

Thanks for Asking ... But I Have Group Disability

Myths are an interesting mix of a little fact and a lot of fiction — they're often a way to validate long-held beliefs, regardless of their accuracy. One of the myths surrounding disability income insurance is that many people think their employer-provided group disability insurance is enough — until it's too late.

After a 50-year career in the life, disability, long term care, and annuity business, I thought I'd heard all the excuses. My favorite objection for buying disability coverage was, "It won't happen to me." (Even though there's a 25% chance.)

The excuse I recently heard from a high-earning executive quickly created a sense of "déjà vu all over again" and once again rose to the top of my hit parade: "That's okay; I've got group disability coverage through work."

While I was happy he had some coverage, I encouraged the executive to get a more complete description of his benefits from his employer. And then he called to tell me how shocked he was to see how limited those benefits really were.

Is 60% really 60%?

It turned out his group plan covered 60% of his salary — but since the employer-paid benefit is taxable, net benefits available to cover expenses would be more like 40% of his monthly salary.

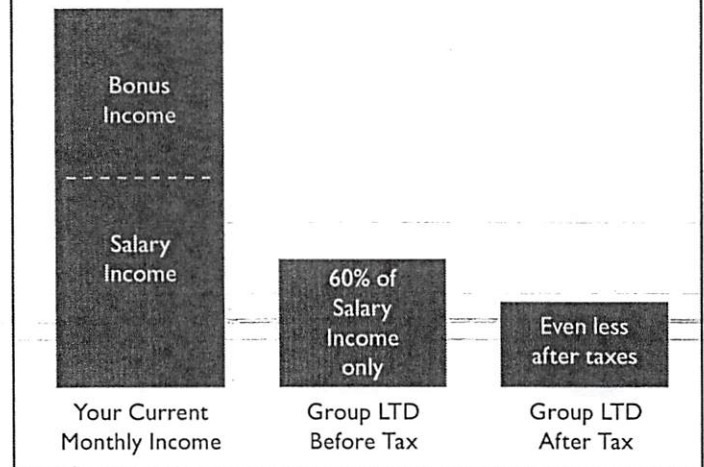
Also, his group coverage didn't provide any benefit for his bonus income that typically represented one-third of his total compensation.

To make matters worse, since he was a higher earner in his company, the monthly benefit cap reduced his income replacement substantially below his monthly income (a concept commonly referred to as "reverse discrimination"). In other words, in the event of a disability, his total coverage amounted to just 22% of his monthly earnings.

Can you live on only 22% of your income?

That might cover the mortgage and perhaps the property taxes — but not much else. I ask: Can you live on only 22% of your income?

Employer group long-term disability (Group LTD) coverage typically provides 60% income replacement. However, it generally doesn't consider bonus or commission compensation as income, and is taxed at the time it is received, lowering your actual benefit received even more.



Shortfalls that can hinder your plans.

Group LTD is a needed foundation, but shortfalls can reduce benefits received. Know what to look for and what it means before you just assume it provides you what you need:

- Premiums can change; coverage can be canceled.

Premiums are evaluated annually and subject to change for group and association coverage.

Most individual disability carriers offer policies that are "Non-cancellable and Guaranteed Renewable." This means that as long as premiums are paid on time, your coverage cannot change and your rate cannot go up.

Furthermore, individual policies are portable; so even if he leaves his employer or changes careers, he'd be able to take his policy with him.

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- **Cannot take it with you — you don't own it.**

Portability means you can “take it with you.” But because group disability is not covered by COBRA and cannot be continued after leaving the group, portability becomes an important inherent feature for individual coverage. The insured takes the policy with him/her when changing jobs —or locations — or even careers.

- **Taxation on employer-paid coverage.**

When the individual insured pays the premium — or if the premium is paid by the employer, but included in W2 income — benefits will be completely income tax-free. Benefit payments from an employer-paid group plan, on the other hand, are considered fully taxable to the recipient.

Doing your homework makes sense.

Everyone should do their own financial checkup, including a review of group benefits and discuss it with a financial representative.

Individually owned disability insurance isn't as expensive as many people think and when combined with group disability or association coverage, can provide meaningful total coverage.

To learn how a disability income insurance policy can help to protect your income and your lifestyle, talk to a financial representative from a highly rated carrier.



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