

MFC University

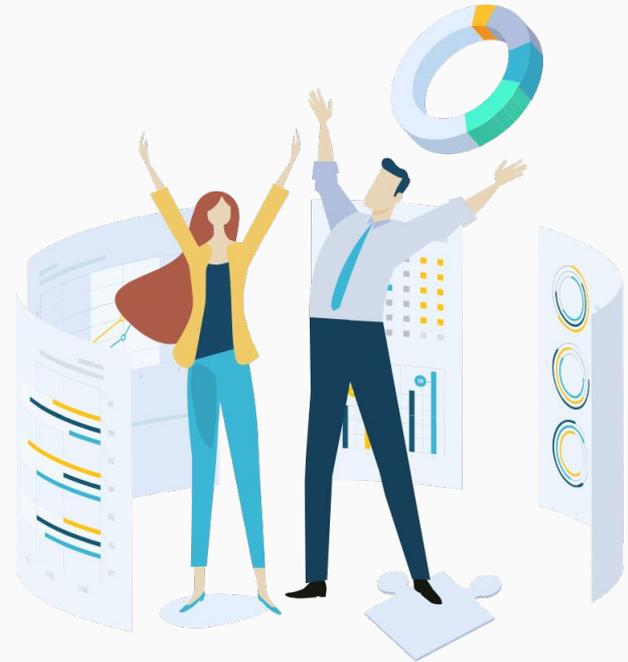
Disability Insurance

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Topics

1. Why is Disability Insurance Important?
2. Understanding Key Terms
3. Short Term Disability
4. Long Term Disability
5. Group Policies versus Individual Policies
6. Taxation





Why is Disability Insurance Important?

Chances of missing work due to illness, injury, or pregnancy are greater than most realize.

- More than one in four of today's 20-year-olds can expect to be out of work for at least a year because of a disabling condition before they reach the normal retirement age⁴.
- 5.6 percent of working Americans will experience a short-term disability (six months or less) due to illness, injury, or pregnancy on average every year⁵. Almost all of these are non-occupational in origin⁶.

The consequences are alarming.

- A 2014 study of consumer bankruptcy filings identified the following as primary reasons: medical bills (26%), lost job (20%), illness or injury on part of self or family member (15%)⁹.
- A 2013 study of bankruptcy filings in Washington state found that cancer patients were 2.65 times more likely to go bankrupt than people without cancer, with younger (under age 50) cancer patients having the highest rates of bankruptcy¹⁰.

Why is Disability Insurance Important?

The most common reasons for short-term disability claims are⁷:

1. Pregnancies (25%)
2. Musculoskeletal disorders affecting the back and spine, knees, hips, shoulders, and other parts of the body (20%)
3. Digestive disorders, such as hernias and gastritis (7.8%)
4. Mental health issues including depression and anxiety (7.7%)
5. Injuries such as fractures, sprains, and strains of muscles and ligaments (7.5%)

The most common reasons for long-term disability claims are⁸:

1. Musculoskeletal disorders (29%)
2. Cancer (15%)
3. Pregnancy (9.4%)
4. Mental health issues including depression and anxiety (9.1%)
5. Injuries such as fractures, sprains, and strains of muscles and ligaments (9%)

Why is Disability Insurance Important?



Workers' Compensation and Social Security do not cover most of these challenges.

- Workers' Compensation only covers time away from work if the disabling illness or injury was directly work-related. In 2016, only one percent of American workers missed work because of an occupational illness or injury¹¹.
- From 2006 to 2015, only 34 percent of Social Security Disability Insurance (SSDI) claimants had their applications approved: 23% at the initial application stage and the remainder after a reconsideration or appeals process¹².
- It generally takes three to five months from time of application for SSDI benefits to get an initial decision¹³. The backlog of appeals cases was more than one million in 2017, with associated processing time averaging more than 18 months¹⁴.
- The average SSDI benefit as of January 2018 was \$1,197 a month¹⁵. That equates to \$14,364 annually — barely above the poverty guideline of \$12,140 for a one-person household, and below the guideline of \$16,640 for a two-person household¹⁶.

Why is Disability Insurance Important?

The reality of life, if you do not have good health to earn income, all goals and even basic life needs become very difficult to achieve without support from one's current net-worth or counting on others to help.

Every financial plan should ensure some type of plan B in place in case of a health issue and lost of income for those that are building their wealth. For the vast majority, getting Long Term Disability is a very important step to building a independent financial foundation.

Understanding Key Terms

Elimination Period:

This is the time period you must have the injury before you qualify to receive payments. For Short Term Disability it is often very short. Five Day to One Month is Common. Long Term Disability can often ranges from 3 months to 1 years elimination period.

Premium:

The amount you pay for this protection.



Understanding Key Terms

Riders:

It is a provision on an insurance policy that adds or amends the coverage. Many riders add coverage for additional cost. Example: adding a rider for a disability policy payout to grow with inflation may add \$5 a month to the premium.

Group Policy:

A policy that is offered by your employer.

Individual Policy:

A policy that one goes out and buys directly from a company offering the product.



Understanding Key Terms

“Own” Occupation:

This is a definition of disability. “Own” Occupation means that insurance companies will pay out the policy if owner of the policy is are unable to work their particular job. For example, a surgery loses two fingers in an car accident making it impossible to do surgery anymore. They policy will pay out in this example. We highly recommend this disability insurance definition.

“Any” Occupation:

This is opposite of “own” occupation. This means one has to become so disable that they cannot work any possible job before the insurance company would payout. Example: a person works in IT and loses two of their fingers in an accident. While, the owner of the policy can no longer work a job with typing with “any” occupation, the policy would not pay out because they could still do other jobs out their.

Understanding Key Terms

Short Term Disability:

Provides income to the owners of the policy if they have an injury, illness, or accident that results in not being able to work.

Long Term Disability:

This is a product that provides an income to the owner of the policy if unable to work due to illness, accidents, or a long term disability.





Short Term Disability

1. Short Term Disability often covers anywhere from one week to two years of being unable to work.
 - a. The timeline depends on each policy.
2. MFC suggest this can be a good layer of protection. One consideration we often suggest is that one can self-insure by building a large emergency fund of 3-6 months of expenses and then have Long Term Disability policy with an elimination period of 3-6 months.
3. Often more expensive due to higher likelihood of occurring but have less of a financial impact.

Long Term Disability

1. Long Term Disability often cost less due to lower likelihood of occurring.
2. If it does occur, it has a significantly high financial impact.
 - a. The average Long Term Disability is 31.2 months (2.6 years).
 - b. If one makes \$60,000 a year and has an average Long Term Disability, they will lose out on \$160,130 in income including inflation. This example does also not compute any medical cost incurred.
3. Long Term Disability coverages ranges from 3 month to retirement age (often age 65).
 - a. Very common have the policy go to retirement age
 - b. Insurance companies often have a rider that reduces the amount they pay out by whatever one receives from social security.

Group Policies Versus Individual Policies

Group Policies:

1. Often many employers offer Short Term Disability and Long Term Disability coverage to their employees as part of their benefits package.
 - a. They often pay for it.
 - b. It normally covers around 40%-60% of one's income.
2. Sometimes it is a voluntary benefit where the employee has to sign up and pay for it.
3. We typically suggest one should review their Group Benefits. Often Group Benefits packages are cheaper than what's available in the marketplace due to the ability to bring larger accounts for businesses to compete for.
4. It is a common practice that many Long Term Disability group policies through employers offer for 2 years as "Own" Occupation and then switches to "Any" Occupation until retirement age.



Group Policies Versus Individual Policies

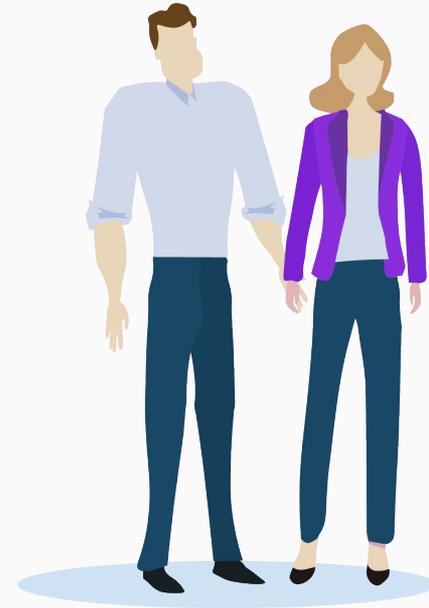
Individual Policies:

1. These policies often pay out in a dollar amount.
2. The advantage of an individual policies is that it gets a set policies and your coverage does not depend on your employer.
 - a. Individual policies are great options for those that need additional coverage on top of a group policy.
3. A general strategy in the market is that one should have around 60% of their income protected. Some people will need more based on their living expenses, life goals, and number of dependance relying on their income.
 - a. The general rule of 60% comes from after one pays for taxes, social security, medicaid, etc most people are living off of 60% of their income. Thus, it is a general rule.

Taxation

Income Taxation of Disability Insurance Products:

Taxation on the income from the policy depends on who pays for the policy. If the individual/employee pays for the policy up front, any income they receive from the policy is income tax free. If the employer pays for policy, the income will be taxable to the employee.



Sources

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