



The Individual Need for Disability Insurance

Many people believe that their biggest asset is their home. For most of us, our biggest asset is the ability to work and earn an income. Not being able to work – due to a job loss or a disability having taken away the ability to work – is often financially devastating.

Everyone who works for a living is very familiar with what can happen if they are fired. On the other hand, the possibility of becoming seriously disabled is a risk few seem to think much about. How likely is it that you will become disabled? According to one study, 30% of all Americans between the ages of 35 and 65 suffered a disability lasting at least 90 days.¹ The risk of disability is real. The question is, “What to do about it?”

Don't Count on Social Security

A few individuals do manage to qualify for disability benefits from Social Security. However, the Social Security definition of “disability” is so strict that over 60% of initial claims are rejected.² Obviously, something else beyond Social Security is needed.

Group Disability Insurance

Many employers will provide – or make available – disability insurance on a group basis. However, even those who are covered by a group policy can still be at substantial risk. Employer-sponsored disability policies seldom provide you with more than 60 % of your monthly salary. Many policies set a monthly maximum benefit that may be far less than what some people earn. Income taxes can also be an issue; if the employer is paying the full cost of the coverage, disability benefits are fully taxable.³

Individual Disability Income Insurance

For many, the real solution to the disability problem is individual disability income insurance. Although individual policies may cost you more, as long as you pay the premiums the benefits are not taxable. Plus, an individual policy allows you to tailor its terms to fit your own needs. Factors to consider when shopping for an individual disability policy include:

- **Company strength:** You need to know if the company is financially sound.
- **Definition of disability:** Look for a policy that defines disability in the broadest terms possible. Some policies will permit you to work in a different occupation and still collect disability benefits.
- **Elimination period:** How long must you wait before disability payments begin?
- **Benefit period:** How long will you need coverage? Both short-term and long-term disability benefits are available.
- **Inflation protection:** Try to find a policy that adjusts benefits for inflation.

¹ Based upon the 1985 Commissioners' Individual Disability Table.

² General Accounting Office, Social Security Administration: More Effort Needed to Assess Consistency of Disability Decisions (Washington, D.C.: GPO, 2004), 7.

³ This discussion concerns federal income tax law only. State or local law may vary.



Odds of Disability

Insurance claims studies indicate that the odds of becoming disabled for 90 days or longer are much greater than dying during one's working years. Studies also suggest that, as the number of business owners or key employees increases, so do the odds that one of them will suffer a long-term disability.

Probability of at Least One Long-Term Disability Prior to Age 65

Age	Number of People in the Age Group					
	1	2	3	4	5	6
25	58%	82%	92%	97%	99%	99%
30	54%	79%	90%	96%	98%	99%
35	50%	75%	88%	94%	97%	98%
40	45%	70%	84%	91%	95%	97%
45	40%	64%	78%	87%	92%	95%
50	33%	55%	70%	80%	86%	91%
55	25%	43%	57%	68%	76%	82%

Note: Based on the 1985 Commissioners Individual Disability Table.

Determining Odds of Disability Among People of Different Ages

Use the following table and worksheet to determine the risk of a long-term disability among your business owners or key employees.

	Age						
	25	30	35	40	45	50	55
Value	.42	.46	.50	.55	.60	.67	.75

Step 1: For each owner or key employee you wish to include in your analysis, choose the value from the table above that corresponds to the age closest to the actual age of the owner or key employee, and include the value in the space below.

Step 2: Multiply all of the values by each other to arrive at a single value.

_____ x _____ x _____ x _____ x _____ = _____

Step 3: Multiply the single value by 100 to convert it to a percent.

100 x _____ = _____ %

Step 4: Subtract the single value from 100% to determine the odds of long-term disability for any one of the groups of owners or key employees in your company.

100% - _____ = _____ %

Note: You can perform this analysis for any number of owners or key employees, not just the five shown in this worksheet.