

DISABILITY INSURANCE:

Why checking the box may not be enough

By: Ed Simms, Vice President, Insurance Solutions

We've all been there. It's your employer's annual benefit election period, and you're checking the boxes as appropriate - "Yes" to medical coverage, "Yes" to dental, "No" to the transportation spending account, "Yes" to disability insurance. Done? Not so fast.

If you suffer an illness or accident, the disability insurance provided by your employer may not be enough to cover your specific needs. Included are some considerations to keep in mind as you assess your level of disability insurance coverage and whether your group policy is adequate to meet your needs.

Assess Your Potential Risk

As you assess your potential risk, consider the following:

- More than one in four of today's 20-year-olds will be out of work for at least a year due to a disability.
- A typical female, age 35, non-smoker of healthy weight who works mostly in an office and leads a healthy lifestyle has a 24 percent chance of becoming disabled for three months or longer during her working career, with a 38 percent chance that the disability will last five years or longer.
- If this same female uses tobacco and weighs 35 pounds more, her risk would increase to a 41 percent chance of becoming disabled for three months or longer.
- Similar statistics apply to males, with a 21 percent chance of a healthy male becoming disabled for three months or longer, and a 45 percent chance of an unhealthy male becoming disabled.
- The average long-term disability for healthy individuals is 82 months.¹



Question Your Coverage

Given the potential risk, you may consider spending more time ensuring you have adequate disability coverage. Begin by asking the following questions:

- If I suffer an illness or accident and am not able to earn my current income, how will that impact my life?
- Do I have enough stashed away in an emergency fund to cover three months without income?
- What would I do if I were disabled for a longer period, say one year? What about three years? Five years?

Your response to these questions will help you and your advisor determine if additional coverage may be necessary. Your advisor may recommend purchasing income protection insurance to help cover any potential shortfalls in your employer's coverage.

¹http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp

Individual Insurance Policies

Income protection insurance provides income to individuals who become disabled and are unable to work. Coverage amounts are intended to provide reasonable income replacement while still maintaining an incentive to return to work. Both the premiums and benefits of this type of insurance vary based on an individual's risk factors – age, gender, health history, physical condition, income, occupation, etc.

These policies generally protect up to 60 percent of earned income, filling the protection gap often created by the limits of a group plan. And, because they are purchased with after-tax dollars, benefits are received income-tax free. In addition, these individually owned policies are portable, which means you will continue to have income protection should you leave your employer.

Own Occupation Versus Any Occupation

An important distinction to consider when evaluating income protection insurance is “own occupation” versus “any occupation.” Own occupation insurance means you are considered totally disabled if you can't perform the specific duties of your own occupation. Any occupation means you are considered disabled only if you lack the ability to perform the duties of any occupation for which you are appropriately qualified.

If you become disabled and are unable to perform the duties of your current position, you may still not qualify for benefits under an “any occupation” policy.

A claim payment under this type of insurance would only result from a total disability in which you are not able to perform the duties of any occupation for which you are qualified.

To illustrate the difference in the two types of policies, consider the example of a heart surgeon who has an accident that permanently injures his hand and renders him incapable of operating. He still possesses the experience and knowledge to consult with heart patients in an office setting; therefore, under an “any occupation” policy, the disability benefit will likely not be paid.

Tax Considerations

If your employer pays the total premium for the disability insurance policy and does not include the cost in your taxable income, the benefit is taxable to you as ordinary income. This may reduce the amount of disability income you receive.

Executive Benefits

Employer-paid disability plans may not cover compensation gained from ownership agreements, deferred compensation, restricted stock and bonuses. If you are currently receiving these executive benefits, you may only be eligible to receive disability coverage on a portion of your overall compensation.

As with most financial considerations, there are a variety of factors that will impact your coverage requirements, costs and benefits. Please contact your wealth advisor for help determining the coverage that's right for you.

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