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Disability Income Preservation Consumer Guide

- Why should you consider Disability Income Protection?
- What are the types of disability Insurance policies?
- How to select the right amount of protection?

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"Income disability" typically refers to a situation where an individual's ability to earn income is impaired or restricted due to a disability. A disability may be a physical or mental condition that substantially limits one or more major life activities, such as walking, seeing, hearing, or working.

In the context of financial and insurance terms, "income disability" often refers to a type of insurance called "disability income insurance." This insurance provides financial protection by paying a portion of the policyholder's income if they become unable to work due to a covered disability. The goal is to replace a portion of the individual's income to help cover living expenses and maintain financial stability during a period of disability.

It's important to note that the specifics can vary depending on the terms of the insurance policy and the nature of the disability. Some policies may cover partial disabilities, while others may only cover total disabilities. The definition of disability and the conditions under which benefits are paid can vary, so individuals considering disability income insurance should carefully review the terms of the policy to understand the coverage provided.

The likelihood of someone becoming disabled over the course of their lifetime can depend on various factors, including their age, health, occupation, and lifestyle. Here are some general statistics related to disability:

1. **Social Security Administration (SSA):** According to the Social Security Administration in the United States, about one in four of today's 20-year-olds will become disabled before reaching the age of 67. This statistic is based on the assumption that the disability is severe enough to interfere with the individual's ability to work.
2. **Council for Disability Awareness (CDA):** The Council for Disability Awareness provides estimates that roughly one in four workers will experience a disability that keeps them out of work for at least 90 days at some point during their working years.
3. **World Health Organization (WHO):** The World Health Organization indicates that more than one billion people, or about 15% of the world's population, live with some form of disability.
4. **U.S. Census Bureau:** According to the U.S. Census Bureau, in 2019, around 41 million people in the United States had a disability, accounting for approximately 12.8% of the civilian noninstitutionalized population.

Experiencing a disability can have significant financial consequences for individuals and their families. These consequences can arise from various factors, including the loss of income, increased medical expenses, and potential changes in living arrangements. Here are some common financial consequences of a disability:

1. **Loss of Income:** One of the primary financial consequences of a disability is the potential loss of income. If a person is unable to work due to a disability, they may experience a reduction or complete cessation of their earnings. This can lead to financial strain, making it challenging to cover day-to-day living expenses, such as housing, food, utilities, and transportation.
2. **Medical Expenses:** Disabilities often come with increased medical expenses. Individuals with disabilities may require ongoing medical care, rehabilitation, prescription medications, assistive devices, and home modifications. These costs can accumulate quickly and contribute to financial challenges.
3. **Workplace Changes:** In some cases, a disability may necessitate changes in employment or career paths. This could involve a transition to part-time work, a change in occupation, or early retirement. These adjustments can impact income and long-term financial planning.
4. **Insurance Gaps:** Not all disabilities are covered by employer-sponsored disability insurance or government programs. Gaps in insurance coverage may leave individuals responsible for a significant portion of their medical and living expenses. Disability insurance policies vary, and it's essential to understand the terms of coverage.
5. **Impact on Retirement Savings:** A disability may affect an individual's ability to contribute to retirement savings or pension plans. It can also lead to early withdrawals from retirement accounts to cover immediate financial needs, potentially jeopardizing long-term financial security.
6. **Increased Debt:** Coping with a disability may involve taking on additional debt to cover medical bills, daily living expenses, or other unforeseen costs. This can lead to a cycle of financial stress and may impact creditworthiness.
7. **Dependency on Support Services:** Individuals with disabilities may require support services, such as personal caregivers or transportation assistance, which can add to overall living expenses.
8. **Legal and Administrative Costs:** Navigating the legal and administrative aspects of disability benefits and accommodations can involve additional costs, including legal fees and paperwork.

To mitigate these financial consequences, individuals are encouraged to plan for the possibility of disability. This may include obtaining disability insurance, creating an emergency fund, and considering long-term financial and estate planning. Seeking professional advice can be valuable in developing a comprehensive strategy to address the potential financial impact of a disability.

Social Security and Disability Income

Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) are two federal programs administered by the Social Security Administration (SSA) in the United States. Both programs provide financial assistance to individuals with disabilities, but they have different eligibility criteria and funding sources.

Social Security Disability Insurance (SSDI):

1. Eligibility Criteria:

- **Work Credits:** To qualify for SSDI, individuals must have earned sufficient work credits through payment of Social Security taxes during their working years. Work credits are based on the individual's work history and vary depending on age.
- **Disability Status:** Individuals must have a qualifying disability that meets the SSA's definition. The disability must be expected to last for at least 12 months or result in death.

2. Benefits:

- SSDI benefits are based on the individual's earnings record, so the amount can vary. Family members of disabled workers may also be eligible for auxiliary benefits.

3. Medical Review:

- Individuals applying for SSDI undergo a medical review to determine the severity of their disability. The SSA may request medical records and may schedule a consultative examination.

4. Waiting Period:

- There is a mandatory waiting period before individuals can start receiving SSDI benefits. This waiting period is usually five months from the onset of the disability.

Supplemental Security Income (SSI):

1. Eligibility Criteria:

- **Income and Resources:** SSI is a needs-based program, and eligibility is determined by financial need. In addition to having a qualifying disability, individuals must meet strict income and resource limits.
- **Citizenship/Residency:** Applicants must be U.S. citizens, nationals, or fall into certain eligible alien categories. They must also reside in the United States or the Northern Mariana Islands.

2. Benefits:

- SSI benefits are set by federal law and are the same nationwide. The benefit amount may be adjusted based on other income and resources.

3. Financial Review:

- The financial eligibility for SSI is determined by considering the individual's income, including any other benefits, and their available resources (assets).

4. Retroactive Benefits:

- Unlike SSDI, SSI benefits may be paid retroactively to the date of application, but not earlier than the first month of eligibility.

Likelihood of Qualifying:

- The likelihood of qualifying for SSDI depends on meeting the work credit and disability criteria.
- SSI eligibility is more focused on financial need, so individuals with low income and limited resources are more likely to qualify.

Important Considerations:

- The application process for both SSDI and SSI can be complex. Many initial applications are denied, and the appeals process may be necessary.
- Seeking the assistance of a disability attorney or advocate can be beneficial in navigating the application and appeals process.

Individuals considering applying for SSDI or SSI are encouraged to contact the SSA or consult with a professional to assess their specific situation and eligibility.

You can visit the SSA's official website at www.ssa.gov or contact the SSA by phone to inquire about the most recent benefit amounts and any updates to the SSDI program.

Types of Disability Insurance Policies

Disability insurance provides financial protection in the event that an individual becomes unable to work due to a disabling injury or illness. There are different types of disability insurance policies, each with its own features and coverage. Here are the main types:

1. Short-Term Disability Insurance (STD):

- Provides coverage for a short duration, typically up to a few months.
- Benefits usually start shortly after the disability occurs.
- Offers a higher percentage of income replacement but for a limited period.

2. Long-Term Disability Insurance (LTD):

- Offers coverage for an extended period, often until retirement age.
- Benefits typically start after a waiting period (e.g., 90 days) and continue for the duration of the disability or a specified benefit period.
- Provides a percentage of the individual's pre-disability income as a benefit.

3. Individual Disability Insurance:

- Purchased by individuals on their own, independent of their employer.
- Customizable coverage based on the individual's needs and preferences.
- Provides income replacement in the event of a disability.

4. Group Disability Insurance:

- Provided by employers as part of employee benefits.
- Premiums may be paid by the employer, employee, or shared.
- Often more cost-effective than individual policies due to group pricing.

5. Occupational Disability Insurance:

- Tailored to specific occupations or professions.
- Coverage is designed to address the unique risks and challenges associated with a particular job.

6. Own-Occupation Disability Insurance:

- Defines disability based on the individual's inability to perform the duties of their own occupation.
- Generally provides more comprehensive coverage, especially for professionals with specialized skills.

7. Any-Occupation Disability Insurance:

- Defines disability based on the individual's inability to perform any occupation for which they are reasonably qualified.
- May be less expensive but can be more restrictive in terms of eligibility.

8. Key Person Disability Insurance:

- Purchased by businesses to protect against the financial impact of a key employee's disability.
- Provides benefits to the business to cover expenses or losses associated with the absence of a key person.

9. **Supplemental Disability Insurance:**

- Purchased to supplement existing disability coverage.
- Designed to provide additional income replacement beyond what is offered by primary disability policies.

10. **Social Security Disability Insurance (SSDI):**

- A federal program administered by the Social Security Administration.
- Provides financial assistance to individuals with disabilities who meet specific criteria.
- Eligibility is based on work credits and the severity of the disability.

It's important for individuals to carefully review the terms and conditions of any disability insurance policy to understand the coverage, waiting periods, benefit amounts, and other relevant details. Consulting with an insurance professional can help in selecting the most appropriate policy based on individual needs and circumstances.

Disability Overhead Insurance.

Disability overhead insurance, also known as business overhead expense (BOE) insurance, is a type of insurance designed to protect a business owner or professional in the event they become disabled and are unable to work. Unlike individual disability insurance that provides income replacement for the disabled individual, disability overhead insurance is focused on covering the ongoing business expenses that may continue even if the owner or a key person is disabled.

Here are key features of disability overhead insurance:

1. **Business Expense Coverage:**

- Disability overhead insurance is specifically designed to cover the fixed, ongoing expenses of a business, such as rent or mortgage, utilities, employee salaries, insurance premiums, and other regular operating costs.

2. **Premiums and Deductibles:**

- The policyholder pays premiums for disability overhead insurance, and there is usually a waiting or elimination period (similar to an individual disability insurance waiting period) before benefits are paid. There may also be a deductible that the business is responsible for before the insurance coverage kicks in.

3. **Limited Benefit Period:**

- The benefit period is typically limited, often ranging from 12 to 24 months. The purpose is to provide short-term financial assistance to keep the business running until the disabled owner or key person can return to work, sell the business, or make other arrangements.

4. **Customization:**

- Business owners can often customize disability overhead insurance policies to suit the specific needs and expenses of their business. This might include tailoring coverage amounts and selecting the waiting period that aligns with their financial strategy.

5. **Eligibility and Underwriting:**

- Eligibility for disability overhead insurance is often based on the type of business, the owner's role, and other factors. Underwriting may involve assessing the financial health of the business and the risk associated with the owner's disability.

6. **Coordination with Other Policies:**

- Disability overhead insurance is often used in conjunction with other insurance policies, such as individual disability insurance for the business owner's personal income replacement or key person insurance to protect against the financial impact of the disability of a key employee.

Disability overhead insurance can be especially valuable for small businesses or businesses heavily reliant on the active involvement of the owner or key individuals. It helps ensure that the business can continue to meet its financial obligations and operate smoothly during a period of disability for a key person.

Case Study

Case Study: XYZ Partnership and Disability Buyout Insurance

Background: XYZ Partnership is a successful consulting firm with three equal partners: Alice, Bob, and Carol. Each partner owns one-third of the business, and their roles are critical to the firm's operations. They have a disability buyout insurance policy in place to protect the business in case one of the partners becomes disabled and is no longer able to actively contribute to the company.

Situation: One day, Alice, one of the partners, suffers a serious accident that results in a permanent disability. As a result, Alice is unable to fulfill her duties and contribute to the business as she did before.

How Disability Buyout Insurance Works:

1. Triggering the Buyout Clause:

- The disability buyout insurance policy has a buyout clause that is triggered when a partner becomes disabled and is unable to actively participate in the business. The disability must meet the criteria outlined in the policy.

2. Valuation of Alice's Share:

- An agreed-upon valuation method is used to determine the fair market value of Alice's share in the business. This valuation could be based on factors such as the company's financial statements, industry benchmarks, or an agreed-upon formula.

3. Funding the Buyout:

- The disability buyout insurance policy provides a lump-sum payment to the business to fund the buyout of Alice's share. This payout helps cover the costs associated with the buyout and ensures that the remaining partners can continue to operate the business without financial strain.

4. Purchase of Alice's Share:

- With the funds from the disability buyout insurance, the remaining partners, Bob and Carol, purchase Alice's share in the business. The buyout is conducted according to the terms outlined in the partnership agreement and the insurance policy.

5. **Business Continuity:**

- The disability buyout ensures a smooth transition of ownership and control within the partnership. Bob and Carol can continue to run the business without disruptions, using the insurance payout to facilitate the buyout process.

Benefits:

- **Financial Protection:** The disability buyout insurance provides financial protection to the business by ensuring that funds are available for the remaining partners to buy out the disabled partner's share.
- **Business Continuity:** The policy helps maintain continuity in business operations and prevents potential conflicts or disruptions that could arise from a disabled partner's inability to contribute to the company.
- **Fair Compensation:** The disabled partner, Alice, receives fair compensation for her share in the business, allowing her to address her financial needs and the impact of the disability.

In summary, disability buyout insurance plays a crucial role in protecting businesses, especially those with multiple partners, by facilitating a smooth buyout process in the event of a partner's disability. It helps ensure financial stability and continuity for the business and the remaining partners.

Selecting a qualified financial services professional is crucial, especially when considering strategies like "Banking on Yourself." Here are some steps to help you choose a financial advisor who can provide sound advice on this strategy and other investment options:

1. Credentials and Qualifications:

- Look for financial advisors who hold relevant credentials and qualifications, such as Certified Financial Planner (CFP), Chartered Financial Consultant (ChFC), or similar designations. These designations often require education, experience, and adherence to ethical standards. And/or

2. Experience and Specialization:

- Seek advisors with experience in insurance and retirement planning, as these areas are often integral to the Banking on Yourself strategy. Ask about their specific experience with dividend-paying whole life insurance and similar financial products.

3. Regulatory Compliance:

- Ensure that the financial advisor is registered with the appropriate regulatory authorities. In the United States, for example, you can check the SEC's Investment Adviser Public Disclosure (IAPD) database or the Financial Industry Regulatory Authority (FINRA) [BrokerCheck](#). Most states regulatory agencies or Departments of Insurance provide consumers with online licensing search capabilities to ensure the appropriate licenses are maintained, up-to-date and whether or not there outstanding consumer complaints, fines, suspensions or revocations. [National Insurance Producer's Registry Look Up](#).

4. Client References:

- Ask for references from current clients or check online reviews to get a sense of the advisor's track record and the satisfaction of their clients.

5. Transparent Fee Structure:

- Understand how the financial advisor or insurance agent is compensated. Fee-only advisors are compensated directly by clients and may be less likely to have conflicts of interest. Fee-based advisors may also earn commissions on certain products. Insurance agents are typically paid a commission on the products or services they recommend to their clients. Commissions are highly regulated by various departments of insurance in all 50 states and overseen by the National Association of Insurance Commissioners. NAIC. It is recommended consumers read or views the FREE Consumers NAIC Buyers Guides available from every licensed insurance agent and <https://content.naic.org/>

6. Clear Communication:

- Look for an advisor who communicates clearly and is willing to educate you about the Banking on Yourself strategy and any other investment options. Avoid advisors who use jargon without explaining concepts in a way you can understand.

7. Fiduciary Duty:

- Ideally, choose an advisor who adheres to a fiduciary standard, meaning they are legally obligated to act in your best interest. This standard can help ensure that the advice you receive is in line with your financial goals.

8. Continuing Education:

- Inquire about the advisor's commitment to ongoing education and staying updated on industry changes and trends.

9. Compatibility and Trust:

- Trust your instincts. A good advisor-client relationship is built on trust and mutual understanding. Choose someone with whom you feel comfortable discussing your financial goals and concerns.

10. Comprehensive Planning Approach:

- Look for advisors who take a comprehensive approach to financial planning, considering your entire financial picture, including risk tolerance, investment goals, retirement planning, and insurance needs.

Before making any decisions, interview multiple advisors to compare their approaches and recommendations. Always read and understand any contracts or agreements before entering into a professional relationship. If you're considering a specific strategy like Banking on Yourself, make sure the advisor can explain the details clearly and address your questions and concerns.

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