance of becoming disabled for 3 months or longer during her working career;
 - with a 38% chance that the disability would last 5 years or longer
 - and with the average disability for someone like her lasting 82 months.
 - If this same person used tobacco and weighed 160 pounds, the risk would increase to a 41% chance of becoming disabled for 3 months or longer.

- A typical male, age 35, 5'10", 170 pounds, non-smoker, who works an office job, with some outdoor physical responsibilities, and who leads a healthy lifestyle has the following risks:
 - A 21% chance of becoming disabled for 3 months or longer during his working career;
 - with a 38% chance that the disability would last 5 years or longer
 - and with the average disability for someone like him lasting 82 months.
 - If this same person used tobacco and weighed 210 pounds, the risk would increase to a 45% chance of becoming disabled for 3 months or longer.

A sample of factors that increase the risk of disability:

Excess body weight, tobacco use, high risk activities or behaviors, chronic conditions such as; diabetes, high blood pressure, back pain, anxiety or depression, frequent alcohol consumption or substance abuse.

A sample of factors that decrease the risk of disability:

Maintaining a healthy body weight, no tobacco use, healthy diet and sleep habits, regular exercise, moderate to no alcohol consumption, avoidance of high risk behaviors including substance abuse, maintaining a healthy stress level, and effective treatment of chronic health conditions.

Disability Statistics



To calculate your own Personal Disability Quotient (PDQ), go to:

http://www.disabilitycanhappen.org/chances_disability/pdq.asp

To learn more about risk factors and ways to help reduce your risk, go to:

<http://www.whatsmypdq.org>.

Disability prevents people from earning a living:

- There were over 2.8 million new Social Security Disability Insurance (SSDI) applications in 2012, slightly lower than in the two previous years, but still 29% higher than in 2007, and 68% higher than 2002 levels.³
- 61% of surveyed wage earners personally know someone who has been disabled and unable to work for 3 months or longer.⁵
- Wage earners who know someone who has been disabled predict their own odds to be higher than respondents who do not.⁵
- The average group long-term disability claim lasts 34.6 months.⁶
- The average individual disability claim lasts 31.6 months.⁷
- One in eight workers will be disabled for five years or more during their working careers.⁸

Working Americans underestimate their risk of disability:

- 64% of wage earners believe they have a 2% or less chance of being disabled for 3 months or more during their working career.⁵ The actual

odds for a worker entering the workforce today are about 25%.¹

- Most working Americans estimate that their own chances of experiencing a long term disability are substantially lower than the average worker's.⁵

Disability causes severe financial hardship:

- 90% of wage earners rated their "ability to earn an income" as "valuable" or "very valuable" in helping them achieve long-term financial security — wage earners perceive their ability to earn an income as even more valuable than retirement savings, medical insurance, personal possessions, other forms of savings or their homes.⁵
- Medical problems contributed to 62%⁹ of all personal bankruptcies filed in the U.S. in 2007—an estimate of over 500,000.¹⁰ This is a 50% increase over results from a similar 2001 study.
- Medical problems contributed to half of all home foreclosure filings in 2006.¹¹

Common causes of disability:

- According to CDA's 2013 Long Term Disability Claims Review¹², the following were the leading causes of new disability claims in 2012:
 - Musculoskeletal / connective tissue disorders (28.5%) *
 - Cancer (14.6%)
 - Injuries and poisoning (10.6%)
 - Mental disorders (8.9%)
 - Cardiovascular/circulatory disorders (8.2%)

Disability Statistics



- The most common causes of existing disability claims in 2012 were:
 - Musculoskeletal/connective tissue disorders (30.7%) *
 - Disorders of the nervous system and sense organs (14.2%)
 - Cardiovascular/circulatory disorders (12.1%)
 - Cancer (9.0%)
 - Mental disorders (7.7%)
- Approximately 90% of disabilities are caused by illnesses rather than accidents.

** This category includes claims caused by neck and back pain; joint, muscle and tendon disorders; foot, ankle and hand disorders, etc.*

Few American workers are financially prepared:

How long could you afford to be without a paycheck?

- Do you save any of your annual income? 48% of U.S. families don't.¹³
- Do you have private pension coverage? Most of us - over 50% - don't.¹
- Retirement savings? One-third of us have none.¹
- 68% of Americans would find it very difficult or somewhat difficult to meet their current financial obligations if their next paycheck were delayed for one week.¹⁴
- 65% of working Americans say they could not cover normal living expenses even for a year if their employment income was lost; 38% could not pay their bills for more than 3 months.⁵

- Nearly nine in ten workers (86%) surveyed believe that people should plan in their 20's or 30's in case an income limiting disability should occur;
- Only half (50%) of all workers have actually planned for this possibility.
- Fewer than half (46%) have even discussed disability planning.¹⁵

Most American workers' incomes are not protected:

- About 100 million workers are without private disability income insurance.¹
- 69% of workers in the private sector have no private long-term disability insurance.¹

Think Social Security or Workers' Compensation will cover it?

Better do your homework:

- 65% of initial SSDI claim applications were denied in 2012.³
- Can your family live on \$1,130 a month? That's the average monthly benefit paid by Social Security Disability Insurance (SSDI) at the end of 2012.¹⁶
 - The average SSDI monthly benefit payment for males was \$1,256
 - The average SSDI monthly benefit payment for females was \$993
- At the end of 2012:

Disability Statistics



- 7.3% of SSDI recipients received less than \$500 monthly.
- 46% received less than \$1,000 per month.
- 93% received less than \$2,000 per month.¹⁷
- Less than 5% of disabling accidents and illnesses are work related. The other 95% are not, meaning Workers' Compensation doesn't cover them.¹²

For more information, please visit www.disabilitycanhappen.org

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