Disability Insurance

PROTECTING THE American Dream

For financial security, disability insurance tops the list

By Russ Banham

The private sector of losing a steady paycheck and then being unable to come up with the money for the monthly mortgage or medical bills is not always the primary reason for losing a home to foreclosure.

A 2008 study by Harvard Law School indicates that 49 percent of all home foreclosures are caused by a medical reason, such as injury or illness, the leading cause of home foreclosures in the U.S. states, if the statistical patterns held nationwide, nearly 7 million Americans currently live in jeopardy of losing their homes because of a medical case.

It's not necessarily the health care costs or the disability that causes the disability but the ability to pay the mortgage. According to the study, 9 out of 10 Americans currently live in jeopardy of losing their homes because of a medical reason.

The unrecognizable condition is the underlying dilemma, the spike in the number of Americans who live in jeopardy of losing their homes because of a medical reason.

For some people, even a relatively short-term disability could make it difficult to pay the bills. There may be insurance to help with the risk of bankruptcy or disability, but it's important to understand the potential for loss and the need for financial preparedness.

"Grief and sorrow often come as a shock to many families," says Mercy Landis, president of the nonprofit Council for Disability Awareness (CDA), "yet most workers have not planned for the risk of disability and many have not prepared their families for the security of their homes."

Risk Underestimated

Despite the studies showing the financial impact of disability, the percentage of working Americans who believe they have a 2 percent or lower chance of becoming disabled and unable to work during the month, according to a study to be released in June by the Portland, Maine-based CDA. The actual percentage of Americans entering the workforce today who will become disabled before they retire is quite different.

"When you compare the cost of something like medical insurance to disability insurance, it's incredibly inexpensive," says Mercy Landis, president of the nonprofit Council for Disability Awareness (CSA).

"The Harvard Law School study arrives at a similar conclusion, especially in terms of home foreclosures," the study states.

Personal bankruptcies are another factor in the financial consequences of medical disability. In 2007, 1.2 million personal bankruptcies were filed in the U.S., according to the Consumer Bankruptcy Project. These numbers are expected to rise in the coming years.

"Americans tend to be optimistic about their own chances of a disability but not about their future," says Mary Landis, president of the nonprofit Council for Disability Awareness (CDA).

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Illustrations by Peter Hury and Mark Hury
savings are depleted. But in reality, how long would even an average family continue to pay for expenses and bills if they lost their employment income? This doesn’t bode well for many Americans, according to a recent study, the average long-term disability absence lasts two and a half years. There are other “hidden expenses” expectations. For example, many individuals mistakenly believe that if they suffer a disability, a government-provided Social Security Disability Insurance (SSDI) will cover a good part of the financial burden. Not only is this benefit difficult to qualify for, the monthly payments are not nearly enough to satisfy aggregate financial obligations, much less the mortgage. The average monthly check is $1,457, down from a peak of $1,504.

Currently, only 1% of Social Security disability-insurance receipts exceed $2,000 a month—assuming one can obtain the benefit. To qualify for Social Security Disability Insurance, a person must be disabled for five full calendar months, and the disability must be expected to last at least one year or otherwise end in death. A disabled individual also must be ineligible for any occupation and not just one or two previous lines of work. Consequently, a starting 62 percent of applicants for Social Security Disability Insurance are denied the benefit initially and those who finally receive it often wait several months before the checks arrive.

Pennies for Protection

Obviously, there is a need for more of us to consider or protect what we earn through disability income protection insurance. Many people believe that there are four types of disability-income policies—short-term disability insurance that pays a percentage of a disabled worker’s salary for up to 12 weeks after the so-called “elimination” or waiting period (typically 90 to 180 days), continuing disability insurance that essentially extends the short-term policy to desired duration. Most individual policies are either noncancelable or guaranteed renewable. With a noncancelable policy, premiums cannot be increased. Under a guaranteed renewable policy, premiums cannot be increased based on an individual’s circumstances, but they can be raised on a group basis.

A guaranteed renewable policy may define how a claim is determined—for example, all physicians in a state who meet the same type of policy might constitute one class. It is important to know how classes are defined and when the circumstances under which premiums can be lowered.

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There is a cost of a policy for a day. The premium for a group policy is less than $10 a month, in some cases as low as $3 a month depending on the benefit amount. The insurer provides insurance that is self-owned investors in the state and in each individual. There is a fee for the service, however. Group policies, both short-term and long-term, typically pay only 50 percent to 70 percent of the employee’s salary. For some more firms, the policy amount may be adequate to pay monthly bills or augment personal savings and investments.

For others, there is supplemental disability income protection insurance, which takes the salary component covered by traditional group policies. Supplemental insurance is non-taxable to the employee, whereas disability insurance that is paid for by employees is taxable to the employee, post-disability. However, several factors affect the price of supplemental disability income insurance. Additionally, including the policy’s eligibility, limitations and the benefit amount.

Not every company can purchase disability insurance, of course. Some companies simply don’t offer the benefit, and many people are self-employed and unable to acquire it. In such cases, individual disability income protection insurance is an alternative. The premium typically averages 3.2 percent of the worker’s annual salary, compared to about half a percent in a group insurance context. Last, but not least, despite the higher cost, the insurance is still a prudent purchase, he says. “Mainly, people get at least 2 percent back in their salaries. It makes financial sense to direct that income into protecting your investment income the rest of your life.

In recent years, the insurance industry has assembled several new long-term disability insurance coverage add-ons, such as return-to-work and comprehensive rehabilitation programs that stretch the cost of training and modification of the work environment. Our goal is to help people get back to work at 100 percent of their previous salary, and these programs meet this goal.

Another coverage feature in many policies is a non-canceling adjustment (NCA) that increases monthly disability payments in correspondence with annual cost-of-living increases, for a nominal additional premium.

Peace of Mind

For the insurance industry, high unemployment, rising costs and the alarming growth in home foreclosures, is it seeking to have access to disability income protection for business owners. Failing, in particular, the growth in disability income protection has been stable both during and after the recent recession.

“Parking costs and flaws depending on the particular carrier or group, but for the most part, has hit a high in the last ten years,” says Ried. “When you compare the cost to something like medical insurance, which everyone agrees is necessary to provide strong and flexible income protection in case of disability insurance is so incredibly inexpensive.”

He adds, “Not only will disability income protection help pay the mortgage and other bills to reduce the financial stress of a home foreclosures or personal bankruptcy, it helps keeps maintain the lifestyle that families are used to.”

For more information, please visit www.Ried.com.