FINANCIAL PROTECTION PLANNING

Disability insurance

1 in 4

WORKERS WILL EXPERIENCE A DISABILITY BEFORE RETIREMENT*

WHY IT MATTERS

Your ability to earn an income is likely your most valuable financial asset. For a 35-year-old earning $100,000 per year, that's potentially **$3 million or more** in future earnings — far exceeding the value of most investment portfolios at that stage of life.

Most disabilities aren't dramatic accidents. The leading causes of long-term disability claims are **musculoskeletal disorders, cancer, cardiovascular disease,** and mental health conditions — things that can affect anyone, regardless of occupation or lifestyle.

Without income protection, a prolonged disability can rapidly deplete savings, derail retirement plans, and create lasting financial hardship for your entire household.

WHAT DISABILITY INSURANCE COVERS

- **Income replacement** — typically 60–70% of gross income, paid monthly while you're unable to work
- **Own-occupation definition** — the gold standard; pays if you can't perform the specific duties of your current profession
- **Any-occupation definition** — pays only if you can't work in any capacity; less favorable for professionals
- **Short-term vs. long-term** — short-term covers weeks to months; long-term policies extend to age 65 or longer
- **Non-cancelable & guaranteed renewable** — insurer cannot cancel coverage or raise premiums as long as you pay
- **Cost-of-living adjustment (COLA)** — benefits increase with inflation during a claim period

GROUP VS. INDIVIDUAL COVERAGE

Employer-sponsored (group) plans are common but often insufficient. Key limitations include:

- Benefits are typically taxable if premiums are employer-paid
- Coverage ends if you leave your employer
- Benefit caps may leave high earners underinsured
- Often use "any-occupation" definitions after 24 months

Individual (private) policies travel with you, offer stronger definitions, and can be structured to fill gaps left by group coverage. Generally the preferred solution for professionals and business owners.

Many advisors recommend a **layered approach** — use group coverage as a baseline, then supplement with an individual policy.

90% of disabilities are caused by illness, not injury — making accident-only coverage dangerously inadequate

34 mo average duration of a long-term disability claim — most Americans have fewer than 3 months of savings

68% of private-sector workers have no long-term disability coverage through their employer

RULES OF THUMB

Coverage amount

Aim to replace 60–70% of gross income. Account for group benefits, Social Security, and any existing policies to find your true gap.

Elimination period

Choose a 90-day waiting period if you have 3+ months of emergency reserves. A longer wait = lower premiums.

Benefit period

Elect benefits to age 65 whenever possible. A 5-year benefit period may leave you exposed during your prime earning years.

When to buy

Buy while you're young and healthy — premiums are significantly lower and underwriting is easier. Don't wait for a health event.

*Social Security Administration. This handout is for educational purposes only and does not constitute insurance or financial advice.