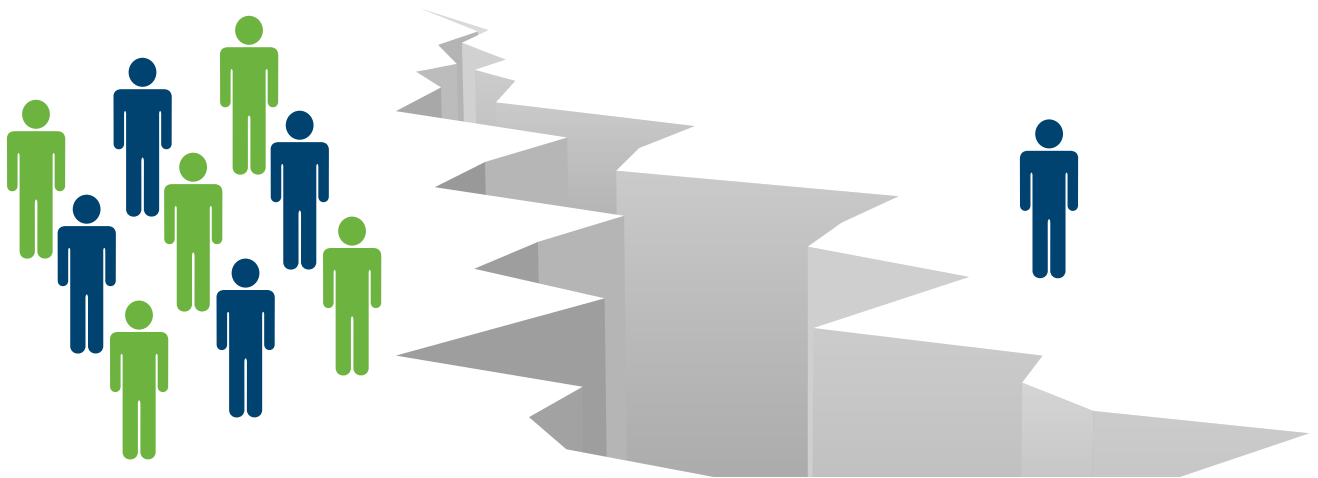


# America's Income Protection Picture

*How* and *why* too many working adults fall short in protecting one of their most important resources — their income.



## A CAUTIONARY TALE

David was right where he wanted to be. He was a go-getter, a well-paid IT consultant who still fit in volleyball games and moonlighted as a ski patrol member. He was only 48, in the prime of his life and career. Then came a stroke.

“There was no warning,” David said of the disability that changed his life in the blink of an eye, leaving him unable to work or enjoy his lifestyle. “One day you’re fine, and the next day you’re not.” Despite his efforts to recover and return to work, he was forced to retire. Without his employer’s disability insurance plan, the loss of David’s income would have been a devastating financial blow. But when the unexpected came, income protection proved to be the best financial decision he ever made — saving the majority of the paycheck he and his loved ones counted on.

David’s story is all too common in America. One in four 20-year-olds entering the workforce will suffer some income-interrupting disability during their working career. Cardiovascular diseases, such as David’s stroke, are a common cause of disability. Back pain, cancer and even pregnancy-related complications can impact workers’ incomes, in some cases for the long term.

How crucial is protecting your income through disability insurance — before an illness or injury keeps you from working?

# Considering a crucial benefit

Income protection, or disability insurance, is a vital benefit wage earners must consider in a benefits package, or when working for themselves. An income is a person's most important financial resource. It pays the bills and makes financial security possible. It needs protection.

Since 2010, the Council for Disability Awareness and its member companies have raised the level of awareness among consumers that a disability can happen, as well as steps they should take to make certain they have an income stream when it does. However, there is more to be done. Awareness is vital; our most recent research indicated many people would be more willing to purchase income protection if they simply knew more about it. As an industry, we need to bridge this knowledge gap.

## Mixed-up priorities

Given its importance, there's little surprise that income ranks as a high priority among working adults. But, the desire to protect this precious financial resource ranks far lower. The gap between what people say is important and what they actually *do* is a disconnect.

Are working Americans prepared to deal with an income-interrupting injury or illness? What's keeping them from obtaining income protection? Have they thought about their risks? If they weren't able to work, where would they turn for financial help?

To find out, the Council for Disability Awareness asked 1,000 full-time working Americans questions designed to:

- **Understand** the difference between what workers say is important and what they actually choose to protect
- **Identify** different perceptions and actions related to income protection among a broad cross-section
- **Determine** opportunities and barriers employers and advisors face in helping workers consider disability insurance as one method to protect their income
- **Learn** how well workers understand the concept of income protection, its cost and associated benefits

## Overview of survey methodology

Wakefield Research conducted the Council for Disability Awareness' survey using an email invitation and online survey between May 28 and June 9, 2014. Participants met the following criteria:

- U.S. residents
- Employed full-time in the private sector
- Between the ages of 21 and 68
- Household income of \$25,000 or more

Margin of error: +/- 3.1% (95% confidence)

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# Highlights of survey findings

“I can’t live without my income, but I’m not doing much to protect it.”

This sentiment permeated the responses to our 2014 America’s Income Protection survey. Although there was some variance among different demographics and income groups, a prevailing attitude was that several barriers stand in the way of having income protection through disability insurance.

Two of the most common obstacles: “nothing will happen to me that will keep me from working” and “it costs too much.”

## Key Findings:

### “My income is critical, but I’m not protecting it.”

Among a provided list of items adults commonly think of as important, **67%** cited income among their top three choices, but only **28%** believe it’s crucial to have insurance to protect it.

### “I’ll take my chances.”

More than 20% of workers under 40 say they are more likely to win the big lottery jackpot than become unable to work due to illness or injury. **The real odds:** 1 in 259 million vs. 1 in 4.

### “To know someone who becomes disabled is to feel their pain.”

People who know someone who’s unable to work for more than three months because of disability are **22% more likely** to get income protection through disability insurance.

Whatever the reason, wage earners are leaving their financial well-being — and that of their families — at risk. The survey results indicate a need for relevant consumer education about the impact of losing one’s income, and what that means to them and others around them. We need to dial up the call-to-action!

### “Knowledge is Power.”

One-third of working adults would be more likely to consider obtaining income protection **if they knew more** about it; that number rises to 40 percent for millennials.

### “Why don’t I have disability insurance? Lack of knowledge, lack of funds?”

The two most often cited reasons for not having disability insurance? Younger workers say they really haven’t thought about it or just don’t know enough. Older workers believe it costs too much.

### “Money doesn’t grow on trees.”

Half of those surveyed said they’d tap savings or investments to pay their bills if they couldn’t work. However, 57% said they only had enough money to pay for **6 months or less** of bills.

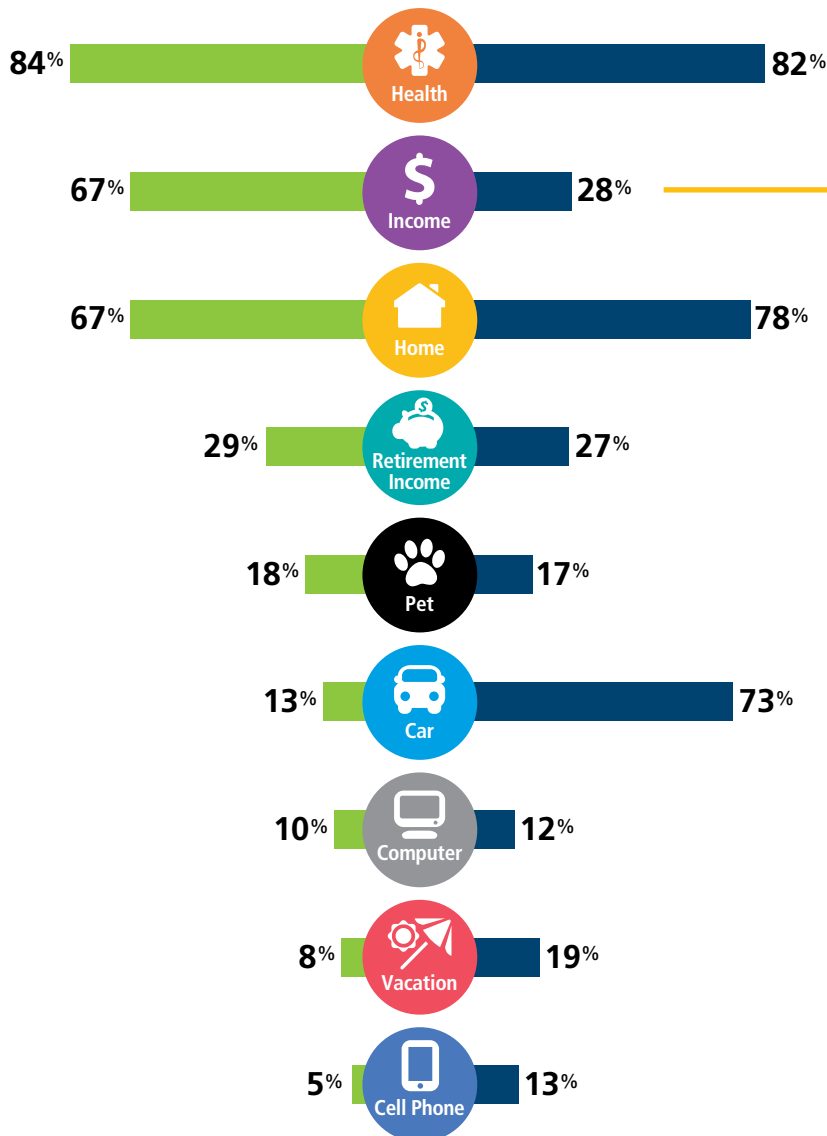
# So, where *are* our priorities?

It should be obvious that wage earners want to protect what is most important to them. But for some reason, most people don't see things that way when it comes to income. The ability to earn a paycheck doesn't enter into many people's thinking as something crucial to protect. What can we do to make it more top-of-mind?

FROM A LIST OF ITEMS COMMONLY SEEN AS IMPORTANT TO PEOPLE, SURVEY RESPONDENTS IDENTIFIED THEIR THREE...

...MOST IMPORTANT THINGS VS ...MOST IMPORTANT THINGS TO PROTECT

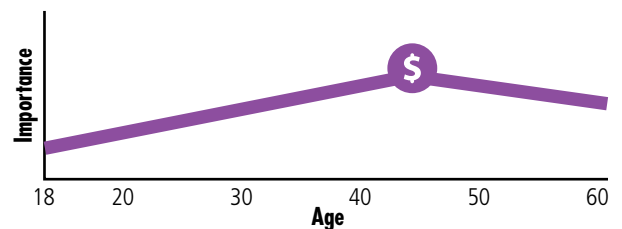
Health, income and home were the most important things in life by far



Overall, only 43% of working consumers report having income protection

Income protection falls far below having health, home and car insurance

## IMPORTANCE OF INCOME AND NEED FOR PROTECTING IT CHANGES WITH AGE



Those in their **20s** are least likely to say they have a risk. Only one in four said they understand that they have a risk.

# Awareness versus action

Many workers recognize the risk of disability. In fact, 58 percent of respondents in our survey say they know there's a risk they could lose their income at some point to a disability. What's more, most workers (69 percent) are aware of ways to plan for an income-interrupting disability.

Yet fewer than half of working consumers say they have planned for an income loss caused by an injury or illness. What's behind this lack of action?

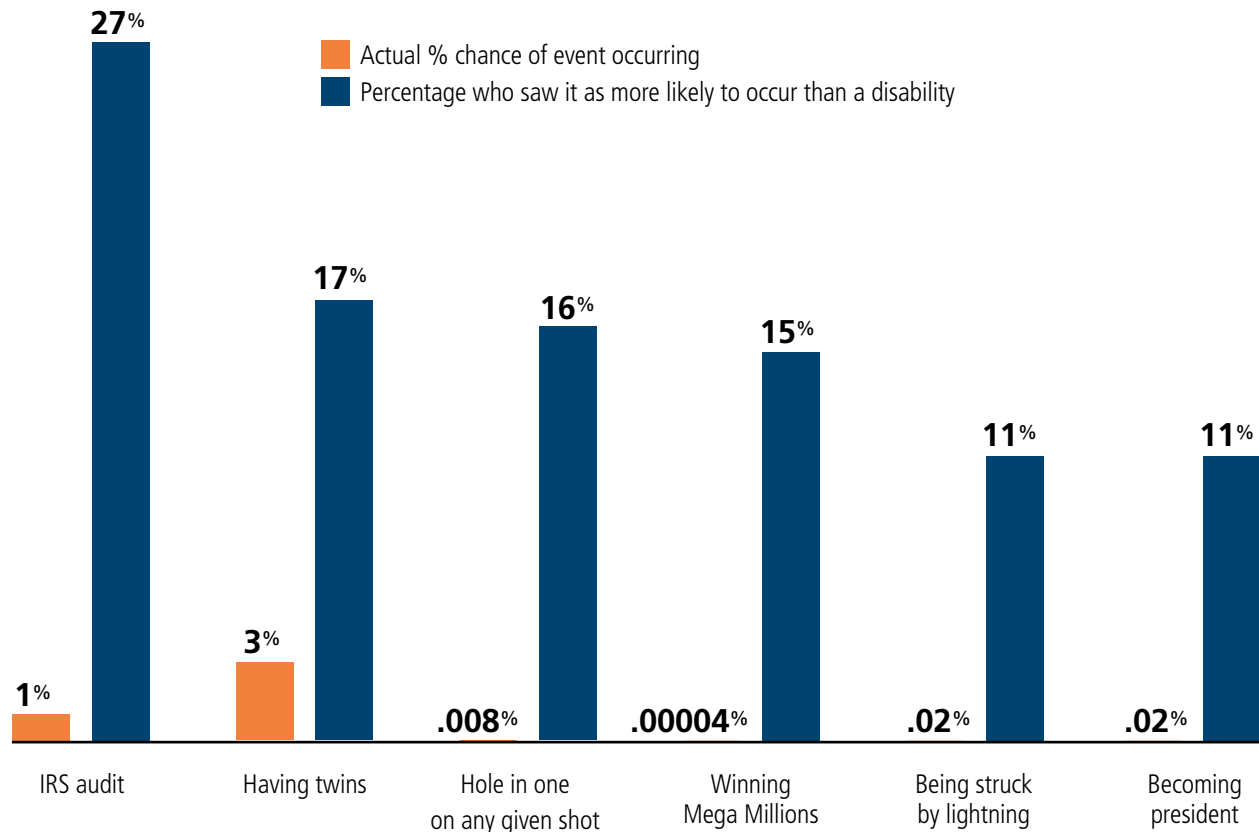
Our survey showed that many workers still lack a basic understanding of what their risks look like. Many

think they have a better shot of winning the lottery at some point than becoming disabled. Clearly there is more work to do when it comes to communicating comparative and real-life risks, and eliciting a clear call to action!

## WHAT'S MORE LIKELY?

Workers often miscalculate the relative risk of becoming disabled. Here are some unlikely scenarios that many workers see as more likely than the possibility of becoming disabled, which is around 25 percent during a working career.

# 25%



# Firsthand knowledge matters

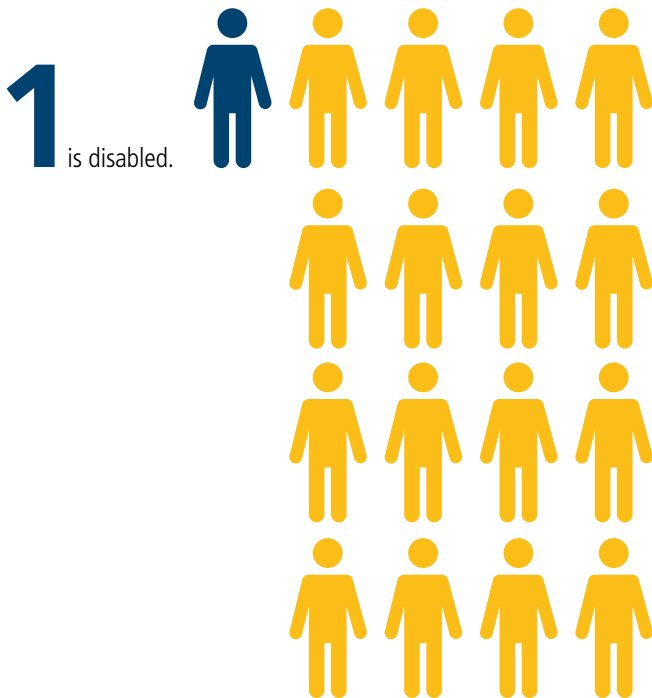
Chances are good that you know someone like David, the IT consultant whose disabling illness cost him his job. Nearly nine million adults are receiving Social Security Disability Insurance benefits in 2014; however, SSDI provides for very basic income protection, and most adults do not have any additional private disability insurance to which to turn.

It turns out that knowing someone with a disability greatly impacts a worker's outlook on his or her own risk of a disability — and that leads to action. According to our survey, those who know someone with a disability believe it's more likely they could also become disabled (70 percent versus 50 percent).

In fact, our survey found that 30 percent of those with disability insurance have it, in part, because they know someone who has experienced a disability. And among those who don't have the coverage, one in 10 said they would consider buying the coverage if they knew someone who became disabled.

Raising the profile of those with disabilities may be one of the simplest ways to increase awareness of the need for income protection.

## FOR EVERY 17 WORKING AMERICANS...

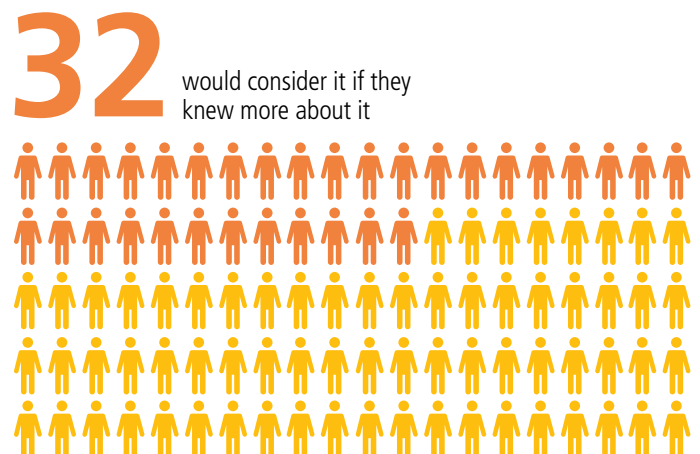


Source: U.S. Social Security Administration.

## FOR EVERY 100 PEOPLE WITH DISABILITY INSURANCE...



## FOR EVERY 100 PEOPLE WITHOUT DISABILITY INSURANCE...



\*numbers rounded

# Consumers cloudy about costs

Everything has a price, and some consumers say cost has put income protection out of reach. In fact, 41 percent of working adults would consider buying it if it was less expensive. Yet, there was little consistency among those same survey participants when asked how much they thought it cost. Three-quarters thought the cost was less than \$100 per month. Younger workers were slightly more likely than others to overestimate the cost.

## How much does it actually cost?

Because costs depend on individual circumstances, this is not a simple question to answer. Premiums are influenced by a variety of factors including age, occupation, salaries and health history of the individuals or groups being insured, as well as the level of coverage obtained and the specific plan options. However, the most common scenarios include:

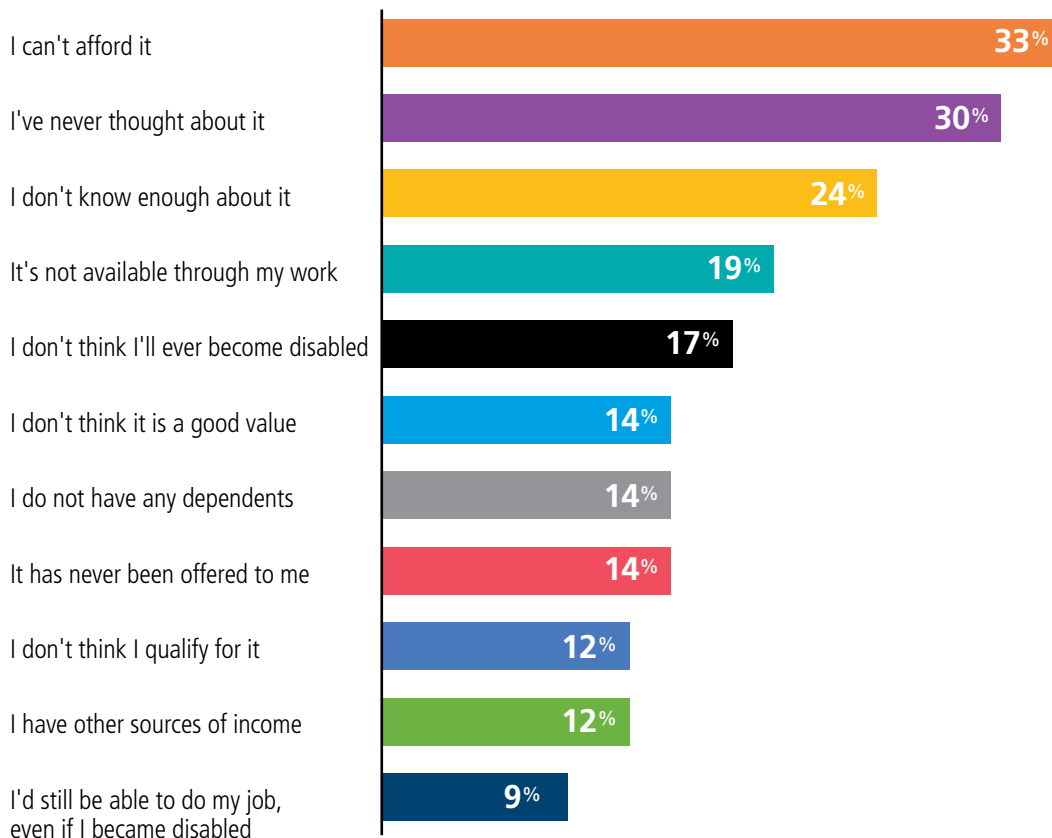
- A traditional employer-sponsored long term disability insurance plan tends to cost about \$250 to \$400 a

year. Premiums are often fully or partially picked up by the employer. Employees may not know the real cost.

- Some employers offer workplace voluntary plans. These are probably the hardest to quantify, given the variations in plans. However, the cost is typically higher than a traditional employer plan, but still considerably lower than a typical individual policy.
- Individual disability insurance comes with the most variation in influencing factors, and thus in costs. These policies tend to cost between 1% and 3% of the individual's salary.

## WHAT'S STOPPED YOU FROM PROTECTING YOUR INCOME?

Survey respondents gave the following reasons for not having disability insurance.





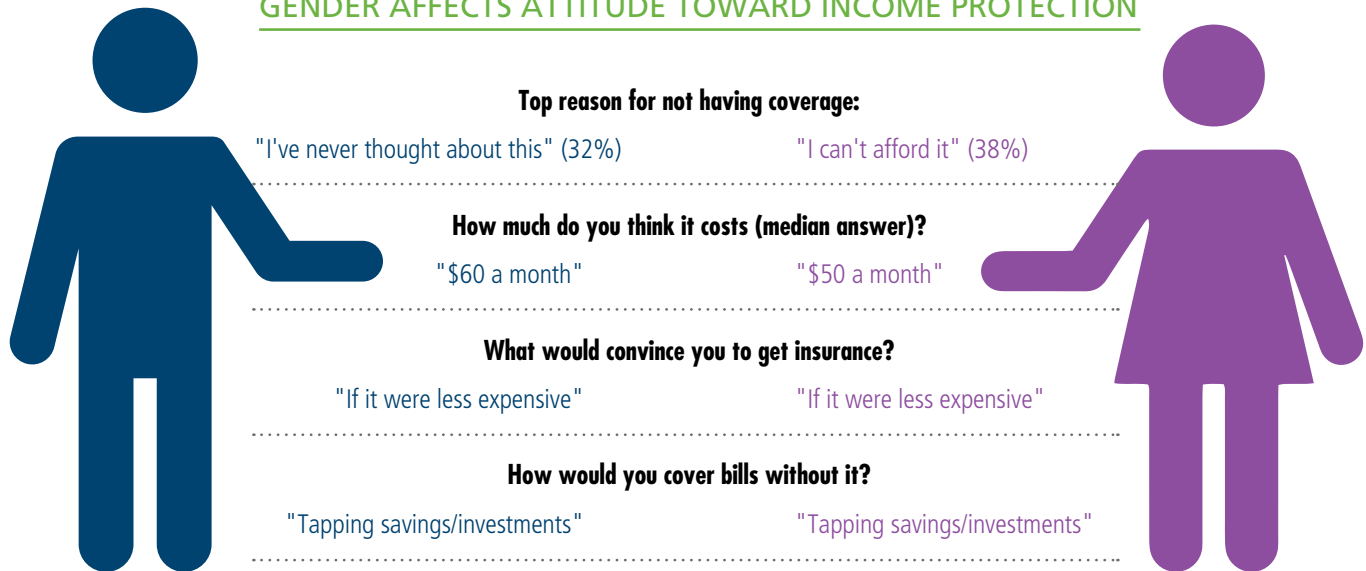
# Men and women: Seeing income protection through differently tinted glasses

There are no shortages of comparisons between men and women. But when it comes to their outlook on life and finances, our survey has found that women do think differently than men.

According to the survey, men and women equally value their income. But, women are less likely than men to say that income is crucial to protect (24 percent versus 31 percent). Also according to our survey, women are less likely to feel there is a risk to their income because of injury or illness (54 percent versus 62 percent).

These figures contradict industry statistics that show that women make up the majority of private long term disability claims (56 percent versus 44 percent). One cited reason for these claims is complications from pregnancy, which accounted for 11 percent of new long term disability claims for women in 2012 and 2013. Pregnancy and maternity are also a factor for short term disability claims by women.

## GENDER AFFECTS ATTITUDE TOWARD INCOME PROTECTION



# Youth shall be served

Millennials, also known as Gen Y, will make up the majority of the workforce by 2025, according to the Bloomberg Business Summit. But, as their earning power generally starts to rise during these years, are they aware of the risks to their income from injury or illness? According to our survey, no.

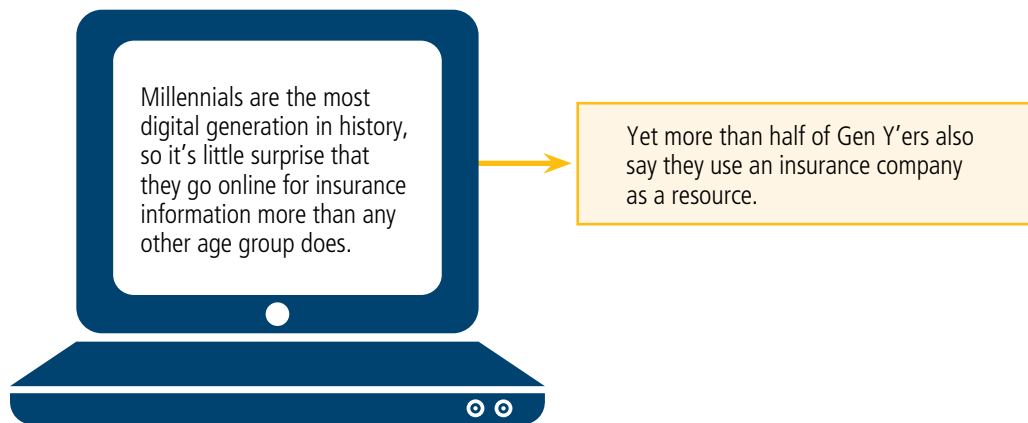
Millennials cite “I’ve never thought about it” as the number-one reason why they don’t have income protection. And, for those specifically in their 20s, the next most common answers: they don’t know enough about it, they don’t believe they’ll ever become too sick or injured to work and they can’t afford it.

Generally speaking, the level of understanding about income protection is fairly consistent among different age groups (with a slight spike for those in their 50s). But the stated reasons regarding the actual steps millennials have taken to protect themselves, and their level of awareness, may surprise you.

Compared with older generations:

- Slightly more millennials say it’s crucial to protect their income
- Millennials seem as aware as their older counterparts that there is some risk of losing their income, but the risk does not appear to weigh as heavily on their minds
- Millennials say they are more likely to have life insurance
- Millennials say they are slightly less likely to have health insurance

## ONLINE AND OFFLINE APPEAL



### Take action NOW.

Millennials have grown up in an era that is much different than the ones experienced by their parents. Economic turmoil, an inconsistent job market and an uncertain society have been the norm for them.

At the same time, it's been widely reported that Millennials want more meaning in their lives. They want to change the world. They want to have adventures. They want meaningful jobs and to make a difference.

They may not know that a disability could get in their way of these dreams. Having income protection could help them bounce back from an adverse event and get on with their purposeful life. Perhaps, this is a way to make this more relevant to their current needs and desires.

# Help... Show me the money!

CDA statistics show the majority of working adults are aware of their disability risks, know ways they can plan for such an income loss and have even started to plan to take those steps.

Yet 57 percent of working Americans report that they have no disability insurance and remain vulnerable to losing their income due to an illness or injury.

The cruel truth is that when your income stops, the bills keep coming. Where will the money come from? Few adults have the financial resources to pay bills without income protection. Many have no resources at all.

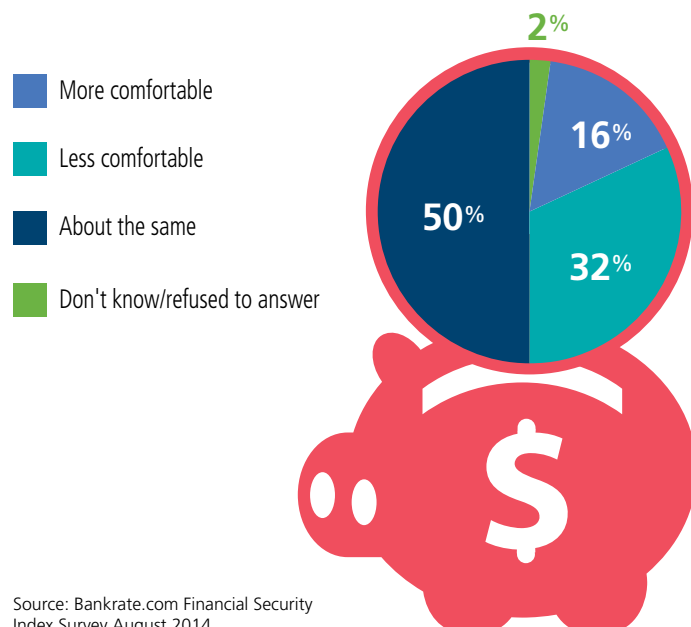
## In the survey, we asked working adults how they would pay their bills without an income:

- Most adults say savings and investments would be their number-one resource in case of a disability; however, according to the Federal Reserve and the U.S. Census Bureau, only 38 percent have an emergency fund to fall back on
- More so than other generations, millennials say they would ask friends and family for financial help during a disability
- Those older than 50 say government programs or retirement savings would be a primary source to replace their income
- Nearly 36 percent of those in their 20s see vacation and sick time as a viable option for withstanding the loss of income from a disability

While the above can serve as temporary safety nets, working adults need to understand that most are short-term remedies and they need to consider more long-term solutions.

## SAVINGS CONFIDENCE LAGS

Despite awareness of those risks to their incomes, American wage earners aren't feeling all that upbeat about their savings, according to Bankrate.com:



Source: Bankrate.com Financial Security Index Survey August 2014

# The trust factor

Working adults get their information about finances and benefits from a countless array of sources clamoring for their attention — experts, the news, the Internet, the government, companies or third-party associations or organizations. There's no shortage of advice out there. But before diving into information they receive about their own situation, wage earners first ask themselves: Whom do I trust?

Our survey found that levels of trust for various sources of information differ among age groups, income levels and other factors. Financial and insurance professionals need to take into account which sources best resonate with different targets and tailor their communications strategies accordingly.

- **Those in their 20s and 30s trust external sources of financial and insurance information more than all other age groups**
- **Interestingly, those in their 20s have a higher level of trust in newspapers than those older than 50**
  
- **Nearly 90% of wage earners trust their employer for financial and insurance information**
- **Family and friends are also trusted by 90% of adults for financial and insurance information**
  
- **Trust in online sources is highest among younger workers; this trust in online information also rises as income does**
- **Only 40% trust social media for information; highest level of trust in social media is among those earning the most**
  
- **75% have trust in nonprofit groups for their info; this peaks for those in their 30s and making more than \$100,000**
- **More than 80% trust an insurance or financial advisor; this soars to 94% for those with an individual disability plan**

# Conclusion

The 2014 America's Income Protection Picture survey demonstrates there is a significant disconnect between the importance workers say income plays in their financial security, and what workers actually do to protect this valuable resource. There is clearly a role for guidance, education and motivation!

Another important disconnect is that many workers say they have thought about the risks and say that they may have taken steps to protect themselves in the event of an income loss, but their actions may be speaking louder than words. The findings suggest that workers of all ages and income levels could gain from more information, whether at work or from an advisor. Having a better grasp of the significant risks to their ability to work, and of the important benefits income protection could offer them in the event they could not earn a paycheck...speak to them!

Here are four steps to start:

## 1. Personalize the risks

There are rampant misconceptions about the risks of a disability and how it could impact one's financial security. Many consumers would benefit from a better understanding of how a disability could personally affect them. Tools exist that can show an individual's own unique disability risk factors, including The Personal Disability Quotient, available at [www.whatsmypdq.org](http://www.whatsmypdq.org).

## 2. Review existing protection

Most workers overestimate their ability to deal with a disability when a paycheck stops coming. Relying on savings, vacation/sick time or the contributions of friends and family may work in the short term, but often

won't be sufficient to replace income in the event of a disability. Workers should review disability benefits offered by their employers, or by individual private plans. Only then can someone accurately determine how they can sufficiently meet financial obligations.

## 3. Take action

Once a disability strikes, it's too late to act. Being proactive and establishing income protection ahead of time ensures workers will be taken care of in the event they are unable to work. This is especially true for younger workers; as is the case with other benefits, it usually makes sense to start protecting income as early as possible.

## 4. Consult an expert

Planning takes knowledge. Turning to a qualified and competent professional can give workers a clearer picture of personal risks, help them to identify the right ways to protect their income and ensure that their financial security won't be devastated by an illness or injury.

These experts could include a trusted advisor or broker, certified financial planner or an employer's HR/benefits representative. Those self-employed can also contact professional associations that may offer disability coverage.

## WANT MORE INFORMATION?

Contact the Council for Disability Awareness at:

[www.disabilitycanhappen.org](http://www.disabilitycanhappen.org)

[feedback@disabilitycouncil.org](mailto:feedback@disabilitycouncil.org)

207.774.2634

# About The Council for Disability Awareness

A nonprofit organization dedicated to educating the American public about the chances of experiencing an income-interrupting illness, injury or surgery, and how to have a plan for these times. The CDA engages in research, communications and educational activities that provide information and helpful resources to working consumers, employers, financial advisors, consultants and others who are interested in helping employees, freelancers and entrepreneurs prepare for the personal and financial impact time out of work can have on wage earners and their families.

If you have comments, questions or suggestions for future studies, please contact the Council for Disability Awareness at **[feedback@disabilitycouncil.org](mailto:feedback@disabilitycouncil.org)**.





[www.disabilitycanhappen.org](http://www.disabilitycanhappen.org)

