Are You Practicing Good Defense? – What Happens if You or Your Client Become Disabled?

Did you know…?

One in three workers will become disabled for more than 90 days prior to age 65. The average disability lasts for 31.2 months. The medical issues that contributed to these disabilities are responsible for more than 62% of personal bankruptcies in the US.

More startling is the fact that 1 in 8 will be disabled for five years or more during their career. More than 65% of disabled workers are declined for Social Security Disability benefits! Of those disabled workers who do qualify for Social Security Disability benefits, an astounding 97% received benefits of less than $2,000 per month.

As trusted advisors to our clients, it is imperative that we make them aware of the pitfalls of inadequate coverage for a disabling injury or sickness that requires them to miss time from work.

All of our clients will be financially and emotionally impacted by a loved one's disability. Have you and your clients protected your families from the impact of a disability? Upon becoming disabled, will any portion of you or your client's retirement savings be self-completing (where contributions to retirement accounts would continue even if you were disabled and not earning a living)? Will the employer continue to provide retirement contributions if disabled?

Some Key Issues to Consider:

Disability Income Benefits - Do you or your client have sufficient disability income protection to avoid the financial catastrophe of a disability? Will disability benefits last for a lifetime or will they terminate at age 65? Does your policy provide for mental health coverage or is that issue excluded? If you are age 60, does your disability policy, like most, reduce the length of the benefit period if you become disabled after age 60? Is your disability integrated with Social Security benefits where benefits would be reduced, or does it stack on top of your disability income?

Is the disability protection provided by the employer? Will the income be taxed if received? Is the plan portable should you decide to change employers?

Life Insurance Planning – Would you or your client be able to afford to maintain Life Insurance coverage if a total disability occurred and earned income ceased? *It is our experience that a disability increases the need for coverage while decreasing the ability to pay for it!*

Do you or your client's life insurance contain a disability waiver of premium rider, regardless if the coverage is term or permanent?

Term Coverage – Did you know that upon a qualifying disability, regardless of the term duration (10, 20 or 30 year guarantee), you or your client's life insurance premiums would be **waived** by the carrier until your recovery or passing when the death benefit would be paid?

Permanent Coverage with Increasing Cash Value Designed to Enhance Retirement Income - Did you know that upon a qualifying disability, you or your client's life insurance premiums can be **paid** by the carrier? The attachment of the *correct disability rider* at policy issue will result in lifetime insurance coverage, increasing cash value and possibly long-term care benefits if the option was provided by the agent at policy issue.

Not All Disability Waivers Provide the Same Comfort and Protection…

Waiver of Cost of Insurance (COIs) – This type of disability rider ensures that the life insurance will be in place until the passing of the insured. It does not make annual premium payments. As a result, the cash value of the policy will grow only through policy earnings and *not future contributions*. This type of rider, while beneficial for life insurance protection, is not self- completing for cash value accumulation.

Payment of Committed Premium –

Entire Premium is Paid upon a Qualifying Disability – Some carriers, assuming a qualifying disability will continue to make annual premium payments and not merely waive COIs. This type of waiver not only ensures life insurance coverage, but that the cash value will increase and be available during life use, just as if the premium payment was made by the policy owner. *This rider provides a form of protection that no other financial instrument can provide if a disability occurs.*

Some Portion of the Premium is Paid Upon a Qualifying Disability – Some carrier's disability riders provide a specified premium to be paid upon a qualifying disability. The specific premium will in most circumstances be less than the originally committed to premium by the policy owner. Depending upon carrier and the life insurance design, this rider type may provide the needed comfort. *In some circumstances, without additional investment of premium by the policy owner, the policy may lapse prior to death.*

Not All Disability Waivers are Accessed in the Same Manner…

Own Occupation – If disabled, will the carrier allow access to the disability rider if you can earn a living doing something other than what you were doing at the time of your disability? If it is an own occupation rider, after how many years will the rider be in-force after your disability covering only your occupation?

Covered Disabilities – Is mental health a covered disability or is it excluded? Assuming a loss of a limb and/or other body part, will disability be assumed to take place?

As your client's Trusted Advisor, have you advised your clients on these important issues? Do you know that the rider exists? Did you know the material differences in riders and ability to access benefits?

Let's review a scenario where knowledge of you or your client's options will make a difference.

You or Your Client Becomes Permanently Disabled While Accumulating for Retirement

In early 2015, an attorney introduced us to a 50 year old client who came in to revisit their overall estate plan. The client was interested in:

- Adding permanency to his life insurance portfolio where only term exists today.
- Addressing the need for long-term care insurance, heightened by taking care of his parents.
- Increasing available income during his retirement, even though he is making maximum 401 (k) contributions.

We recommended the following:

- The purchase of $1,000,000 of indexed universal life insurance with John Hancock.
- Maximum fund the policy allowing the cash value to grow without the payment of income taxes on the growth. They committed to $30,000 per year until age 65.
- Include a disability rider providing for the needed life insurance to be maintained along with continuing contributions to their retirement fund if a disability took place.
- Include a long-term care rider allowing access to the death benefit to satisfy long-term care expenses.

Approximately six months after the plan was enacted, you or your client became disabled and were unable to work and earn a living. Let's take a look at the projected long-term results, assuming the cash value earned an average of 6% where the appropriate disability waiver of premium rider was attached to the plan versus no disability rider:

	With a Disability Rider	No Disability Waiver
Death Benefit		
Year 10	$ 1,000,000	$0
Year 20	$1,040,560	$0
Year 30	$1,840,889	$0
Cash Value		
Year 10	$209,365	$0
Year 20	$640,975	$0
Year 30	$1,397,047	$0
Long-Term Care Monthly Benefit		
Year 10	$20,000	$0
Year 20	$20,811	$0
Year 30	$36,818	$0

The plan design provides for without cost –

1. The death benefit to remain in-force with a projected increase in death benefit.
2. A continued increase in cash value for use during life as an income supplement.
3. The long-term care insurance portion will continue, including a projected increase in monthly benefit.

<u>Without the disability rider, the plan falls apart. Without the long-term care rider, there will be no long-term care coverage.</u>

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