

Insurance issues for self-employed contractors

Consider disability income protection for unforeseen problems



BY TODD RADWICK

As everyone in the building trade knows, if you have employees you are required by

state law to have L&I insurance for them so they are protected if they are injured on the job. However, as you also know, employers are not required to have this same protection for themselves.

Because of the perceived expense, many owner/operator builders and those in the construction trade only do the minimum that is required of them to cover their employees.

However, consider the facts and it becomes clear this may not be the wisest course of action. Odds vary, but those in their 20s and 30s have about a 25 percent chance of sustaining a real disability sometime in their working careers before age 65. It's much higher than most people realize.

First, consider that L&I is only designed to deal with injury claims that occur on the job. Compare this to a privately owned disability income protection insurance policy that covers you 24/7 on and off the job for accident and sickness. Also consider that over 90 percent of all disability claims actually occur from incidents off the job, and the majority of those are not from accidents.

Sure, people may break a leg taking down the Christmas lights, but most disabilities occur from illnesses like Parkinson's, multiple sclerosis, heart attack, cancer, stroke, and complications from diabetes such as amputations, and a million other things in Latin we can't pronounce.

So owner/operators in the building trade who are not providing L&I

insurance for themselves might want to seriously consider getting some quality disability income protection as an alternative. If you are working, it's even more important than life insurance. Consider that about 48 percent of all home foreclosures are caused by a disability, whereas only about 2 percent are from death.

What about Social Security? The average wait for a claim to be heard is about 1½ years. Most people, especially here in the Methow, could not go for year and a half without a paycheck. And even if you could, would you want to annihilate all your savings?

Consider the "10 percent rule": If you saved 10 percent of everything you made every year, it would only take one year to wipe out 10 years of savings. Kind of sobering, isn't it?

In order to qualify for Social Security, the disability has to be total and most likely be permanent, or eventually expected to result in death. Conversely, a quality disability policy will pay out very quickly, generally after either a 30-, 60- or 90-day elimination period, and will do so even if you are only 15 percent partially disabled! This is key.

Another type of disability policy that self-employed builders might want to consider is called disability business overhead expense, or BOE for short. Where disability income policies pay for things like food, gas, groceries and the mortgage, BOE policies pay for things like bulldozer and tractor payments, building leases, staff, insurance and the light bill.

This can be critical to keep a business in the black, buying the builder time to decide whether they will be going back to work, or selling the business. Let it go into the red, and the blue sky value of the business evaporates, and you're looking at salvage value for some used equipment. Everyone knows of someone who got a steal on a tractor from someone in a real bind. Don't let it happen to you.

What about cost? It usually only costs about 1½ to 2½ percent of your income to protect your income with a disability income policy. Let's put that in perspective. Would you rather make \$100,000 with zero protection,

or \$98,000 with your greatest asset, i.e. your ability to make a living, completely protected 24/7?

What about taxes? The premium payments of disability income policies are not tax deductible, but the benefits when paid are tax-free. Conversely, the premiums of business overhead expense policies are tax deductible to the business, but the benefits are taxable when paid.

Either way, seriously consider a disability income policy, and/or a business overhead expense policy to protect you and your company.

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What are your odds of getting disabled? Here's the Facts....

Because of the miracles of modern medical technology, you have a MUCH greater risk of getting disabled sometime in your working years, than you do of dying prematurely. For example, did you know that.....

* Over 90% of all disabilities occur off the job and are not covered by Worker's Compensation. Most disabilities are due to illnesses, not injuries.

* You are 240 more times likely to incur a disabling injury than suffer a fatal one.

* An accident occurs every SECOND that causes a disability. Fatal accidents occur about every four minutes.

* About 25%, one out of four in their 20s, 30s, and 40s will become disabled sometime before retirement for 90 days or longer with an average disability lasting 3-5 years.

* About 48% of all home foreclosures are directly caused by a breadwinner getting disabled and not being able to make the mortgage payments. About 2% are attributed to a premature death.

* Unexpected injuries and illnesses cause 350,000 personal bankruptcies each year.

* Premiums for Disability Business Overhead Expense Protection are tax-deductible.