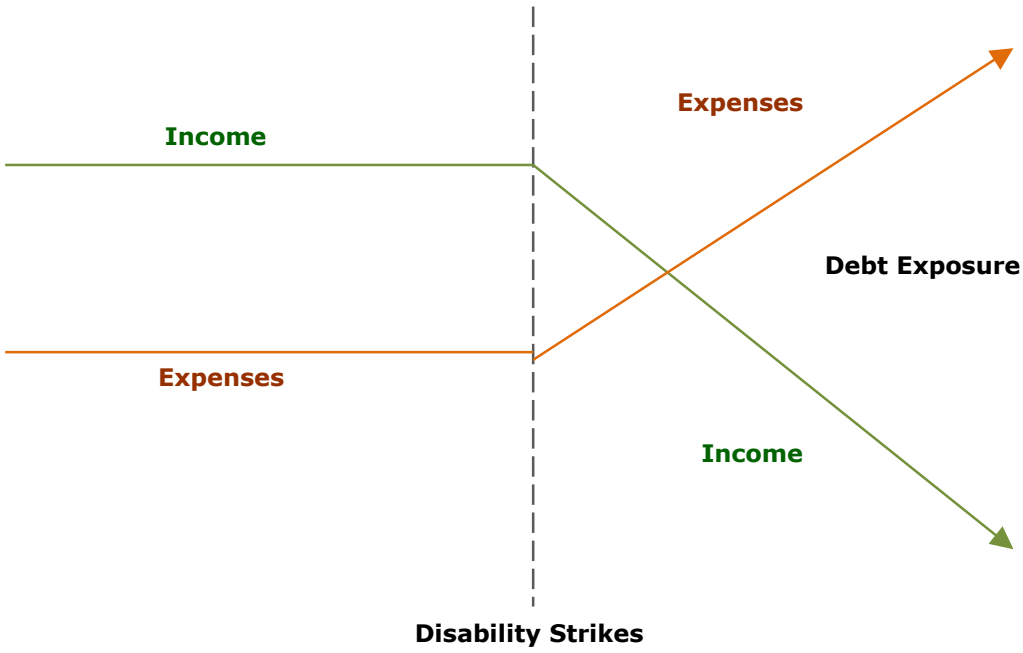
If Disability Strikes

Presented by: **Sabrina Hanson**
Hanson Financial Group

Prepared for:

What Can Happen If Disability Strikes?

Today, income covers expenses **BUT...** **Disability means lower income, higher expenses.**



Did you know?

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)*

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

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Sources of Funds During Disability

Presented by: **Sabrina Hanson**
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What Sources of Funds May Be Available to Replace Your Income During a Disability?

Source	Evaluation
Savings	If you save 10% of your income each year, it will take 10 years to set aside just one year's income
Borrow	What creditor is going to lend money to a disabled income earner?
Liquidate Assets	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.
Spouse's Earnings	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?
Social Security Benefits	It can be difficult to qualify for Social Security disability benefits. In fact, from 2002 through 2010, an average of about only 41% 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 2012 was $1,135. (Source: Annual Statistical Report on the Social Security Disability Program, 2012; released November 2013)

There is, however, a possible solution...

Personally-owned disability income insurance, coordinated with other sources of disability income.

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Social Security Disability Benefits

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What Social Security Benefits Are Available in the Event of a Disability?

Almost everyone in the United States who is employed or self-employed is covered by Social Security, which pays benefits to or on behalf of covered workers who retire, become disabled or die, assuming that eligibility requirements are met.

Disability Benefits

Eligibility: To qualify for monthly Social Security disability benefits, you must be under age 65 and so severely disabled that you cannot perform any meaningful work. You must also have a minimum number of quarters of Social Security coverage, based on your year of birth. Ordinarily, benefits do not begin until the sixth full month of disability.

It can be difficult to qualify for Social Security disability benefits. In fact, from 2002 through 2010, an average of about only 41% of Social Security disability claims were eventually approved. (Source: Annual Statistical Report on the Social Security Disability Program, 2012; released November 2013)

Benefits: Your Social Security disability benefit equals your Primary Insurance Amount (PIA) at the time you are disabled. Your spouse and eligible children can also receive disability benefits, determined in the same way as if you had retired. The Maximum Family Benefit, however, is lower than for retirement or survivor benefits.

The average monthly Social Security disability benefit received in 2012 was $1,135. (Source: Annual Statistical Report on the Social Security Disability Program, 2012; released November 2013)

You can receive estimates of your disability benefit and review your earnings record by creating an account at

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Social Security and Disability

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Prepared for:

What Does Social Security Mean by Disability?

From the Social Security Administration:

"The definition of disability under Social Security is different than other programs. Social Security pays only for total disability. No benefits are payable for partial disability or for short-term disability.

"Disability under Social Security is based on your inability to work. We consider you disabled under Social Security rules if you cannot do work that you did before and we decide that you cannot adjust to other work because of your medical condition(s). Your disability must also last or be expected to last for at least one year or to result in death.

"This is a strict definition of disability. Social Security program rules assume that working families have access to other resources to provide support during periods of short-term disabilities, including workers' compensation, insurance, savings and investments."

Source: Social Security Online (http://www.ssa.gov)

What Does This Mean for You?

According to the 2012 Annual Statistical Report on the Social Security Disability Insurance Program for the period from 2002 through 2010:

- An average of nearly 41% of disabled-worker applicants were ultimately granted disability benefits.
- The percentage of applicants awarded benefits at the initial claims level averaged 26%.
- An additional 15% of applicants were later awarded benefits as a result of appeals and hearings.
- Denied disability claims have averaged 58%.
- The average monthly benefit paid in 2012 was $1,135.

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Evaluating Disability Income Insurance

Presented by: **Sabrina Hanson**
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Prepared for:

A 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 Benefits to Consider	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.

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Disability Income Action Checklist

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Prepared for: _____

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 (submit Form SSA-7004 to the Social Security Administration in order to receive an "Earnings and Benefit Statement")
  - 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.

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Disability Income Taxation

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Hanson Financial Group

Prepared for:

How Are Disability Income Premiums and Benefits Taxed?

Personally-Owned Disability Income Insurance:

- Premiums paid for personally-owned disability income insurance are not tax deductible.
- Disability benefits are received tax free.

Employer-Provided Disability Income:

- Disability income insurance premiums paid by the business are tax deductible if benefits are payable to participating employees, and are not included in participating employees' income.

  Exception: Premiums paid for sole proprietors, partners and more-than-2% S-corporation shareholders are not tax deductible.

- Disability benefits must be reported as income as received by the employee. In addition, the first six months of benefits are subject to FICA taxes. If the employee paid part of the premium, the portion of the disability benefit attributed to the employee's premium payment is received tax free by the employee.

  Exception: Benefits payable to sole proprietors, partners and more-than-2% S-corporation shareholders are tax free.

- Employees under age 65 who meet the Social Security definition of total and permanent disability may qualify for a limited tax credit on taxable disability benefits.

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