

# Preparing for Disability: A Disability Income Review

If you are sick or hurt and unable to work, how will you replace your income?

Prepared for:

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*Brought to you by:*



**Heather Campbell**

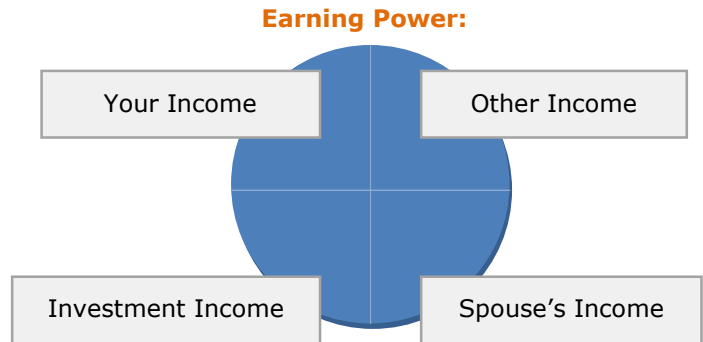
The SEBO Group  
815 Grandview Avenue  
Columbus, OH 43215  
Office: (614) 441-9614  
flex@sebohio.com  
www.sebohio.com

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# Your Earning Power

Your earning power – your ability to earn an income – is your most valuable asset.

Few people realize that a 30-year-old couple will earn 3.5 million dollars by age 65 if their total family income averages \$100,000 for their entire careers, without any raises.



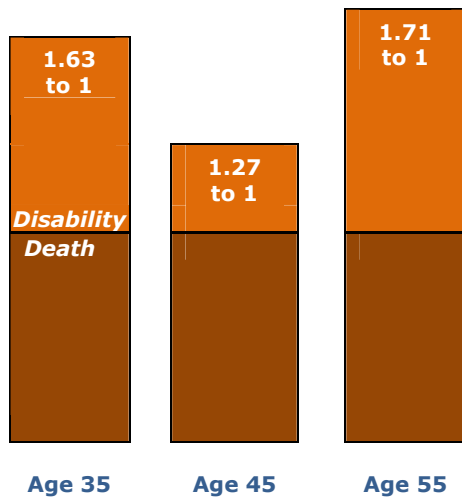
## How Much Will You Earn in a Lifetime?

Years to Age 65	Your Future Earning Power If Your Family Income Averages:			
	\$50,000	\$100,000	\$250,000	\$500,000
40	\$2,000,000	\$4,000,000	\$10,000,000	\$20,000,000
35	1,750,000	3,500,000	8,750,000	17,500,000
30	1,500,000	3,000,000	7,500,000	15,000,000
25	1,250,000	2,500,000	6,250,000	12,500,000
20	1,000,000	2,000,000	5,000,000	10,000,000
15	750,000	1,500,000	3,750,000	7,500,000
10	500,000	1,000,000	2,500,000	5,000,000
5	250,000	500,000	1,250,000	2,500,000

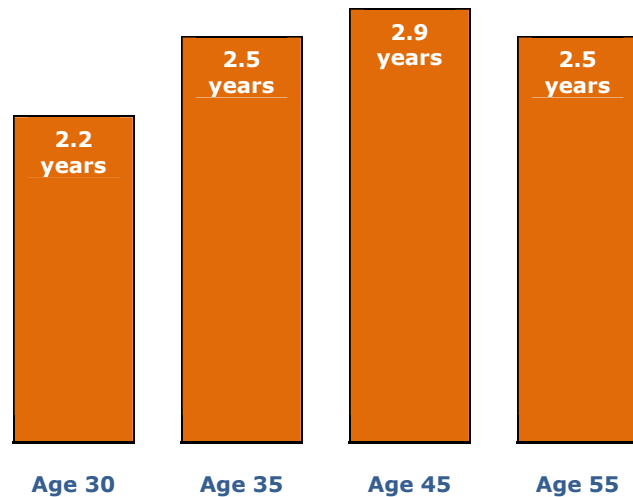
**If you are sick or hurt and unable to work, how will you replace your income?**

## Is This a Gamble You Want to Take?

**Risk of Disability for 3 Months or Longer versus Risk of Death**



**Average Duration of a Disability Lasting Over 3 Months Prior to Age 65**



**Source:** 1985 Commissioners Individual Disability Table A (NOTE: The 1985 CIDA is the most current morbidity table available for individual disability claim experience and is in use by many State Insurance Departments.)

According to a study published in *Health Matrix: Journal of Law-Medicine*, "half of all foreclosures have medical causes." In addition, based on this study of homeowners going through foreclosures, "half of all respondents (49%) indicated that their foreclosure was caused in part by a medical problem, including illness or injuries (32%), unmanageable medical bills (23%), lost work due to a medical problem (27%), or caring for sick family members (14%)."

**Source:** Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosure, *Health Matrix: Journal of Law-Medicine*, Vol. 18, No. 65, 2008 (last revised June 12, 2009)

## Did You Know...



More than one in three (83 million) Americans currently live with one or more types of cardiovascular disease. Heart disease and stroke are among the leading causes of disability in the U.S. workforce, with nearly four million people reporting disability from these causes.

*(Source: Addressing the Nation's Leading Killers, 2011; Centers for Disease Control and Prevention)*



About every 34 seconds an American will suffer a heart attack.

*(Source: Heart Disease Facts, Centers for Disease Control and Prevention, July 2013)*



Stroke is a leading cause of serious, long-term disability in the United States...on average, every 40 seconds someone in the U.S. has a stroke.

*(Source: Stroke Fact Sheet, Centers for Disease Control and Prevention, July 2013)*



In the U.S., men have a slightly less than a 1 in 2 lifetime risk of developing some form of cancer; for women, the risk is a little more than 1 in 3.

*(Source: Cancer Facts and Figures 2013; American Cancer Society)*



Many people now survive a serious illness that would have been fatal in the past. For example, improvements in cancer diagnosis and treatment have improved the 5-year relative survival rate for all cancers diagnosed between 2002 and 2008 to 68%, up from 49% in 1975 - 1977.

*(Source: Cancer Facts and Figures 2013; American Cancer Society)*



In 2012, an estimated 2.36 million people were injured in motor vehicle accidents in the United States, compared to 2.22 million in 2011.

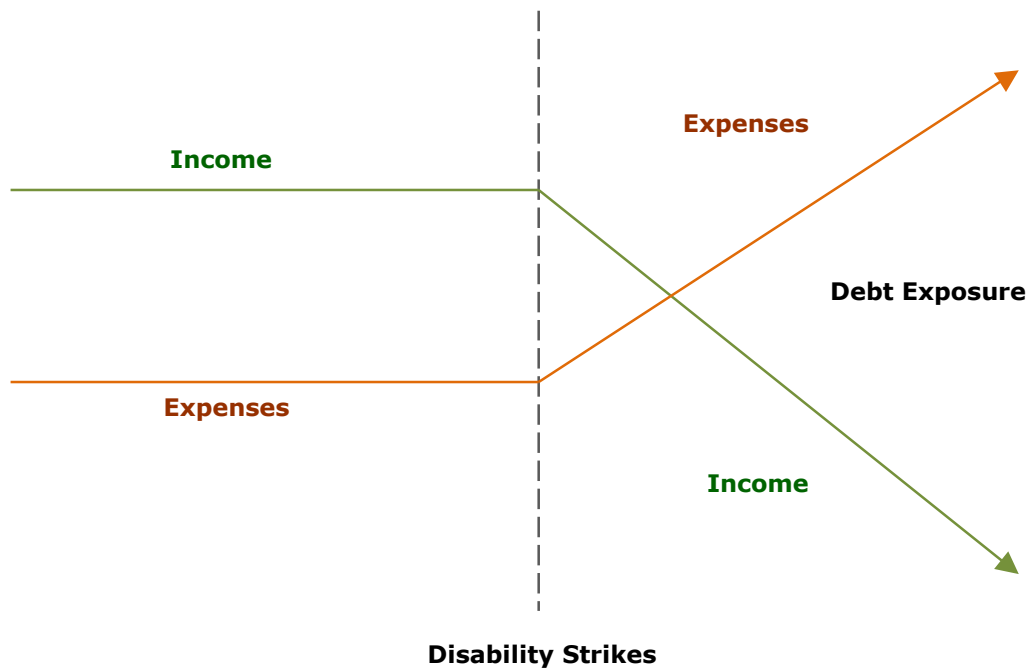
*(Source: 2012 Motor Vehicle Crashes: Overview; National Highway Traffic Safety Administration; November 2013)*

## What Can Happen If Disability Strikes?

Today, income covers expenses

BUT...

Disability means lower income, higher expenses.



How will you meet the expenses of a disability, just at the time your income ceases?

# Sources of Funds to Replace Income During a Disability

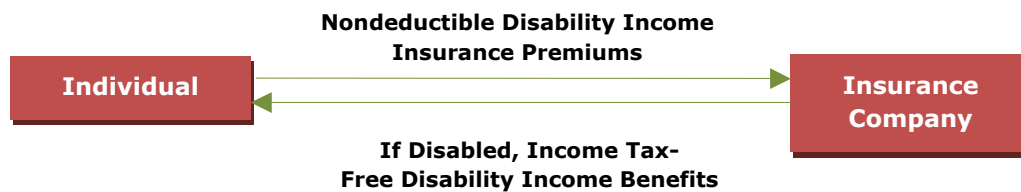
## What Sources of Funds May Be Available to Replace Your Income During a Disability?

Source	Evaluation
<b>Savings</b>	If you save 10% of your income each year, it will take 10 years to set aside just one year's income
<b>Borrow</b>	What creditor is going to lend money to a disabled income earner?
<b>Liquidate Assets</b>	Assuming a market exists, a forced liquidation of assets can reduce their value. A single disability could consume the assets you've worked a lifetime to accumulate.
<b>Spouse's Earnings</b>	Your lifestyle may already be built upon a dual income. If, however, your spouse is not currently an income earner, is it realistic to assume that he or she could replace your earning power?
<b>Social Security Benefits</b>	It can be difficult to qualify for Social Security disability benefits. In fact, from 2001 through 2010, an average of about only 45% of Social Security disability claims were eventually approved. Assuming, however, that you do qualify, Social Security benefits do not begin until the sixth full month of disability and are generally not adequate to replace your earning power. In fact, the average monthly Social Security disability benefit received in 2011 was \$1,111. (Source: Annual Statistical Report on the Social Security Disability Program, 2011; released July 2012)

**There is, however, a possible solution...**

## A Potential Solution Using Disability Income Insurance

An adequate amount of personally-owned disability income insurance, coordinated with other sources of income, can guarantee a source of income in the event of serious illness or injury.



### Personally-owned disability income insurance benefits can be used to:

- preserve your independence.
- maintain your lifestyle.
- give you time to recover and, if necessary, retrain.
- protect your assets from liquidation.
- maintain your personal savings for other uses.

Finally, since the premiums paid for personally-owned disability income insurance are not tax deductible, the benefits are not considered as income and are received 100% free of income tax.

## Disability Income Insurance Checklist

With disability income insurance, you are purchasing a stream of income to be delivered to you by an insurance company in the event you become disabled. The policy features and benefits should be coordinated with your needs and premium-paying ability. As you evaluate disability income policy features and benefits, remember that the choices you make will impact the premiums you pay and the benefits you are entitled to receive.

**Benefit Amount** What is the monthly disability income benefit?

**Waiting Period** For how long must you be disabled before the benefit begins? Common waiting periods are 60, 90, 180, 365 or 730 consecutive days of disability.

**Benefit Period** For how long will benefits be paid? Common benefit periods are one year, two years, five years and to age 65.

**Definition of Total Disability** What definition of total disability must be met for benefits to be payable? The definition of total disability can range from the inability to perform **your own occupation** to the inability to work in **any reasonable occupation** based on your education, training and experience. **This is an important policy provision to evaluate.**

**Partial Disability Benefit** Will the policy provide benefits for partial disability following a period of total disability? If so, how much and for how long? What requirements must be met?

**Rehabilitation Benefits** Does the policy pay any of the expenses of a rehabilitation program during a period of disability?

**Waiver of Premium** Will policy premiums be waived during a disability?

**Renewability** Is the policy guaranteed renewable? Under what conditions can premiums be increased?

Other available benefits may include:

- **Additional Purchase Option:** Right to purchase additional disability income protection without evidence of insurability.
- **Social Security Rider:** Coordinates with an expected Social Security disability benefit.
- **Cost of Living Rider:** In the event of disability, increases the disability benefit each year to compensate for increases in the cost of living.



# Disability Income Action Checklist

## The Analysis...

- Estimate the income you will need in the event of disability.
- Estimate the disability income that will be available to you from sources such as:
  - \* Employer-Provided Short- and Long-Term Disability Benefits
  - \* Social Security (create a MySocialSecurity account (<http://ssa.gov/myaccount/>) in order to receive estimates of your retirement, disability, and survivors benefits)
  - \* Other Government-Provided Disability Benefits
  - \* Other Sources of Income (e.g., CDs, savings accounts, mutual funds)
- Determine the additional monthly income required to achieve your disability income objective.

## To Implement a Disability Income Insurance Plan...

- Select type of policy and amount of personally-owned disability income insurance.
- Evaluate and select appropriate optional benefits.
- Establish insurability.
- Arrange for payment of premiums.

### You Can Manage Your Finances...

*It's by managing your finances that you write the story of your life.  
You are both the author and the story's principal character.  
Resolve to perform what you ought.*

-- Benjamin Franklin

## Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, neither VSA, L.P. nor The National Underwriter Company is engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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