Swartzbaugh-Farber & Associates, Inc.
February 2017
Metro Magazine column
Title: HOW WILL YOU PAY THE BILLS?

How Will You Pay the Bills?
with Marianne D. Johnston, FLMI, CLU

An often overlooked area in financial planning is the reduction of income by disability of the breadwinner. How would you continue to pay normal bills, if you became disabled and unable to work?

Many employers offer short-term and/or long-term disability income benefits in their group insurance programs. Employer plans are often capped at a level that replaces just half to two-thirds of an employee's income. These are generally not portable; if you change employer, the coverage in your new position may be less or different. An advantage of individually owned disability insurance for which premiums are paid with after-tax income, is that benefits received are not subject to income tax.

Disability benefits are stated in increments of hundreds of dollars per month. If the insured person is disabled and meets the definition of disability in the policy, after the specified waiting period has been met, the benefits will be payable until the end of the benefit period, if continually disabled. The definition of disability may be different from policy to policy, and should be evaluated prior to selecting a plan. Some policies use definitions tied to occupation, while some require certain physical restrictions in determining eligibility for claims.
Many coverage options are available in the marketplace. Most common are benefit periods to age sixty-five, some of which can be continued to older ages, if the insured is still working. Ten-year benefit periods are also available, which might be appropriate for situations in which it is not anticipated the additional income will be needed after children are independent, or after the mortgage has been satisfied, for example.

Another consideration in purchasing disability income insurance is the "waiting period" or "elimination period". This determines how long the disability needs to exist, before any benefits can be due. Waiting periods vary from thirty days to two years for long-term disability insurance. As waiting periods increase, premiums will decrease. If you have an adequate emergency fund, made up of cash or liquid assets sufficient to cover expenses for, say, six to twelve months, this will allow you more flexibility in comparing insurance options.
Other factors to evaluate in comparing products would include whether the coverage is contingent on qualification for Social Security Disability benefits. Some policies will reduce benefits by the amount of government benefits you are receive on claim. This can also work to lower the premium for your individual policy.

Insurers offer varying provisions related to disabilities resulting from mental health or addictive behaviors. Often the benefit period for these causes will be limited to two years. Residual benefits, which may pay a lower benefit if you are still able to work at a reduced income, can help to fill the gaps before or after a period of total disability. Sometimes a disability will be recurring, so many policies include a provision for waiver of the waiting period if the recurrence is manifested within six months of a prior claim eligibility period.

While comparing long-term disability insurance, be sure to evaluate the benefits available for catastrophic disabilities, as well as options for cost of living increases while on claim, future increases dependent on changes in earnings, and automatic benefit increases.
It might be time for you to evaluate your need for income replacement in the event of a disability!

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