

# Money Matters

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## Insurance Solutions By Aaron Skloff AIF, CFA, MBA

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**Q: To save the company money, our employer recently discontinued our disability insurance benefit. Should we replace it with a disability insurance policy?**

### **The Problem – Lost Income from Disabilities**

Many employers are slashing benefits to save money. According to the Social Security Administration, approximately one-third of Americans entering the work force today (3 in 10) will become disabled before they retire. According to the American Payroll Association, 71 percent of American employees live paycheck to paycheck, without sufficient savings to cushion the financial impact of a disability. In financially tight times like these, the lack of a paycheck can force even financially stable households into financial instability.

A mere 10 percent of disabling accidents and illnesses are work related. The other 90 percent are not, which means Workers Compensation does not cover them. Although many people assume most disabilities are the result of accidents, the majority of disabilities are due to illnesses. The two most common reasons for new disability claims are musculoskeletal/connective tissue related (23 percent of claims) and cancer related (14 percent of claims).

Compounding the problem is the widely held belief that you will qualify for Social Security Disability Insurance benefits. You must be completely unable to work in any occupation, not just your own occupation, to qualify. This requirement eliminates 65 percent of applicants. Only 3 percent of approved applicants receive a monthly benefit over \$2,000. The average monthly benefit is a mere \$1,062.

### **The Solution - Individual Disability Insurance**

Disability insurance provides a source of replacement income during your disability. It provides an income stream to partially replace the wages lost when you are unable to work for an extended period of time. Most policies limit coverage to 60 percent-70 percent of your previous income. State laws and insurance regulations are designed to discourage workers from realizing the same level of income while disabled. Disability insurance policies should be examined based on the six key criteria outlined below.

**Elimination Period.** The elimination period defines how long you will be precluded from receiving benefits. The longer the elimination period you choose, the lower the cost of your policy and the greater initial loss of income.

**Benefit Period.** The benefit period defines how long a benefit will be paid. A typical benefit period is through the age of 65. Coincidentally, this is the age at which many workers are eligible for full benefits under Social Security.

**Inflation Protection.** Inflation protection is a critical part of any policy. In order to keep up with the rising costs of living, most policies provide for cost of living adjustments. Foregoing this benefit may save you money today, but cost you dearly as your cost of living increases while your benefits do not.

**Coverage of Partial Disabilities.** When evaluating a disability insurance policy verify that the policy covers both partial and total disabilities. A non-severe (or partial) disability limits or prevents the amount or kind of work you can do; a severe disability (or total) disability prevents you from working altogether. According to the U.S. Census Bureau, 32 percent of disabilities are non-severe and 68 percent are severe.

**Coverage for Own-Occupation.** Seriously consider purchasing an own-occupation disability insurance policy. With this type of policy the insurance company does not penalize you for going back to work in a different occupation while on claim. With this type of policy if you have a sickness or injury and cannot perform your occupation, you will be considered totally disabled, even if you choose another occupation.

**Action Steps.** Protect your income through retirement with a disability insurance policy with: a short elimination period, long benefit period, inflation protection, coverage for partial disabilities and coverage for your own-occupation.

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