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# **The Circle Of Safety:**

**How to Protect Yourself, Your Family,  
and Your Business with Today's Insurance**

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## **HOW TO PROTECT YOURSELF AND YOUR FAMILY IF YOU GET HURT...**

**S**o far, we have discussed two types of insurance: that which covers your possessions and that which covers your assets if you cause harm to someone else. But what about you? What if you get sick, injured or even die? How do you protect yourself and your family in these instances?

Remember, insurance is a game of “What if?” So ask yourself these questions:

What happens if you suffer a serious illness or injury that results in major medical bills and significant lost work time?

How do you and your family pay expenses if you are unable to work for an extended period of time?

What happens to your family if you die?

These are obviously not pleasant thoughts, but remember that “What if?” is a game about worst-case scenarios. The next three chapters are about insurance that covers you and your family if your health goes, your ability to work goes or if you die.

### ***Disability Insurance***

It seems like something that doesn't happen very often. You suffer an illness or injury that prevents you from working for an extended period of time -- six months, a year, even five years. Sounds rare, doesn't it? It's not.

☛ **Fact.** On average, you have a one in five chance of becoming disabled between the ages of 35 and 65. You have a one in seven chance of becoming disabled for *at least five years* before you turn 65. If you are 30, you have a one in three chance of incurring a long-term (at least 90 days) disability before you turn 60. At age 40, the odds are three in 10. At 50, it's less than one in five.

You actually have a far greater chance of becoming disabled during your working career than you do of dying. The chances of disability vs. death are more than six times greater for younger workers. Yet far more Americans buy life insurance than they do a policy that can replace income lost because of a disability.

### ***Disability Coverage: Lots of Options, How to Choose...***

Disability insurance can replace some or nearly all of any income you might lose because you are very sick or badly injured. That sounds simple enough, but there are many types of disability insurance. Some of it is available to all of us:

**Social Security** -- If you are basically unable to perform any job duties at all, you probably are eligible for disability payments from Social Security. But such payments are not very high and won't replace most of your lost income.

☛ **Fact.** Further, 58% of all applicants for disability benefits are initially denied by Social Security. In addition, you are eligible for benefits only after you have been disabled for five months *and* if the disability is expected to last at least a year. Finally, any benefits you receive from Social Security are taxable.

**Workers' Compensation** -- If you are injured or become sick on the job, you are eligible for benefits under your employer's workers' compensation insurance, which all businesses must have. However, the benefits you receive

vary from state to state and on the level of your disability. In addition, the benefits are relatively low and won't adequately replace income for those who earn mid- to high-range salaries. Again, the injury or illness must be job-related, or substantially job-related.

**Disability Coverage Through Your Work** -- Many larger businesses offer disability insurance at somewhat reduced rates to their employees as part of a benefits package. However, these so-called group disability plans likely will have limits on the income they will replace (say no more than 60% of your salary) and have limitations on the time such benefits will be paid. Further, the benefits are taxable, and the coverage cannot be taken with you if you change jobs.

## ***Personal Disability Insurance***

The other option for disability coverage, one more and more Americans are taking, is buying your own disability insurance policy. Disability coverage is similar to auto insurance in that you can buy a lot of it or just a little. How much do you need? In general, it is recommended that you have enough to replace about 60% to 70% of your pretax income.

➤ **Note.** If your salary is \$5,000 a month, you would need about \$3,000 to \$3,500 in benefit payments a month from your disability policy. But there are a lot of factors to consider. You should consult with someone experienced in selling disability insurance to determine how much coverage you need.

There are numerous options for coverage in terms of when it is available. You can buy disability insurance that pays benefits for just a few months (short-term disability or STD). Or you can buy coverage for many years or even as long as you live (long-term disability or LTD).

☛ **Tip.** Generally, though, disability insurance is best used for longer terms. Buying short-term disability only is equivalent to purchasing auto insurance for just fender-benders. It makes much more sense to insure against a big (long-term) loss in income.

Disability insurance comes with a waiting, or elimination, period. That's the time between when the injury or illness occurs and when the benefit payments start coming. For LTD, the waiting period ranges from 60 to 180 days. The shorter the waiting period, the more the policy will cost.

### ***Important Information: What Is a Disability?***

When considering the purchase of disability insurance, it is vital to look at the definition of disability in each policy. In addition, you must consider how that definition applies to your specific job situation.

Disabilities carry adjectives such as “total and permanent,” “partial” and “temporary.” Frankly, most disabilities are “partial” and “temporary.”

☛ **Tip.** As such, if you are considering the purchase of a disability policy that covers “total and permanent” injuries or illnesses only, you may be wasting your money.

Disability policies also have definitions relating to your occupation. The best, and most expensive, coverage is that which kicks in when you are *unable to perform your specific job*.

☛ **Example.** Say a neurosurgeon loses his or her hand in an accident. The person could still be a physician, but probably could no longer perform the duties of a neurosurgeon. By the definition of so-called “own occupation” policies, this person is disabled.

In contrast to “own occupation,” there is “any occupation” coverage. In this case, if the person can perform a job that requires the same skills and training, he or she would not be disabled. In the case of the neurosurgeon, if he or she could continue to serve as, say, a general practitioner, that person would not be disabled. However, some disability policies will pay some of the difference in salary that results from having to change job duties.

Please keep in mind that some disability policies define “any occupation” to be truly that -- any occupation, regardless of the amount of skill and training required.

### ***When Disability Is Defined as Income Lost...***

Some disability insurers are offering a type of coverage that doesn't define disability in terms of an occupation, but rather in terms of income lost. Say you are hurt and have to take a job that pays 50% less than the one you had before the injury.

A disability policy based on income would replace some, but not all, of the income lost because of the job change. A common threshold is the policy will start paying after you've lost 20% of your income. In the previous example, such a policy would replace 80% of the income you lost.

Most disability insurance comes with some built-in protection for the policyholders in that the insurers offering the coverage guarantee your policy will be renewed.

“Guaranteed renewable” policies mean that if you pay your premium, your insurer can't cancel your coverage or change the terms.

Further, the insurer can't increase your premium unless it does so for everyone who has a risk characteristic (age, job type, etc.) similar to yours.

➤ **Note.** The best option for disability insurance is a non-cancelable policy, which takes all the elements of a

guaranteed renewable policy and adds a very important feature: a guarantee that the premium won't be increased. At least until you are 65.

☛ **Tip.** As you can see, there are a *lot* of options for anyone who wants to buy disability insurance. As such, it's no easy task making sure you get the benefits and coverage terms that best fit your situation. Discuss this with a specialist in disability insurance who can help you obtain what you need at a price you can afford.