



Preparing for the Unexpected

Disability Insurance

Jennifer L. Hunter, Family Finance

Disability insurance provides protection against loss of wages because of illness or injury. Many people purchase life insurance but not disability insurance; however, you are 30 percent more likely to become disabled for three months or longer than you are of dying before age 65. According to the MetLife Study of Employee Benefits Trends, only 58 percent of workers have some form of disability protection.

Disability insurance is one of the most needed but most overlooked types of insurance. A disability can be just as financially devastating to a family as the death of a breadwinner. Disability insurance is designed to protect the income source of the worker in case he or she becomes unable to work. A disability policy will reimburse you for wages you lose, typically from 40 to 80 percent of your take-home pay.

Families should consider purchasing disability insurance; however, single individuals should not discount the need of disability insurance simply because they are not providing for a family. As a single individual, you are solely responsible for your own financial security. In the event of a disability you will not have a partner's income to help provide your living expenses, so your need for disability insurance is actually greater.

Social Security Disability Protection

Disability protection can come in several forms, and you may already have some level of coverage. Most people recognize Social Security as their disability coverage. Social Security does offer disability protection; however, most people who become disabled will not qualify for Social Security benefits.

In general, you must meet two earning tests to be eligible for Social Security disability payments: A "recent work" test based on your age at the time you became disabled (Table 1) and a "duration of work" test to show that you worked long enough to receive social security payments (Table 2).

Table 1. The "recent work" test.

If you become disabled...	Then you must have worked...
In or before the quarter you turn age 24	1.5 years during the 3-year period ending with the quarter your disability began.
In the quarter after you turn age 24 but before the quarter you turn age 31	Half the time for the period beginning with the quarter after you turned 21 and ending with the quarter you became disabled.
In the quarter you turn age 31 or later	Five years out of the 10-year period ending with the quarter your disability began.

Source: Disability Benefits, SSA Publication No. 05-10029, August 2009, ICN 456000. Retrieved from <http://www.ssa.gov/pubs/10029.html#part2>.

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Table 2. The “duration of work” test.

Age of disability	Years of work needed
Before 28	1.5
30	2
34	3
38	4
42	5
44	5.5
46	6
48	6.5
50	7
52	7.5
54	8
56	8.5
58	9
60	9.5

Source: Disability Benefits, SSA Publication No. 05-10029, August 2009, ICN 456000. Retrieved from <http://www.ssa.gov/pubs/10029.html#part2>.

A Word of Caution about Social Security Benefits

If you are self-employed and you are not paying yourself a salary from your business or farming operation, then you are also not paying into or eligible for payments from Social Security. If you have not previously worked enough quarters, you will be ineligible for Social Security benefits. Social Security benefits are paid only if you are completely disabled, so if you are still able to work—even if it is not at your normal profession—you may not qualify for Social Security benefits. Finally, to qualify for Social Security benefits, your disability must be expected to be long-term, lasting 12 months or more.

Other Disability Protection

In addition to Social Security, a person may also have disability protection from their employer. This benefit may come in the form of short-term disability, which is also paid sick leave. Paid sick leave



is accrued over a period of time and may be used to assist you in caring for another member of your immediate family. Paid sick leave, however, is usually very limited and offers you no long-term protection against disability. Disability income protection may also be available through your employer’s retirement plan, although tapping your retirement to cover a period of disability is rarely recommended. If the injury that causes your disability is a result of an accident at work, you may be entitled to worker’s compensation, although worker’s compensation offers no benefits if you were injured off the job.

Purchasing Disability Insurance

If you determine that the forms of disability protection shown above will not meet the financial needs of you and your family in the event of a disabling illness or injury, then you will want to consider purchasing disability insurance. Your employer may offer both short- and long-term disability insurance at group rates. Check with your benefits office for these resources. Generally, a group policy will be less expensive than an individual policy; however, be certain that it adequately meets your needs. You may consider purchasing a group policy through your employer and then adding supplemental coverage through an individual policy.

If you are self-employed or your employer does not offer a policy that will meet your needs, you will want to check into purchasing your own individual

protection

disability

policy. An individual policy will usually be more expensive than a group policy but you should be able to tailor it to your needs and your peace of mind. Purchasing disability insurance is very similar to purchasing life insurance; you will want to check rates and policies with several different companies prior to making a decision. If you currently own life insurance, you will want to check with your life insurance carrier to see if you can add a disability rider to your current policy. Often your insurance company will offer you discounts for multiple policies, so this approach may be less expensive than going through a different carrier. However, you will still want to compare rates and policies.

Level of Coverage

Once you have made the decision to purchase disability insurance, you need to determine the level of coverage that you and your family will need. To determine how much disability insurance you will need, take a good look at your family's monthly expenses. Subtract your spouse's income, investment income, and any long-term disability benefits provided by your employer from your monthly expenses; the remainder is the monthly amount that you must cover with disability insurance.

Once you have this figure in mind, determine if you think it is realistic. When calculating the amount of disability insurance that you need to purchase, determine if you have other sources of income or savings available to help lower the cost of premiums or extend your benefit period. You only need to purchase insurance for the amount that you cannot cover through other sources.

Having an emergency fund set aside will reduce the cost of your disability insurance. Your fund should equal three to six months of family living expenses. With an emergency fund you can increase your elimination (or waiting) period (the amount of time you wait before your benefits begin to pay). Opting for the longest elimination period your family can handle will greatly reduce your annual premiums.

Calculate your coverage

_____	monthly expenses
- _____	spouse's income

- _____	investment income

- _____	benefits from employer
= _____	amount of policy

For example, assume a family of four; the father is a self-employed business-owner, the mother a schoolteacher. The father becomes disabled; the family's monthly expense including mortgage, vehicles, gas, utilities, food, etc., is \$2,750. The mother's take-home pay is \$1,600/month. Since the father was self-employed, he would not expect any disability payments from his employer. This family would need to take out a policy to cover \$1,150/month (\$2,750 - \$1,600).

Tips to Remember

Read each policy carefully. Look for key words including *elimination period*, *length of benefits*, and *exclusions*. Carefully read the policy's definition of a disability. Do you have to be completely disabled to receive benefits? Do you have to be disabled from your own occupation or any occupation? Selecting a policy where you only have to be disabled from your own occupation is preferable to one that will only pay if you cannot work at any occupation. For instance, if you work in a position that requires physical labor, you may be disabled from your own occupation but would still be able to work at a desk job, so you would not be disabled from "any occupation." Finally, check with the Kentucky Office of Insurance to receive the insurance rating for the policy you are considering purchasing.

Resources

Kentucky Office of Insurance, <http://doi.ppr.ky.gov/kentucky/> or (502) 564-6088

United States Social Security Administration, <http://www.ssa.gov/>

References

Disability Benefits, SSA Publication No. 05-10029, August 2009, ICN 456000. Retrieved from <http://www.ssa.gov/pubs/10029.html#part2>.

MetLife (2008). About four in ten full-time workers unprotected by disability insurance; singles and young families may be especially vulnerable. Retrieved from <http://www.metlife.com/about/press-room/us-press-releases/2008/index.html?SCOPE=Metlife&MSHiC=65001&L=10&W=coverage%20disability%20&Pre=%3CFONT%20STYLE%3D%22background%3A%23ffff00%22%3E&Post=%3C/FONT%3E&compID=550>.

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Issued 4-2011