What you need to know about disability insurance

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Insuring your Most Valuable Asset…You



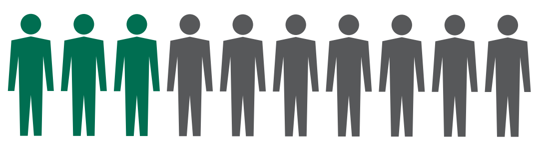
Your most important asset is not your home, your car, your jewelry or other possessions. It's your ability to earn a living. Think about it: All of your plans for the future—from buying a home to putting your kids through college to building a retirement nest egg—are based on the assumption you will continue to earn a paycheck until you retire. But what would happen if those paychecks stopped? That's where disability insurance comes in. It provides an income to you and your family if you are unable to work because of illness or injury.

Understanding the Risk of Disability

Who needs disability insurance? Just about anyone who has a job. The possibility of a disabling illness or injury may seem remote, but statistics paint a different picture. You actually have a three in 10 chance of suffering a disabling illness or injury during your career that would keep you out of work for three months or more. While it's true that people in professions like farming, law enforcement and construction face greater risks, the odds of suffering a long-term disability are high for all workers because illness—not accidents—account for 90 percent of disabilities that keep people out of work. (See chart on the next page.)

Your paycheck could stop arriving just as an illness or injury brings significant expenses for medical bills, physical rehabilitation or

THREE IN 10 WORKERS WILL BECOME DISABLED FOR THREE MONTHS OR MORE DURING THEIR CAREER



Sources: The Real Risk of Disability in the United States, Milliman Inc., on behalf of the LIFE Foundation, May 2007 the cost of modifying your home to accommodate medical equipment. Missed mortgage payments could put ownership of your home in jeopardy. Falling behind on credit card and other bills could mean burdensome late fees and escalating finance charges. In fact, disabilities have historically caused nearly half of all mortgage foreclosures and a significant number of personal bankruptcies.

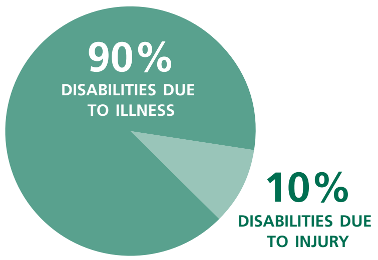
The financial consequences can be even more far reaching. A lengthy disability could literally cost you millions. A 25-year-old worker who makes $50,000 a year and suffers a permanent disability could lose $3.8 million in future earnings.

Sources of Disability Income Protection

Workers' Compensation If you're employed and suffer a disabling illness or injury, you might be able to count on Workers Compensation insurance to replace some of your salary. All states require employers to provide Workers' Compensation coverage. It typically pays about two-thirds of your pre-disability income. But it only pays in cases where your illness or injury is related to your work. The vast majority of long-term disabilities, however, are not job-related (see chart below).

State Disability Insurance Programs A handful of states provide short-term disability coverage—typically for up to six

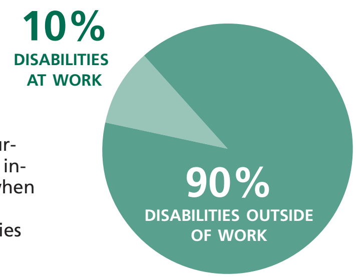
ILLNESS CAUSES MOST DISABILITIES



Source: Council for Disability Awareness, Long-Term Disability Claims Review, 2010

MOST LONG-TERM DISABILITIES ARE NOT COVERED BY WORKERS' COMPENSATION

Workers' Compensation is a state-mandated disability insurance program that covers lost income and medical expenses when injuries or illnesses happen at work. However, most disabilities are not work-related.



Source: Council for Disability Awareness, Long-Term Disability Claims Review, 2010

A New Home Saved from Disaster

Cindy and Matt Wrenn were days away from closing on their dream home when disaster struck. Cindy, 28, suddenly fell ill while teaching a real estate class and was rushed to the hospital. She was stricken with a brain aneurysm, and during surgery she suffered a stroke. With Cindy in critical condition and fighting for her life, the house closing seemed out of the question. It was unclear if Cindy would survive, let alone return to her job at a real estate title company. Matt's teaching salary wasn't enough, on its own, to qualify for the mortgage. Knowing how much the home meant to Cindy, Matt contacted his insurance agent, Gillian Lotz, who had helped the couple purchase disability insurance policies.

Lotz pointed out to the lender that the short-term disability coverage provided by Cindy's employer would cover 60% of her salary over the first 90 days of the disability, and the long-term benefits of her individual policy would replace 70% of her salary after that if she was still unable to return to work. With that, the loan was approved.

Cindy's recovery was nothing short of miraculous. A month after the stroke, Cindy was released from the hospital, and a few weeks later she moved into her new home in picturesque rural Maryland. Just three months later, Cindy was able to return to her job part-time. The income Cindy earned allowed her to move from a full to a partial disability claim.

Today, Cindy is no longer collecting disability benefits. She's in good health and owns her own title company. Matt is a state fire marshal. They also are proud parents of a year-and-a-half-old daughter, Sarah. Cindy still has disability insurance, so if disaster should ever strike again, she's covered. In fact, she still pays the same premiums that she paid before she became ill. "When you're in your twenties, you don't think of such things as disability insurance," says Cindy. "I'm so thankful that I had it."

A Plan with a Purpose

Dr. Chia Chang, a pediatrician from Petersburg, Virginia, earned a comfortable living and was a picture of good health. Yet, with a wife and two boys, he knew he needed to make sure the family's finances would always be secure.

Working closely with Jimmy Jacobs, CLU, ChFC, his financial advisor, Dr. Chang put together a comprehensive financial plan. It included life and health insurance, a Keogh retirement plan and annuities to provide for a comfortable lifestyle down the road. He also added disability insurance to the package, though he didn't think he would ever need it.

A few years later, at age 54, Dr. Chang was diagnosed with liver cancer. He immediately called Jimmy, who assured Dr. Chang that his wife, Shin, and his two college-age sons would be provided for financially. Though Dr. Chang was unable to work while being treated for cancer, his health insurance covered medical bills, and his disability policy, combined with withdrawals from his Keogh plan, replaced much of his previous income.

One year later Dr. Chang died. When the disability payments kept arriving, Shin thought it was a mistake. But Jimmy informed her that the disability policy included a provision that would pay another six months of benefits. With these payments and the life insurance proceeds, Shin was able to keep their home and invest in education for herself and her boys. Today, one son is a psychiatrist and another is a lawyer. Shin lives comfortably in a new home close to her eldest son, and she recently became a grandmother.

months—that workers pay for through payroll deduction. These states are California, Hawaii, New Jersey, New York and Rhode Island, as well as Puerto Rico. For those who live in these states, this can be an important source of short-term income replacement.

Social Security The federal government administers a disability insurance program that covers most workers, but qualifying for benefits is far from a sure thing and the payment levels (determined by your salary and work history) are fairly modest. About 65% of applications for Social Security disability benefits are initially denied, and the average monthly payment for current beneficiaries, $1,065, is barely above the poverty line.

Employer-Sponsored Coverage The main source of disability income protection in the United States is coverage provided or sponsored by employers. Many employers, especially larger ones, provide their employees with group insurance coverage. There are two forms: short-term disability (STD), which replaces a significant percentage of your income for about three months in most cases; and long-term disability (LTD), which typically pays 40% to 60% of your base salary (pre-tax) for longer periods.

Often, employees are given the option to add to the baseline coverage that the employer provides. Some companies don't provide disability coverage but help their employees by giving them the opportunity to purchase coverage on a voluntary basis. With this type of program, employees, rather than the employers, pay the full cost of the coverage. A benefit of purchasing disability coverage at the workplace is that it's generally easier to qualify for than coverage purchased on your own. Check with your employer's human resources department or benefits manager to see what coverage and purchase options your company's plan provides.

FEWER THAN 1 IN 3 U.S. WORKERS IN PRIVATE INDUSTRY HAVE LONG-TERM DISABILITY COVERAGE THROUGH WORK

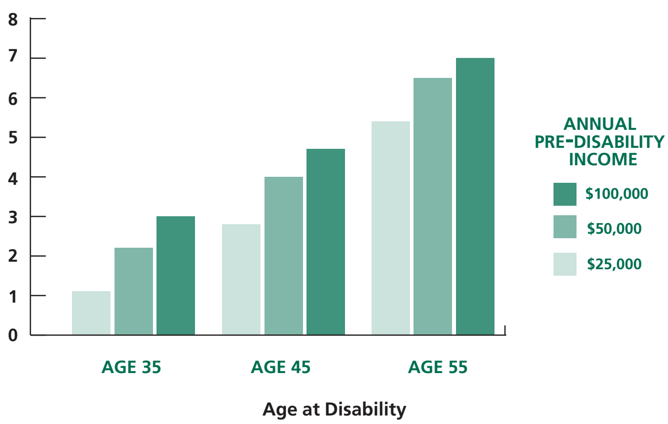
Type of Program	All Employees	Professional, Technical, and Related Employees	Clerical and Sales Employees	Service Employees
Short-term Disability Coverage	38%	47%	37%	21%
Long-term Disability Coverage	31%	53%	31%	12%

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in the United States,* 2010

Individual Disability Insurance The most flexible and reliable source of coverage is an individual disability insurance policy you purchase on your own. A privately owned policy is portable, meaning you won't have to worry about losing coverage if you change jobs. Generally, most individual policies pay between 40% to 65% of your pre-disability gross salary. When paid with after-tax dollars, benefits are received income-tax free.

SAVINGS WILL NOT SEE MOST WORKERS THROUGH A DISABILITY FOR LONG

Average Savings in Months of Pre-Disability Income



Source: U.S. Census Bureau Survey of Income Program and Participation

KEY TERMS

When considering your disability insurance needs, you should be familiar with the following:

Benefit level and period Disability policies usually pay from 40% to 65% of your pre-disability earnings at the time of purchase for a specified period of time. That period may run from one to five years, until age 65, or in some cases, for life.

Elimination period There usually is a waiting period, known as an elimination period, before benefits kick in. It's typically 30 days, 90 days or six months after a disability occurs. You can select the waiting period when you buy your policy. Opting for a longer waiting period reduces the premium cost.

Definition of disability Some policies pay if you're unable to perform the duties of your own occupation; others pay only if you can't work at any occupation for which you're reasonably qualified. In addition, some policies pay only for disabilities arising from an accident.

Extent of disability Some policies pay only if you are totally disabled. Others may cover partial disability for a limited time, but only when it follows a period of total disability for the same cause.

Residual benefits If you're unable to perform some aspects of your job, residual benefits allow partial disability payments based on the amount of your loss of income.

Guaranteed renewable One of two major types of disability policies. It means your policy can't be cancelled as long as the premiums are paid. Premiums can be raised for an entire class of policyowners but not for reasons related to your individual circumstances.

Non-cancelable The other major type of disability policy. These policies can never be cancelled as long as premiums are paid, and premiums are guaranteed not to increase.

Inflation protection You can typically add a cost-of-living adjustment rider to an individual disability insurance policy that increases benefits by a specified percentage after each year of disability. Though expensive, this option can be vital to maintaining your standard of living if you're out of work for an extended period of time.

How Much is Enough?

Will you be able to maintain your current standard of living if you become disabled? The easiest way to answer this question is to add up your monthly living expenses and compare them with the income you could expect from your existing disability coverage, plus any income you count on from other sources, such as personal savings. If your income from all sources won't be enough to support you and your family, consider buying additional disability insurance—either through work or on your own—to make up the difference.

Use our Disability Insurance Needs Worksheet as a starting point for your calculations. Some things to keep in mind when going through the numbers:

- Employer-paid disability benefits are typically taxable. Estimate the after-tax amount of these benefits when assessing your level of income.
- Benefits from your employer's group plan or a personal disability policy may be reduced by the amount of Social Security or other government benefits you're receiving.
- You may be eligible for disability payments from other sources, such as Veterans Administration, civil service benefits or your union's group disability plan. In addition, some auto insurance policies cover disability resulting from an auto accident. Some lenders also offer insurance that takes care of your loan payments if you become disabled.

DISABILITY INSURANCE NEEDS WORKSHEET

This simple worksheet lets you assess the income needed to sustain your current standard of living should you become too sick or hurt to work. This is not a comprehensive assessment. For more information, talk to your human resources administrator or a qualified insurance professional.

Monthly Income Available

Income from current group disability coverage	$________	
Income from current individual disability coverage	$________	
Income from spouse and/or other family members	$________	
Monthly investment income	$________	
TOTAL MONTHLY INCOME AVAILABLE[1]		**$**________

Monthly Expenses

Mortgage (including property tax) or rent	$________	
Homeowner's or renter's insurance[2]	$________	
Car payments and insurance	$________	
Utilities	$________	
Food and clothing	$________	
Child care expenses	$________	
Bank loan and credit card payments	$________	
Medical expenses	$________	
Health insurance premiums[3]	$________	
Insurance premiums (life, disability, dental, etc.)	$________	
Savings, investment and retirement contributions	$________	
Home maintenance costs	$________	
Other (education, entertainment, etc.)	$________	
TOTAL MONTHLY EXPENSES[4]		**$**________
(INCOME - EXPENSES) Need for additional income replacement due to a disability		**$**________

[1] Does not include Social Security disability payments, as benefit amount varies by individual case

[2] Don't include if it's part of your mortgage payment.

[3] If you become disabled, you can generally maintain your group health insurance coverage, but your employer may no longer contribute toward the premium. Ask your human resources department what the full cost of your health insurance premium would be if you become disabled.

[4] Does not include one-time expenses (e.g., modifying home or automobile to accommodate disability)

3 ways to get coverage

If you don't have any disability insurance or need more coverage than your employer's plan offers, there are three main ways to obtain additional coverage:

1 **Through your employer.** Your employer, particularly if you work for a large company, may provide short- and/or long-term group disability coverage at no cost to you. One of the best features of employer-provided coverage is that there is no underwriting, meaning you automatically qualify for coverage. You should be aware that if you start a new job and have a pre-existing medical condition, there may be short-term limits on your coverage, typically a waiting period of 12 months. Another valuable benefit of employer-provided coverage is that you often have the option to increase your coverage from, say, half to two-thirds of your base salary. To qualify for additional coverage, you may have to answer a few basic questions about your health. It's important to keep in mind that if you have group coverage and you leave your job, you generally are not able to take the coverage with you.

If your employer does not provide group disability insurance coverage, it may make a disability benefit available to you on a voluntary, employee-paid basis. While you pay the full cost of the benefits under a voluntary arrangement, there are several advantages to buying disability insurance this way. Voluntary plans help workers get coverage more easily than if they were to purchase an individual policy on their own outside of the workplace. Premiums are typically paid through an automatic payroll deduction and can be as much as 10% to 20% less because of efficiencies in enrollment and billing procedures. Additionally, you may be eligible for more coverage under a voluntary plan than is offered by a traditional group plan.

Your benefits manager or human resources administrator can help you sort through the options.

2 **Through a professional organization.** Many professional associations offer members the opportunity to purchase disability insurance through a group plan. Typically, little underwriting is involved and premiums are based primarily on your age and income. This type of coverage is generally less expensive than an individual policy purchased on your own through a qualified insurance professional.

If your need for coverage is great and your budget is limited, this is definitely an option you'll want to explore. However, there are drawbacks. If you change professions, the coverage may not follow you. There's always the chance your professional organization could decide to drop its disability coverage. That can't happen with most types of privately purchased disability insurance, which are guaranteed renewable as long as you pay the premiums.

3 **Buy it on your own.** Another good alternative is an individual disability insurance policy you purchase on your own through a qualified insurance professional. You never need to worry about losing coverage if you change jobs. An individual policy also gives you the opportunity to consider policies from a multitude of carriers. If you buy through work, you're usually limited to buying (or increasing) coverage from the one carrier with which your employer is contracted.

One downside to individual coverage is that it can get pricey depending on the policy's features and benefits. Your budget, the benefits you desire and your health status help determine whether you obtain coverage on your own, or through your employer or a professional association. What's most important is knowing that you'll have the wherewithal to make ends meet in the event you suffer an unexpected injury or illness, and are unable to work and earn an income.

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