

Life's uncertain – Consider Disability Insurance

You never know when an injury or illness might affect your income-earning ability. To financially protect your family and give yourself peace of mind, assess your disability insurance coverage and determine whether you need to purchase an individual policy.

Employer coverage may be inadequate

Most people receive short-term disability coverage — for disabilities lasting anywhere from two weeks to two years — through their employers. Less common but no less important is long-term coverage. Unfortunately, even when an employer provides long-term coverage, the amount of that coverage is often inadequate.

If your employer doesn't offer disability insurance or provides less than adequate coverage, consider buying an individual policy. This type of policy may offer several important benefits not provided by group coverage.

First, it's portable, meaning your policy will stay in force even if you leave your job. Second, disability income received from an individual policy is income-tax free, as long as you pay the premiums yourself. Finally, an individual policy allows you to decide how much coverage you need.

Cost considerations

Generally, the older you are or the longer your desired coverage period, the more you can expect to pay in premiums. Also influencing your policy cost is whether your insurer is permitted to raise your premiums ("noncancelable" policies prohibit this as long as you keep paying your premiums) and the length of your "elimination period," or how long you must wait before you begin to receive benefits after a disability.

Coverage amount? No single right answer

Conventional wisdom says you should make sure you're covered for 50% to 60% of your net income. Because there's no single right answer for everyone, sit down and calculate how much money you'd need each month to meet all of your expenses. Your financial advisor can help.

You may be able to save money by not duplicating benefits you already have. For example, if your employer provides short-term disability coverage for one year, you might want to set your policy's elimination period for at least that long.

While individual disability policies tend to be expensive, trying to save money by skimping on coverage is probably not your best strategy. Less expensive policies often lack important protections and may severely restrict your benefits. Your worst-case scenario would be to suffer a disability and then find yourself without the protection you thought you had purchased.

Don't wait

It's important to assess your disability coverage now, while you're healthy. If you wait and then suffer a disability, unfortunately it will be too late to obtain the coverage you need.



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